ASSOCIATION REPORT ON EXAMINATION

OF THE

AMERICAN GUARANTEE AND LIABILITY INSURANCE COMPANY

AS OF

DECEMBER 31, 1998

Zones	Examiners	States
I	James E. Masterson, CFE	New York
II	Carolyn M. Elliott, CFE, CPA, CIE, FLMI	Mississippi
IV	Tim Gadler, CFE	Nevada

Honorable Alfred W. Gross
Chairman, NAIC Financial Condition Subcommittee (EX4)
Kansas City, MS 64108-2604

Honorable Alfonso Mastrostefano
Secretary, Northeastern Zone
Superintendent of Insurance
State of Rhode Island
Providence, RI 02903

Honorable Alfred W. Gross
Secretary, Southeastern Zone
Commissioner of Insurance
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Richmond, VA 23218

Honorable Sally McCarty
Secretary, Midwestern Zone
Commissioner of Insurance
State of Indiana
Indianapolis, IN 46204-2787

Honorable Jose Montemayor
Secretary, Western Zone
Commissioner of Insurance
State of Texas
Austin, Texas 78701

Honorable Neil Levin
Superintendent of Insurance
State of New York
Albany, NY 12257

November 27, 2000

Dear Sirs and Madam:

In accordance with your several instructions, an Association Examination has been made, as of December 31, 1998 into the financial condition and affairs of the American Guarantee and Liability Insurance Company and the following report thereon is respectfully submitted.

Where the designations "Company" or "AGLIC" appear herein, without qualifications, they should be understood to mean the American Guarantee and Liability Insurance Company.

Where the term "Department" appears herein, without qualification, it should be understood to indicate the New York Insurance Department.

Respectfully submitted,

____________/S/________________
James E. Masterson, CFE
Principal Insurance Examiner
New York State Insurance Department
Representing Northeastern Zone

____________/S/________________
Carolyn M. Elliott, CFE, CPA, CIE, FLMI
Insurance Examiner
Mississippi Insurance Department
Representing Southeastern Zone

____________/S/________________
Tim Gadler, CFE
Insurance Examiner
Nevada Insurance Department
Representing Northeastern Zone

REPORT ON EXAMINATION

OF THE

AMERICAN GUARANTEE AND LIABILITY INSURANCE COMPANY

AS OF

DECEMBER 31, 1998

DATE OF REPORT	NOVEMBER 27, 2000
EXAMINER	JAMES E. MASTERSON, CFE

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STATE OF NEW YORK
INSURANCE DEPARTMENT
25 BEAVER STREET
NEW YORK, NEW YORK 10004

November 27, 2000

Honorable Neil D. Levin
Superintendent of Insurance
Albany, New York 12257

Sir:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 21438 dated July 29, 1999, attached hereto, I have made an examination into the condition and affairs of the American Guarantee and Liability Insurance Company, a domestic corporation, as of December 31, 1998 and submit the following report thereon.

The examination was conducted at the Company's administrative office located at 1400 American Lane, Schaumburg, IL 60196. The Company and its affiliated insurer, Zurich American Insurance Company, were examined concurrently.

Whenever the terms, "the Company" or "AGLIC" appear herein, without qualifications, they should be understood to indicate American Guarantee and Liability Insurance Company.

Whenever the term "Department" appears herein, without qualification, it should be understood to indicate the New York Insurance Department.

1. SCOPE OF EXAMINATION

The previous examination was conducted as of December 31, 1993. This examination covers the five-year period from January 1, 1994 through December 31, 1998. Transactions occurring subsequent to the examination date were reviewed where deemed appropriate.

The examination comprised a complete verification of assets and liabilities as of December 31, 1998, a review of income and disbursements deemed necessary to accomplish such verification and utilized, to the extent considered appropriate, work performed by the Company's independent certified public accountants. A review or audit was also made of the following items as called for in the Examiners Handbook of the National Association of Insurance Commissioners:

History of the Company
Management and control
Corporate records
Fidelity bonds and other insurance
Officers' and employees' welfare and pension plans
Territory and plan of operation
Growth of the Company
Business in force
Loss experience
Market conduct activities
Accounts and records
Financial statements

A review was also made to ascertain what actions were taken by the Company with regard to comments and recommendations in the prior report on examination.

This report on examination is confined to financial statements and comments on those matters, which involve departures from laws, regulations or rules, or which are deemed to require explanation or description.

2. DESCRIPTION OF COMPANY

The Company was organized under the laws of the State of New York as an affiliate of the United States Branch of the Zurich Insurance Company ("the U.S. Branch", now known as the Zurich American Insurance Company following its domestication effective December 31, 1998). It was incorporated on July 17, 1939 and commenced business on September 6, 1939. The Zurich Fire Insurance Company of New York was merged into the Company at the close of business on December 31, 1952.

All outstanding capital stock of the Company was transferred from Zurich Holding Company of America ("ZHCA"), a Delaware holding company, to Zurich American Insurance Company, a New York domestic insurer, in December 1998 as a surplus contribution related to the domestication of the U.S. Branch.

On December 21, 1998, the Company amended its charter to increase the par value of its common shares from $200 per share to $400 per share. This increase was funded by a transfer from gross paid in and contributed surplus. Capital paid up is $5,000,000, consisting of 12,500 shares of $400 par value per share common stock. All authorized shares are outstanding. Gross paid in and contributed surplus is $217,268,073. During the examination period, gross paid in and contributed surplus increased by $81,750,000, as follows:

Date	Description	Amount
01/01/94	Initial gross paid in and contributed surplus	$135,518,073
12/95	Contribution from ZHCA	39,500,000
12/96	Contribution from ZHCA	44,750,000
12/98	Transfer to capital paid up	(2,500,000)
12/31/98	Ending gross paid in and contributed surplus	$217,268,073

During the examination period, the Company made surplus contributions to its subsidiary, Steadfast Insurance Company (DE), totaling $58,640,590 as follows:

Date	Description	Amount
9/95	Contribution of stock of American Zurich Insurance Company (IL)	$13,140,590
12/95	Contribution	7,500,000
12/96	Contribution	28,000,000
12/97	Contribution	10,000,000
	Total surplus contributions to Steadfast Insurance Company	$58,640,590

The Company paid stockholders dividends of $10 million each year during the examination period to its parent, Zurich Holding Company of America.

In 1995, the Company repaid the principal on a $20 million surplus note pursuant to Section 1307 of the New York Insurance Law to Universal Underwriters Insurance Company.

Each of the above transactions were submitted to, and approved by, this Department.

A. Management

Pursuant to the Company's charter, the corporate powers of the Company shall be exercised by a board of directors consisting of not less than thirteen nor more than twenty-one members, and through such officers, employees and agents as the board shall empower. At December 31, 1998, the board of directors was comprised of the following thirteen members:

Name and Residence	Principal Business Affiliation
John Fellows Akers Westport, CT	Retired Chairman and Chief Executive Officer, IBM Corporation
William Howard Bolinder Zurich, Switzerland	Group Executive Board member, Zurich Insurance Company (Switzerland)
Philip Caldwell New Canaan, CT	Retired Chairman, Ford Motor Company

Name and Residence	Principal Business Affiliation
Willis Meadows Caldwell Bloomfield Hills, MI	Retired CFO and EVP, Ford Motor Company
Steven Mark Gluckstern Dobbs Ferry, NY	Corporate Executive Board member, Zurich Insurance Company (Switzerland) and Zurich Reinsurance Center
Judith Richards Hope Washington, DC	Senior Partner and Senior Counsel, Paul Hastings Janofsley & Wacker
Rolf Franz Huppi 8808 Pfaeffikon, Switzerland	Chairman and Chief Executive Officer, Zurich Insurance Company (Switzerland)
Fred Charles Ikle Bethesda, MD	Chairman, Telos Corporation
Reginald Mac Jamieson Leawood, KS	Retired U.S. Manager and CEO, Universal Underwriters Insurance Group
Marc Ernest Leland Mason Neck, VA	President, Marc E. Leland & Associates
Irwin Lerner North Caldwell, NJ	Retired President, CEO and Chairman Segvava Therapeutics
Fred Josef Meyer Old Greenwich, CT	CFO, Omnicom Group
Robert Milton Raives Thetford Center, CT	Counsel, Gilbert, Segall and Young, LLP

A review of the minutes of the board of directors’ meetings held during the examination period revealed that the meetings were generally well attended and that each board member had an acceptable record of attendance.

During 1999, the Company’s board of directors did not physically meet but took action by unanimous written consent in lieu of regular meetings on a quarterly basis. Article II, Section 5 of the Company’s by-laws states that:

> "Any action required to be taken at a meeting of the Board of Directors, or any other action which may be taken at a meeting of the Board of Directors may be taken without a meeting, **in emergency situations where time is of the essence**, if a consent in writing, setting forth the action so taken, shall be signed by all the Directors entitled to vote with respect to the subject matter thereof. Any such consent signed by all the Directors shall have the same effect as a unanimous vote, and may be stated as such in any document filed with the Superintendent of Insurance. **The foregoing procedure may not be used in lieu of a regular meeting of the Board of Directors**." (Emphasis added).

On March 5, 1999 the Company, by unanimous written consent in lieu of an annual meeting of the board of directors, amended these by-laws to eliminate the restrictions on the use of unanimous written consent. The amended sections reads as follows:

> "In lieu of any scheduled meeting of the Board of Directors or any committee thereof, any action required or permitted to be taken by the Board of Directors or any committee thereof, may be taken without a meeting if all members of the Board, or of such committee, consent in writing to the adoption of a resolution authorizing the action. The resolution and the written consents thereto by the members of the Board or committee shall be filed with the minutes of the proceedings of the Board or committee."

Board meetings permit directors to make informed decisions about matters affecting the public interest based upon deliberations and an exchange of information and ideas at such meetings. It is the Department's position that the use of unanimous written consent in lieu of a regular meeting should be permitted only in very limited situations and must be based upon a showing of definite necessity. Any language in the Company's by-laws regarding the use of such written consent should contain specific language of limitation. It is recommended that the Company hold regular meetings of its board of directors and repeal the amendment to its by-laws permitting unlimited use of unanimous written consent in lieu of regular meetings.

A review of the minutes of the board of directors' meetings indicated that the board approved the minutes of all executive committee meetings, which included approval of all investment transactions pursuant to Section 1411(a) of the New York Insurance Law. However, a review of the minutes of the executive committee meetings held during the examination period indicated that there were no attachments showing which investment transactions were approved. It is recommended that the minutes of the executive committee meetings include a listing of the investment transactions that are being approved.

As of December 31, 1998 the principal officers of the Company were as follows:

Name	Title
Constantine Philippos Iordanou	President and Chief Executive Officer
Loren Jay Alter	Executive Vice President
John James Amore	Executive Vice President
David Alan Bowers	Executive Vice President and General Counsel
John Donald Cole	Executive Vice President
Michael Anthony Fortune	Executive Vice President
Donna Lynn Galer	Executive Vice President
Howard Donald Hanson	Executive Vice President
Thomas Harry Hite	Executive Vice President
Thomas Griffeth Kaiser	Executive Vice President
Mark Donald Lyons	Executive Vice President
Michael David Markman	Executive Vice President
Frank Anthony Patalano	Executive Vice President
Thomas Joseph Santorelli	Executive Vice President
Susan Kott Harold	Corporate Secretary

At the annual meeting of stockholders held on March 5, 1999, the following directors were elected to replace the existing board of directors:

Name and Residence	Principal Business Affiliation
Loren J. Alter (to serve until 3/31/99) Winnetka, IL	Executive Vice President and CFO, Zurich American Insurance Company
John J. Amore Staten Island, NY	Executive Vice President, Zurich American Insurance Company
William Howard Bolinder Zurich, Switzerland	Group Executive Board member, Zurich Insurance Company (Switzerland)
Thomas Buess (beginning 4/1/99) Barrington, IL	Executive Vice President and CFO, Zurich American Insurance Company
David Bowers Winnetka, IL	Executive Vice President and General Counsel, Zurich American Insurance Company

Name and Residence	Principal Business Affiliation
Wayne H. Fisher Inverness, IL	Executive Vice President, Zurich American Insurance Company
Michael A. Fortune Barrington, IL	Executive Vice President, Zurich American Insurance Company
Thomas H. Hite Downers Grove, IL	Executive Vice President, Zurich American Insurance Company
Constantine P. Iordanou North Barrington, IL	President and CEO, Zurich American Insurance Company
Thomas G. Kaiser Highland, NJ	Executive Vice President, Zurich American Insurance Company
Michael G. Kerner Golden Bridge, NY	Senior Vice President, Zurich American Insurance Company
David A. Levinson Commack, NY	Vice President, Zurich American Insurance Company
Mark D. Lyons Deer Park, IL	Executive Vice President, Zurich American Insurance Company
Frank A. Patalano Barrington Hills, IL	Executive Vice President, Zurich American Insurance Company

B. Territory and Plan of Operation

At December 31, 1998, the Company was licensed to transact business in all 50 states and the District of Columbia.

At December 31, 1998, the Company was licensed to transact the kinds of insurance as set forth in the following numbered paragraphs of Section 1113(a) of the New York Insurance Law:

Paragraph	Lines of Business
3	Accident and health
4	Fire
5	Miscellaneous property
6	Water damage

Paragraph	Lines of Business
7	Burglary and theft
8	Glass
9	Boiler and machinery
10	Elevator
12	Collision
13	Personal injury liability
14	Property damage liability
15	Workers' compensation and employers' liability
16	Fidelity and surety
17	Credit
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine
21	Marine protection and indemnity
22	Residual value
28	Service contract reimbursement insurance

Provision is also made for insurances described in the Longshoremen's and Harbor Workers' Compensation Act, and the kinds of insurance and reinsurance as defined in Section 4102(c) of the New York Insurance Law.

Based upon the lines of business for which the Company is licensed, and the Company's current capital structure, and pursuant to the requirements of Articles 13 and 41 of the New York Insurance Law, American Guarantee and Liability Insurance Company is required to maintain a minimum surplus to policyholders in the amount of $35,000,000.

In 1998, approximately 45% of the Zurich American Insurance Group's direct written premiums were produced by approximately 3,800 independent agencies; approximately 51% of the direct written premiums were produced by 422 brokerage firms; and the remaining 4% of the direct written premiums were produced by 10 managing general agents.

The following schedule shows the direct premiums written by the Company in total and in New York State for the period covered by this examination:

	Direct Premiums Written		
Year	Total	New York	Percent
1994	$248,734,484	$8,449,556	3.40%
1995	$315,281,320	$27,768,882	8.81%
1996	$418,806,278	$33,702,323	8.05%
1997	$464,646,152	$30,555,338	6.58%
1998	$436,811,188	$37,367,648	8.55%

The Company writes a variety of commercial lines products through four strategic business units, as follows:

- International Accounts – The Zurich American International Accounts unit provides global and domestic package policies to its target industry segments, including chemical/pharmaceutical, technology, manufacturing, services, public entities, and agriculture.

- Diversified Products – The Diversified Products unit services large corporate enterprises, middle market businesses and energy operations.

- Specialties – The Specialties unit provides third-party liability coverages for unique, complex and potentially volatile exposures of large, middle market, and small customers.

- Construction – The Construction unit provides insurance products to owners, construction managers, contractors, sub-contractors and others involved in the construction process.

C. Reinsurance

i. Intercompany Pooling Agreement

Effective January 1, 1993, the Company participates in an intercompany pooling agreement with four affiliated companies: Zurich American Insurance Company ("ZAIC"), American Zurich Insurance Company ("AZIC"), Zurich American Insurance Company of Illinois ("ZAI"), and Steadfast Insurance Company ("Steadfast"). Pursuant to this agreement, all underwriting income and losses (after application of ceded reinsurance), as well as all underwriting assets, liabilities and expenses are distributed to the pooled companies as follows:

Participant	Percentage
ZAIC	85%
AGLIC	10%
AZIC	2%
ZAI	1%
Steadfast	2%
Total	100%

The intercompany pooling agreement was amended effective January 1, 1999. The agreement was amended to include the following fourteen companies:

Zurich American Insurance Company (NY)
American Guarantee and Liability Insurance Company (NY)
American Zurich Insurance Company (IL)
Zurich American Insurance Company of Illinois (IL)
Steadfast Insurance Company (DE)
Maryland Casualty Company (MD)
Northern Insurance Company of New York (NY)
Assurance Company of America (NY)
Maryland Insurance Company (TX)
National Standard Insurance Company (TX)
Valiant Insurance Company (IA)
Maine Bonding and Casualty Company (ME)
Fidelity and Deposit Insurance Company of Maryland (MD)
Colonial American Insurance Company (MD)

The amended agreement provides that the participants cede 100% of all underwriting assets, liabilities and expenses, as well as all underwriting income and losses (net of applicable reinsurance) to ZAIC. There is no retrocession from ZAIC to any of the pool participants.

ii. Assumed Reinsurance

The majority of the Company's assumed business is generated through its participation in the pooling agreement. The Company also participates in various underwriting pools and associations.

iii. Ceded Reinsurance

The Schedule F data as contained in the Company's Annual Statements filed for the years within the examination period was found to accurately reflect its reinsurance transactions.

All ceded reinsurance contracts effected during the examination period were reviewed and all were found to contain the required standard clauses including insolvency clauses meeting the requirements of Section 1308 of the New York Insurance Law.

Prior to cessions to the intercompany pooling agreement described above, the Company reduces its exposure to excessive loss through facultative and treaty reinsurance. The Company has the following ceded reinsurance program in force as of December 31, 1998:

Type of Contract	Cession
Corporate Program (covering all business units):	
Property:	
Property catastrophe excess of loss Five layers	95% of $525 million excess of $75 million ultimate net loss, each occurrence.
Casualty:	
Workers' Compensation Excess of Loss 95% Authorized 5% Unauthorized	$6 million excess of $5 million, ultimate net loss, each occurrence. (Note: applies prior to Casualty Catastrophe cover regarding workers compensation losses.)
Workers' Compensation Excess of Loss Five layers	$235 million excess of $15 million, ultimate net loss, each occurrence.
Casualty Catastrophe Excess of Loss (including workers' compensation and ocean marine) Two layers	$45 million excess of $5 million, ultimate net loss, any one event.
Multiline Property and Casualty:	
Whole Account Quota Share (all policies except those written by the International Division) 100% Authorized	5.75% quota share on all policies.
Whole Account Stop Loss 100% Unauthorized	Ultimate net loss greater than 79.7% of the base net earned premium income for the calendar year, limit 6% of the net earned premium income.

The whole account quota share treaty is ceded to Zurich Reinsurance (North America), Inc. and was in effect from July 1, 1995 through December 31, 1998. The purpose of the treaty was to provide the Zurich pool with additional cover after the acquisition of the Home Insurance Company book of business. The quota share percentage was originally 11.5% and was reduced to 5.75% effective January 1, 1998. The agreement was submitted to and approved by this Department.

Effective January 1, 1994 through December 31, 1998, the Company entered into the whole account stop loss agreement with an unauthorized unaffiliated Swiss reinsurer. Pursuant to the terms of this agreement, the reinsurer provided reinsurance to the Company for losses and loss adjustment expenses above a designated loss ratio (referred to as the "attachment point"). The reinsurer agreed to pay up to 6% of net earned premium income above the attachment point, which was set each year at 3.5% above the Company's estimated loss ratio for each year. For this reinsurance cover, the Company paid reinsurance premiums equal to 1% of its gross net earned premium for each year. Losses and loss adjustment expenses are recoverable only when the amount paid exceeds the attachment point. As of December 31, 1999, the premiums and losses ceded under this treaty were as follows (000's omitted):

	1994	1995	1996	1997	1998
Gross net earned premium	$924,548	$1,134,236	$1,523,520	$1,562,246	$1,115,087
Attachment point percent	81.3%	78.5%	78.6%	78.8%	79.7%
Attachment point amount	$751,658	$890,375	$1,197,487	$1,231,050	$888,724
Losses and LAE incurred	$732,875	$827,326	$1,196,125	$1,227,710	$959,280
Recoverable at 12/31/99	$0	$0	$0	$0	$66,905
Loss and LAE ratio	79.3%	72.9%	78.5%	78.6%	86.0%
Maximum recoverable	$55,473	$68,054	$91,411	$93,735	$66,905
Reinsurance premium	$9,245	$11,342	$15,235	$15,622	$11,151

The Company writes its business through four strategic business units: Zurich American International Accounts, Diversified Products, Specialties, and Construction. Each business unit has its own reinsurance program as follows:

Type of Contract	Cession
Zurich American International Accounts:	
Casualty Per Risk Quota Share 100% Authorized	A. (General Liability, Commercial Auto Liability, Technology errors and omissions, Employers' Liability) 86.67% of up to $30 million ultimate net loss, per risk + plus proportionate share of loss adjustment expenses. B. (Commercial Umbrella, Excess Liability) 86.67% of up to $30 million ultimate net loss, per risk.
General Liability, Automobile Liability and Workers' Compensation and/or Employers' Liability Quota Share 94.44% Authorized 5.56% Unauthorized	90% of the difference between $1 million and the greater of $250,000 or any self insured retention/deductible and/or retrospectively rated loss limitation, each loss under each policy, each insured.

Type of Contract	Cession
Corporate Solutions Quota Share (business written by the Zurich Corporate Solutions sub-division and classified as Multi-Line Property and Casualty Liability) 100% Authorized	90.9% of $55 million.
Workers Compensation Excess of Loss 95% Authorized 5% Unauthorized	$4 million excess of $1 million, each occurrence, limit $5 million per person.
<u>Diversified Products Division:</u> <u>Property:</u> Underlying Per Risk Excess of Loss 100% Authorized	$9.5 million excess of $500,000 ultimate net loss, each risk, each occurrence. Limit $38 million any one occurrence, maximum recovery of $150 million for the term of this contract. Aggregate deductible of $40 million.
Excess of loss Three layers	$115 million excess of $10 million, ultimate net loss, each risk, each occurrence.
<u>Property Catastrophe</u> International Property Excess of Loss Two layers	95% of $50 million excess of $25 million, ultimate net loss, each occurrence.
Property Facultative Excess of Loss (Highly Protected Risks Profit Center) Three layers 100% Authorized	$25 million excess of $75 million, ultimate net loss, any one risk (flood and earthquake). $225 million excess of $75 million ultimate net loss, any one risk (all perils except flood and earthquake).
Jewelers' Block Quota Share 100% Authorized	75% of up to $5 million, any one location, any one account. For property situated at trade shows, 100% of up to $15 million, any one location, any one account. Limit $30 million any one occurrence.
<u>Engineered Lines and Technical Risk Profit Centers:</u> Technical Risk Variable Quota Share (Diversified Products and Construction) 97.32% Authorized 2.68% Unauthorized	Boiler and machinery: 40% of $100 million. Construction: 65% of $100 million. Energy Property: 65% of $100 million. Engineered Lines – Utilities: 65% of $100 million.
<u>Energy sub-division:</u> Property: Global Energy Quota Share 100% Unauthorized	95% of $125 million, each loss, each risk.

Type of Contract	Cession
Umbrella and Excess Liability:	
Energy Casualty Quota Share 94.23% Authorized 5.77% Unauthorized	86.67% of up to $30 million ultimate net loss per risk, each occurrence.
Ocean Marine business: Ocean Marine Quota Share 100% Authorized	40% of up to $25 million, any one policy.
Marine Per Risk Excess of Loss 94.17% Authorized 5.83% Unauthorized	$10 million excess of $5 million, each and every risk, each and every loss occurrence.
Marine General –Catastrophe Three layers	a. $19.5 million excess of $500,000, each loss ($4 million excess of $1 million for named hurricanes). b. $250,000 excess of $250,000, each loss. Limit $1 million during the contract period. Aggregate deductible of $1 million.
Group Accident: A&H Per Person Excess of Loss 67.26% Authorized 32.74% Unauthorized	$2.8 million excess of $200,000, any one person or policy. $4.7 million excess of $300,000, any one person, if an insured is covered under multiple policies.
Personal Accident Quota Share 76.72% Authorized 23.28% Unauthorized	Known Concentrations: 85% for risks up to $2 million, any one accident or conveyance; 100% for risks exceeding $2 million up to $30 million. Personal Accident: 100% of original limits, limit $1 million per person, $20 million per accident; aircrew limit $200,000 per person, $3 million per aircraft. Occupational Accident: 100% of up to $1 million per person (AD&D); $1,000 per week (Accidental Disability); $1 million per person (Accident Medical). $2 million per person, combined single limit basis.
Personal Accident Catastrophe Excess of Loss Five layers	$110 million excess of $300,000, ultimate net loss, each accident.
Obligatory Medical Excess Quota Share 66.78% Authorized 33.22% Unauthorized	a. Aggregate Stop Loss: 90% of risks up to $2 million, any one policy, excess of 120% of the expected claims cost. b. Individual Stop Loss: 90% of risks up to $2 million, any one person, any one policy, excess of $15,000 any one person.

Type of Contract	Cession
	Gap: 90% of such benefits up to $2 million, maximum individual limit.
Human Organ and Tissue Transplant Quota Share 93.33% Authorized 6.67% Unauthorized	75% of up to $2 million per person, per transplant. Limit $2 million lifetime maximum benefit.
Specific and Aggregate Group Medical Quota Share 94.44% Authorized 5.56% Unauthorized	Specific Coverage: 85% of up to $1 million, per person lifetime, less specific retention. Aggregate Coverage: 85% of up to $1 million, per original policy per annum.
Specific and Aggregate Group Medical Excess Quota Share 100% Authorized	Specific Coverage: 100% of $4 million excess of $1 million, per person lifetime. Aggregate Coverage: 100% of $1 million excess of $1 million, excess of 120% of expected claims cost.
Multi-Product Occupational Accident Quota Share 100% Authorized	85% of $1 million per person, any one policy.
Short-term Disability Quota Share 100% Authorized	25% of up to $1,250 per week.
<u>Specialties Division:</u> <u>Customer Group:</u> Home Warranty Quota Share 100% Authorized	60% of up to $2 million any one structure. (Builders Default and Defined Structural Element Failure)
Non-Medical Professional Liability Variable Quota Share 88.63% Authorized 11.37% Unauthorized	<u>A. Non-medical Professional:</u> 50% for per risk limit of $0 to $2 million. 60% per risk limit of $2 million to $10 million. 70% per risk limit of $10 million to $15 million. 80% per risk limit of $15 million to $25 million. 85% per risk limit of $25 million to $30 million. <u>B. Architects and Engineers:</u> 0% for per risk limit of $0 to $2 million. 60% per risk limit of $2 million to $10 million. 70% per risk limit of $10 million to $15 million. 80% per risk limit of $15 million to $25 million. 85% per risk limit of $25 million to $30 million.
Railroad Liability Quota Share 100% Authorized	80% for per risk limit of $0 to $25 million. 85% per risk limit of $25 million to $30 million.

Type of Contract	Cession
Product Group: Environmental Primary Quota Share 93.75% Authorized 6.25% Unauthorized	80% of up to $2 million ultimate net loss, each risk.
Environmental Excess of Loss Two layers	95% of $48 million excess of $2 million ultimate net loss, each risk.
Excess and Umbrella Casualty Excess of Loss 93.75% Authorized 6.25% Unauthorized	A. 80% of $4 million excess of $1 million each loss, each claim and/or occurrence. B. 87.5% of $25 million excess of $5 million each loss, each claim and/or occurrence.
Directors' and Officers' Excess of Loss 93% Authorized 7% Unauthorized	A. 75% of $9 million excess of $1 million each claim and 25% of the 1st $1 million. (Policies in excess of primary policies written by other carriers) 50% of $10 million, each claim made and in the aggregate, each policy. Minimum attachment of $1 million.
Directors' and Officers' Liability Quota Share 100% Authorized	A. (Directors and Officers, Fiduciary Liability, Kidnap and Ransom, Crime Coverages) 25% of policy limits up to $5 million. For policies with limits greater than $5 million, the Company will retain $5 million and cede the surplus liability. Maximum cession of $25 million. B. (General Partnership Liability, Real Estate Errors and Omissions, Human Resources Professional Liability) 60% of policy limits up to $10 million. For policies with limits greater than $10 million, the Company will retain $5 million and cede the surplus liability. Maximum cession of $25 million.
Special Surety Quota Share 94% Authorized 6% Unauthorized	80% of $15 million, each contract bond. 80% of $25 million, each non-contract bond or fidelity bond or policy. For non-contract bonds or fidelity bonds with limits greater than $25 million, the Company will retain $5 million and cede the surplus liability up to a maximum of $25 million.
Political Risk Quota Share 100% Authorized	90% of up to $50 million any one policy, any one interest.
Special Casualty Excess of Loss 95% Authorized 5% Unauthorized	$4.5 million excess of $500,000 each coverage, each insured.

Type of Contract	Cession
Special Casualty Aggregate Stop Loss 100% Authorized	90% of up to 25% of the ultimate net loss ratio in excess of a 75% ultimate net loss ratio. Limit $18.5 million or 25% of the subject net written premium, whichever is less.
Employment Practices Liability Quota Share 100% Unauthorized	For policies that attach greater than $1 million but less than $5 million; 50% of the portion less than $5 million and 33.34% of the portion greater than $5 million up to a maximum of $25 million.
Healthcare Group:	
Healthcare Professional Primary Quota Share 84.62% Authorized 15.38% Unauthorized	32.5% of $1 million each claim or occurrence.
Healthcare Professional 1st Excess of Loss 88.89% Authorized 11.11% Unauthorized	45% of $5 million excess of self-insured retention each claim or occurrence.
Healthcare Professional 2nd Excess of Loss 94.74% Authorized 5.26% Unauthorized	95% of $25 million excess of $5 million excess of self-insured retention each claim or occurrence.
Provider Excess Quota Share 100% Authorized	Specific and Aggregate Stop Loss Policies 100% of the gross liability for: a) HMO/Hospital Services – limit $2 million per person, per annum. b) Professional Services – limit $250,000 per person, per annum. c) Aggregate Excess – limit $5 million per insured.
All Groups:	
Toprisk Casualty Excess of Loss 95% Authorized 5% Unauthorized	$20 million excess of $30 million, ultimate net loss, per risk.
Construction Division Property:	
Technical Risk Variable Quota Share 97.32% Authorized 2.68% Unauthorized	65% of $100 million (see Diversified Products)

Type of Contract	Cession
Per risk Excess of Loss 89.5% Authorized 10.5% Unauthorized	$15 million excess of $10 million (see Diversified Products Division).
Corporate Umbrella Excess of Loss 90.52% Authorized 9.48% Unauthorized	$50 million excess of $25 million (see Diversified Products Division).
Casualty:	
Blanket Excess of Loss 94.74% Authorized 5.26% Unauthorized	95% of $22.5 million excess of $2.5 million, ultimate net loss, each loss occurrence.
Semi-automatic Excess of Loss 94.74% Authorized 5.26% Unauthorized	95% of $25 million excess of $25 million, ultimate net loss, each loss occurrence.

Since the prior examination, the Company's retention on its property per risk treaties decreased from $3.5 million to $500,000, and its cover increased from $41.5 million to $99.5 million. The percentage of cessions to authorized insurers has increased compared with the prior examination period.

The Company's retention on its property catastrophe treaties increased from $15 million to $75 million, and its cover increased from $72 million to $525 million. The percentage of cessions to authorized insurers has remained consistent during the examination period.

The Company's retention on its casualty per risk treaties increased from $2.5 million to $5 million, and its cover increased from $17.5 million to $245 million. The percentage of cessions to authorized insurers has increased compared with the prior examination period.

iv. <u>All Lines Open Reinsurance Agreement ("ALORA")</u>

The Zurich American Insurance Group provides insurance to companies that operate internationally through two units, the Global Unit and the Reverse Flow Unit.

The Global Unit provides insurance through international affiliates of branches of Zurich Insurance Company to U.S. companies with worldwide exposures. Business produced by the Global Unit is assumed by American Guarantee and Liability Insurance Company on a facultative basis, either proportionally or non-proportionally (generally, a 90% quota share of the primary layer), through the ALORA treaty. For property business related to the captive insurance program, the reinsurer is Zurich Global, Ltd., an offshore affiliate of the Zurich Group.

The Reverse Flow Unit provides insurance to foreign companies with U.S. subsidiaries through any of the participants in the intercompany pooling agreement. Business produced by the Reverse Flow Unit is ceded to an affiliate, Zurich Insurance (Bermuda), on a facultative basis, either proportionally or non-proportionally (although generally a 90% quota share of the primary layer), through the Reverse ALORA treaty.

Written premiums assumed under the ALORA treaty during 1998 totaled $54,624,000. Written premiums ceded under the Reverse ALORA treaty during 1998 totaled $149,501,000 (combined for all pooled companies).

D. Holding Company System

The Company is a wholly-owned subsdiary of Zurich Holding Company of America, a Delaware holding company, which is in turn wholly-owned by Zurich Insurance Company (Switzerland). Zurich Insurance Company (Switzerland) is 99.09% owned by Zurich Financial Services, a Swiss holding company, which was formed in September 1998, concurrent with the merger between the financial services business of B.A.T. Industries and Zurich Insurance Company and its subsidiaries.

Zurich Financial Services is owned by two companies; Zurich Allied ("ZA"), a publicly traded Swiss holding company, which owns 57%, and Allied Zurich p.l.c., a publicly traded UK holding company, which owns 43%. Zurich Allied was created as a new holding company for the Zurich Group; it contributed the Zurich Group to the new Group in exchange for 57% of the shares of Zurich Financial Services. Allied Zurich p.l.c. was formed through the de-merger of B.A.T. Industries; it contributed B.A.T. Industries financial services business to the new Group in exchange for 43% of the shares of Zurich Financial Services.

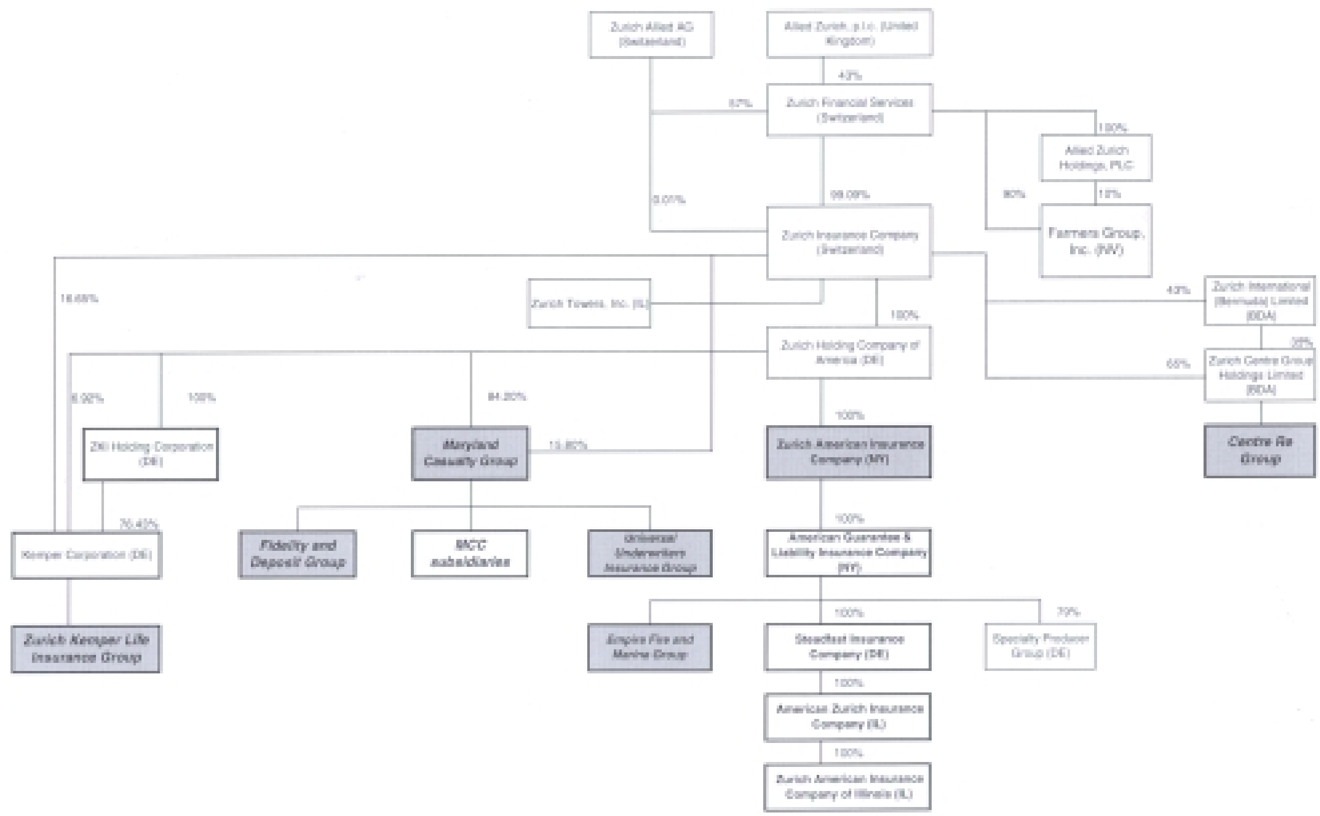
It was noted that effective January 1, 1999, Zurich American Insurance Company became the owner of 100% of the outstanding shares of Maryland Casualty Company when Zurich Insurance Company contributed its 15.8% ownership and Zurich Holding Company of America contributed its 84.2% ownership. The transfer of ownership was made concurrent with the adoption of the amended intercompany pooling agreement, which was fully discussed in Section 2c of this report.

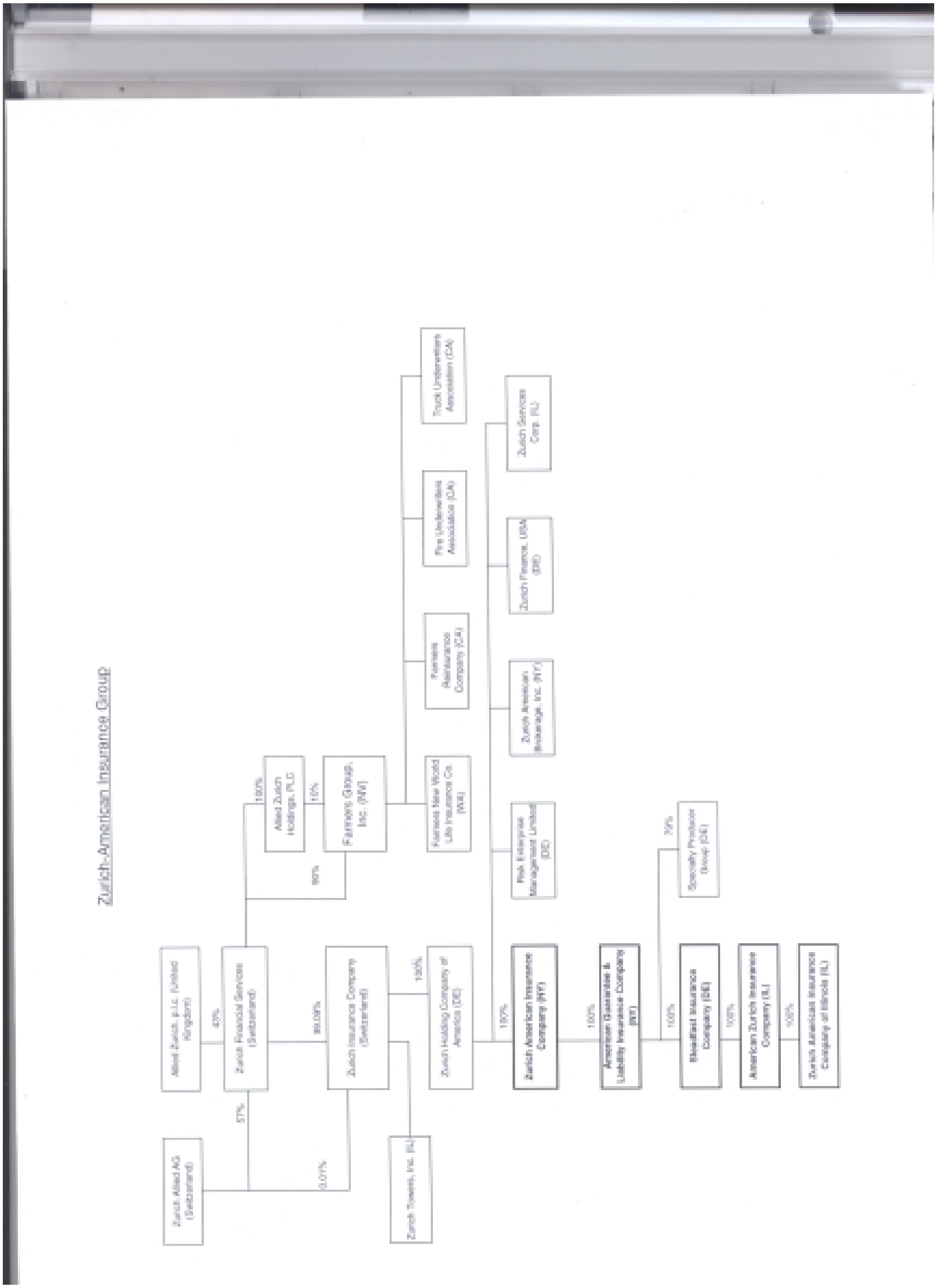
The Zurich Financial Services Group is comprised of seven sub-groups, as follows:

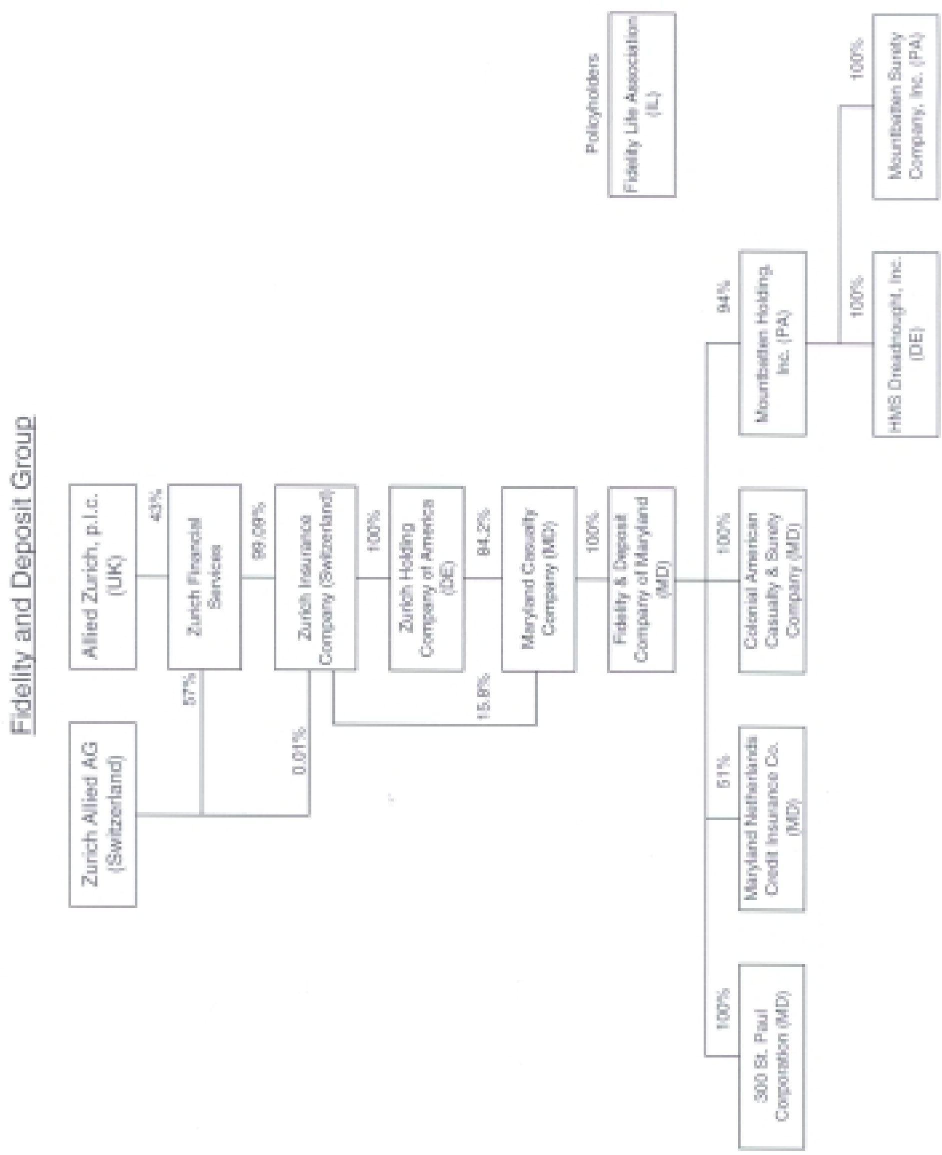
Zurich American Insurance Group
Empire Fire and Marine Insurance Group
Maryland Insurance Group
Fidelity and Deposit Group
Universal Underwriters Insurance Group
Zurich Kemper Life Insurance Group
Centre Reinsurance Holdings (Delaware) Limited

The following charts depict the chain of ownership of the U.S. affiliates in the Zurich Financial Services Group at December 31, 1998. The first page represents an abbreviated chart of the entire holding company system, with each of the seven sub-groups comprising the holding company summarized in one square (highlighted in gray). The subsequent seven pages represent expanded holding company charts for each of the highlighted sub-groups.

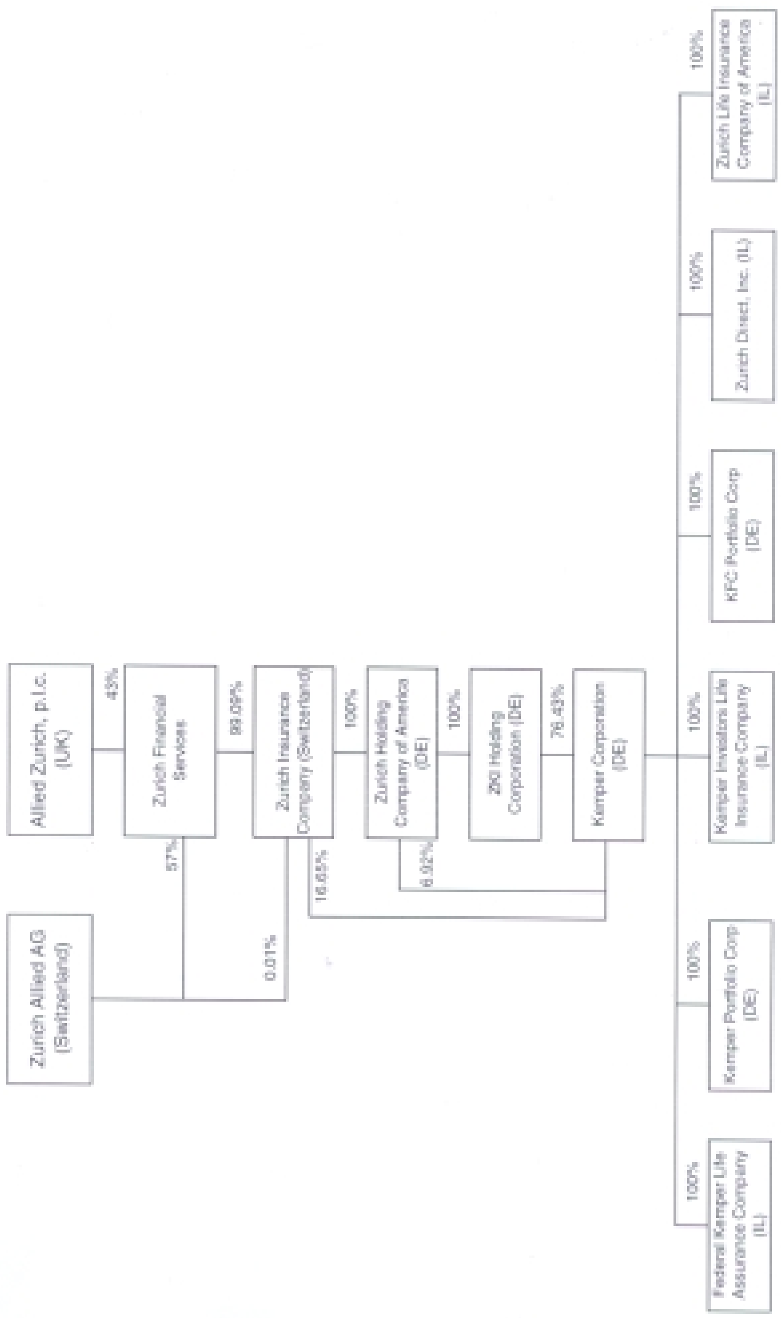
Zurich Financial Services Group
Abbreviated Holding Company Chart
As of December 31, 1998



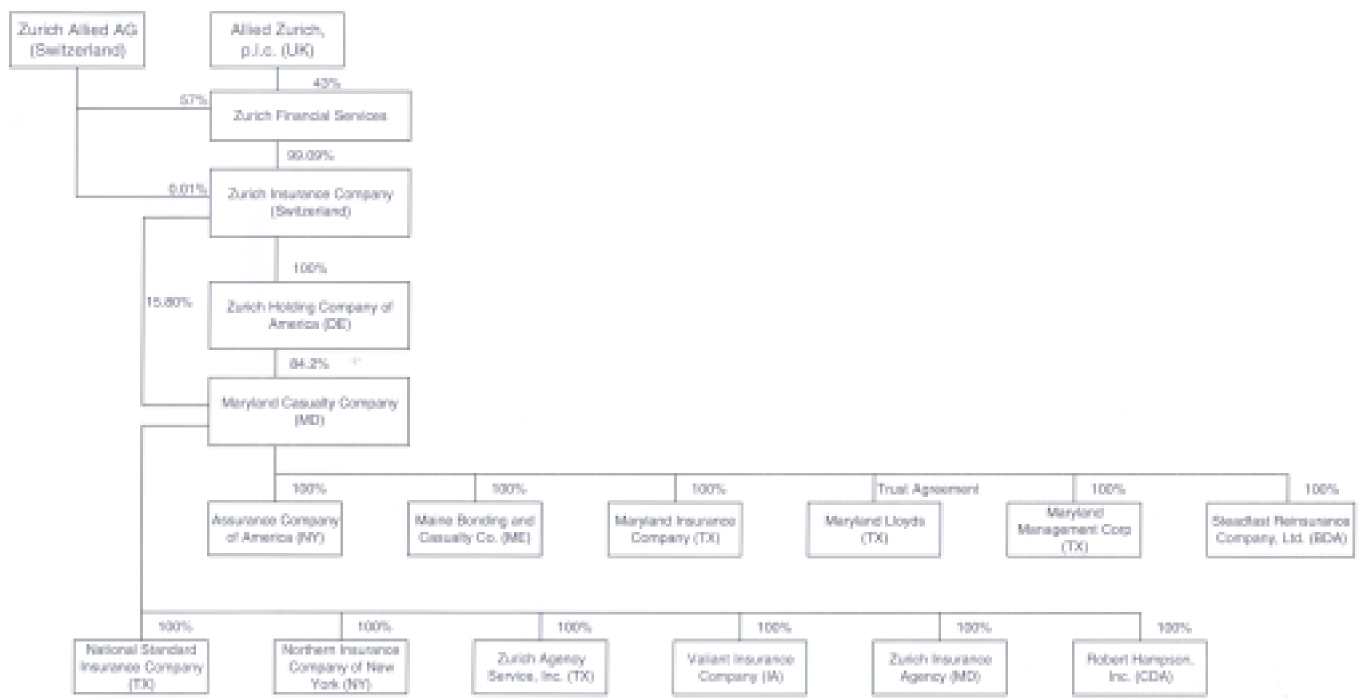

Zurich-American Insurance Group
Zurich Allied AG (Switzerland)
Zurich Financial Services (Switzerland)
Zurich Insurance Company (Switzerland)
Farmers Group, Inc. (NV)
Zurich Holding Company of America (DE)
Zurich American Insurance Company (NY)
American Guarantee & Liability Insurance Company (NY)
American Zurich Insurance Company (IL)
Zurich American Insurance Company of Illinois (IL)

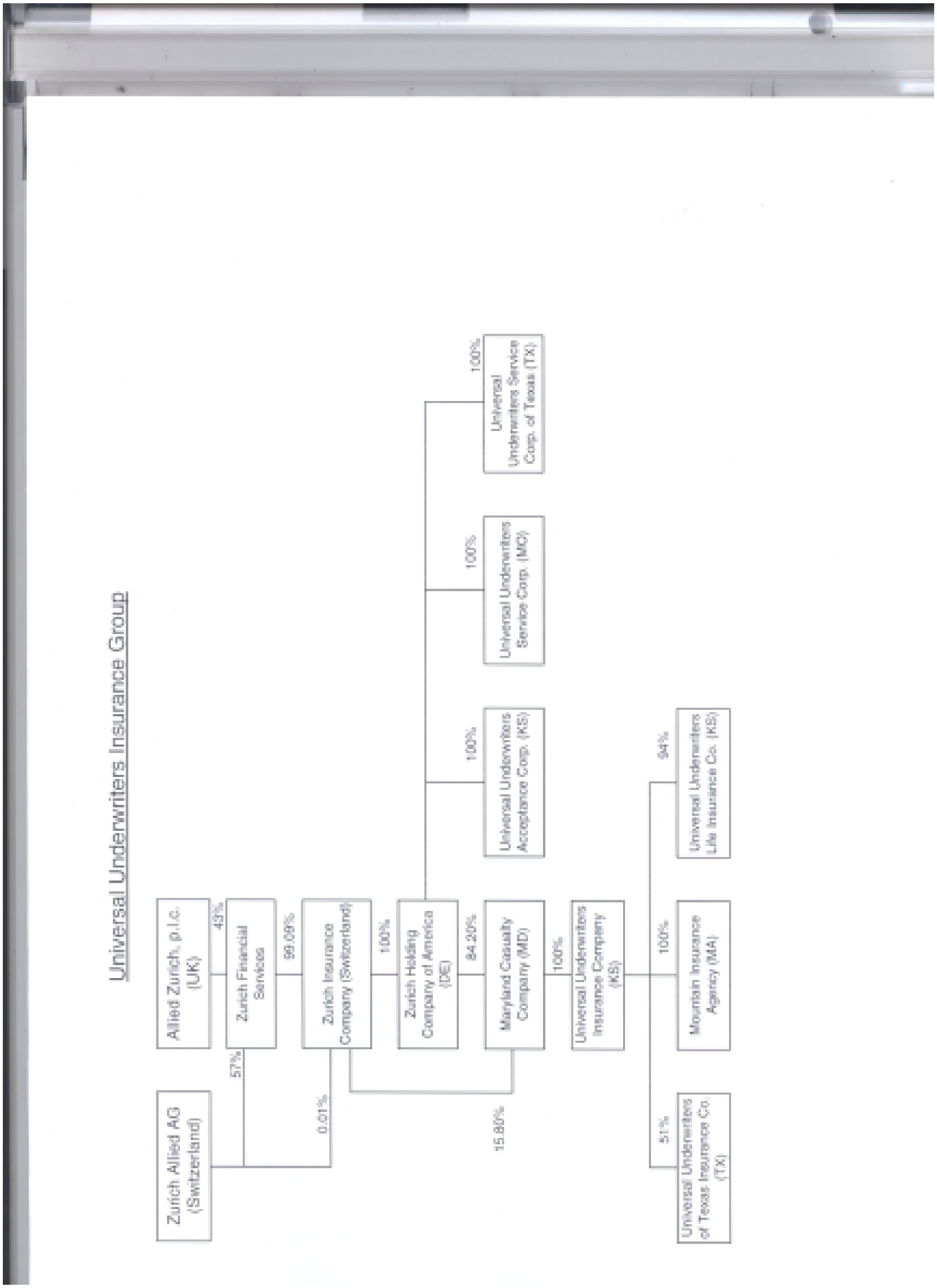

Fidelity and Deposit Group
Zurich Allied AG (Switzerland)
Allied Zurich, p.l.c. (UK)
57%
43%
Zurich Financial Services
0.01%
99.99%
Zurich Insurance Company (Switzerland)
100%
Zurich Holding Company of America (DE)
15.8%
84.2%
Maryland Casualty Company (MD)
100%
Fidelity & Deposit Company of Maryland (MD)
100%
300 St. Paul Corporation (MD)
51%
Maryland Netherlands Credit Insurance Co. (MD)
100%
Colonial American Casualty & Surety Company (MD)
94%
Mountbatten Holding, Inc. (PA)
100%
HMS Dreadnought, Inc. (DE)
100%
Mountbatten Surety Company, Inc. (PA)
Policyholders
Fidelity Life Association (IL)

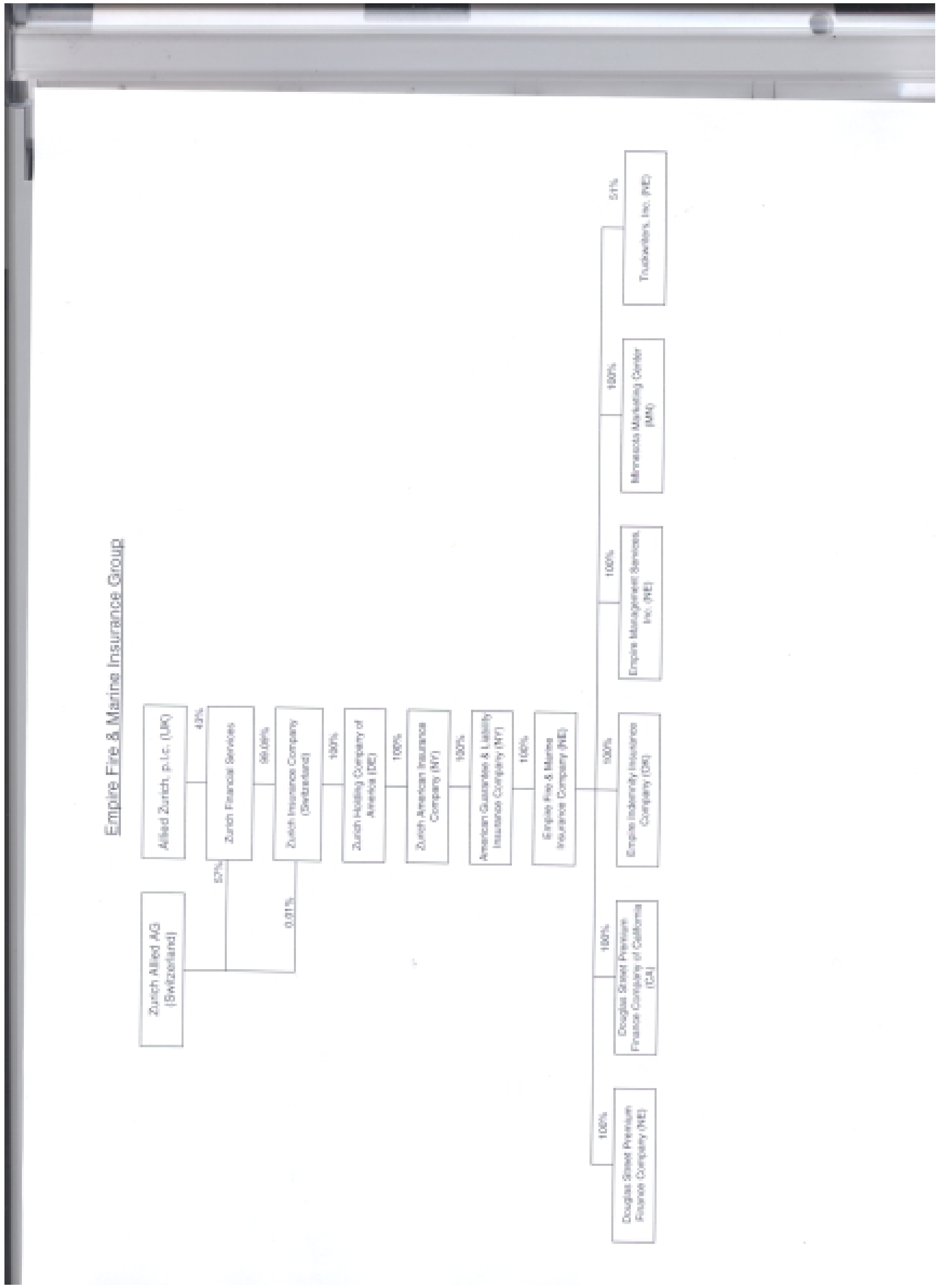
Zurich Kemper Life Insurance Group

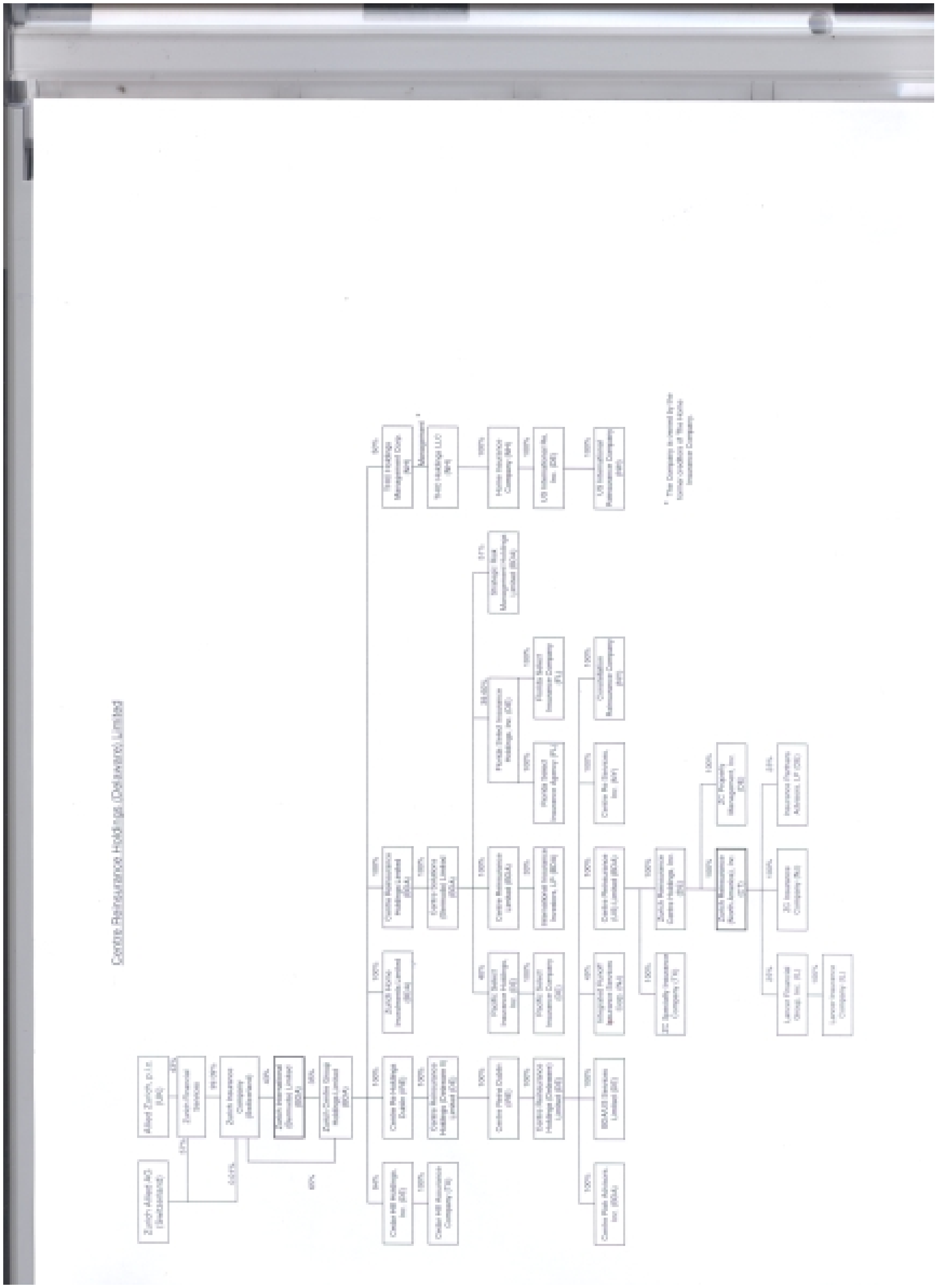


Maryland Insurance Group




Universal Underwriters Insurance Group
Zurich Allied AG (Switzerland)
Allied Zurich, p.l.c. (UK)
57%
43%
Zurich Financial Services
99.09%
0.01%
Zurich Insurance Company (Switzerland)
100%
Zurich Holding Company of America (DE)
84.20%
15.80%
Maryland Casualty Company (MD)
100%
Universal Underwriters Insurance Company (KS)
51%
Universal Underwriters of Texas Insurance Co. (TX)
100%
Mountain Insurance Agency (MA)
94%
Universal Underwriters Life Insurance Co. (KS)
100%
Universal Underwriters Acceptance Corp. (KS)
100%
Universal Underwriters Service Corp. (MO)
100%
Universal Underwriters Service Corp. of Texas (TX)


Empire Fire & Marine Insurance Group
Zurich Allied AG (Switzerland)
Allied Zurich, p.l.c. (UK)
43%
57%
Zurich Financial Services
99.99%
0.01%
Zurich Insurance Company (Switzerland)
100%
Zurich Holding Company of America (DE)
100%
Zurich American Insurance Company (NY)
100%
American Guarantee & Liability Insurance Company (NY)
100%
Empire Fire & Marine Insurance Company (NE)
100%
Douglas Street Premium Finance Company (NE)
100%
Douglas Street Premium Finance Company of California (CA)
100%
Empire Indemnity Insurance Company (OK)
100%
Empire Management Services, Inc. (NE)
100%
Minnesota Marketing Center (MN)
51%
Truckwriters, Inc. (NE)


Centre Reinsurance Holdings (Delaware) Limited

At December 31, 1998, the Company was party to the following intercompany agreement with several of its affiliates:

Apportionment of Expense Agreement

Pursuant to the terms of an agreement effective January 1, 1982, ZHCA provides some or all of the business operations of its subsidiaries through the organization and staff of Zurich American Insurance Company in the following areas: investments, planning, auditing, management, taxes, actuarial, budgeting, legal, claims, loss control, accounting, data processing, underwriting, personnel, administration, and other functions. At December 31, 1998, the affiliated parties to this agreement were as follows:

American Guarantee and Liability Insurance Company
Zurich American Insurance Company of Illinois
American Zurich Insurance Company
Steadfast Insurance Company
Atlas General Agency, Inc.
Empire Fire and Marine Insurance Company
Universal Underwriters, Inc.
Maryland Casualty Company
Zurich-American Brokerage.
Zurich Global, Ltd.
Vistar Risk Management Services
F&D Holding Corporation
Zurich Direct, Inc.
Zurich Life Insurance Company of America

Expenses are apportioned to each of the companies as follows:

1. Federal Income Taxes: Are apportioned pursuant to the tax sharing agreement.
2. Investment Expenses: Each company pays those investment expenses directly identifiable to its portfolio. Indirect expenses are allocated based on a study of weighted investment transactions or other generally accepted cost allocation methods.
3. Operating Expenses: Each company pays its own directly identifiable operating expenses.
4. Other Claim or Operating Expenses: Allocated in accordance with generally accepted practices of cost allocation.

5. Expenses other than investment expenses and state income taxes of American Guarantee and Liability Insurance Company, Zurich American Insurance Company of Illinois, American Zurich Insurance Company, and Steadfast Insurance Company will be apportioned according to the intercompany pooling agreement.

This agreement was submitted to, and approved, by this Department.

Tax Sharing Agreement

Effective January 1, 1981, Zurich Holding Company of America, Inc. ("ZHCA") files consolidated Federal income tax returns with the Company and several other affiliates. Pursuant to the terms of this agreement, each company pays a proportionate share of the consolidated income tax liability based on the percentage of each company's taxable income to the total taxable income of the group, not to exceed the total tax liability of such member computed on a separate return basis. This agreement was submitted to, and approved, by this Department.

Reinsurance Ceded to Affiliates

The following is a list of reinsurance agreements in effect at December 31, 1998, in which an affiliated company participated 10% or more.

Corporate Program:

1. Property Catastrophe excess of loss – 5th layer ($200 million excess of $400 million), effective January 1, 1998: Zurich Reinsurance (North America), Inc. ("ZRNA") participates 40%.

2. Property Catastrophe Gap excess of loss – (4 layers, $325 million excess of $75 million), effective January 1, 1998: ZRNA participates 15%. This treaty was submitted to and approved by this Department.

3. Casualty Catastrophe excess of loss – 1st layer ($5 million excess of $5 million), effective January 1, 1997 to January 1, 2000: Zurich International (Bermuda) ("ZIB") participates 15%.

Diversified Products:

4. Umbrella Property Per Risk excess of loss ($50 million excess of $25 million), effective July 1, 1998: ZRNA participates 10%.

5. Global Property excess of loss ($50 million excess of $75 million), effective July 1, 1998: ceded 100% to ZRNA.

6. International Property Catastrophe 2nd excess of loss ($25 million excess of $50 million), effective July 1, 1998: ZRNA participates 10%.

7. Jewelers Block quota share (75% of $5 million), effective January 1, 1998: ZRNA participates 25%.

8. Global Energy quota share (95% of $125 million), effective April 1, 1996: ceded 100% to ZIB.

9. Ocean Marine quota share (40% of $25 million), effective July 1, 1998: ZRNA participates 25%.

Specialties Division:

10. Railroad Liability quota share (80% of up to $25 million, 85% of $25 million to $30 million), effective October 1, 1998: ZRNA participates 23.53%.

11. Environmental 1st excess of loss (95% of $8 million excess of $2 million), effective April 1, 1998: ZRNA participates 10%.

12. Environmental 2nd excess of loss (90% of $40 million excess of $10 million), effective April 1, 1998: ZRNA participates 10%.

13. Directors and Officers Liability quota share (25% up to $5 million + 100% over $5 million to $30 million), effective November 1, 1998: ZRNA participates 14.6%

14. Political Risk quota share (90% of $50 million), effective December 15, 1997: ZRNA participates 15%.

15. Healthcare Professional primary quota share (32.5% of $1 million), effective July 1, 1998: ZIB participates 15.38% (5% of 32.5%)

16. Healthcare Professional 1st excess of loss (45% of $5 million excess of primary), effective July 1, 1998: ZIB participates 11.11% (5% of 45%).

17. Provider Excess quota share, effective January 1, 1998: 100% ceded to ZRNA.

Other than as noted, the above agreements were not submitted to this Department for prior approval. Pursuant to Section 1505(d)(2) of the New York Insurance Law, a domestic controlled insurer may not enter into any reinsurance treaties or agreements with any person in its holding company system:

> "unless the insurer has notified the superintendent in writing of its intention to enter into any such transaction at least thirty days prior thereto, or such shorter period as he may permit, and he has not disapproved it within such period".

Further, Regulation 52, Section 80-1.5(a) states that:

> "notices of proposed transactions pursuant to Section 1505(d) of the New York Insurance Law shall be accompanied by descriptions of the essential features of such transactions, which are reasonably adequate to permit proper evaluation thereof by the superintendent".

Based on discussions between the Company and this Department in 1996, this Department agreed that reinsurance agreements where the affiliate is not the lead reinsurer and where the affiliate participates less than 10% did not have to be submitted prior to implementation. The Company did not adhere to this agreement.

In order to comply with Section 1505(d)(2) of the New York Insurance Law and Part 80-1.5 of Department Regulation 52, it is recommended that the Company file with this Department the applicable cover noted for any reinsurance agreement where a related party's participation is 10% or more. Such filing is to be made within thirty days after the agreement's effective date. The complete related party reinsurance contract should be forwarded to this Department within thirty days of ratification, however, the filing should be no later than nine months after the effective date of the agreement.

Additionally, the Company is reminded that while related party facultative agreements need not be individually submitted for each risk, the Company is required to file the master facultative reinsurance agreement thirty days prior to entering into such an arrangement. Further, the Company should submit a list of all facultative reinsurance slips entered into with related parties pursuant to the master facultative reinsurance agreement with its annual holding company filing statement.

Prior to January 1, 1998, the Company utilized Alpina Insurance Company (Switzerland) and Turegum Insurance Company (Switzerland) for the majority of its cessions to affiliates. Effective January 1, 1998, the Company executed a transfer and assumption agreement whereby all of the reinsurance obligations previously ceded to Alpina and Turegum were transferred to, and assumed by, Zurich

International (Bermuda) Ltd. The transfer and assumption agreement was submitted to and approved by this Department.

F. Significant Operating Ratios

The following ratios have been computed as of December 31, 1998, based upon the results of this examination:

Net premiums written in 1998 to Surplus as regards policyholders	0.28 :1
Liabilities to Liquid assets	87.80%
Agents' balances to Surplus as regards policyholders	12.65%

All of the above ratios fall within the benchmark ranges set forth in the Insurance Regulatory Information System of the National Association of Insurance Commissioners.

The underwriting ratios presented below are on an earned-incurred basis and encompass the five-year period covered by this examination:

	Amounts	Ratios
Losses incurred	$427,172,590	65.60%
Loss adjustment expenses incurred	149,909,889	23.02
Other underwriting expenses incurred	178,860,153	27.47
Underwriting gain/(loss)	(104,766,262)	(16.90)
Premiums earned	$651,176,370	100.00%

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities, and surplus as regards policyholders by this examination as of December 31, 1998, and as reported by the Company:

Assets	Ledger Assets	Non-Ledger Assets	Not-Admitted Assets	Admitted Assets
Bonds	$427,261,276	$		$427,261,276
Preferred stocks	478,109		$32,858	445,251
Common stocks	216,174,421	133,012,058		349,186,479
Cash and short-term investments	88,169,903			88,169,903
Other investment assets	788,852			788,852
Premiums and agents' balances in course of collection	20,387,031		4,753,554	15,633,477
Premiums, agents' balances and installments booked but deferred and not yet due	7,162,576			7,162,576
Accrued retrospective premiums	11,951,906	10,853,512	1,690,179	21,115,239
Bills receivable taken for premiums	12,918		1,115	11,803
Reinsurance recoverable on loss and loss adjustment expense payments	22,323,368			22,323,368
Federal income tax recoverable		353,562		353,562
Electronic data processing equipment	2,223,485			2,223,485
Guaranty fund receivable or on deposit	194,888			194,888
Interest, dividends and real estate income due and accrued		5,855,584		5,855,584
Receivable from parent, subsidiaries and affiliates				
Equities and deposits in pools and associations	4,148,448	1,444,052		5,592,500
Furniture, equipment and supplies	3,961,324		3,961,324	
Loans on personal security	64,626		64,626	
Clearing accounts	21,885,543			21,885,543
Sundry balances	4,831,583		281,448	4,550,135
Prepaid expenses	331,976		331,976	
Total Assets	$ 832,352,233	$ 151,518,768	$ 11,117,080	$ 972,753,921

Liabilities, Surplus and Other Funds

Losses	$ 275,111,962
Reinsurance payable on paid losses and loss adjustment expenses	1,578,389
Loss adjustment expenses	95,991,084
Contingent commissions	644,475
Other expenses	8,791,118
Taxes, licenses and fees	1,380,570
Unearned premiums	61,561,794
Dividends declared and unpaid	359,528
Funds held by companies under reinsurance treaties	22,190,657
Amounts withheld for account of others	7,009,285
Provision for reinsurance	6,349,569
Net adjustments due to foreign exchange rates	134,675
Drafts outstanding	13,278
Payable to parent, subsidiaries and affiliates	19,985,046
Payable for securities	131,094
Retroactive reinsurance reserve – assumed	2,029,216
Total Liabilities	$503,261,740
Aggregate write-ins for special surplus	$309,227
Capital stock	5,000,000
Gross paid in and contributed surplus	217,268,073
Unassigned funds	246,914,881
Surplus as regards policyholders	$469,492,181
Total liabilities, surplus and other funds	$972,753,921

Note: The Internal Revenue Service has completed its audits of the Company's consolidated federal income tax returns through tax year 1993. All material adjustments, if any, made subsequent to the date of the examination and arising from said audits are reflected in the financial statements included in this report. Audits covering tax years 1994 through 1996 are currently under examination. Audits covering tax years 1997 through 1998 have yet to commence. The Internal Revenue Service sent notices of proposed adjustments for tax years 1991, 1992, and 1993 totaling approximately $400,000, which the Company is protesting. No contingent liability has been established herein, due to the immateriality of the proposed adjustments.

B. Underwriting and Investment Exhibit

Surplus as regards policyholders increased $255,874,539 during the period from January 1, 1994 through December 31, 1998, detailed as follows:

Statement of Income

Underwriting Income		
Premiums earned		$651,176,370
Deductions:		
Loss incurred	$427,172,590	
Loss adjustment expenses incurred	149,909,889	
Other underwriting expenses incurrred	178,860,153	
Total underwriting deductions		755,942,632
Net underwriting gain or (loss)		$(104,766,262)
Investment Income		
Net investment income earned	$206,787,480	
Net realized capital gains or (losses)	59,312,071	
Net investment gain or (loss)		266,099,551
Other income		
Net gain or (loss) from agents or premium balances charged off	(1,175,415)	
Finance and service charges	123,932	
Aggregate write-ins for miscellaneous income	(628,271)	
Total other income		$(1,679,754)
Net income before dividends to policyholders and Federal & Foreign Income Taxes		$159,653,535
Dividends to policyholders		3,174,010
Net income before federal income taxes		$156,479,525
Federal income taxes		(165,093)
Net income		$156,644,618

Capital and Surplus Account

	Gains in Surplus	Losses in Surplus	
Surplus as regards policyholders, per report on examination as of December 31, 1993			$213,617,642
Net income (loss)	$156,644,618	$	
Net unrealized capital gains	90,284,548		
Change in not admitted assets		1,074,879	
Change in provision for reinsurance		3,714,658	
Change in foreign exchange adjustment		35,868	
Change in surplus notes		20,000,000	
Capital paid in	2,500,000		
Surplus paid in	81,750,000		
Dividends to stockholders		50,000,000	
California Proposition 103 refund		479,222	
Total gains and losses	$331,179,166	$75,304,627	
Net increase in surplus as regards policyholders			255,874,539
Surplus as regards policyholders, per report on examination as of December 31, 1998			$469,492,181

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liabilities for losses and loss adjustment expenses of $275,111,962 and $95,991,084 respectively are the same amounts reported by the Company in its filed annual statement as of December 31, 1998.

The captioned liabilities were calculated in accordance with generally accepted actuarial principles and practices and was based upon statistical information reflected in the Company's internal records reconciled to the data contained in the Company's filed Annual Statements.

5. MARKET CONDUCT ACTIVITIES

In the course of this examination, a review was made of the manner in which the Company conducts its business practices and fulfills its contractual obligations to policyholders and claimants. The review was general in nature and is not to be construed to encompass the more precise scope of a market conduct examination, which is the responsibility of the Property Bureau's Market Conduct Unit of this Department.

The general review was directed at practices of the Company in the following areas:

1. Sales
2. Underwriting
3. Rating
4. Advertising

No problem areas were encountered.

6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination contained six comments and recommendations as follows (page numbers refer to the prior report):

ITEM		PAGE NO.
1.	Intercompany pooling agreement	9
	It was recommended that management adhere to its commitment made to this Department relative to Steadfast Insurance Company operating as an excess lines carrier in this State.	
	The Company was subsequently released from this commitment by this Department.	
2.	Schedule Y	23
	It was recommended that the Company include worldwide subsidiaries of Zurich Insurance Company, Switzerland in future filed organization charts.	
	This Department agreed that a listing of worldwide affiliates need only be furnished on an annual basis with the Company's holding company filing. The Company has complied with this recommendation.	
3.	Expense Sharing Agreement	24
	It was recommended that the Company submit to the Superintendent any amendments to its expense sharing agreement in compliance with the provisions of Section 1505(d)(3) of the New York Insurance Law.	
	The Company has complied with this recommendation.	
4.	Reinsurance Agreements with Affiliates	26-27
	It was recommended that the Company notify the Superintendent in writing at least thirty days prior to entering into any reinsurance agreements with an affiliate pursuant to Section 1505(d)(2) of the New York Insurance Law and Part 80-1.5 of New York Regulation 52.	
	The Company has not complied with this recommendation; a similar recommendation is contained herein.	

ITEM		PAGE NO.
5.	Investment Transactions with Affiliates	27
	It was recommended that the Company notify the Superintendent in writing at least thirty days prior to entering into any transactions with an affiliate involving sales, purchases, exchanges, loans or extensions of credit, or investments involving more than one-half of one percent but less than five percent of its admitted assets, pursuant to Section 1505(d)(1) of the New York Insurance Law.	
	The Company has complied with this recommendation.	
6.	Credit Agreement	29
	It was commented that the Company appeared to have violated Section 1505(d)(1) of the New York Insurance Law by making an indirect loan to ZHCA, enabling ZHCA to obtain a reduced rate of interest for its borrowing.	
	The Company no longer holds the commercial paper used to fund the commercial paper loans of Zurich Holding Company of America. Therefore, this comment is no longer applicable.	

7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

Respectfully submitted,

/S/
James E. Masterson, CFE
Principal Insurance Examiner

STATE OF NEW YORK)
) SS.
)
COUNTY OF NEW YORK)

JAMES E. MASTERSON, being duly sworn, deposes and says that the foregoing report submitted by him is true to the best of his knowledge and belief.

/S/
James E. Masterson

Subscribed and sworn to before me

this _____ day of _________ 2001.

Appointment No 21438

STATE OF NEW YORK
INSURANCE DEPARTMENT

I, NEIL D. LEVIN *, Superintendent of Insurance of the State of New York, pursuant to the provisions of the Insurance Law, do hereby appoint:*

James Masterson

as proper person to examine into the affairs of the

American Guarantee and Liability Insurance Company

and to make a report to me in writing of the condition of the said

Company

with such other information as he shall deem requisite.

In Witness Whereof, I have hereunto subscribed by the name and affixed the official Seal of this Department, at the City of New York,

this 29th *day of* July, 1999

NEIL D. LEVIN
Superintendent of Insurance