

REPORT ON EXAMINATION
OF THE
AUTOGLASS INSURANCE COMPANY
AS OF
DECEMBER 31, 1999

DATE OF REPORT

MARCH 27, 2000

EXAMINER

JOSEPH FRITSCH

TABLE OF CONTENTS

<u>ITEM NO.</u>		<u>PAGE NO.</u>
1.	Scope of examination	2
2.	Description of Company	3
	A. Management	3
	B. Territory and plan of operation	6
	C. Reinsurance	7
	D. Holding company system	8
	E. Fidelity bonds and other insurance coverage	11
	F. Conflict of interest statements	11
	G. Accounts and records	12
	H. Regulation 30	14
	I. Internal Control	15
	J. Abandoned Property Law	15
	K. Significant operating ratios	16
3.	Financial statements	17
	A. Balance sheet	17
	B. Underwriting and investment exhibit	18
4.	Losses & loss adjustment expenses	19
5.	Market conduct activities	20
6.	Summary of comments and recommendations	23



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

March 27, 2000

Honorable Neil D. Levin
Superintendent of Insurance
Albany, NY 12257

Sir:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 21508, dated March 3, 2000, attached hereto, I have made an examination into the condition and affairs of the Autoglass Insurance Company as of December 31, 1999 and submit the following report thereon.

The examination was conducted at the Company's home office located at 1120 Magee Street, Elmira, New York 14901.

Wherever the designations, "the Company", "Autoglass" or "AIC" appear herein without qualification, they should be understood to indicate the Autoglass Insurance Company.

1. SCOPE OF EXAMINATION

This is the first financial examination of the Company; the prior organization examination was conducted as of February 26, 1998. This examination covers the period from February 27, 1998 to December 31, 1999. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

This examination comprised a complete verification of assets and liabilities as of December 31, 1999 and a review of income and disbursements deemed necessary to accomplish such verification. For the year ended December 31, 1998, the Company was granted an exemption from filing an audited financial statement pursuant to Section 307(b)(3) of New York Insurance Law; therefore, no CPA workpapers were available for review during the course of the examination. 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 Company
- Management and control
- Corporate records
- Fidelity bonds and other insurance
- Territory and plan of operation
- Market conduct activities
- Business in force
- Accounts and records
- Financial statements

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 THE COMPANY

Autoglass Insurance Company was incorporated on September 5, 1997. The declaration of intention and charter was approved by the Attorney General of the State of New York and filed with the Department on the same date. The Company commenced its business on March 18, 1998. The Company's offices are located at 1120 Magee Street, Elmira, New York, 14901.

The Company was initially organized with an authorized capital consisting of 100,000 shares of common stock having a par value of \$2 per share. Subsequently, the Company amended its charter in September 1997 to increase the number of authorized common shares to 1,000,000 with reduced par value of \$1 per share. During February 1997, the Company issued 215,000 shares of common stock for a consideration of \$350,000, of which \$215,000 was allocated to paid-in capital and \$135,000 to gross paid-in and contributed surplus.

A. Management

Pursuant to the Company's charter and by-laws, management of the Company is vested in a board of directors consisting of not less than thirteen nor more than twenty members. As of the examination date, the board of directors was comprised of fifteen members. The board is required to meet at least once every May, according to the Company's charter and by-laws. However, it was noted that the board of directors failed to meet during 1998. It is recommended that the Company comply with its charter and by-laws and hold at least one meeting annually.

The directors as of December 31, 1999 were as follows:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
John Beecher Elmira, NY	President, Linn S. Chapel
J. A. Hires Cadwallader Elmira, NY	Contract Coordinator, The Glass Company
Jane H. Cadwallader Elmira, NY	Personnel Officer, Windshield Installation Network, Inc.
John F. Cadwallader Sr. Elmira, NY	President, Windshield Installation Network, Inc.
John F. Cadwallader Jr. Elmira, NY	Vice President, Windshield Installation Network, Inc.
Kathleen Carozza Horseheads, NY	Retired Nurse
J. Michael Ervin Horseheads, NY	Senior Vice President, Elmira Savings & Loan Association
Peter Fennell Elmira, NY	Retired
William A. McKenzie Elmira, NY	President, Elmira Savings & Loan Association
Donna C. Menner Elmira, NY	Office Manager, Albert L. Menner, P.C.
Gregory Olson Big Flats, NY	Vice President, The Glass Company
Georgia Reynolds Elmira, NY	Office Manager, Yunis Enterprises
Thomas Rutan Horseheads, NY	Vice President, Elmira College
Gerald Schichtel Penn Yan, NY	Retired President, The Hillard Corporation
T. Michael Searson Painted Post, NY	Principal, Springburn L.L.C.

The minutes of all of the board of directors' meetings held during the examination period were reviewed. All the meetings were well attended; however, two of the directors failed to attend at least half of the meetings that they were eligible to attend. John F. Beecher and Kathleen L. Carozza each attended only one of the four meetings held during the examination period.

Members of the board have a fiduciary responsibility and must evince an ongoing interest in the affairs of the insurer. It is essential that board members attend meetings consistently and set forth their views on relevant matters so that the board may reach appropriate policy decisions. Individuals who fail to attend at least one-half of the regular board meetings do not fulfill such criteria. It is recommended that board members who are unable or unwilling to attend meetings consistently, resign or be replaced.

It was noted that in several instances, the board had taken action by written consent in lieu of a board meeting. Section 708(b) of the New York Business Corporation Law provides as follows:

“Unless otherwise restricted by the certificate of incorporation or the by-laws, any action required or permitted to be taken by the board or any committee thereof may be taken without a meeting if all members of the board or 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.”

It was noted that on many occasions the Company did not obtain the written consent of all its directors. It is recommended that Company comply with Section 708(b) of the New York Business Corporation Law by ensuring that all members of the board consent in writing to any resolution that is adopted in lieu of an actual board of directors' meeting.

Section 1411(a) of the New York Insurance Law provides as follows:

“No domestic insurer shall make any loan or investment ...unless authorized or approved by its board of directors or a committee thereof responsible for supervising or making such investment or

loan. The committee's minutes shall be recorded and a report submitted to the board of directors at its next meeting."

A review of the board of directors' minutes revealed that the board of directors did not approve any investment transactions entered into by the Company during the examination period.

It is recommended that the board of directors approve all investment transactions pursuant to the provisions of Section 1411(a) of the New York Insurance Law.

The principal officers of the Company as of the examination date were as follows:

<u>Name</u>	<u>Title</u>
John F. Cadwallader, Sr.	President
John Fell Cadwallader, Jr.	Vice President
T. Michael Searson	Treasurer
Carole E. Clemens	Corporate Secretary

B. Territory and Plan of Operation

The Company is licensed to do business only in the State of New York. As of the examination date, the Company was authorized to transact glass insurance as defined in paragraph 8 of Section 1113(a) of the New York Insurance Law.

Based upon the line 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, the Company is required to maintain a minimum surplus to policyholders in the amount of \$200,000 and a minimum capital of \$200,000.

During the period covered by this examination, the Company appointed H.R. Keller as its Managing General Agent for direct business. Such appointment was, however, terminated on February 5, 2000, and the Company currently writes insurance directly.

C. Reinsurance

During the period covered by this examination, the Company had two reinsurance contracts in force, described as follows:

- (a) Assumed: The Company was a party to a reinsurance agreement wherein it assumed a 20% quota share of another insurer's automobile glass business. The agreement contained a provision that obligated the Company to accept a 20% quota share of the ceding company's liability for any extra-contractual obligations associated with such business. This Department's Office of General Counsel has opined that if a New York domiciled insurer agrees to indemnify a reinsured for extra-contractual obligations, the reinsurance agreement must contain a clause stating that "in no event shall coverage be provided to the extent that such coverage is not permitted under New York law." The agreement did not contain this provision. Therefore, it is recommended that the Company amend this reinsurance agreement to include the clause as set forth in the Office of General Counsel's opinion.
- (b) Ceded: The Company had a 65% quota share reinsurance contract covering personal and commercial automobile glass breakage, subject to an annual limit of 200% of gross reinsurance premium, and a fixed commission allowance of 35%.

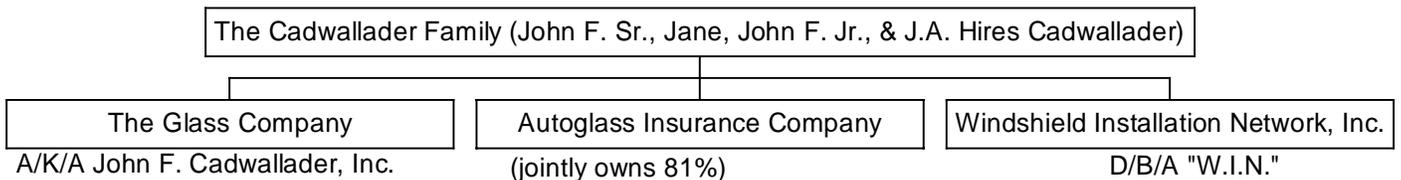
The agreements were reviewed for form and content and found to contain the required standard clauses including an insolvency clause, which meets the requirements of Section 1308 of the New York Insurance Law. However, it was noted that the offset clause of the reinsurance contracts noted above did not comply with the requirements set forth by Section 7427 of the New York Insurance Law. It is recommended that the reinsurance agreements be amended to insert the following language in their agreements:

"In the event of the insolvency of either party to this agreement then offsets shall only be allowed to the extent permitted by the provisions of Section 7427 of the New York Insurance Law."

The Schedule F data reported by the Company in its filed annual statements during the examination period was reviewed. Such data was found to accurately reflect the Company's reinsurance transactions. However, it was noted that the Company failed to accurately age its reinsurance recoverable balances in Schedule F – Part 4 of its December 31, 1999 annual statement. It is recommended that the Company comply with the annual statement instructions and age its reinsurance recoverable balances correctly.

D. Holding Company System

The Company is a member of a holding company system that is controlled by the Cadwallader Family as shown in the following chart and described further herein:



John F. Cadwallader, Sr. and his wife, Jane Cadwallader, jointly owned 52% of the outstanding shares of Autoglass Insurance Company, by virtue of owning 111,150 shares of the total of 215,000 outstanding shares as of December 31, 1999. In addition, John Fell Cadwallader, Jr. owned 29% of the controlling interest in the Company. Pursuant to Section 1501 of New York Insurance Law, John F. Cadwallader, Sr., Jane Cadwallader and John Fell Cadwallader, Jr. are deemed to control the Company. Furthermore, John F. Cadwallader, Sr. owns a controlling interest in two companies (74% in each company) that Autoglass transacts business with, namely, W.I.N. and The Glass Company. The following is a summary of the ownership interests of the Cadwallader family in the three companies listed above:

<u>Name</u>	<u>AIC</u>	<u>W.I.N.</u>	<u>The Glass Company</u>
John F. Cadwallader, Sr.	52% *	74%	74%
Jane Cadwallader	*	0%	0%
John Fell Cadwallader, Jr.29%		20%	6%
J.A. Hires Cadwallader	0%	6%	20%
Others	<u>19%</u>	<u>0%</u>	<u>0%</u>
Totals:	<u>100%</u>	<u>100%</u>	<u>100%</u>

John F. Cadwallader, Sr. and Jane Cadwallader (husband and wife) jointly owned 52% of AIC as of December 31, 1999. John Fell Cadwallader, Jr. and J.A. Hires Cadwallader are their two sons.

The Company has registered with this Department as a controlled insurer pursuant to the requirements of Article 15 of the New York Insurance Law. All filings made by the Company pursuant to Department Regulation 52 were reviewed for accuracy and completeness. It was noted that the filings were incomplete in that they failed to indicate Mr. Cadwallader's controlling interests in the entities described above. It is recommended that the Company comply with the provisions of Department Regulation 52 when making its annual holding company filings.

The annual statement instructions as promulgated by the National Association of Insurance Commissioners requires insurers that are members of a holding company system to complete Schedule Y of the annual statement blank. The Company did not include a holding company chart in Schedule Y, Part 2. It is recommended that the Company comply with the annual statement instructions and complete Schedule Y of the annual statement in future filings with this Department.

The Company is a party to a “Teaming Agreement” with W.I.N. Such agreement provides for distribution of portions of glass claim works to W.I.N. and it is basically a service agreement wherein W.I.N. provides both claims management and administrative services for the Company. The agreement provides for repair and/or replacement of glass damages by W.I.N. whenever Company’s policyholders may have a claim that they want to be handled through W.I.N., in exchange for a flat fee of \$3.00 per claim plus incurred administrative service expenses.

Section 1505(d)(3) of the New York Insurance Law provides that:

“The following transactions between a domestic controlled insurer and any person in its holding company system may not be entered into unless the insurer has notified the superintendent in writing of its intention to enter into such transaction at least thirty days prior thereto...and he has not disapproved it within such period:

...rendering of services on a regular or systematic basis...”

The Company did not submit the “Teaming Agreement” to the New York Insurance Department as required by the above cited statute. It was noted that the “Teaming Agreement” did not specify exactly what services are to be performed and on what basis the reimbursement for such services will be made. At December 31, 1999, the amount accrued pursuant to the agreement consisted of legal, auditing, consulting and other expenses that were paid by W.I.N. from the year 1997 to present, on behalf of the Company. These items are not addressed in the agreement. It is recommended that the agreement be amended to clearly set forth the services to be provided to the Company, and that such agreement be submitted to this Department pursuant to Section 1505(d)(3).

Based on supporting documentation reviewed by the examiner for expenses paid by W.I.N. on behalf of the Company during the examination period, it appears that the Company failed to maintain clear and accurate records for inter-company transactions. This appears to be a violation of Section 1505(b) of New York Insurance Law, which states as follows:

“The books, accounts and records of each party...shall be so maintained as to clearly and accurately disclose the nature and details of the transaction, including such accounting information as is necessary to support the reasonableness of the charge or fees to the respective parties.”

It is recommended that the Company maintain clear and accurate records of all inter-company transactions, in conformity with the requirements set forth under Section 1505(b) of the New York Insurance Law.

E. Fidelity Bonds and Other Insurance Coverage

The examiner reviewed the various insurance policies obtained by the Company as of the examination date. It was noted that the Company was not a party to any fidelity bond, either directly or as a named insured on the bond of any affiliated company. It was also noted that the employees of W.I.N., who perform all services for the Company, were not adequately bonded. The “Teaming Agreement” does not discuss any liability arising out of employee theft or dishonesty. The failure of the agreement to address this issue may expose the Company to substantial risks on account of said factors. It is recommended that the Company obtain appropriate insurance coverage to provide for any potential losses arising out of employee theft or dishonesty.

F. Conflict of Interest Statements

It was noted that the Company did not have any formal conflict of interest policy or any statements signed by any of its officers and directors as of the examination date, despite having provided an affirmative response to the general interrogatory 9 (c) of the annual statement blank. During the course of the examination, the Company distributed questionnaires to its directors and officers so that conflicts of interest could be disclosed. The Company has indicated that a formal conflict of interest policy will be adopted at its next annual meeting. It is recommended that the Company provide accurate responses to

the general interrogatories and that the Company's directors adopt a formal conflict of interest policy at its next meeting.

G. Accounts & Records

It was noted that the Company failed to comply with the requirements of Section 1217 of New York Insurance Law in many instances. Section 1217 states:

“No domestic insurer shall make any disbursement of one hundred dollars or more unless evidenced by a voucher signed..., and correctly describing the consideration for the payment.”

It is recommended that the Company comply with the requirements set forth under Section 1217 of the New York Insurance Law.

The Company failed to follow, in many instances, the annual statement instructions adopted by the National Association of Insurance Commissioners, as set forth below:

1. Management's Discussion and Analysis:

The Company failed to file its Management's Discussion & Analysis with its 1998 annual statement. Such filings are required to be made by April 1 for the preceding year, and therefore, it is recommended that the Company file its Management's Discussion & Analysis in a timely fashion in the future.

2. Cash and Short-term Investments:

It was noted upon a review of cash that \$175,278 was inaccurately included in 'cash' for funds held by the Vista Institutional Money Market Fund, under a non-custodial arrangement. The annual statement instructions require money market funds to be treated as either bonds, or short-term

investments, depending on the length of maturity at acquisition. Section 1409 of New York Insurance Law states that:

“... no domestic insurer shall have more than ten percent of its admitted assets as shown by its last statement on file with the superintendent invested in the securities (including other equity investment) of any one institution.”

It is recommended that the Company does not include money market funds as cash in future annual statements.

Subsequent to the examination date, the Company did transfer amounts in excess of the 10% statutory limitation discussed above from the Vista Institutional Money Market fund to its business checking account on March 16, 2000, therefore no examination change is being made. However, it is recommended that the Company comply with Section 1409 of New York Insurance Law in the future. It is also recommended that the Company follow the annual statement instructions to report mutual funds as either bonds, or short-term investments.

In addition, the Vista Fund was held by Chase Bank as of the examination date in a non-custodial account. It is the position of this Department that in order to be treated as an admitted asset, all securities must be held by a solvent bank or trust company under a custodial arrangement which conforms to standards prescribed by this Department. Any departure from such standards may cause the asset to be treated as not admitted for annual statement purposes. It is recommended that the Company execute formal custodian agreements for the safekeeping of all assets held by outside parties.

In addition, the Company, as of the examination date, inaccurately computed the account balance of the money market fund discussed earlier. Although this inaccuracy did not result in any significant difference, it is recommended that the Company accurately report data in the annual statement.

3. Agents' Balances or Uncollected Premiums:

It was noted upon a review of the aging of uncollected balances that the Company inaccurately included some balances more than 90 days past due premiums as an admitted asset, in violation of Section 1301(a)(11) of New York Insurance Law. However, such inaccurate aging did not have any material effect on surplus, and therefore, no examination change is being made. It is recommended that in the future the Company not admit any balances over ninety days past due in accordance with Section 1301(a)(11) of the New York Insurance Law, and include such not admitted balances in the appropriate column of the balance sheet.

4. Other Expenses

A review of this item indicated several reporting and classification errors. Amounts payable for "Taxes, licenses and fees," "Federal income taxes," and "Payable to parent, subsidiaries and affiliates" were inaccurately included as part of "Other expenses."

It is recommended that the Company comply with the annual statement instructions and exercise due care when completing the annual statement.

H. Regulation 30:

The Company did not comply with New York Insurance Department Regulation 30 for allocating expenses in the Underwriting & Investment Exhibit – Expenses – Part 4 and the Insurance Expense

Exhibit of its filed statements. Management expenses were not allocated pursuant to said Regulation, and the same error was noted in other lines as well. Therefore, it is recommended that the Company comply with Department Regulation 30 in the future for classifying expenses.

I. Internal Control:

It was noted that the Company did not assign account numbers to its general ledger items as of the date of this examination. This is a control weakness, and also is not a prudent business practice. It is recommended that the Company assign account numbers to its general ledger items.

It was noted that there is significant concentration of authority and power within a few individuals performing the various functions, without appropriate segregation of duties. The corporate secretary performs the majority of the functions related to premiums. Similarly, the MIS director performs almost all the functions related to reinsurance. Additionally, almost all claims related functions are handled by one person. These instances may be construed as weaknesses in internal control. It is recommended that the Company segregate duties and responsibilities among personnel to ensure a sound internal control environment.

It was also noted that the Company has not adopted a formal disaster recovery plan; it is recommended that such a plan be developed and implemented.

J. Abandoned Property Law

During the period covered under this examination, the Company did not make any filing with the State Comptroller's Office due to the fact that the Company is operational for less than three years, and thus, is not required to make such filing.

K. Significant Operating Ratios

The following ratios have been computed as of December 31, 1999, based upon the results of this examination:

Net premiums written in 1999 to Surplus as regards policyholders	.10 to 1
Liabilities to Liquid assets (cash and invested assets less investments in affiliates)	18%
Premiums in course of collection to Surplus as regards policyholders	N/A

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 twenty-two month period covered by this examination:

	<u>Amounts</u>	<u>Ratios</u>
Losses incurred	\$ 9,277	64.49%
Other underwriting expenses incurred	31,210	216.95
Net underwriting gain (loss)	<u>(26,101)</u>	<u>(181.44)</u>
Premiums earned	<u>\$ 14,386</u>	<u>100.00%</u>

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as determined by this examination as of December 31, 1999. This statement is the same as the balance sheet filed by the Company:

	<u>Ledger Assets</u>	<u>Non-Ledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
<u>Assets</u>				
Cash and short-term investments	\$ 412,727			\$ 412,727
Premiums and agents' balances in course of collection	(4,913)			(4,913)
Interest, dividends and real estate income due and accrued		\$ 311		311
Reinsurance recoverable on loss and loss adjustment expense payments	<u>10,905</u>			<u>10,905</u>
Total assets	<u>\$ 418,719</u>	<u>\$ 312</u>	<u>\$ 0</u>	<u>\$ 419,031</u>
<u>Liabilities</u>				
Losses and loss adjustment expenses				720
Reinsurance payable on paid losses and loss adjustment expenses				2,478
Other expenses				49,218
Unearned premiums				<u>21,045</u>
Total liabilities				<u>\$ 73,461</u>
Common capital stock				\$ 215,000
Gross paid in and contributed surplus				135,000
Unassigned funds (surplus)				<u>(4,430)</u>
Surplus as regards policyholders				<u>\$ 345,570</u>
Total liabilities and surplus				<u>\$ 419,031</u>

Note: The Internal Revenue Service has completed its audits of the Company's federal income tax returns through the tax year 1998. 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 year 1999 are in progress or have yet to commence. The examiner is unaware of any potential exposure of the Company to any further tax assessment and no liability has been established herein relative to such contingency.

B. Underwriting and Investment Exhibit

Surplus as regards policyholders decreased by \$4,430 during the examination period from February 26, 1998 through December 31, 1999 detailed as follows:

Statement of Income

Underwriting Income

Premiums earned		\$ 14,386
Deductions:		
Losses incurred	\$ 9,277	
Other underwriting expenses incurred	<u>31,210</u>	
Total underwriting deductions		<u>(40,487)</u>
Net underwriting gain (loss)		\$ (26,101)

Investment Income

Net investment income earned	\$ 20,084	
Net realized capital gains	<u>3,868</u>	
Net investment gain		23,952
Other expenses		<u>(2,151)</u>
Net income before Federal income taxes		\$ (4,300)
Federal income taxes incurred		<u>130</u>
Net income (loss)		<u>\$ (4,430)</u>

Capital and Surplus Account

Surplus as regards policyholders, February 26, 1998, per report on organization			\$ 350,000
Net income	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
	\$	\$	4,430
Total gains and losses	<u>\$ 0</u>	<u>\$ 4,430</u>	
Net decrease in surplus as regards policyholders			<u>4,430</u>
Surplus as regards policyholders, December 31, 1999, per report on examination			<u>\$ 345,570</u>

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability of \$720 is the same as the amount reported by the Company as of the examination date. The examination analysis was conducted in accordance with generally accepted actuarial principles and practices and was based on statistical information contained in the Company's internal records and in its filed annual statements.

It was noted that the Company did not accurately compute its incurred losses as of the examination date. Due to the immateriality of the amount in question, no examination change is being made. However, it is recommended that the Company accurately compute its incurred losses in the future.

It was also noted during a review of the captioned item that the Company did not make any provision for loss adjustment expenses. Section 1303 of the New York Insurance Law provides that:

“Every insurer shall...maintain...reserves in an amount estimated to provide for the adjustment or settlement of ...losses or claims.”

It is recommended that the Company make a provision for loss adjustment expenses in its financial statements in the future.

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 investigation.

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

1. Sales and advertising
2. Underwriting
3. Rating
4. Treatment of policyholders and claimants

The following problems were noted:

1. The Company indicates in its application form that a \$4 installment fee is required if the insured chooses the installment payment plan. The rate manual on file with New York Insurance Department indicates an amount of \$8 fee (\$4 each at policy inception and the final installment) for the installment payment plan. It is recommended that the Company either adhere to its rate manual, or file a revised manual with the Department amending such installment plan, in order to be consistent.
2. The Company uses the following verbiage in its policy form, pertaining to what an insured must do in case of any loss: “afford us the sole and complete charge of the repair or replacement.”

Such wording may be construed as a violation of Section 2610 of New York Insurance Law, since Section 2610 prohibits insurers to require that repairs be made in a particular place. Therefore, it is recommended that the Company amend its policy form, and resubmit such form to the New York Insurance Department for necessary approval, so that insureds are given the opportunity to have the damages repaired at repair places chosen by such insured.

3. The application and claim forms used by the Company do not meet the standards set by Section 403(b) of the New York Insurance Law and Department Regulation 95, pertaining to the standard fraud statements required to be incorporated in the forms. It is recommended that the Company include such required fraud statements on all application and claim forms, in order to comply with Section 403(b) of the Insurance Law and Department Regulation 95.

4. Department Regulation 64, Part 216.4 requires every insurer to establish an internal department specifically designated to investigate and resolve complaints. In addition, Circular Letter No. 2, (1995) requires insurers to designate one corporate officer to fulfill its responsibility under Part 216.4(c) of Department Regulation 64. The Company does not do either of these. It is recommended that the Company comply with the requirements of Department Regulation 64, Part 216.4, as well as Circular Letter No. 2, (1995), and provide the New York Insurance Department the name of its corporate officer responsible for handling complaints filed with the Department.

5. Although there have been no complaints filed with the Department against the Company, the Company has been made aware of the requirements as to pertinent sections of Regulation 64 that should be adhered to in the future, in case of any such complaints. In addition, it was noted that the Company does not have any established claims practices procedures. Department Regulation 64 also requires all

claims personnel must be familiar with such Regulation. Therefore, it is recommended that the Company establish a claims practices procedure in conformity with the various applicable requirements set forth under Department Regulation 64 (Part 216), and ensure all claim personnel's familiarity with such Regulation.

6. It was also noted that the Company failed to notify claimants of their rights to contact the Insurance Department when a claim is denied or adjusted. Department Regulation 64, Part 216.6(h) states that any notice rejecting any element of a claim involving personal property insurance shall contain the prescribed wordings therein, along with the identity and the claims processing address of the insurer, the insured's policy number and the claim number. The prescribed wordings provide an opportunity for the insured to take such matter up with the New York Insurance Department. The Company failed to provide such notices in various instances, thereby constituting violation of said Regulation, and a corresponding recommendation is being made in this report. It is recommended that the Company comply with the requirements of Regulation 64, regarding notification to claimants of their rights.

7. Section 405(a) of New York Insurance Law requires every insurer to notify the Frauds Bureau of the Department within thirty days when such insurer or any of its employees have reason to believe that an insurance transaction may be fraudulent, or has knowledge that a fraudulent insurance transaction is about to take place, or has taken place. It was noticed during a review of the claim files that a fraudulent claim was paid by the Company, and claims personnel had reasonable suspicion of such claim being fraudulent; however, the Company did not notify the Frauds Bureau, as required by Section 405(a). Therefore, it is recommended that the Company comply with the requirements of Section 405(a) of New York Insurance Law in the future, and report any fraudulent claim to the Frauds Bureau.

6. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Management</u>	
(i) It is recommended that the Company comply with its charter and by-laws and hold at least one annual meeting annually.	3
(ii) It is recommended that board members who consistently fail to attend at least one-half of the meetings resign or be replaced.	5
(iii) It is recommended that the board of directors comply with Section 708(b) of the New York Business Corporation Law by ensuring that all members of the board consent in writing to the adoption of a resolution authorizing any action required or permitted to be taken by the board without a meeting.	5
(iv) It is recommended that the board of directors approve all investment transactions pursuant to the provisions of Section 1411(a) of the New York Insurance Law.	6
B. <u>Reinsurance</u>	
(i) It is recommended that the Company amend its assumed reinsurance agreement to include the clause set forth in the Office of General Counsel's opinion relative to extra-contractual obligations.	7
(ii) It is recommended that the Company amend its offset clause of the reinsurance agreements, in order to comply with Section 7427 of New York Insurance Law.	7
(iii) It is recommended that the Company accurately age its reinsurance recoverable in Schedule F, Part 4 of its annual statement.	8
C. <u>Holding Company System</u>	
(i) It is recommended that the Company comply with the provisions of Department Regulation 52 when making its annual holding company filings.	9

<u>ITEM</u>	<u>PAGE NO.</u>
(ii) It is recommended that the Company comply with the annual statement instructions and complete Schedule Y of the annual statement in future filings with this Department.	9
(iii) It is recommended that the Company submit its inter-company agreements to the New York Insurance Department, pursuant to Section 1505(d)(3) of New York Insurance Law.	10
(iv) It is recommended that the Company maintain clear and accurate records of all inter-company transactions, in conformity with the requirements set forth under Section 1505(b) of the New York Insurance Law.	11
D. <u>Fidelity bonds and other insurance coverage</u>	
It is recommended that the Company obtain appropriate insurance coverage to provide for any potential losses arising out of theft or dishonesty.	11
E. <u>Conflict of Interest Statements</u>	
It is recommended that the Company provide accurate responses to the general interrogatories and that the Company's directors adopt a formal conflict of interest policy at its next meeting.	11
F. <u>Accounts and Records</u>	
(i) It is recommended that the Company comply with the requirements set forth under Section 1217 of the New York Insurance Law.	12
(ii) It is recommended that the Company annually file its Management's Discussion & Analysis on or before its due date of April 1 each year.	12
(iii) It is recommended that the Company comply with Section 1409 of New York Insurance Law in the future, and do not invest more than 10% of admitted asset in any one security.	13
(iv) It is recommended that the Company does not include money market funds as cash in future statements.	13

<u>ITEM</u>	<u>PAGE NO.</u>
(v) It is recommended that the Company execute formal custodial agreements for the safekeeping of all assets held by outside parties. It is also recommended that the Company accurately report account balances in its annual statement.	13
(vi) It is recommended that the Company comply with Section 1301(a)(11) of New York Insurance Law, and not admit premiums overdue for more than ninety days in its future annual statements.	14
(vii) It is recommended that the Company accurately report all pertinent data in the annual statements in the future, in accordance with annual statement instructions by National Association of Insurance Commissioners.	14
G. <u>Regulation 30</u>	
It is recommended that the Company comply with Regulation 30 for allocating expenses.	15
H. <u>Internal Control</u>	
(i) It is recommended that the Company assign account numbers to its general ledger items, not only to follow prudent business practice, but also as a measure of strengthening internal control.	15
(ii) It is recommended that the Company segregate duties and responsibilities among personnel to ensure a sound internal control environment.	15
(iii) It is recommended that the Company adopt a formal disaster recovery plan.	15
I. <u>Loss and Loss Adjustment Expenses</u>	
(i) It is recommended that the Company accurately compute its incurred losses in the future.	19
(ii) It is recommended that the Company make provision for loss adjustment expenses in its statements in the future, in accordance with Section 1303 of New York Insurance Law.	20

ITEMPAGE NO.J. Market Conduct Activities

- (i) It is recommended that the Company either adhere to its installment payment plan described in its filed rate manual, or apply to New York Insurance Department for a revised installment payment plan to be incorporated in its amended rate manual. 20
- (ii) It is recommended that the Company amend its policy form, and resubmit such form to the New York Insurance Department for necessary approval, so that insureds are given the opportunity to have damages repaired and/or replaced at repair places chosen by such insured. 21
- (iii) It is recommended that the Company include the required fraud statements on all forms set forth under Section 403(b) of the New York Insurance Law, in conjunction with Department Regulation 95. 21
- (iv) It is recommended that the Company comply with the requirements of Department Regulation 64, part 216.4, as well as Circular Letter No. 2, (1995). 21
- (v) It is recommended that the Company establish a claims practices procedure in conformity with the various applicable requirements set forth under Department Regulation 64 (Part 216), and ensure all claims personnel's familiarity with such Regulation. 22
- (vi) It is recommended that the Company comply with the requirements set forth under Department Regulation 64, Part 216.6 (h), regarding notification to claimants of their rights. 22
- (vii) It is recommended that the Company comply with Section 405(a) of New York Insurance Law, and report any fraudulent claim to the Frauds Bureau. 22

Respectfully submitted ,

Joseph Fritsch
Principal Insurance Examiner

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

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

Joseph Fritsch

Subscribed and sworn to before me
this ____ day of _____ 2002.

Appointment No 21508

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:

Victor Mukherjee

as proper person to examine into the affairs of

Autoglass Insurance Company

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

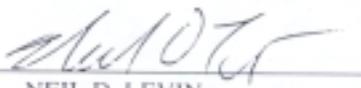
Company

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 3rd day of March, 2000




NEIL D. LEVIN
Superintendent of Insurance