

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

DATE OF REPORT

JUNE 26, 2001

EXAMINER

BERNARD LOTT

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

June 26, 2001

Honorable Greg V. Serio  
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 21587, dated September 7, 2000 attached hereto, I have made an examination into the condition and affairs of the Centurion Insurance Company as of December 31, 1999, and submit the following report thereon.

The examination was conducted at the home office of the Centurion Insurance Company, located at 335 Adams Street, Brooklyn, New York 11201.

Whenever the designations "the Company" or "Centurion" appear herein without qualification it should be understood to refer to the Centurion Insurance Company.

Whenever the designation "the Department" appears herein without qualification it should be understood to refer to the New York State Insurance Department.

## 1. SCOPE OF EXAMINATION

The previous examination was conducted as of December 31, 1996. This examination covers the three year period from January 1, 1997 through December 31, 1999 and was limited in its scope to a review or audit of only those balance sheet items considered by this Department to require analysis, verification or description, including: invested assets, inter-company balances, loss and loss adjustment expense reserves and the provision for reinsurance. The examination included a review of income, disbursements and Company records deemed necessary to accomplish such analysis or 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 Company
- Management and control
- Corporate records
- Fidelity bonds and other insurance
- Territory and plan of operation
- Market conduct activities
- Growth of Company
- Business in force by states
- Reinsurance
- Accounts and records
- Financial statements

Where deemed appropriate, transactions subsequent to the examination period were reviewed. A review was also made to ascertain what action was taken by the Company with regard to comments and recommendations in the prior examination.

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

Centurion was examined concurrently with its immediate parent, Empire Insurance Company ("Empire") and an affiliate, Allcity Insurance Company ("Allcity"). Separate reports thereon have been rendered.

## 2. DESCRIPTION OF COMPANY

Centurion Insurance Company was incorporated under the laws of the State of New York as the South British Insurance Company of America on July 21, 1987 for the purpose of domesticating the United States Branch of the South British Insurance Company, Limited. On August 20, 1987, Empire Insurance Company purchased 100% of the Company's common stock from the South British Insurance Company, Limited. The Company changed its name to Centurion Insurance Company on September 25, 1987.

The Company's common capital stock of \$500,000 consists of 500 authorized and outstanding shares at a par value of \$1,000 per share.

### 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-one members. As of December 31, 1999, the board of directors was comprised of thirteen members. The board met four times during each calendar year. The directors as of December 31, 1999 were as follows:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Martin B. Bernstein North Salem, NY	President, Ponderosa Fibres of America, Inc.
Francis M. Colalucci New York, NY	Executive Vice President and CFO, Empire Insurance Group
Ian M. Cumming Jackson, WY	Chairman, Leucadia National Corporation
James E. Jordan New York, NY	Private Investor
Thomas E. Mara Franklin Lakes, NJ	Executive Vice President, Leucadia National Corporation
Joseph A. Orlando Harrison, NY	Chief Financial Officer, Leucadia National Corporation
Carmen Rivera East Hampton, NY	Senior Vice President, Empire Insurance Group
Louis V. Siracusano East Meadow, NY	Attorney, McKenna, Fehringer, Siracusano & Chianese
Joseph S. Steinberg Brooklyn, NY	President, Leucadia National Corporation
Daniel G. Stewart Short Hills, NJ	Independent Consulting Actuary
Lucius Theus Bloomfield, MI	President, The U.S. Associates
Robert V. Toppi Narragansett, RI	President and CEO, Empire Insurance Group
Harry H. Wise New York, NY	President, H.W. Associates, Inc.

The minutes of all board of directors' meetings and committees thereof held during the examination period were reviewed. The meetings were generally well attended.

The principal officers of the Company as of December 31, 1999 were as follows:

<u>Name</u>	<u>Title</u>
Robert V. Toppi	President & CEO
Robert F. Boyle	Senior Vice President, Underwriting Commercial
Rocco Nittoli	Senior Vice President & CIO
Edward A. Hayes	Senior Vice President
Francis M. Colalucci	Executive Vice President, CFO & Treasurer
David A. Christhilf	Vice President, Chief Actuary
John R. Petrowski	Vice President, General Counsel & Secretary
Douglas Whitenack	Vice President & Controller

Subsequent to the examination date, effective September 18, 2000, Robert V. Toppi resigned as President and Chief Executive Officer and from the Company's board of directors. The board appointed Mr. H. E. Scruggs as his replacement.

B. Territory and Plan of Operation

As of December 31, 1999, the Company was licensed to conduct business only in the State of New York. The following schedule shows direct premiums written in New York State for each year under review:

<u>Calendar Year</u>	<u>Direct Written Premiums</u>
1997	\$9,182,320
1998	\$13,117,876
1999	\$14,069,350

As of December 31, 1999, the Company was licensed to transact the kinds of insurance as specified in the following numbered paragraphs of Section 1113(a) of the New York Insurance Law:

<u>Paragraph</u>	<u>Kinds of Insurance</u>
3	Accident and health
4	Fire
5	Miscellaneous property
6	Water damage
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
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine (inland only)

In addition, the company is licensed to transact such workers' compensation insurance as may be incident to coverages contemplated under paragraphs 20 and 21 of Section 1113(a), including insurances as described in the Longshoremen's and Harbor Workers' Compensation Act (Public Law No. 803, 69<sup>th</sup> Congress, as amended; 33 USC Section 901 et. seq. as amended.)

Based upon the lines business for which the Company is licensed, its 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 \$2,200,000.

Subsequent to the examination date and effective March 1, 2001, the Company was no longer accepting new applications or binders for any insurance policies. Existing policies will be non-renewed or canceled in accordance with the provisions of the New York Insurance Law.

C. Reinsurance

The Company is a direct writer and does not assume any reinsurance business.

All ceded reinsurance contracts in effect at the examination date were reviewed and found to contain the insolvency clause meeting the requirements of Section 1308 of the New York Insurance Law. The Company's ceded reinsurance program at the examination date is as follows:

<u>Type of Contract</u>	<u>Cession</u>
Property Excess	
First Layer	\$700,000 excess of \$300,000, each and every risk, each and every occurrence.
Second Layer	\$4,000,000 excess of \$1,000,000, each and every risk, each every occurrence.
Casualty Excess	
First Layer	\$700,000 excess of \$300,000, each and every occurrence.
Second Layer	\$4,000,000 excess of \$1,000,000, each and every occurrence.
Workers' Compensation and Employers' Liability	
First Layer	\$700,000 excess of \$300,000, each and every occurrence.
Second Layer	\$9,000,000 excess of \$1,000,000, each and every occurrence.
Umbrella Liability, Excess Owners and Contractors Protective and Excess Automobile Liability	
First Layer	90% of first \$1,000,000, each and every occurrence.
Second Layer	100% of \$4,000,000, excess of \$1,000,000 each and every occurrence.

<u>Type of Contract</u>	<u>Cession</u>
Property Catastrophe Excess	
First Layer	95% of \$4,500,000 excess of \$7,500,000, each and every occurrence.
Second Layer	95% of \$15,000,000 excess of \$12,000,000, each and every occurrence.
Third Layer	95% of \$23,000,000 excess of \$27,000,000, each and every occurrence.
Workers' Compensation Catastrophe	\$20,000,000 excess of \$10,000,000, each and every occurrence.

The Company also has a 75% quota share agreement with Empire. Under the agreement Centurion cedes and Empire accepts 75% of Centurion's "net liability in written premium in any one contract year on risks under all policies covered hereunder." Net liability is defined in the agreement as "...the liability which the Reassured retains net for its own account and unreinsured in any way." The Department pursuant to the provisions of Section 1505(d) of the New York Insurance Law, approved the original agreement and the addendum.

The review of ceded contract documentation noted that the Company failed to obtain signed interest and liability agreements from all reinsurers participating in its "Multiple Line Reinsurance Program" and its "Property Catastrophe Excess of Loss Program."

It is recommended that the Company make every effort to obtain signed interest and liability agreements from all of its reinsurers in a timely manner.

D. Holding Company System

Centurion is 100% owned and controlled by Empire Insurance Company. Empire Insurance Company is 100% owned and controlled, through various subsidiaries, by Phlcorp Inc., a holding company primarily engaged in the businesses of insurance and incentive services. Phlcorp Inc. is a 100% owned subsidiary of Leucadia National Corporation, the Company's ultimate parent. Leucadia National Corporation, whose common shares are traded on the New York and Pacific Stock Exchanges, is a diversified financial services holding company principally engaged in commercial and personal lines of property and casualty insurance, banking and lending, manufacturing and real estate activities.

As a member of a holding company system, the Company files registration statements pursuant to Article 15 of the New York Insurance Law and Department Regulation 52. All pertinent files were reviewed and no problem areas were encountered.

The Company is a party to a tax allocation agreement with Phlcorp Inc., whereby a consolidated federal income tax return is filed on behalf of Centurion. The agreement was reviewed and found in compliance with New York Insurance Department's Circular Letter #33 (1979). An exception, however, was noted regarding the Company's method of settling balances with the parent company.

The report on examination as of December 31, 1996, noted that the Company's method of settling its tax liability with its parent did not conform to its tax allocation agreement filed with the Department. It was recommended that the Company follow the terms of the agreement or that the agreement be amended to reflect the current method of settlement. At December 31, 1999, no changes had been made to the agreement and the Company's method of settlement remained the same. Therefore, it is again recommended that the Company either settle its tax liability in accordance with the terms of the tax allocation agreement or amend

the agreement to reflect the current method. Any change to the agreement would have to be filed with the Department for approval.

The Company is a party to a management agreement with Empire and Allcity. Under the agreement the Company is provided certain insurance functions by Empire and Allcity. Centurion is required to reimburse Empire and Allcity for its proportionate share of indirect operating expenses, based on a formula denoted in the agreement. A review of the agreement noted that Empire was referenced by its prior name, "Empire Mutual Insurance Company."

It is recommended that the management agreement be amended to reflect Empire's current name and that the amendment be submitted to the Department pursuant to Section 1505(d)(3) of the New York Insurance Law.

The Company also maintains various other service and agency agreements with several affiliates. A review of these agreements noted that in two of the agreements, the names of the affiliates had changed during the period covered by this examination. In addition, the Company entered into agency agreements with Gould Dente Agency, Inc. and Oscar Katz Agency, Inc., effective August 1, 1999 and January 1, 2000, respectively. These agreements were not filed with the Department. Section 1505(d)(3) of the New York Insurance Law requires the insurer to notify the Department in writing of its intention to enter into any transaction with any person in its holding company system, involving the rendering of services on a regular or systematic basis, at least 30 days prior thereto. This Section also requires the insurer to submit any amendments to its agreements to the Department.

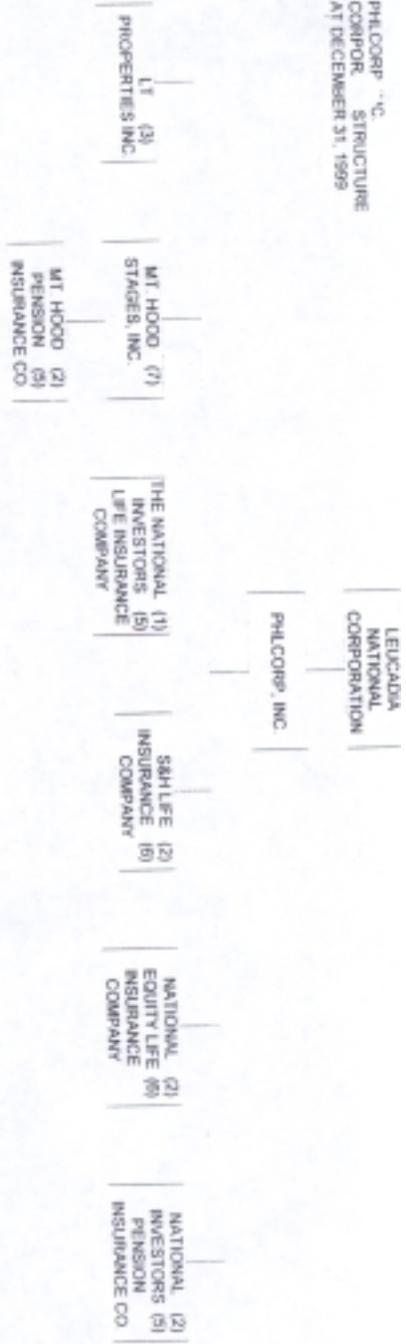
It is recommended that the Company submit the two agreements where the names of the affiliates had changed to the Department pursuant to Section 1505(d)(3) of the New York Insurance Law.

It is also recommended that the Company submit the agency agreements with Gould Dente Agency, Inc. and Oscar Katz Agency, Inc. to the Department pursuant to Section 1505(d)(3) of the New York Insurance Law.

The following is an organizational chart of the holding company system as of December 31, 1999 showing the relationship of the Company with its parent and other affiliates:



PHILCORP ...  
 CORPOR. STRUCTURE  
 AT DECEMBER 31, 1999



- (1) FILES SEPARATE FEDERAL INCOME TAX RETURN
- (2) ONE OF THE SP/DA COMPANIES WHICH MUST REMAIN AN ENTITY IN ORDER TO PRESERVE A SIGNIFICANT AMOUNT OF THE EFFECTIVE DATE NOL.
- (3) ALL ASSETS OF THIS COMPANY WERE DESIGNATED ASSETS OF THE PHILCORP LIQUIDATING TRUST WHICH WERE ASSIGNED TO LEUCADIA ON 11/8/99.
- (4) IN LIQUIDATION PROCEEDINGS UNDER CALIFORNIA INSURANCE LAW
- (5) IN LIQUIDATION PROCEEDINGS UNDER ARKANSAS INSURANCE LAW
- (6) IN LIQUIDATION PROCEEDINGS UNDER INDIANA INSURANCE LAW
- (7) THE STOCK OF THIS COMPANY WAS PLEDGED TO THE PHILCORP LIQUIDATING TRUST FOR THE BENEFIT OF CERTAIN CLASSES OF CREDITORS WHICH WAS ASSIGNED TO LEUCADIA ON 11/8/99
- (8) THE EMPIRE GROUP FILED ITS OWN CONSOLIDATED FEDERAL INCOME TAX RETURN THROUGH AUGUST 1988. THEREAFTER IT IS INCLUDED IN THE CONSOLIDATED FEDERAL INCOME TAX RETURN OF PHILCORP

E. Significant Operating Ratios

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

Net premiums written (1999) to Surplus as regards policyholders	.53 to 1
Liabilities to Liquid assets (cash and invested assets less investment in affiliates)	57.2%
Premiums in course of collection to Surplus as regards policyholders	11.9%

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 three-year period covered by this examination:

	<u>Amounts</u>	<u>Ratios</u>
Losses incurred	\$4,227,804	39.5%
Loss adjustment expenses incurred	168,497	1.6
Other underwriting expenses incurred	3,440,750	32.1
Net underwriting gain	<u>2,864,010</u>	<u>26.8</u>
Premiums earned	<u>\$10,701,061</u>	<u>100.00%</u>

F. Audited Financial Statements

The review of the audit engagement contract entered into between the Company and its certified public accountants (PriceWaterhouseCoopers LLP) revealed that the contract was not in compliance with the provisions of Section 89.2 of Department Regulation 118. Section 89.2 states,

“Every insurer subject to this part shall retain an independent Certified Public Accountant (CPA) who agrees by written contract with such insurer to comply with the provisions of Section 307(b) of the New York Insurance Law, this Part and the Code of Ethics and Professional Standards adopted by the American Institute of Certified Public Accountants (AICPA). Such contract must specify that:

(a) on or before June 30th, the CPA shall provide an audited financial statement and opinion for the prior calendar year and an evaluation of the insurer's accounting procedures and internal control system as are necessary to the furnishing of the opinion;

(b) any determination by the CPA that the insurer has materially misstated its financial condition as reported to the Superintendent or that the insurer does not meet the minimum capital and surplus requirements set forth in the Insurance Law shall be given by the CPA, in writing, to the Superintendent within fifteen (15) calendar days following such determination; and

(c) the workpapers and any communications between the CPA and the insurer relating to the audit of the insurer shall be made available for review by the Superintendent. The CPA must retain for review such workpapers and communications for a period of not less than five (5) years.”

The above mentioned provisions were not included in the engagement contract between the Company and PriceWaterhouseCoopers LLP.

It is recommended that the Company have the provisions of Section 89.2 of the New York Insurance Department's Regulation 118 incorporated into its audit engagement letter with its certified public accountant.

#### G. Custodian Agreement

As of December 31, 1999 the Company maintained a custodian agreement with Fleet Bank. A review of the agreement determined that it lacked certain necessary safeguards, controls and protective covenants required by the Department for all custodian agreements. The agreement was found to be missing the following protective covenants and provisions:

1. Access shall be during regular banking hours and specifying those persons who shall be entitled to examine on the bank premises securities held by the bank on its premises and its records regarding

securities held but only upon furnishing the bank with written instructions to that effect from any specified authorized officer.

2. The Bank will at times give the securities held by it hereunder the same care you give its own property of a similar nature.
3. Maintain records sufficient to verify information the Company is required to report in Schedule D of the Annual Statement blank of the Insurance Department of the State of New York.
4. Furnish the Company with the appropriate affidavits in the form as may be acceptable to the bank and the New York Insurance Department in order for the securities referred to in such affidavits to be recognized as admitted assets of the company.
5. Written instructions hereunder shall be signed by any two of the Company's authorized officers specified in a separate list for this purpose which will be furnished to the bank from time to time by the treasurer or an assistant treasurer and certified under the corporate seal by the secretary or an assistant secretary.

It is recommended that the Company amend its custodian agreement with Fleet Bank to include the necessary safeguards and controls required by the Department.

#### H. Accounts and Records

##### i. Schedule P Interrogatories

Schedule P Interrogatories number 3, in the Company's annual statement reads as follows:

“The definition of allocated loss adjustment expenses (ALAE) and, therefore, unallocated loss adjustment expenses (ULAE) was changed effective January 1, 1998. This change in definition applies to both paid and unpaid expenses. Are these expenses (now reported as “Defense and Cost Containment” and “Adjusting and Other”) reported in compliance with these definitions in this statement?”

The Company's response to this question in the annual statement was “yes.”

A review of these expenses determined that the Company was not reporting them in compliance with the new definitions in its annual statement.

It is recommended that the Company accurately respond to Schedule P Interrogatories in its annual statement. It is also recommended that the Company implement the use of the new definitions for loss adjustment expenses in all future statements filed with this Department.

ii. Management Expenses

The review of the Company's Underwriting and Investment Exhibit, Part 4 - Expenses, noted that the Company included an item entitled "Management agreement with Empire Insurance Company," as a lump sum component of "Aggregate write-ins for miscellaneous expenses," for each year covered by this examination. The Company's presentation of this expense is in direct contradiction to the approach illustrated in the NAIC's Annual Statement Instructions. The instructions state in pertinent part that

"[a] company that pays any affiliated entity (including a managing general agent) for the management, administration or service of all or part of its business or operations shall allocate these costs to the appropriate expense classification items (salaries, rent, postage, etc.) as if these costs had been borne directly by the company. Management, administration, or similar fees should not be reported as a one-line expense..."

It is recommended that the Company comply with the NAIC's Annual Statement instructions and allocate its management expenses to the appropriate expense classification item in the annual statement.

I. Abandoned Property Law

An examination review indicated that the Company failed to file abandoned property report with the New York State Comptroller's Office, pursuant to Sections 1315 and 1316 of the Abandoned Property Law, for the year 1999. The Company was also unable to provide documentation of its abandoned property filing pursuant to Sections 1315 and 1316 for the year 1997. Section 1316 of the New York State Abandoned Property Law requires insurers to file an annual abandoned property report. Insurers are required to file the report even if it does not hold or owe abandoned property. A negative filing is made by completing the Verification and Checklist attesting to the fact that no amounts are due.

It is recommended that the Company file annual abandoned property reports, pursuant to Sections 1315 and 1316 of the New York State Abandoned Property Law, with the Office of the State Comptroller and subsequently escheat any unclaimed property indicated in the report.

J. Lack of Cooperation

During the process of conducting the examination of the Company, numerous requests were made for documentation and other information to support data in the Company's annual statement. Requests were also made for documentation to determine whether the Company was operating within the laws, regulations and rules prescribed by the New York Insurance Department. While all examination requests were eventually addressed, the Company delayed its responses, in some cases, for an inordinate amount of time. These delays prolonged the length of the examination, increased the cost to the Company and otherwise put a strain on Department resources.

The Company was reminded during the examination that pursuant to Section 310 of the New York Insurance Law it must provide access to its books and records and that it was the responsibility of the Company officers to facilitate the examination.

The Company's actions were deemed to be a lack of cooperation towards the examination process. It is recommended that the Company facilitate future examinations in a timely manner.

### 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>Assets</u>	<u>Ledger Assets</u>	<u>Non-Ledger Assets</u>	<u>Not-Admitted Assets</u>	<u>Net-Admitted Assets</u>
Bonds	\$7,864,180	\$	\$	\$7,864,180
Common stocks		4,443		4,443
Cash and short-term investments	3,377,266			3,377,266
Premiums in course of collection	982,219		275,629	706,590
Premiums booked but deferred and not yet due	489,692		131,705	357,987
Reinsurance recoverable on loss and loss adjustment expense payments	395,836			395,836
Interest, dividends real estate income due and accrued		182,602		182,602
Equities and deposits in pools and associations	<u>112,942</u>	<u>          </u>	<u>          </u>	<u>112,942</u>
Total assets	<u>\$13,222,135</u>	<u>\$ 187,045</u>	<u>\$407,334</u>	<u>\$13,001,846</u>

Liabilities

Losses	\$2,429,688
Loss adjustment expenses	446,571
Taxes, licenses and fees	72,808
Unearned premiums	1,738,947
Amounts withheld for account of others	4,193
Drafts outstanding	167,367
Payable to parent, subsidiaries and affiliates	<u>1,837,375</u>
Total liabilities	\$6,696,949

Surplus and Other Funds

Common capital stock	\$ 500,000
Gross paid in and contributed surplus	3,123,188
Unassigned funds (surplus)	<u>2,681,708</u>
Surplus as regards to policyholders	<u>6,304,896</u>
Total liabilities and surplus	<u>\$13,001,845</u>

Note: The Internal Revenue Service is currently auditing the consolidated income tax returns of Leucadia National Corporation, which includes returns filed on behalf of the Company for the three years covered by this examination. 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 increased \$2,643,307 during the examination period, January 1, 1997 through December 31, 1999 detailed as follows:

Statement of Income

Underwriting Income

Premiums earned		\$10,701,061
Deductions:		
Losses incurred	\$4,227,804	
Loss expenses incurred	168,497	
Other underwriting expense incurred	<u>3,440,750</u>	
Total underwriting deductions		<u>7,837,051</u>
Net underwriting gain		\$2,864,010

Investment Income

Net investment income earned	\$1,705,251	
Net realized capital gains	<u>2,142</u>	
Net investment gain		1,707,393

Other Income

Net (loss) from agents' balances or premiums charge off	\$(201,321)	
Finance and service charges not included	<u>161,194</u>	
Total other income		<u>(40,127)</u>
Net income before federal income taxes		\$4,531,276
Federal income taxes incurred		<u>1,485,080</u>
Net income		<u>\$3,046,196</u>

Capital and Surplus Account

Surplus as regards policyholders, per report on examination as of December 31, 1996			\$3,661,589
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income	\$3,046,196	\$	
Net unrealized capital gains	4,445		
Change in not admitted assets	_____	<u>407,334</u>	
Total gains and losses	<u>\$3,050,641</u>	<u>\$407,334</u>	
Net increase in surplus as regards policyholders			<u>2,643,307</u>
Surplus as regards policyholders, per report on examination, as of December 31, 1999			<u>\$6,304,896</u>

**4. LOSSES AND LOSS ADJUSTMENT EXPENSES**

The examination liabilities of \$2,429,688 for losses and \$446,571 for loss adjustment expenses are the same amounts reported by the Company in its filed 1999 annual statement.

The examination reserves were calculated in accordance with generally accepted actuarial principles and practices and were based upon statistical information reflected in the Company's filed and sworn to 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 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, which is the responsibility of the Market Conduct Unit of the Property Bureau of this Department.

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

- A. Sales and advertising
- B. Underwriting
- C. Rating
- D. Treatment of claimants and policyholders

No problem areas were encountered.

## 6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

A review was made into the actions taken by the Company with regards to the comments and recommendations contained in the prior filed report on examination. The four recommendations and the Company's responses are as follows (page numbers refer to the prior report on examination):

<u>ITEM</u>	<u>PAGE NO.</u>
<p>A. <u>Management</u></p> <p>Board members who are unable or unwilling to attend meetings consistently should resign or be replaced.</p> <p>The Company has complied with this recommendation. All board members attended the majority of board meetings during the period covered by this examination.</p>	<p>4-5</p>
<p>B. <u>Abandoned Property Law</u></p> <p>It is recommended that the Company file an abandoned property report to the State Comptroller's office in accordance with Section 1316 of the Abandoned Property Law.</p> <p>The Company has not fully complied with this recommendation. An Abandoned Property Report was filed for the year ending 1998, however no filings were made</p>	<p>10</p>

<u>ITEM</u>	<u>PAGE NO.</u>
for the years 1997 and 1999. A similar recommendation is contained in this report.	
C. <u>Tax Allocation Agreement</u>	
It is recommended that the tax allocation agreement between the Company and its parent be amended to reflect the current method of establishing accruals and tax settlements.	11
The Company has not complied with this recommendation. A review of the Tax allocation agreement as of December 31,1999 noted that neither the agreement nor the Company's method of settlement has been changed. A similar recommendation is contained in this report.	
D. <u>Claim Files</u>	
It is recommended that the Company maintain claim files in a consistent and sequential manner in order that key documents could be located more efficiently.	11
The Company has complied with this recommendation. Claim files reviewed, in conjunction with the "POINT System" (claims system), found the documentation in an orderly manner.	
<b>7. <u>SUMMARY OF COMMENTS AND RECOMMENDATIONS</u></b>	
<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Reinsurance</u>	
i. It is recommended that the Company make every effort to obtain signed interest and liability agreements from all of its reinsurers in a timely manner.	8
<u>Holding Company System</u>	
i. It is recommended that the Company either settle its tax liability in accordance with the terms of the tax allocation agreement or amend the agreement to reflect the current method. Any change to the agreement would have to be filed with the Department for approval.	9
ii. It is recommended that the management agreement be amended to reflect Empire's current name and that the amendment be submitted to the Department pursuant to Section 1505(d)(3) of the New York Insurance Law.	10

<u>ITEM</u>	<u>PAGE NO.</u>
iii. It is recommended that the Company submit the two agreements where the names of the affiliates had changed to the Department pursuant to Section 1505(d)(3) of the New York Insurance Law.	10
iv. It is also recommended that the Company submit the agency agreements with Gould Dente Agency, Inc. and Oscar Katz Agency, Inc. to the Department pursuant to the Section 1505(d)(3) of the New York Insurance Law.	11
<b>C. <u>Audited Financial Statements</u></b>	
It is recommended that the Company have the provisions of Section 89.2 of the New York Insurance Department's Regulation 118 incorporated into its audit engagement letter with its certified public accountant.	15
<b>D. <u>Custodian Service Agreement</u></b>	
It is recommended that the Company amend its custodial agreement with Fleet Bank to include the necessary safeguards and controls required by the Department.	16
<b>E. <u>Accounts and Records</u></b>	
i. It is also recommended that the Company take care to accurately respond to Schedule P Interrogatories in its annual statement.	17
ii. It is also recommended that the Company implement the use of the new definitions for loss adjustment expenses in all future statements filed with the New York State's Superintendent of Insurance.	17
iii. It is recommended that the Company comply with NAIC' Annual Statement instructions and allocate its management expenses to the appropriate expense classification item in the annual statement.	17
<b>F. <u>Abandoned Property Law</u></b>	
It is recommended that the Company file annual abandoned property reports, pursuant to Sections 1315 and 1316 of the New York State Abandoned Property Law, with the Office of the State Comptroller and subsequently escheat any unclaimed property indicated in the report.	18
<b>G. <u>Lack of Cooperation</u></b>	
It is recommended that the Company facilitate future examinations in a timely manner.	18

Respectfully submitted,

\_\_\_\_\_/S/\_\_\_\_\_  
Bernard Lott  
Senior Insurance Examiner

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

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

\_\_\_\_\_/S/\_\_\_\_\_  
Bernard Lott

Subscribed and sworn to before me

this \_\_\_\_\_ day of \_\_\_\_\_ 2001.

Appointment No 21587

STATE OF NEW YORK  
INSURANCE DEPARTMENT

I, GREGORY V. SERIO, First Deputy Superintendent of Insurance of the State of New York, pursuant to the provisions of the Insurance Law, do hereby appoint:

**Bernard Lott**

*as proper person to examine into the affairs of the*

**Centurion Insurance Company**

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

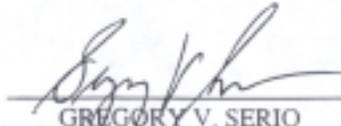
**Company**

*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 7th day of September, 2000*



  
\_\_\_\_\_  
GREGORY V. SERIO  
First Deputy Superintendent of Insurance

