ASSOCIATION REPORT ON EXAMINATION

OF THE

COMMERCE AND INDUSTRY INSURANCE COMPANY

AS OF

DECEMBER 31, 1996

EXAMINER	STATE	ZONE
DONALD CARBONE	NEW YORK	NORTHEASTERN
JOSEPH M. PIRES	MISSISSIPPI	SOUTHEASTERN
ROSIE PAGHUNASAN	CALIFORNIA	WESTERN

Honorable Alfred W. Gross
Chairman, Financial Condition
Subcommittee, NAIC
2301 Mc Gee , Suite 800
Kansas City, Missouri 64108-2604

Honorable Alfred W. Gross
Secretary-Treasurer, Southeastern Zone
Insurance Commissioner
State Corporation Commission
Bureau of Insurance
Commonwealth of Virginia
P.O. Box 1157
Richmond, Virginia 23218

Honorable Diane Koken
Secretary-Treasurer, Northeastern Zone
Insurance Commissioner
Pennsylvania Insurance Department
1326 Strawberry Square, 13th Floor
Harrisburg, Pennsylvania 17120

Honorable Charles Cohen
Director
Secretary-Treasurer, Western Zone
Arizona Department of Insurance
2910 North 44th Street, Suite 210
Phoenix, Arizona 85018-7256

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

Commissioners:

In accordance with your several instructions, an Association Examination has been made as of December 31, 1996 into the financial condition and affairs of the Commerce and Industry Insurance Company and the following report is respectfully submitted thereon.

<u>REPORT ON EXAMINATION</u>

<u>OF THE</u>

<u>COMMERCE AND INDUSTRY INSURANCE COMPANY</u>

<u>AS OF</u>

<u>DECEMBER 31, 1996</u>

<u>DATE OF REPORT</u>	<u>JULY 19, 2000</u>
<u>EXAMINER</u>	<u>DONALD CARBONE</u>

TABLE OF CONTENTS

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

July 19, 2000

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

Sir:

Pursuant to instructions contained in Appointment Number 21105 dated March 28, 1997, I have made an examination as of December 31, 1996, into the condition and affairs of the Commerce and Industry Insurance Company, a New York corporation and the following report thereon is respectfully submitted.

Wherever the designations shown below appear, they should be understood to indicate the following:

Designation	Name of Company
Company or Commerce and Industry	Commerce and Industry Insurance Company (C&I)
American Home/ National Union Group or Group or AIG pool companies	National Union Fire Insurance Company of Pittsburgh, Pennsylvania (NU) American Home Assurance Company (AHAC) Commerce and Industry Insurance Company (C&I) The Insurance Company of the State of Pennsylvania Birmingham Fire Insurance Company of Pennsylvania New Hampshire Insurance Company AIU Insurance Company (AIU) American International Pacific Insurance Company American International South Insurance Company Granite State Insurance Company Illinois National Insurance Company
AIG	American International Group, Inc., the parent company of which C.V. Star & Co. is the ultimate holding company.

1. SCOPE OF EXAMINATION

The prior examination was conducted as of December 31, 1991. This examination covers the period from January 1, 1992 to December 31, 1996. Transactions subsequent to this period were reviewed where deemed appropriate.

The examination comprised a complete verification of assets and liabilities as of December 31, 1996, a review of income and disbursements deemed necessary to accomplish such verification, and utilized, to the extent considered appropriate, work performed by the Company's independent certified public accountants. A review or audit was also made of the following items as called for in the Examiners Handbook of the National Association of Insurance Commissioners ("N.A.I.C."):

History of the Company
Management and control
Corporate records
Fidelity bond and other insurance
Employees' welfare and pension plans
Territory and plan of operation
Market conduct activities
Growth of the Company
Business in force
Loss experience
Reinsurance
Accounts and records

Concurrently examined with the Company were ten affiliated insurers with whom business, with the exception of business written in Japan by AIU Insurance Company and American Home Assurance Company, is shared in accordance with the terms of an Inter-Company Reinsurance Pooling Agreement, which is discussed in the Reinsurance section of this report (see item 2C):

The examination was conducted with participants from the Commonwealth of Pennsylvania, California representing Zone IV, and Mississippi Zone II.

The examination was conducted at 70 Pine Street, New York, New York, where the executive, administrative and principal operational functions and records, with the exception of Japanese records, are maintained. Japanese records are maintained in Tokyo, Japan. Those records were verified to the extent possible by visits to that location. (See Item 2F, "Accounts and Records"). In addition, certain accounts were verified by the use of an independent CPA using an agreed upon procedure format. Additionally, visits were made to branch offices outside New York to review claim records.

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.

A review was also made to ascertain what action the Company took with regard to comments in the prior report on examination.

2. **DESCRIPTION OF COMPANY**

The Company was incorporated in New York on December 11, 1957, as the American Reciprocal Insurers. On June 6, 1966, ownership shifted when the Company was absorbed by merger with its organizer, the American Reciprocal. The subscribers of the reciprocal exchanged their equity in surplus funds for stock of the Company.

Ownership passed to the Combined Insurance Company of America of Chicago, Illinois on February 15, 1968 through an exchange of shares. On July 15, 1968, AIG acquired financial control of the Company.

As of December 31, 1996, the Company had an authorized and paid-up capital of $5,022,500 consisting of 2,050,000 shares of $2.45 par value per share common stock, all issued to AIG. The gross paid in and contributed surplus as of December 31, 1996 was $356,575,661.

The financial records of the Company for the years covered by this examination, 1992 through 1996, as reflected in the annual statements filed with this Department, indicated the following:

Year	Net Premiums Written	Admitted Assets	Liabilities	Surplus to Policyholders
1992	$560,637,632	$1,949,064,052	$1,560,363,630	$388,700,422
1993	$587,315,313	$2,049,961,028	$1,631,676,973	$418,284,055
1994	$657,826,504	$2,519,265,136	$1,846,500,514	$672,764,622
1995	$649,952,828	$2,609,634,191	$1,879,291,447	$730,342,744
1996	$723,813,052	$2,800,132,500	$1,990,234,268	$809,898,232

A. Management

Pursuant to the charter and by-laws of the Company, corporate powers shall be exercised by a board of directors consisting of not less than thirteen nor more than twenty-five members. However, it was noted that the Company's board had only eleven members December 31, 1996, which is not in accordance with Section 1202(a)(2) of the New York Insurance Law and Section 1 of Article II of the Company's charter which states in part:

> "The business, property and affairs of the corporation shall be managed and controlled by a Board of Directors consisting of not less than thirteen (13) nor more than thirty (30) members."

It is recommended that the Company comply consistently with the provisions of Section 1202(a)(2) of the New York State Insurance Law and adhere to the provisions of its charter.

At December 31, 1996 the board of directors was comprised of the following members:

Name and Residence	Principal Occupation
Michael J. Castelli New Hyde Park, NY	Senior Vice President and Treasurer, Domestic Brokerage Group Companies
Florence A. Davis New York, NY	Vice President and General Counsel, AIG
Maurice R. Greenberg New York, NY	Chairman of the Board and Chief Executive Officer, AIG
John G. Hughes Warren, NJ	Senior Vice President, AIG
David Hupp Chatham, NJ	Vice President, AIG
Kevin Hugh Kelly Norwell, MA	President, Lexington Insurance Company

Name and Residence	Principal Occupation
Edwin Alfred G. Manton New York, NY	Senior Adviser, AIG
Edward Easton Matthews Princeton, NJ	Director and Vice Chairman, AIG
Win J. Neuger Princeton, NJ	Senior Vice President, AIG
Howard Ian Smith Woodbury, NY	Senior Vice President and Comptroller, AIG
Thomas R. Tizzio Middletown, NJ	President, AIG

A review of the minutes of the board of directors and the various committees thereof revealed that all meetings were well attended. However, as noted below, director Maurice R. Greenberg attended only one of the meetings of the board although he was eligible to attend twenty-one such meetings during the period under review. Members of the board have fiduciary responsibilities and must evince an on-going 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 appropriate policy decisions may be reached by the board. Individuals who fail to attend at least one-half of the board's regular meetings, unless appropriately excused, do not fulfill such criteria.

It is recommended that board members who are unable or unwilling to attend meetings consistently should resign or be replaced.

The senior officers of the Company at December 31, 1996 were as follows:

Name	Title
Joseph Boren	President
Frank H. Douglas Jr.	Senior Vice President and Actuary
Vincent J. Masucci	Senior Vice President
Edward E. Matthews	Senior Vice President
Christian M. Milton	Senior Vice President
David B. Pinkerton	Senior Vice President
David Walsh	Senior Vice President
Brian S. Frisch	Vice president
John J. Blumenstock	Vice President
Michael J. Castelli	Vice President and Treasurer
Robert K. Conry	Vice President
Kenneth B. Cornell	Vice president
Kumar Gursahaney	Vice President
David M. Hupp	Vice President
Shaun Kelly	Vice President
Dee Klock	Vice President
Robert B. Meyer	Vice President
Robert Beier	Vice President
Clifford E. Moore	Vice President
Elizabeth M. Tuck	Corporate Secretary

B. Territory and Plan of Operation

The Company is authorized to transact the kinds of business as specified in the following numbered paragraphs of Section 1113(a) of the New York Insurance Law:

Paragraph	Line of Business
4	Fire
5	Miscellaneous property
6	Water damage
7	Burglary and theft
8	Glass
9	Boiler and machinery
10	Elevator
11	Animal
12	Collision
13	Personal injury liability
14	Property damage liability
15	Workers’ compensation and employers’ liability

Paragraph	Line of Business
16	Fidelity and surety
17	Credit
19	Motor vehicle and aircraft
20	Marine
21	Marine protection and indemnity
26	Gap Insurance

The Company is also authorized to write workers' compensation insurance as may be incident to coverages contemplated under paragraphs 20 and 21 of Section 1113, including coverages, described in the Longshoremen's and Harbor Workers' Compensation Act and the kinds of insurance and reinsurance of every kind or description, except with respect to life insurance, title insurance and contracts for the payment of annuities, as specified in Section 4102(c) of the New York Insurance Law. The Company is authorized to transact within the State of New York the business of special risk insurance as defined in Article 63 of the New York Insurance Law.

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

The Company is authorized to transact business in the District of Columbia and in all states of the United States and in all provinces of Canada. The following schedule shows the direct premiums written (in thousands), by calendar year, during the period covered by this examination in New York State and countrywide and the percentage which the New York State premiums bear to the countrywide premiums:

Direct Premiums Written ($000's omitted)

	1992	1993	1994	1995	1996
New York State	$ 30,076	$ 34,854	$ 35,662	$ 35,784	$ 21,537
Countrywide	$145,042	$201,407	$361,917	$339,519	$ 231,603
% of New York State to Countrywide	20.74%	17.31%	9.85%	10.54%	9.30%

Related companies of the American Home/National Union Group operate as specialty multiple line carriers with emphasis on business developed and serviced by brokers. Underwriting facilities of AIG are maintained for handling virtually all forms of property and casualty insurance and reinsurance. Marketing efforts are directed mainly towards commercial and industrial risks. Affiliated American companies of AIG specialize in assumed reinsurance, surplus lines and risk management programs for large national insureds. The American Home/National Union Group obtains a significant portion of its business from and/or through these related companies.

C. Reinsurance

Inter-Company Reinsurance Pooling Agreement

The majority of the Company's assumed book of reinsurance emanates from its participation in an Inter-company reinsurance pooling agreement. Pursuant to the terms of this agreement, the Company and ten affiliated entities share in premiums, losses, and expenses based on their respective pool participation.

Business written in Japan by AIU Insurance Company and American Home Assurance Company is not included in this pooling agreement. The pooling agreement which became effective in 1978 comprised of six Companies.

Three amendments were made to the pooling agreement during the period covered by this examination. On January 1, 1994 the Company amended its Pooling Agreement to include the following wholly-owned subsidiaries of AIG:

American International Pacific Insurance Company
American International South Insurance Company
Granite State Insurance Company
Illinois National Insurance Company
New Hampshire Indemnity Company, Inc.
New Hampshire Insurance Company

The second amendment, dated January 1, 1995 required all pool companies to conform to their respective pooling percentage share of the combined sum of all parties' underwriting and other related expenses and transactions. This amendment encompasses agents' balances including past due balances, balances charged off penalties for overdue transactions as recorded in Schedule "F" of each of the pooled companies statutory statements.

The third amendment, dated June 30, 1995 effectively deletes the New Hampshire Indemnity Company Inc. as a pool member for 1995 and subsequent calendar years.

As of December 31, 1996, the insurers included in this pooling agreement and their percentage participation were as follows:

Pool Company	State of Domicile	Percentage Of Participation
National Union Fire Insurance Company of Pittsburgh, Pennsylvania	PA	38%
American Home Assurance Company	NY	36%
Commerce and Industry Insurance Company	NY	10%
The Insurance Company of the State of Pennsylvania	PA	5%
Birmingham Fire Insurance Company of Pennsylvania	PA	5%
New Hampshire Insurance Company	PA	5%
AIU Insurance Company	NY	1%
American International Pacific Insurance Company*	CO	0%
American International South Insurance Company*	PA	0%
Granite State Insurance Company*	PA	0%
Illinois National Insurance Company*	IL	0%
Total Pool		100%

*These companies cede 100% of their writings to the pool but do not assume any of the pool's liabilities.

Ceded Reinsurance

The American Home/National Union Group has in effect numerous reinsurance agreements that limit its net exposure. In addition to its facultative agreements, the Group has quota share, excess of loss and catastrophe agreements to protect itself against excessive exposure in the event of any one accident or occurrence or a series of occurrences arising out of one event.

A general outline of the principal agreements in effect at December 31, 1996, is as follows:

Line of Business	Cession
American Home - Division 10	
Accident & Health	
Indiv. Acc. Q/S 100% Authorized	100% Q/S of $1,000,000, any one life.
Ind. Acc. 1st Surplus 100% Authorized	$500,000 surplus of $1,000,000, any one life.
Priority Surplus 100% Authorized	All other insureds - $250,000, per life. Pilots & aircrews – 50% of limits.
Underlying Excess of Loss 100% Authorized	$7,500,000 excess of $2,500,000, per event. Retention: $250,000 per life, $2,500,000, per event.
American Home - Casualty American Home - Division 30	
Casualty Excess (Clash)	
First layer 73.12% Authorized 26.88% Unauthorized	$20,000,000 excess of $20,000,000, per occurrence.
Second layer 68.5% Authorized 31.5% Unauthorized	$10,000,000 excess of $40,000,000, per occurrence.

Line of Business	Cession
International Casualty Excess General Casualty 60.46% Authorized 39.54% Unauthorized	$15,000,000 excess of $10,000,000, per occurrence.
American Home - Division 50 AH (Divs. 02, 03, 09, 21, 29 & 58) Workers’ Compensation Catastrophe	
First layer 100% Authorized	$7,500,000 excess of $7,500,000, per occurrence.
Second layer 100% Authorized	$10,000,000 excess of $15,000,000, per occurrence.
Third layer 100% Authorized	$15,000,000 excess of $25,000,000, per occurrence.
Fourth layer 100% Authorized	$10,000,000 excess of $40,000,000, per occurrence.
Fifth layer 100% Authorized	$40,000,000 excess of $50,000,000, per occurrence.
Sixth layer 100% Authorized	$30,000,000 excess of $90,000,000, per occurrence.
Seventh layer 95.0% Authorized 5.0% Unauthorized	$50,000,000 excess of $120,000,000, per occurrence.
Eighth layer 92.97% Authorized 7.03% Unauthorized	$50,000,000 excess of $170,000,000, per occurrence.
Ninth layer 85.0% Authorized 15.0% Unauthorized	$100,000,000 excess of $220,000,000, per occurrence.
Tenth layer 81.5% Authorized 18.5% Unauthorized	$150,000,000 excess of $320,000,000, per occurrence.

Line of Business	Cession
Casualty Catastrophe Excess of Loss General Casualty	
First layer 55.83% Authorized 44.17% Unauthorized	$10,000,000 excess of $25,000,000, per occurrence.
Second layer 53.61% Authorized 46.39% Unauthorized	$10,000,000 excess of $35,000,000, per occurrence.
Workers' Compensation First Excess of Loss 100% Authorized	$7,500,000 excess of $2,500,000, per occurrence.
Workers' Compensation Catastrophe Excess of Loss	
First layer 100% Authorized	$7,500,000 excess of $10,000,000, per occurrence.
Second layer 100% Authorized	$10,000,000 excess of $17,500,000, per occurrence.
Third layer 100% Authorized	$15,000,000 excess of $27,500,000, per occurrence.
Fourth layer 100% Authorized	$10,000,000 excess of $42,500,000, per occurrence.
Fifth layer 100% Authorized	$40,000,000 excess of $52,500,000, per occurrence.
Sixth layer 83.50% Authorized 16.50% Unauthorized	$30,000,000 excess of $92,500,000, per occurrence.
Seventh layer 95% Authorized 5% Unauthorized	$50,000,000 excess of $122,500,000, per occurrence.
Eighth layer 94% Authorized 6% Unauthorized	$50,000,000 excess of $172,500,000, per occurrence.

Line of Business	Cession
Ninth layer 100% Authorized	$100,000,000 excess of $222,500,000, per occurrence.
Tenth layer 79.37% Authorized 20.63% Unauthorized	$150,000,000 excess of $322,500,000, per occurrence.
AIG - Aviation Agency (Property)	
Aviation Quota Share (Treaty “B”) 68.60% Authorized 31.40% Unauthorized	Up to 55% of 100% of US $90 million or currency equivalent, any one accident or occurrence, each aircraft, not to exceed $15 million any one hull.
Aviation Excess of Loss (Hull & Liability combined)	
First layer 40.72% Authorized 59.28% Unauthorized	$10,000,000 excess of $20,000,000, per occurrence.
Second layer 42.50% Authorized 57.50% Unauthorized	$15,000,000 excess of $30,000,000, per occurrence.
Third layer 42.06% Authorized 57.94% Unauthorized	$15,000,000 excess of $45,000,000, per occurrence.
Fourth layer 52.10% Authorized 47.90% Unauthorized	$27,500,000 excess of $60,000,000, per occurrence.
AIAA Fgn. Industrial Aid Products Liability 32.73% Authorized 67.27% Unauthorized	$50,000,000 Liability plus, $25,000,000 Hull Obligatory Liability, $30,000,000 excess of $20,000,000, each aircraft.
Aviation Quota Share (Treaty “A”) 68.42% Authorized Hull; 31.58% Unauthorized and/or	Hull and Liability combined, 55% of 100% limits: US and or CAN $15 million, any one US and or CAN $75 million, each aircraft/accident/occurrence class of business in respect of Ground Liability.

Line of Business	Cession
AIGA Hull Surplus 64.00% Authorized 36.00% Unauthorized	Up to $30 million any one accident or occurrence, each aircraft; only on aircraft with values over $5 million.
AIGA Excess of Loss (Hull and Liability combined)	
First layer 38.19% Authorized 61.81% Unauthorized	$10,000,000 excess of $10,000,000, per occurrence.
Second layer 29.92% Authorized 70.08% Unauthorized	$10,000,000 excess of $20,000,000, per occurrence.
Third layer 36.19% Authorized 63.81% Unauthorized	$17,500,000 excess of $30,000,000, per occurrence.
Fourth layer 35.86% Authorized 64.14% Unauthorized	$17,500,000 excess of $47,500,000, per occurrence.
AIMA - (Property) Bluewater Hull	
Obligatory Hull Quota Share 84.66% Authorized 15.34% Unauthorized	70% of $3,000,000; maximum limit: $2,100,000.
Marine Cargo Excess of Loss	
First layer 68.50% Authorized 31.50% Unauthorized	$9,250,000 excess of $750,000, any one loss, any one occurrence.
Second layer 67.00% Authorized 33.00% Unauthorized	$10,000,000 excess of $10,000,000, any one loss, any one occurrence.
Third layer 54.50% Authorized 45.50% Unauthorized	$15,000,000 excess of $20,000,000, any one loss, any one occurrence.

Line of Business	Cession
Hull Specific Excess of Loss	
25% Authorized 75% Unauthorized	$500,000 excess of $250,000, any one loss, any one occurrence.
General Marine Excess of Loss	
First layer	
77.75% Authorized 22.25% Unauthorized	$4,250,000 excess of $750,000 - Cargo, Hull, $4,000,000 excess of $1,000,000 – Liability any one loss or series of losses from one event.
Second layer	
68.25% Authorized 31.75% Unauthorized	$5,000,000 excess of $5,000,000, any one loss or series of losses from one event.
Third layer	
54.50% Authorized 45.50% Unauthorized	$7,500,000 excess of $10,000,000, any one loss or series of losses from one event.
Fourth layer	
47.50% Authorized 52.50% Unauthorized	$7,500,000 excess of $17,500,000, any one loss or series of losses from one event.
Cargo & Liability Excess of Loss (Clash cover)	
62.50% Authorized 37.50% Unauthorized	$25,000,000 excess of $25,000,000 – Liability, $25,000,000 excess of $35,000,000 – Cargo, (max. limit $25,000,000 any one loss or series of losses from one event).
AIMA - (Liability)	
Marine Liability Excess of Loss	
First layer	
60.75% Authorized 39.25% Unauthorized	$4,000,000 excess of $1,000,000, per occurrence.
Second layer	
60.75% Authorized 39.25% Unauthorized	$5,000,000 excess of $5,000,000, per occurrence.
Third layer	
60.75% Authorized 39.25% Unauthorized	$7,500,000 excess of $10,000,000, per occurrence.

Line of Business	Cession
Fourth layer	
61.00% Authorized 39.00% Unauthorized	$7,500,000 excess of $17,500,000, per occurrence.
C & I (Property)	
C & I Excess of loss	
First layer	
76.50% Authorized 23.50% Unauthorized	$20,000,000 excess of $10,000,000 limit: $20,000,000, per risk, $60,000,000, per occurrence.
Second layer	
65.24% Authorized 34.76% Unauthorized	$25,000,000 excess of $30,000,000 limit: $25,000,000, per risk, $50,000,000, per occurrence.
Third layer	
73.33% Authorized 26.67% Unauthorized	$30,000,000 excess of $55,000,000 limit: $30,000,000, per risk, $60,000,000, per occurrence.
Fourth layer	
83.28% Authorized 16.72% Unauthorized	$35,000,000 excess of $85,000,000, per occurrence. limit: $35,000,000, per risk, $70,000,000, per occurrence.
NU Division 36	
2nd BLKT Cas. Excess of Loss D & O / Pension	
100% Authorized	$10,000,000 excess of $15,000,000.
Casualty Clash Excess of Loss D & O / Pension/ E&O	
97.50% Authorized 2.50% Unauthorized	$25,000,000 excess of $25,000,000, per loss, per occurrence.
Domestic Variable Surplus Surety	
71.48% Authorized 28.52% Unauthorized	Maximum limit: 40% of $50,000,000 or $20,000,000.
Worldwide Surety Excess of Loss	
First layer	
43.90% Authorized 56.10% Unauthorized	95% of $10,000,000 excess of $12,500,000.

Line of Business	Cession
Second layer 47.88% Authorized 52.12% Unauthorized	95% of $10,000,000 excess of $22,500,000.
Third layer 48.63% Authorized 51.37% Unauthorized	95% of $10,000,000 excess of $32,500,000.
Fourth layer 46.34% Authorized 53.66% Unauthorized	95% of $7,500,000 excess of $42,500,000.
Fidelity Surplus Fidelity Bond 15.35% Authorized 84.65% Unauthorized	$20,000,000 part of $35,000,000.
Liability Quota Share	
Lawyer Prof. Liability 100% Authorized	50% Q/S max. $5,000,000, each policy, each claim made.
Patent Infringement 100% Authorized	62.5% of $15,000,000.
Employment Practices Liability 100% Authorized	80% of $5,000,000.
Oil Pollution Quota Share 29.49% Authorized 70.51% Unauthorized	61.72% of max. $100,000,000, each policy, each claim made.
Liability Excess of Loss	
Lawyer Professional Liability 81.43% Authorized 18.57% Unauthorized	$15,000,000 excess of $5,000,000.
Miscellaneous Errors and Omissions 100% Authorized	$20,000,000 excess of $5,000,000.
NASD Fidelity Bond Quota Share Fidelity Bond 100% Unauthorized	$500,000 each and every loss in the aggregate.

Line of Business	Cession
Executive Deferred Income Insurance Quota Share (EDII) Employment Benefits Liability 89.57% Authorized 10.43% Unauthorized	80% of $30,000,000.
Insurance Company E&O 91.81% Authorized 8.19% Unauthorized	Two limits depending on risk: $5,000,000 excess of $5,000,000. $10,000,000 excess of $5,000,000.
Security Bonds SIPC Excess of Loss	
Security Bonds - First layer 84.42% Authorized 15.58% Unauthorized	$15,000,000 excess of $10,000,000.
Security Bonds - Second layer 100% Authorized	$25,000,000 excess of $25,000,000.
Casualty Clash Excess of Loss	
Clash cover - First layer 55.64% Authorized 44.36% Unauthorized	$10,000,000 excess of $5,000,000, per occurrence.
Clash cover - Second layer 67.61% Authorized 32.39% Unauthorized	$10,000,000 excess of $15,000,000, per occurrence.
Clash cover - Third layer 72.68% Authorized 27.32% Unauthorized	$15,000,000 excess of $25,000,000, per occurrence.
Clash cover - Fourth layer 74.70% Authorized 25.30% Unauthorized	$10,000,000 excess of $40,000,000, per occurrence.
Umbrella Liability Commercial Umbrella Liability 100% Authorized	90% of $5,000,000.

Line of Business	Cession
Excess of Loss Fire Arms Dealers	
First layer 100% Authorized	$250,000 excess of $250,000.
Second layer 100% Authorized	$500,000 excess of $500,000.
Quota Share Treaty Boiler & Machinery (misc. accounts) 100% Authorized	100% of $30,000,000.
General Liability Excess of Loss Social Services 100% Authorized	$562,500 excess of $187,750.
Auto Liability Excess of Loss Social Services - First layer 100% Authorized	$250,000 excess of $250,000.
Social Services - Second layer 100% Authorized	$500,000 excess of $500,000.
Quota Share Treaty	
Boiler & Machinery (Mud use) 100% Authorized	100% of $30,000,000.
Boiler & Machinery (Church use) 100% Authorized	100% of $30,000,000.
Boiler & Machinery (Florida Condo use) 100% Authorized	100% of $30,000,000.
Quota Share Treaty	
Boiler & Machinery 100% Authorized	100% of $30,000,000.
Boiler & Machinery 100% Authorized	100% of $30,000,000.

Line of Business	Cession
Property Per Risk Excess of Loss Property coverage for Special Programs First layer (includes treaties 1111, 1311 & 1511) 100% Authorized	 $4,000,000 excess of $1,000,000. $4,000,000 excess of $1,000,000. $4,750,000 excess of $250,000.
Second layer 95.92% Authorized 4.08% Unauthorized	 $5,000,000 excess of $5,000,000.
Third layer 67.50% Authorized 32.50% Unauthorized	 $15,000,000 excess of $10,000,000.
Property Excess of Loss Non-Profit Social Services - First layer 100% Authorized	 $500,000 excess of $500,000.
Non-Profit Social Services - Second layer 100% Authorized	$4,000,000 excess of $1,000,000.
Property Per Risk Excess of Loss Property coverage for Special Programs 74.85% Authorized 25.15% Unauthorized	 $1,000,000 excess of $1,000,000. $4,000,000 maximum, per occurrence.
Quota Share Treaty Property petrochemical 41.73% Authorized 58.27% Unauthorized	 Maximum limit $50,000,000, per risk.
Worldwide Property Excess of Loss Common account - protect net First layer 69.24% Authorized 30.76% Unauthorized	 $20,000,000 excess of $30,000,000, per risk, per loss.
Second layer 56.71% Authorized 43.29% Unauthorized	 $50,000,000 excess of $50,000,000, per risk, per loss.

Line of Business	Cession
Umbrella Excess Casualty Quota Share National Ski Areas Liability	
First layer 100% Authorized	66% Q/S of $5,000,000 excess on General Liability or Umbrella Policies.
Second layer 100% Authorized	62.5% of $5,000,000, excess of $5,000,000. ($5,000,000, excess underlying Policy, $5,000,000 or more).
Property CAT Corporate covers	
First layer 19.69% Authorized 80.31% Unauthorized	$25,000,000 excess of $50,000,000, per occurrence.
Second layer 20.58% Authorized 79.42% Unauthorized	$35,000,000 excess of $75,000,000, per occurrence.
Third layer 26.78% Authorized 73.22% Unauthorized	$50,000,000 excess of $110,000,000, per occurrence.
Fourth layer 37.06% Authorized 62.94% Unauthorized	$60,000,000 excess of $160,000,000, per occurrence.
Fifth layer 21.93% Authorized 78.07% Unauthorized	$60,000,000 excess of $220,000,000, per occurrence.
Sixth layer 100% Unauthorized	$25,000,000 excess of $280,000,000, per occurrence.
Casualty CAT covers	
Corporate Casualty Catastrophe 68.34% Authorized 31.66% Unauthorized	$50,000,000 excess of $50,000,000, per occurrence.

Line of Business	Cession
Worldwide Common Account 72.01% Authorized 27.99% Unauthorized	$20,000,000 excess of $30,000,000, per risk, per loss.
Worldwide Excess 60.5% Authorized 39.5% Unauthorized	$50,000,000 excess of $50,000,000, per risk, per loss.
A. I. Transport Division 27	
Large Fleet Commercial Truckmen Quota Share 81.00% Authorized 19.00% Unauthorized	Up to $1,000,000 per vehicle, per accident.
Large Fleet Commercial Truckmen Excess of Loss 96.00% Authorized 4.00% Unauthorized	$4,000,000 excess of $1,000,000 per accident or occurrence. SIR Policies: SIR/Deductible + $500,000. Limit = Difference bet. $5M & SIR/Ded. + $500,000.
Commerce & Industry (Casualty)	
Casualty Quota Share Pollution Leg. Liability Quota Share 100% Authorized	$35,000,000 aggregate limit of liability, each policy.
AHAC Industrial Aid Aircraft Excess Workers' Compensation 100% Authorized	$7,500,000, original insured's event.
Occupational Accident Excess Workers' Compensation 100% Authorized	$2,500,000 excess of $5,000,000, plus original insured.
US Longshoremen and Harbor Workers' Compensation Act Program Workers' Compensation 100% Authorized	$5,500,000 excess of $2,000,000, each loss occurrence.

Line of Business	Cession
AHAC Workers' Compensation First Excess of Loss - U. S. L & H 100% Unauthorized	$4,000,000 excess of $1,000,000, per occurrence.
Corporate Covers Aggregate loss Ratio trust 100% Unauthorized	Two per occurrence limits depending on risk: $10,000,000 excess of $10,000,000. $15,000,000 excess of $20,000,000. Aggregate limit of $660,000,000.

An inordinate amount of time was needed by the Company to provide the examiners with copies of reinsurance treaties selected for testing. Based on discussions with management, treaty reinsurance contracts and facultative reinsurance certificates are now being electronically scanned in order for the Company to maintain a central repository for reinsurance documentation.

It is recommended that the Company continue in its effort to electronically scan treaty reinsurance contracts and facultative reinsurance certificates, and that such scanned documentation be maintained in a secure central repository.

Aggregate Stop Loss

In addition to the Company's reinsurance program described above, the Company enters into aggregate stop loss agreements on a calendar year basis to minimize adverse loss development.

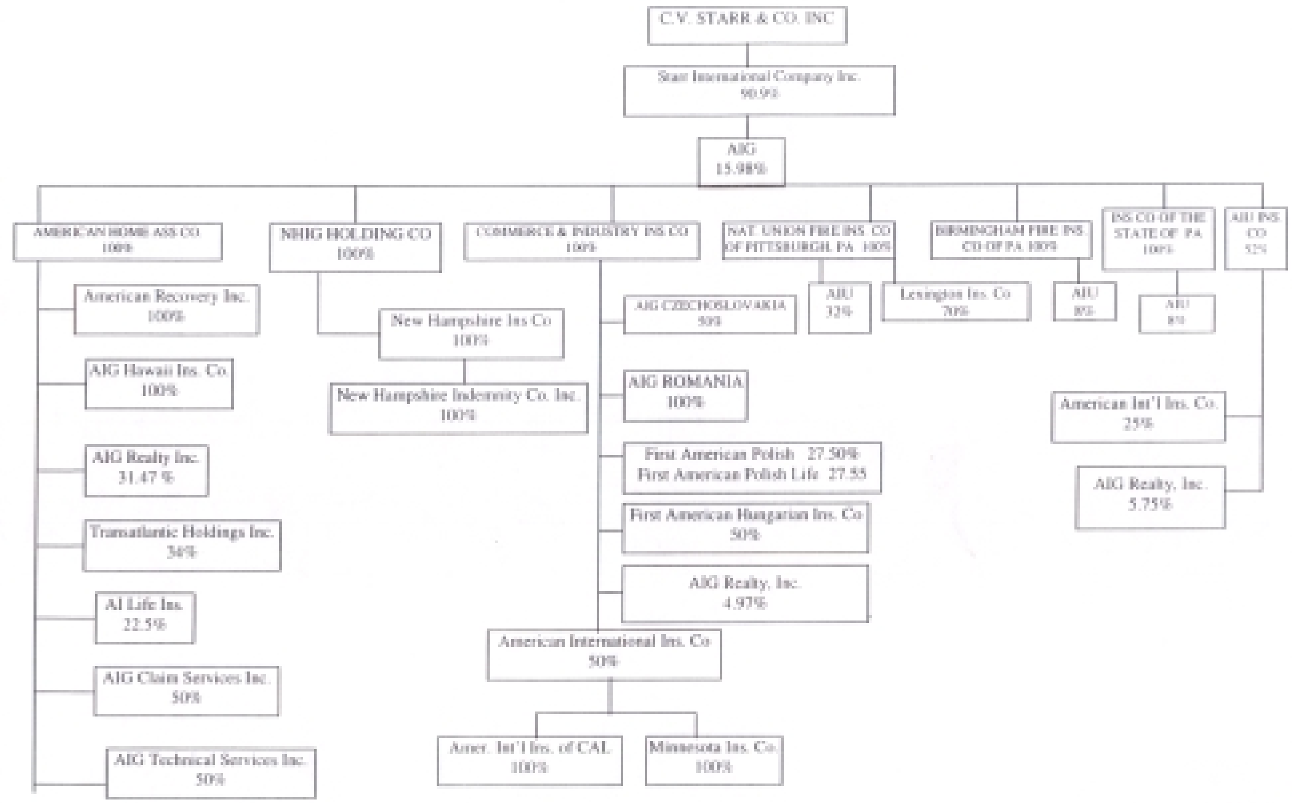
D. Holding Company System

Commerce and Industry is wholly-owned by AIG, a Delaware holding company organized in 1967, which directly or indirectly owns all of the capital stock of several insurance companies including the American Home/National Union Group.

The Company, in turn, owns parts of the companies listed below, which are part of the same holding company system of which it is a member:

Company Ownership	Percent of Ownership
AIG Chechoslovakia	50.00%
AIG Realty, Inc.	4.97%
AIG Romania Insurance Company	100.00%
AIG Life Insurance Company	21.00%
American International Insurance Company	50.00%
First American Hungarian Insurance	26.00%
First American Polish Insurance and Reinsurance Company	27.50%
First American Polish Life	27.50%

C.V. Starr and Company Incorporated is the ultimate parent in the holding company system. An organization chart, which details members of the system, is shown on the following page



(Excerpts from Company organization charts showing relevant New York companies.)

The Company is a party to numerous agreements with affiliated entities. A description of the principal agreements follows:

Service and Expense Agreement

The Company is a party to a service and expense agreement with AIG, whereby AIG provides essentially all space, services and personnel necessary for the conduct of its business.

Tax Payment Allocation Agreement

The Company is a party to a consolidated tax return of the AIG holding company. Under the terms of the agreement, companies are able to consolidate their incomes to effectuate a lower federal income tax. This Department approved this agreement.

The Company failed to submit a total of 170 service and reinsurance agreements to the Department prior to the implementation as required by Section 1505(d)(2) and (3) of the New York Insurance Law. It is recommended that th Company establish an effective method of monitoring its holding company filings. It is further recommended that a inter-company agreements be submitted to the Department prior to their implementation, in accordance with th provisions of Section 1505(d)(2) and (3) of the New York Insurance Law. It is noted that the agreements were file subsequent to the date of this examination and are currently under review.

Members of the AIG Pool entered into various reinsurance and service agreements with other members of the AIG holding company. Although the Company was not a direct party to these agreements it was indirectly affected by these agreements by virtue of the pooling agreement. Since these indirect transactions affect the Company, it is recommended that the Company, disclose these arrangements with the Department.

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 1996, based upon the results of th examination:

Net premiums written in 1996 to Surplus as regards policyholders	0.90 to 1
Liabilities to Liquid assets (cash and invested assets less investment in affiliates)	88%
Premiums in course of collection to Surplus as regards policyholders	19%

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

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

	Amounts	Ratios
Losses incurred	$2,048,820,752	67.53%
Loss adjustment expenses incurred	538,041,306	17.73
Other underwriting expenses incurred	502,005,178	16.55
Net underwriting loss	(54,868,409)	(1.81)
Premiums earned	$3,033,998,827	100.00%

F. Accounts and Records

High Deductible Policies Written in New York State

Section 3443 of the New York Insurance Law allows for the issuance of certain workers' compensation and employers' liability insurance policies containing deductible features. Pursuant to this section o the law, the insurer pays from the first dollar on a compensable claim and is then reimbursed by the policyholder fo the applicable deductible. It is the opinion of this Department's Office of General Counsel that the premiu calculated at the beginning of the policy period plus all losses and accompanying expenses for which the company ultimately reimbursed by the insured is subject to premium tax imposed by Section 1510 of the New York Corporat Franchise Tax Law.

The Company did not included deductible reimbursements when computing its New York corporate franchis tax return. It is recommended that these amounts be included when computing the tax imposed by Section 1510 o the New York Corporate Franchise Tax Law.

Annual Statement general Interrogatory 31 requires an insurer to respond to the following question:

> "Are letters of credit or collateral and other funds received from insureds being utilized by the company to secure premium or promissory notes taken by the company, or to secure any of the company's reported direct unpaid loss reserves, including unpaid losses under deductible features of commercial policies."

The Company responded "no" to this interrogatory when in fact the Company had been utilizing letters o credit or collateral and other funds to secure unpaid loss reserves, including unpaid losses under deductible features o commercial policies.

It is recommended that the Company exercise greater care when responding to this general interrogator

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and surplus as determined by this examination as of December 31

1996. It is the same as that reported by the Company:

Assets	Ledger Assets Assets	Non-ledger Assets	Not Admitted Assets	Admitted Assets
Bonds	$1,642,111,627		$ 29,807	$1,642,081,820
Stocks: Preferred	98,870,924			98,870,924
Common	140,237,499	$64,379,146		204,616,645
Cash on hand and on deposit	42,774			42,774
Other invested assets	18,009,077		37,240	17,971,837
Premiums, agents' balances in course of collection	114,159,330			114,159,330
Premiums, agents' balances and installment booked but deferred and not yet due	463,935,305		80,372	463,854,933
Funds held by deposited with reinsured companies	2,521,870			2,521,870
Reinsurance recoverable on loss payments	141,048,855			141,048,855
Federal income tax recoverable	5,451,948			5,451,948
EDP equipment	8,944,297			8,944,297
Interest, dividends and real estate income due and accrued		33,690,739		33,690,739
Equities and deposits in pools and associations	50,001,732	(1,414,715)	1,117,737	47,469,280
Equipment, furniture and supplies	340,020		340,020	
Loss funds on deposit	17,159,541			17,159,541
Accrued recoverables	2,247,707			2,247,707
	$2,705,082,506	$96,655,170	$1,605,176	$2,800,132,500

Liabilities

Losses	$1,238,487,198
Loss adjustment expenses	253,837,692
Other expenses	1,036,360
Taxes, licenses and fees	2,878,664
Unearned premiums	378,906,682
Dividends declared and unpaid:	
Stockholders	2,400,000
Funds held by Company under reinsurance treaties	29,855,419
Provision for reinsurance	45,570,191
Payable to parent, subsidiaries and affiliates	36,901,118
Payable for securities	4,250
Servicing carrier liability	356,694
Total liabilities	$ 1,990,234,268

Policyholders' Surplus

Capital paid up	$5,022,500
Gross paid in and contributed surplus	356,575,661
Unassigned funds	448,300,071
Surplus as regards policyholder	$ 809,898,232
Total liabilities and surplus	$2,800,132,500

NOTE: The Internal Revenue Service has completed its audit of the consolidated tax returns filed on behalf of the Company through tax year 1986. All material adjustments, if any, made subsequent to the date of the examination and arising from said audits, are reflected in the financial statements included in this report. Audits covering tax years 1987 to 1990 are currently in appeal. The audit for the years 1991 through 1993 is still in progress. 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 $543,148,888, during the five-year period, January 1, 1992 through December 31, 1996, inclusive of examination adjustment are as follows:

Statement of Income

Underwriting Income

Premiums earned		$3,033,998,827
Deductions:		
Losses incurred	$2,048,400,752	
Loss adjustment expenses incurred	538,041,306	
Other underwriting expenses incurred	502,005,178	
Total underwriting deductions		3,088,867,236
Net underwriting loss		$(154,868,409)

Investment Income

Net investment income earned	$451,710,522	
Net realized capital gains	25,448,763	
Net investment gain		477,159,285

Other Income

Miscellaneous income (loss)	$ (7,361,263)	
Total other income (loss)		(7,361,263)
Net income before dividends to policyholders and federal and foreign income taxes		$414,929,613
Dividends to policyholders		3,796,938
Net income before federal and foreign income taxes		$411,132,675
Federal and foreign income taxes incurred		7,676,617
Net income		$403,456,058

Capital and Surplus Account

	Gains in Surplus	Losses in Surplus	
Surplus as regards policyholders per report on examination, as of December 31, 1991			$266,749,344
Net income	$ 403,456,058		
Net unrealized capital gains	66,071,934		
Change in not admitted assets	4,923,259		
Change in liability for provision for reinsurance		$ 20,332,664	
Capital adjustment: paid in	2,460,000		
Surplus adjustment: paid in	222,540,000		
Dividends to stockholders		132,492,902	
Federal and foreign income tax adjustment		3,533,012	
Foreign exchange adjustment	56,215		
Total gains and losses	$699,507,466	$156,358,578	
Net increase in surplus as regards policyholders			543,148,888
Surplus as regards policyholders per report on examination, as of December 31, 1996			$809,898,232

4. LOSSES

The examination liability of $1,238,487,198 is the same as the amount reported by the Company as o December 31, 1996. The examination analysis was conducted in accordance with generally accepted actuari principles and practices and was based on statistical information contained in the Company's internal records and i its filed annual statements.

In conjunction with the actuarial review of loss and loss adjustment expense reserves, certain deficiencies were noted relative to the Company's internal actuarial analyses. It is recommended that AIG strive to improve the clarity and consistency of its actuarial analyses. Each reserve review should contain a clear summary of the estimates, separately by business segment and in total for all business segments combined. These summaries should be prepare on a consistent basis for each reserve review.

It was also noted that, for some divisions, it was difficult to determine exactly what the final estimates were because the results were not clearly presented in a uniform manner. It is recommended that the findings resulting from each review be clearly presented.

5. LOSS ADJUSTMENT EXPENSES

The examination liability of $253,837,692 is the same amount as reported by the Company as of Decembe 31, 1996. The examination analysis was conducted in accordance with generally accepted actuarial principles an practices and was based on statistical information contained in the Company's internal records and in its filed annu statements.

6. MARKET CONDUCT ACTIVITIES

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

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

A. Sales and advertising
B. Underwriting
C. Rating
D. Claims

No exceptions were noted in this examination.

10. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The following recommendations cited in the prior report on examination as of December 31, 1991, which hav been acted upon are summarized below (page numbers refer to the prior report):

ITEM		PAGE NO.
A.	Agreement with Coral Reinsurance	
1.	The Company, on the portion of the treaty pertaining to commutations, does not record the ceded premium to Coral Re nor the loss on the commutation. Only a memo entry is made to replace the named reinsurer. This is inappropriate statutory accounting. It is recommended that the Company properly reflect the transactions in the corresponding general ledger accounts to fully disclose the separate transactions; the loss on the commutation and the subsequent cession to Coral Re.	17
2.	The quota share reinsurance agreement with Coral Re does not transfer underwriting risk. Therefore, it is recommended that the Company not take credit for the treaty with Coral Re.	18
3.	It is recommended that all transactions between the Company and its affiliates be evidenced by written agreements and such agreements be filed with the New York Insurance Department in accordance with Section 1505(d)(1) of the New York Insurance Law.	19
	The Company for the most part has commuted its contract with Coral Reinsurance Company Ltd.	
4.	It is recommended that the Company draw down the parental LOC as required under Regulation 20.	20
	The Company has complied with this recommendation.	
5.	It is recommended that the Company comply with Section 310(a)(3) of the New York Insurance Law and provide information requested to facilitate the examination.	26
	The Company has generally complied with this recommendation. A similar comment is contained in the current report on examination. See item 2C “Reinsurance.”	

ITEM PAGE NO.

B. Accounts and Records

1. General

During the course of this examination, considerable delays were encountered in obtaining information from the Company. It appears that the numerous information centers which the liaison officer responsible for furnishing the requested information has to go through contributed greatly to the delays. It is recommended, as it was in the prior report on examination that more efficient procedures in gathering information from various information centers be put in place to expedite future examinations. 29

Although the Company has made improvements in this area, the Company has not completely complied with this recommendation. A similar comment is contained in the current report on examination. See item 2C "Reinsurance."

2. Cash on Hand and on Deposit

It is recommended that there be closer monitoring, or a dual system processing whenever a new system is installed in order to prevent similar reconciliation problems and unnecessary delays in the examination process. 30

The Company has complied with this recommendation.

C. Common Stocks

1. It is recommended that the pool companies and their affiliates submit consistent values of subsidiary stocks jointly owned. 35

The Company has complied with this recommendation.

2. It is recommended that the Company submit its securities to the Security Valuation Office of the N.A.I.C. for valuation in a more timely manner, as required by Section 1414(g) of the New York Insurance Law. 35

The Company has complied with this recommendation.

ITEM		PAGE NO.
D.	Reinsurance Recoverable on Paid Loss and Loss Adjustment Expense Payments	
	It is recommended that the Company report treaty reinsurance recoverable on paid losses in the proper annual statement account and corresponding Schedule F.	37
	The Company has complied with this recommendation.	
E.	Loss Funds on Deposit	
	It is recommended that the Company reclassify reinsurance recoverable on paid losses to its proper asset, “Reinsurance Recoverable On Loss and Loss Adjustment Expense Payments” and in Schedule “F” in accordance with the Annual Statement instructions.	39
	The Company has complied with this recommendation.	
F.	Losses	
	1. It is recommended that developments of reserves regarding the toxic waste, environmental, and asbestos exposures be monitored closely to detect any changes in patterns of claims frequency and severity, as soon as possible.	41
	The Company has complied with this recommendation.	
	2. It is recommended that the Company establish loss reserves in its filed Annual Statement for its share of the judgments made against it, in accordance with Section 1303 of the New York Insurance Law.	42
	The Company has complied with this recommendation.	
G.	Loss Adjustment Expenses	
	The annual statement blank, in the form prescribed by the Superintendent of Insurance of New York pursuant to Section 307 of the New York Insurance Law, requires proper segregation be maintained between the reserves for losses and loss adjustment expenses. The Company presently segregates reserves for losses and allocated loss adjustment expenses. However, it does not segregate reserves for unallocated loss adjustment expenses. It is recommended that the Group complies with this requirement with respect to reserves for unallocated loss adjustment expenses.	43

11. SUMMARY OF COMMENTS AND RECOMMENDATIONS

ITEM		PAGE NO.
A.	Management	
	i. It is recommended that the Company comply consistently with the provisions of Section 1202(a)(2) of the New York Insurance Law and adhere to the provisions of its charter.	5
	ii. It is recommended that board members who are unable or unwilling to attend meetings consistently should resign or be replaced.	6
B.	Reinsurance	
	It is recommended that the Company continue in its effort to electronically scan treaty reinsurance contracts and facultative reinsurance certificates, and that such scanned documentation be maintained in a secure central repository.	25
C.	Holding Company System	
	i It is recommended that the Company establish an effective method of monitoring its holding company filings.	27
	ii. It is recommended that inter-company agreements be submitted to the Department prior to their implementation, in accordance with the provisions of Section 1505(d)(2) and (3) of the New York Insurance Law.	27
	iii. Since indirect transactions affect the Company, it is recommended that the Company disclose these arrangements with the Department.	28
D.	Accounts and Records	
	High Deductible Policies Written in New York	
	i. The Company did not include deductible reimbursements when computing its New York corporate franchise tax. It is recommended that these amounts be included when computing the tax imposed by Section 1510 of the New York Corporate Franchise Tax law.	29
	ii. It is recommended that the Company exercise greater care when responding to the General Interrogatory.	29

ITEM		PAGE NO.
E.	Losses	
	i. It is recommended that AIG strive to improve the clarity and consistency of its actuarial analyses. Each reserve review should contain a clear summary of the estimates, separately by business segment and in total for all business segments combined.	34
	ii. It was also noted that, for some divisions, it was difficult to determine exactly what the final estimates were, since the results were not clearly presented in a uniform manner. It is recommended that the findings resulting from each reserve review be clearly presented.	34

C&I

Commerce And Industry Insurance Com
Executive Offices
70 Pine Street
New York, NY 10270
212.770.7000

212.770.________ (Direct Dial)

March 16, 2001

RECEIVED

MAR 19 2001

JOHN R. CASHIN
DEPUTY SUPERINTENDENT

Sonia Llera
Associate Insurance Examiner
Property & Casualty Bureau
Department of Insurance
25 Beaver Street
New York, N.Y. 10004

Re: Commerce and Industry Insurance Company
Report on Examination as of December 31, 1996

Dear Ms. Llera:

We are in receipt of your letter of February 9, 2001 transmitting the draft report on examination of the above-referenced Company. Please be advised that with the following comments the Company deems this report to be acceptable.

A. Management

i. The Company is currently in compliance with this provision. On occasion, unexpected resignations create vacancies. The Company endeavors to fill these vacancies in a prudent and timely fashion

ii. In the Report the Department commented on the attendance of certain Board members. It appears the Department only looked at the regularly scheduled quarterly meetings of the Board. When one takes into account the attendance of these members at the Executive Committee of the Board, the meetings attended by these Board members increases materially. The Company will take appropriate action to insure that board members discharge their fiduciary responsibilities to the Company.

B. Reinsurance

The Company has established and will continue to electronically scan all treaty reinsurance contracts and maintain them in a secured central repository. The Company will continue its efforts to electronically scan facultative reinsurance certificates and maintain them in secured repositories.

C. Holding Company System

During the course of the examination it became apparent that there was insufficient documentation to determine whether certain inter-company agreements subject to the provisions of §1505(d) had been submitted to the Department for prior non-disapproval. As noted in the report all of these agreements had been filed (or refiled) with the Department. The Company is making every effort to identify such agreements and so submit them to the Department in accordance with the requirements of §1505.

The Department has noted that certain indirect transactions affect the Company by virtue of a pooling agreement and that the Company disclose these arrangements with the Department. While we do not agree that New York law requires filing of these inter-company agreements with the New York Department, the Company understands the concern of the Department and will work with the Department to determine which indirect transactions materially affect the Company.

D. Accounts and Records

High Deductible on Policies Written in New York State

(a) The Company continues to take the position that New York law does not clearly require that deductible reimbursements be included when computing the tax imposed by §1510 of the New York Corporate Franchise Tax Law.

(b) The Company agrees to exercise greater care when responding to the annual statement general interrogatory.

E. Losses

i. The Company believes its actuarial analysis accurately depicts the liabilities of the Company. The Company agrees to consider this recommendation regarding clarity and consistency in its continuing review of the methodology used in its actuarial analysis.

Sincerely,

Joseph L. Boren
President

Robert J. Beier
Comptroller

H:\NY Exam\Ltrs 012101 C&I Insurance Co2f.doc

Respectfully submitted,

/S/
Donald Carbone
Principal Insurance Examiner

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

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

/S/
Donald Carbone

Subscribed and sworn to before me

this _____ day of _________ 2001.

Respectfully submitted,

____________/S/_____________________
Rosie Paghunasan, CFE
Senior Insurance Examiner

STATE OF CALIFORNIA)
)SS.
)
COUNTY OF LOS ANGELES)

ROSIE PAGHUNASAN, being duly sworn, deposes and says that the foregoing report submitted by her is true to the best of her knowledge and belief.

_______________/S/__________________
Rosie Paghunasan

Respectfully submitted,

__________/S/_______________________

Joseph Pires, CFE, CIE

Mississippi Insurance Examiner

STATE OF MISSISSIPPI)
)SS.
)
COUNTY OF HINDS)

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

______________/S/___________________

Joseph Pires, CFE, CIE

Appointment No. 21105

STATE OF NEW YORK
INSURANCE DEPARTMENT

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

Donald Carbone

as proper person to examine into the affairs of the

COMMERCE & INDUSTRY 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 28th *day of* March *1997*

GREGORY V. SERIO

Acting Superintendent of Insurance

(by) Deputy Superintendent