

REPORT ON EXAMINATION
OF THE
UNITED STATES BRANCH
OF THE
CGU INSURANCE COMPANY OF CANADA
AS OF
DECEMBER 31, 2000

REPORT DATE

APRIL 11, 2002

EXAMINER

ALFRED W. BLOOMER, JR.

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

April 11, 2002

Honorable Gregory 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 21801 dated October 30, 2001, attached hereto, I have made an examination into the condition and affairs of CGU Insurance Company of Canada, United States Branch ("USB") as of December 31, 2000 and submit the following report thereon.

The examination was conducted at the Branch's home office located at 2206 Eglinton Avenue East, Scarborough, Ontario, Canada, M1L 4S8.

Wherever the designations "the Branch" or "CGU" appear herein without qualification, they should be understood to indicate the CGU Insurance Company of Canada (USB).

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

The Branch is required pursuant to Section 1312 of the New York Insurance Law to maintain a minimum trusteed surplus of \$2,050,000. This examination has determined that the Branch's trusteed surplus was \$1,312,203, indicating an impairment of \$737,797. Subsequent to the examination date, on January 4, 2002, the Branch deposited qualifying assets in the amount of \$2,000,000 in its trust account, which eliminated the impairment.

1. SCOPE OF EXAMINATION

The prior examination was conducted as of December 31, 1995. This examination covered the period January 1, 1996 through December 31, 2000. Where deemed appropriate, transactions subsequent to the current examination period were reviewed.

The examination comprised a complete verification of assets and liabilities as of December 31, 2000, a review of income and disbursements deemed necessary to accomplish such verification and utilized, to the extent considered appropriate, work performed by the Branch'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 Branch
- Management and control
- Corporate records
- Fidelity bonds and other insurance
- Territory and plan of operation
- Growth of the branch
- Loss experience
- Reinsurance
- Accounts and records

A review was also made to ascertain what actions were taken by the Branch with regard to the comments and recommendations made 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 require explanation or description.

2. DESCRIPTION OF BRANCH

The Simcoe and Erie General Insurance Company was incorporated under the laws of the Province of Ontario, Canada on February 26, 1959. The United States Branch was licensed in the State of New York on December 31, 1978.

Until 1985, the Branch confined its operations to the business of reinsurance. In 1985, the Branch discontinued underwriting reinsurance and began the run-off of said reinsurance business. The reinsurance run-off continued at the time of this examination.

In June 1990, the Branch commenced the direct writing of the surety line of business. During the period under review, the Branch began to reduce its direct writings.

On February 21, 1996, the Company changed its name to GAN General Insurance Company. On December 30, 1999, GAN General Insurance Company was purchased by CGU Insurance Company of Canada and amalgamated into that Company.

A. Management

On September 22, 2000, the Branch appointed Mr. Kenneth Ottenbreit as its United States manager. Mr. Ottenbreit replaced Mr. John McKenzie as its United States manager. The statutory Branch office was moved from Williamsville, New York to its current location of New York, New York on that date.

The members of the board of directors of the Branch's home office at December 31, 2000 were as follows:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Brian W. Barr Etobicoke, Ontario, Canada	Chairman & CEO, Fireco Inc.
J. Charles Caty Oakville, Ontario, Canada	Retired
Donald M. Green Burlington, Ontario, Canada	President, Greenfleet Ltd.
Lorne H. Larson Calgary, Alberta, Canada	Todarco Resources, Ltd.
A. Warren Moysey Toronto, Ontario, Canada	Vice-Chairman, First International Asset Management, Inc.
John B. Newman Toronto, Ontario, Canada	Chairman & CEO, First Place Tower, Inc.
J. William Rowley Toronto, Ontario, Canada	Barrister and Solicitor, McMillan Binch
Cees A. C. Schrauwens Esher, Surrey, England	Managing Director, International CGNU plc.
Philip J. Twyman London, England	Group Executive Director, CGNU plc.
Paul G. Vien Beaconsfield, Quebec, Canada	President, St. James Financial Corporation
Mark Webb Toronto, Ontario, Canada	President & CEO, CGU Group Canada Ltd.

The following is a listing of the principal officers of the Branch and their respective titles, as of December 31, 2000:

<u>Name</u>	<u>Title</u>
Mark B. Webb	President and CEO
Ross Betteridge	Executive Vice President and CFO
Norman W. McIntyre	Senior Vice President and Secretary
Karl H. Driedger	Senior Vice-President and Chief Actuary

B. Territory and Plan of Operation

The Branch is licensed to do insurance business only in the State of New York effective December 31, 2000. As part of the sale of the GAN Insurance Company to the CGU Group the Branch submitted a new plan of operation. This plan included the relocation of the Branch's book of accounts and claims files to Ontario, Canada. This Department approved the plan on September 22, 2000. In 2000, the Branch wrote \$2,765 on the surety line of business. In 2001, it is in run-off status.

The following schedule shows direct premiums written in New York State during the period under examination:

<u>Calendar Year</u>	<u>Total Direct Premium Written</u>
1996	\$18,900
1997	\$20,026
1998	\$5,164
1999	\$3,903
2000	\$2,765

As of the examination date, the Branch was authorized to transact the kinds of insurance as defined in the following numbered paragraphs of Section 1113(a) of the New York Insurance Law:

<u>Paragraph</u>	<u>Kind of Insurance</u>
3	Accident and health
4	Fire
5	Miscellaneous property
6	Water damage
7	Burglary and theft
9	Boiler and machinery
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

The Branch is also authorized to write such workers' compensation insurance as may be incident to coverages contemplated under paragraphs 20 and 21 of Section 1113(a), including insurances described in the Longshoremen's and Harbor Workers' Compensation Act (Public Law No. 803, 69th Congress as amended; 33 USC Section 901 et seq. as amended,) to the extent permitted by certified copy of its charter document on file with this Department, provided, however, that the authority conferred by the license shall be limited to the writing of contracts issued for delivery in the United States, insuring risks of policyholders within the United States.

Based upon the kinds of insurance for which the Branch is licensed, and the Branch's current capital structure, and pursuant to the requirements of Articles 13 and 41 of the New York Insurance Law,

the Branch is required to maintain a minimum trusteed surplus in the amount of \$2,050,000.

C. Reinsurance

During the period under examination, the Branch continued to run-off its assumed reinsurance business. All of its ceded reinsurance contracts have been in run-off since 1984.

The Branch's reporting of its reinsurance balances did not conform to statutory accounting practices and procedures as detailed in the National Association of Insurance Commissioners' ("NAIC") Accounting Practices and Procedures Manual and its Annual Statement instructions. This is more fully explained in items 4 and 6 herein.

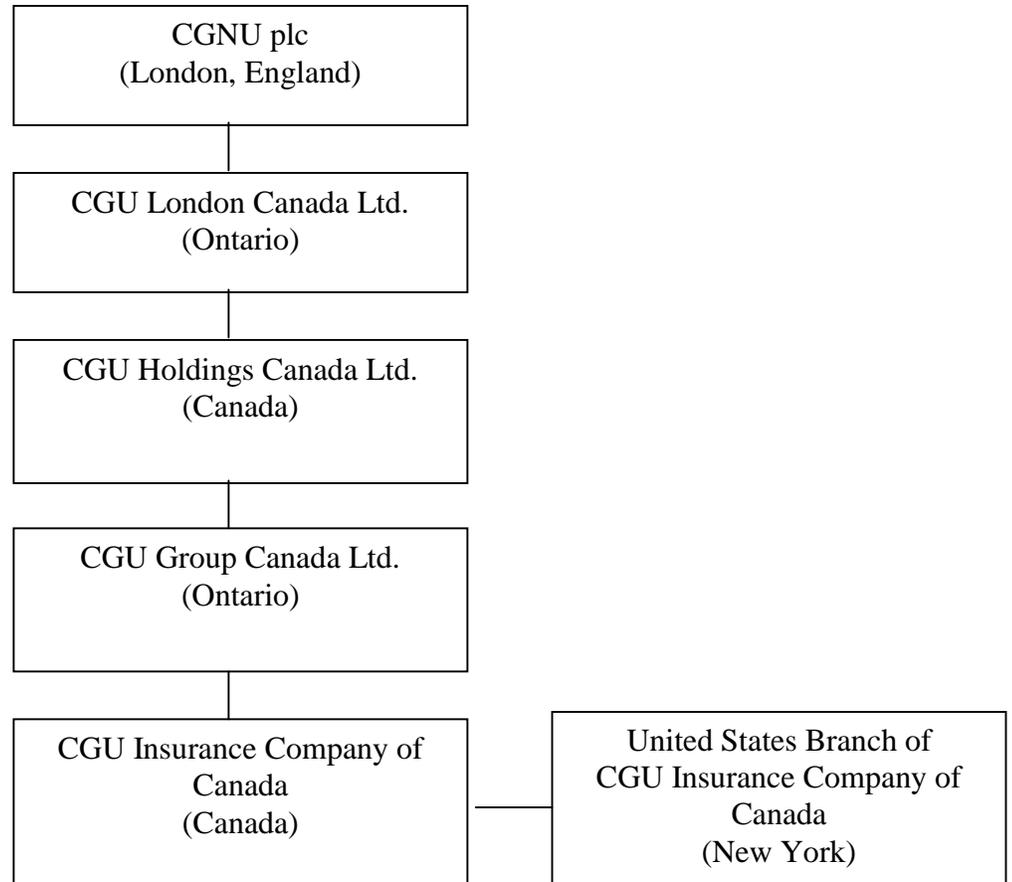
D. Holding Company System

The CGU Insurance Company of Canada is a member of a holding company system and is subject to the provisions of Article 15 of the New York Insurance Law. The immediate parent, CGU Group Canada Ltd. owns 100% of the issued and outstanding stock of CGU Insurance Company of Canada. The ultimate parent of CGU Insurance Company of Canada is CGNU plc.

For the year 2000, the Branch failed to make the filings as required by Section 1504 of the New York Insurance Law and the Department Regulation 52. The holding company filing (form HC-1) was not filed until January 9, 2002, subsequent to the examination date.

It is recommended that the Branch comply with Section 1504(a) of the New York Insurance Law and the Department Regulation 52 and timely file such reports or material the superintendent may direct.

The following is a partial organizational chart of the holding company system as of December 31, 2000:



E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2000, based upon the results of this examination:

Net Premiums written in 2000 to surplus as regards policyholders	.0006 to 1
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	34.2%
Premiums in course of collection to surplus as regards policyholders	00.0%

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 were not calculated due to the fact that the Company's business is in run-off. Therefore, such ratios would not be meaningful.

F. Abandoned Property Law

Section 1316 of the New York State Abandoned Property Law requires that certain unclaimed insurance proceeds be reported to the State of New York by April 1 of each year. The Branch is in compliance with this law.

G. Accounts and Records

i. Invested Assets

Review of the Branch's invested assets revealed that the Branch had not updated its cash accounts and its custodial agreement to reflect its legal name.

It is recommended that the Branch amend its account names and custodial agreement to reflect its legal name.

ii. Expense Allocation Agreement

On March 20, 2000, the Branch made a payment of \$81,130 to its home office for reimbursement of expenses for 1997 and 1998. The Branch has not entered into a formalized agreement that has been approved by this Department, for the allocation of expenses to the Branch. Section 1505 of the New York Insurance Law requires that an entity in an insurance holding company system may not enter into any such expense sharing agreement unless the insurer has notified the superintendent in writing of its intention to do so at least thirty days prior.

Upon examination, the parent reported that the payment of such expenses was in error and that the expense payment would be reversed. The Company stated that the expenses of operation were provided gratis to the Branch. The services, such as claims payment and annual statement filings, are normally provided by the United States manager for a fee. Examination of the Branch indicated that these services are provided by the parent and no fee is charged by the Company nor United States Manager for such services.

It is recommended that the home office of the Branch, reimburse the Branch for any expenses paid and not allocate any further expenses to the Branch until such time as an approved expense sharing agreement has been submitted to and approved by this Department in accordance with Section 1505 of the New York Insurance Law.

iii. Write-in for other expenses

The Branch reported three items totaling \$661,881 as admitted assets in its filed annual statements. These assets consisted of a receivable from an affiliate more than 90 days past due, a receivable from a policyholder more than 90 days past due and another asset of doubtful value. Section 1302 of the New Insurance Law requires all assets of doubtful value to be reported as non-admitted assets. In addition, Circular Letter 15 (1975) requires amounts due from affiliates over ninety days past due to be non-admitted. In 2001, subsequent to the examination date, the Company collected the receivables. Therefore, no financial change is reflected in the report.

It is recommended that the Branch comply with Circular Letter 15 (1975) and Section 1302 of the New York Insurance Law and non-admit assets of doubtful value and amounts over ninety days past due from affiliates.

iv. Record Retention

During this examination, the Branch could not provide many records requested by the examiners. These include prior reports by the Branch's certified public accountants, actuarial opinions, filed federal income tax returns, filed New York State income tax returns and other records. Department Regulation 152 requires that all companies keep and maintain its records and books of accounts for specific periods of time so that they are available for review by this Department. Although the records in question preceded the acquisition of the Branch by its current parent, Regulation 152 makes no exception for such an acquisition.

It is recommended that the Branch retain its books and records as required by Department Regulation 152.

v. Certified Public Accountants

On examination, it was requested that the Branch's certified public accountants ("CPA") make available their workpapers for review by this Department. The Branch reported that the CPA's considered their work product to be privileged and would, therefore, not make those workpapers available to the examiners as requested.

Section 307(b) of the New York Insurance Law requires that every insurance company doing business in New York make available to this Department all CPA workpapers and correspondence between the company and its auditors. In addition, New York Insurance Department Regulation 118 requires that the Branch enter into a written contract with its Certified Public Accountants requiring the CPA's to make available "the workpapers and any communications between the CPA and the insurer relating to the audit of the insurer". The Department reviewed the engagement letter entered into by the Branch and its auditors and there is nothing spelling out these requirements. Further, subsequent to the examination date, the Branch entered into an agreement with a new accounting firm to perform audits for the year 2001. Review of the engagement letter between the Branch and its new auditors stated that the auditors workpapers would not be available for any reason other than internal uses.

It is recommended that the Branch enter into an agreement with its independent certified public accountants to comply with Section 307(b) of the New York Insurance Law and Department Regulation 118.

As mentioned above, the Branch entered into an agreement with a new accounting firm to audit its financial statements. The NAIC's Annual Statement instructions require that all insurance companies notify the Department of the state in which it is domiciled within five days of discharging or engaging a

new accounting firm to opine on its financial statements. The Branch could not produce documents to substantiate that it had notified this Department.

It is recommended that the Branch comply with the NAIC's Annual Statement instructions by notifying and filing the necessary documents with the New York Insurance Department when changing auditors.

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as determined by this examination as of the examination date and as reported by the Branch:

	<u>Examination</u>				<u>Branch</u>	
<u>Assets</u>	Ledger <u>Assets</u>	Non-Ledger <u>Assets</u>	Assets Not <u>Admitted</u>	Net Admitted <u>Assets</u>	Net Admitted <u>Assets</u>	Surplus Increase (Decrease)
Bonds	\$8,151,325	\$	\$	\$8,151,325	\$8,151,325	\$
Cash	5,015,058			5,015,058	5,015,058	
Reinsurance recoverable on loss and loss adjustment expense payments	(10,623)			(10,623)	(442,088)	431,465
Interest, dividends and real estate income due and accrued		93,940		93,940	93,940	
Aggregate write-ins for other than invested assets	<u>661,881</u>	<u> </u>	<u> </u>	<u>661,881</u>	<u>661,881</u>	<u> </u>
Total Assets	<u>\$ 13,817,641</u>	<u>\$ 93,940</u>	<u>\$ 0</u>	<u>\$ 13,911,581</u>	<u>\$ 13,480,116</u>	<u>\$ 431,465</u>

<u>Liabilities, Surplus and Other Funds</u>	<u>Examination</u>	<u>Branch</u>	Surplus Increase (Decrease)
Losses	\$ 4,714,459	\$ 4,714,459	\$
Reinsurance payable on paid losses and loss adjustment expenses	1,627,990	(365,010)	(1,993,000)
Loss adjustment expenses	34,577	34,577	
Other expenses	54,865	54,865	
Federal and foreign income taxes	5,899	5,899	
Unearned premiums	1,136	1,136	
Amounts withheld or retained by company for account of others	136	136	
Provision for reinsurance	38,000	38,000	
Excess of statutory reserves over statement reserves	14,000	14,000	
Funds held	<u>431,465</u>	_____	_____ (431,465)
 Total liabilities	 <u>\$ 6,922,527</u>	 <u>\$ 4,498,062</u>	 <u>\$ (2,424,465)</u>
 Aggregate write-ins for other than special surplus funds	 \$ 250,000	 \$ 250,000	 \$
Unassigned funds	<u>6,739,054</u>	<u>8,732,054</u>	<u>(1,993,000)</u>
 Surplus as regards policyholders	 <u>\$ 6,989,054</u>	 <u>\$ 8,982,054</u>	 <u>\$ (1,993,000)</u>
 Total liabilities, surplus and other funds	 <u>\$ 13,911,581</u>	 <u>\$ 13,480,116</u>	

Note: The Branch has not been audited by the Internal Revenue Service since it became licensed in this state. The examiner is unaware of any potential exposure of the Branch 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 \$ 2,884,167 during the five-year examination period, January 1, 1996 through December 31, 2000, detailed as follows:

Statement of Income

Underwriting Income

Premiums earned		\$49,764
Deductions:		
Losses incurred	\$5,512,951	
Loss adjustment expenses incurred	3,304,857	
Other underwriting expenses incurred	<u>435,427</u>	
Total underwriting deductions		<u>9,253,235</u>
Net underwriting gain or (loss)		\$(9,203,471)

Investment Income

Net investment income earned	\$4,545,672	
Net realized capital gains	<u>51,926</u>	
Net investment gain or (loss)		4,597,598

Other Income

Aggregate write-ins for miscellaneous income	<u>\$781,883</u>	
Total other income		<u>781,883</u>
Net income before federal and foreign income Taxes		(3,823,990)
Federal and foreign income taxes incurred		<u>4,268</u>
Net Income		<u>\$(3,828,258)</u>

Capital and Surplus Account

Surplus as regards policyholders per report on examination as of December 31, 1995			\$9,873,221
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income (loss)		\$(3,828,258)	
Change in non-admitted assets	634,144		
Change in provision for reinsurance	1,800		
Change in excess of statutory reserves over statement Reserves	93,000		
Net remittances from or (to) Home Office	<u>215,147</u>	_____	
Total gains and losses	<u>\$944,091</u>	<u>\$(3,828,258)</u>	
Net increase (decrease) in surplus			<u>(2,884,167)</u>
Surplus as regards policyholders per report on examination as of December 31, 2000			<u>\$6,989,054</u>

C. Trusteed Surplus Statements

The following statement shows the trustee surplus of the Branch calculated in accordance with Section 1312 of the New York Insurance Law and as determined by this examination:

	<u>Examination</u>	<u>Branch</u>	<u>Difference</u>
<u>Assets</u>			
Securities deposited with state insurance departments for the protection of all policyholders and creditors within the United States:			
New York	\$900,054	\$900,054	
Total general deposits	\$900,054	\$900,054	
Vested in and held by United States Trustee for the protection of all of the Branch's policyholders and creditors within the United States:			
Bonds	7,273,239	7,273,239	
Accrued investment income	71,972	71,972	
Total vested in and held by United States Trustee	<u>\$7,345,211</u>	<u>\$7,345,211</u>	
Total assets	<u>\$8,245,265</u>	<u>\$8,245,265</u>	
<u>Liabilities</u>			
Total liabilities and reserves as determined by this examination	<u>\$6,922,527</u>	<u>\$4,498,062</u>	<u>\$2,424,465</u>
Deductions from liabilities:			
Reinsurance recoverable on paid losses and loss adjustment expenses:			
Authorized companies	\$483,000	\$483,000	
Unauthorized companies	<u>(493,535)</u>	<u>(925,000)</u>	<u>\$431,465</u>
Total deductions	<u>\$(10,535)</u>	<u>\$(442,000)</u>	<u>\$431,465</u>
Total adjusted liabilities	\$6,933,062	\$4,940,062	\$1,993,000
Trusteed surplus	<u>1,312,203</u>	<u>3,305,203</u>	<u>\$(1,993,000)</u>
Total adjusted liabilities and trustee surplus	<u>\$8,245,265</u>	<u>\$8,245,265</u>	

The Branch is required pursuant to Section 1312 of the New York Insurance Law to maintain a minimum trusted surplus of \$2,050,000. This examination has determined that the Branch's Trusted Surplus of \$1,312,203 was impaired in the amount of \$737,797. Subsequent to the examination date, on January 4, 2002, the Branch deposited qualifying assets in the amount of \$2,000,000 with its United States trustee, thereby eliminating the impairment.

4. REINSURANCE RECOVERABLE ON LOSS AND LOSS ADJUSTMENT EXPENSES

The examination admitted asset of (\$10,623) is \$431,465 more than the \$(442,088) by the Company as of December 31, 2000. The examination change is due to the fact that the company reported the proceeds of a drawn down parental letter of credit as a reduction to an asset, reinsurance recoverable on paid losses rather than as a liability for funds held. This is contrary to the NAIC's annual statement instructions which requires amounts withheld from reinsurers to be reported as funds held by the branch under reinsurance treaties.

It is recommended that the Branch report funds held in its annual statements in accordance with the NAIC's Annual Statement instructions.

5. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liabilities of \$4,714,459 and \$34,577 are the same as the amounts reported by the Branch 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 Branch's internal records and in its filed annual statements.

In a meeting with the Branch's actuary, it was discovered that the Branch could not produce the data underlying the assumptions reported in its filed actuarial opinion. Further, it was revealed that the Branch's actuary based his estimates on "his experience running off similar business of other companies." This was not the basis reported in the Branch's filed actuarial opinion.

The National Association of Insurance Commissioners Annual Statements instructions define "Actuarial report" as a document or other presentation, prepared as a formal means of conveying the actuary's professional conclusions and recommendations, of recording and communicating the methods and procedures, of showing the analysis from the basic data, e.g., loss triangles, to the conclusions, and of assuring that the parties addressed are aware of the significance of the actuary's opinion or findings and that documents the analysis underlying the opinion.

It is recommended that the Branch's actuarial opinion accurately reflect the methods used to determine the reserves for unpaid losses and unpaid loss adjustment expenses. In addition, it is recommended that the Branch retain workpapers to support its actuarial opinion.

6. REINSURANCE PAYABLE ON PAID LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability amounting to \$1,627,990 is \$1,993,000 more than the \$(365,010) reported by the Branch as of December 31, 2000. The examination change is due to the Branch reporting

of an inter-company reinsurance balance receivable in excess of ninety days past due as a reduction to this account. This contravenes New York Insurance Department policy as outlined in Department Circular Letter 15 (1975). The contra-liability was disallowed per this examination.

It is recommended that the Branch properly report reinsurance recoverable on paid losses and loss adjustment expenses as an asset and report a non-admitted asset for all inter-company balances over ninety days past due in accordance with Department Circular Letter 15 (1975).

7. FUNDS HELD BY COMPANIES UNDER REINSURANCE TREATIES

The Branch reported no liability under this caption as of December 31, 2000. The Examination established the captioned liability amounting to \$431,465. The Branch incorrectly reported its funds held under Reinsurance Treaties as a contra-asset to Reinsurance recoverable on loss and loss adjustment expense payments.

8. MARKET CONDUCT ACTIVITIES

The Branch is primarily engaged in the business of reinsurance with the exception of one outstanding surety claim. The examiner has, therefore, not reviewed any market conduct activities.

8. CONCLUSION

The Branch is required pursuant to Section 1312 of the New York Insurance Law to maintain a minimum trusteed surplus of \$2,050,000. This examination has determined that the Branch's trusteed surplus of \$1,312,203 was impaired in the amount of \$737,797. Subsequent to the examination date, on January 4, 2002, the Branch deposited qualifying assets in the amount of \$2,000,000 which eliminated the impairment.

10. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

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

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Reinsurance</u>	
<p>It is recommended that the Branch properly report its reinsurance transactions in Schedule F of its filed statements.</p> <p>Although the Branch has complied with the recommendation it continues to improperly report its reinsurance transactions. Therefore, a similar comment is made in this report.</p>	7-8
B. <u>Holding Company System</u>	
<p>It is recommended that the Branch file all reports required by Regulation 52 in a timely manner.</p> <p>The Branch has not complied with this recommendation. A similar comment is made in this report.</p>	8

<u>ITEM</u>	<u>PAGE NO.</u>
C. <u>Expense Allocation</u>	
It is recommended that the Branch comply with the provisions of Regulation 30 in allocating and reporting its operating expenses and that charges for services performed by the Canadian home office be based on actual costs of services provided as required by Regulation 30.	11-12
The Branch has not complied with this recommendation. A similar comment is made in this report.	
D. <u>Accounts and Records</u>	
It is recommended that the Branch comply with the Annual Statement instructions and exercise greater care in the preparation of its future filed financial statements.	12
The Branch has not complied with this recommendation. A similar comment is made in this report.	
It is recommended that the Branch comply with instructions in the Accounting Practices and Procedures Manual and properly report ceded commutations in all future filed statements.	13
The Branch has complied with this recommendation.	
E. <u>Location of Books and Records</u>	
It is recommended that the Branch abide by the requirements of Section 325 and submit a plan to the Superintendent for approval to maintain its books of accounts and records outside New York State.	13-14
The Branch has complied with this recommendation. On October 18, 2000, the Department approved a plan of reorganization that included moving the significant books of account and claim files to the parent's home office in Toronto, Canada.	

11. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Capital Impairment</u>	
The Branch is required pursuant to Section 1312 of the New York Insurance Law to maintain a minimum trusted surplus of \$2,050,000. This examination has determined that the Branch's trusted surplus of \$1,312,203 was impaired in the amount of \$737,797. Subsequent to the examination date, on January 4, 2002, the Branch deposited qualifying assets in the amount of \$2,000,000 which eliminated the impairment.	1
B. <u>Holding Company</u>	
It is recommended that the Branch comply with Section 1504(a) of the New York Insurance Law and Department Regulation 52 by filing such reports or material the superintendent may direct in a timely manner.	7
C. <u>Accounts and Records</u>	
i. <u>Invested Assets</u>	
It is recommended that the Branch amend its account names and custodial agreement to reflect its legal name.	10
ii. <u>Expense Allocation Agreement</u>	
It is recommended that the CGU Insurance Company of Canada, the parent Company of the Branch, reimburse the Branch for any expenses paid and not allocate any further expenses to the Branch until such time as an approved expense sharing agreement has been submitted to and approved by this Department in accordance with Section 1505 of the New York Insurance Law.	10
iii. <u>Write-in for the Expenses</u>	
It is recommended that the Branch comply with Circular Letter 15 (1975) and Section 1302 of the New York Insurance Law and report all assets of doubtful value and amounts over ninety days past due from affiliates as non-admitted assets.	11

<u>ITEM</u>	<u>PAGE NO.</u>
iv. <u>Record Retention</u>	
It is recommended that the Branch retain its books and records as required by Department Regulation 152.	11
v. <u>Certified Public Accountants</u>	
It is recommended that the Branch enter into an agreement with its certified public accountants that comply with Section 307(b) of the New York Insurance Law and Department Regulation 118.	12
It is recommended that the Branch comply with the NAIC's Annual Statement instructions by notifying and filing the necessary documents with the New York Insurance Department when changing auditors.	13
D. <u>Reinsurance Recoverable on Loss and Loss Adjustment Expenses</u>	
It is recommended that the Branch report funds held in its annual statements in accordance with the NAIC's Annual Statement instructions.	19
E. <u>Losses and Loss Adjustment Expenses</u>	
It is recommended that the Branch's actuarial opinion accurately reflect the methods used to determine the reserves for unpaid losses and unpaid adjustment expenses. It is also recommended that the Branch retain work-papers to support its filed actuarial opinion in accordance with annual statement instructions.	20
F. <u>Reinsurance Payable on Paid Losses and Loss Adjustment Expenses</u>	
It is recommended that the Branch properly report reinsurance recoverable on paid losses and loss adjustment expenses as an asset and report a non-admitted asset for all inter-company balances over ninety days past due in accordance with Department Circular Letter 15 (1975).	21

Respectfully submitted,

_____/S/_____
Alfred W. Bloomer, Jr., CFE
Senior Insurance Examiner

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

Alfred W. Bloomer, Jr., being duly sworn, deposes and says that the foregoing report submitted by him is true to the best of his knowledge and belief.

_____/S/_____
Alfred W. Bloomer, Jr.

Subscribed and sworn to before me

This _____ day of _____ 2002.

Appointment No. 21801

**STATE OF NEW YORK
INSURANCE DEPARTMENT**

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

Alfred Bloomer

as proper person to examine into the affairs of the

**CGU INSURANCE COMPANY OF CANADA
(US BRANCH)**

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

Company

with such other information 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 30th day of October, 2001





GREGORY V. SERIO
Superintendent OF Insurance