

REPORT ON EXAMINATION  
OF THE  
CONSTELLATION REINSURANCE COMPANY OF NEW YORK  
AS OF  
DECEMBER 31, 1999

DATE OF REPORT

APRIL 20, 2001

EXAMINER

ERWIN ROCA

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

April 20, 2001

Honorable Gregory Serio  
Acting Superintendent of Insurance  
Albany, New York 12257

Sir:

Pursuant to instructions contained in Appointment Number 21584 dated September 7, 2000, attached hereto, I have made an examination into the financial condition and affairs of the Constellation Reinsurance Company of New York as of December 31, 1999, and respectfully submit the following report thereon.

Wherever the terms "Constellation" or "the Company" appear herein without qualification, it should be understood to refer to Constellation Reinsurance Company of New York.

The examination was conducted at the Company's administrative office located at One Chase Manhattan Plaza, New York, New York 10005 and at Cambridge Integrated Services Group ("Cambridge"), 4B Cedar Brook Drive, Cranbury, New Jersey 08512. Cambridge is a third party administrator which provides claims processing, handling and other services to the Company.

## **1. SCOPE OF EXAMINATION**

The prior examination was conducted as of December 31, 1993. The current examination covered the six-year period from January 1, 1994 through December 31, 1999. Transactions subsequent to this period were reviewed where deemed appropriate.

The examination comprised a complete verification of assets and liabilities as of December 31, 1999, a review of income and disbursements to the extent 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 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 bond and other insurance
- Employees' welfare and pension plans
- Territory and plan of operation
- Growth of Company
- Business in force
- Loss experience
- Reinsurance
- Accounts and records
- Financial statements

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.

## 2. DESCRIPTION OF COMPANY

Constellation Reinsurance Company of New York was incorporated in the State of New York on June 1, 1977. It commenced business on July 1, of the same year. The Company, which was a wholly-owned subsidiary of the Great American Insurance Company of Cincinnati, Ohio, was sold on October 1, 1977 to Ticor 130 Inc., a subsidiary of Santa Fe Pacific Corporation.

On February 24, 1987, the Supreme Court of the State of New York issued an order placing Constellation in liquidation pursuant to Article 74 of the New York Insurance Law and appointed the Superintendent of Insurance of the State of New York as liquidator. As of that date, the Company ceased doing business as a licensed insurance company. The Company was in liquidation under the supervision of the Liquidation Bureau of the New York Insurance Department from February 24, 1987 to November 6, 1992.

On July 13, 1992, with the consent of the court, the Department approved a plan of reorganization of Constellation, terminating the liquidation and reinstating its license. On November 6, 1992, the Company, with a total capital and surplus of \$250,000, was acquired by Centre Reinsurance Holding (Delaware), Ltd., a Delaware corporation. Simultaneous with the acquisition, Centre Reinsurance Holding (Delaware) Ltd. contributed an additional \$2,250,000 to the Company's capital and surplus. By virtue of a stock purchase agreement dated November 6, 1992, the Company allocated \$2,350,000 to capital, consisting of 100,000 shares of common stocks at par value of \$23.50 per share and \$150,000 to contributed surplus. All of the issued and outstanding shares of the Company's voting common stock are presently owned by Centre Reinsurance Holding (Delaware) Ltd. Further details are set forth herein in Item 2D, "Holding Company System".

A. Management

The corporate powers of the Company are vested in a board of directors, consisting of not less than thirteen nor more than twenty members. Regular meetings of the board are held quarterly.

The minutes of all board of directors' meetings held during the examination period were reviewed. The attendance at the meetings was generally poor, with recurring absences from the same directors. The Company usually had a quorum present. However, a quorum was not present in four meetings in 1998 and two meetings in 1999. The following board members did not attend 50% of the board meetings:

Thomas R. Dickson  
 Steven Fallon  
 Scott A. Levine  
 Emanuel Pinto  
 Eileen M. Sweeney

Members of the board have a fiduciary responsibility and must evince an on-going interest in the affairs of the insurer. It is essential that board members who fail to attend meetings consistently should resign or be replaced. Therefore, it is recommended that any director who cannot attend board of directors' meetings on a regular basis should resign or be replaced.

As of December 31, 1999, the board of directors was comprised of the following thirteen members:

<u>Name and Residence</u>	<u>Principal Affiliation</u>
Patricia M. Aprill New Providence, NJ	Vice President, Centre Solutions
Thomas R. Dickson New York, NY	Senior Vice President, Centre Solutions
William Dove Princeton, NJ	Vice President, Centre Solutions

<u>Name and Residence</u>	<u>Principal Affiliation</u>
Steven Fallon New York, NY	Senior Vice President, Centre Solutions
Steven D. Germain Hastings, NY	Senior Vice President, Zurich Centre Group
Joel D. Klaassen Weston, CT	Senior Vice President, Centre Solutions
Scott A. Levine New York, NY	Chief Executive Officer, Zurich Centre Group, LLC
Frank D. Pierson Larchmont, NY	Senior Vice President, Centre Solutions
Emanuel Pinto New York, NY	Senior Vice President, Centre Solutions
Michael E. Regan Wilton, CT	Vice President, Centre Solutions
Eileen M. Sweeney New York, NY	Senior Vice President, Centre Solutions
David L. Wasserman Melville, NY	President & Chief Executive Officer, Centre Solutions
Ernest Wilson Washington Township, NJ	Vice President, Centre Solutions

The principal officers elected by the board of directors and serving as of the date of examination were as follows:

<u>Name</u>	<u>Title</u>
Frank D. Pierson	President
Patricia M. Haemmerle	Treasurer
Cynthia J. Lenkiewicz	Secretary

B. Territory and Plan of Operation

Constellation Reinsurance Company of New York is licensed to write business only in New York. The Company does not write any business since its plan of reorganization and termination of liquidation transpired in 1992.

As of the examination date and pursuant to a plan of reorganization, the Company was authorized to transact the kinds of business as defined in the following numbered paragraphs of Section 1113(a) of the New York Insurance Law:

<u>Paragraph</u>	<u>Line of Business</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
11	Animal
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
20	Marine
21	Marine protection and indemnity

It was also licensed to write such workers' compensation insurance as may be incident to coverages contemplated under paragraphs 20 and 21 of Section 1113(a) of the New York Insurance Law, including insurances described in the Longshoremen's and Harbor Workers' Compensation Act, as amended.

Based upon the lines of business for which the Company is licensed, its 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.

C. Reinsurance

In November 1992, the Company entered into a loss portfolio transfer agreement with Zurich Reinsurance (North America) Incorporated (“ZRNA”). Under this agreement, ZRNA assumed 100% of the Company’s portfolio of estimated unpaid gross claims and allocated loss adjustment expenses on all business written by the Company prior to the order of liquidation, up to a maximum of \$305 million. The agreement includes all unallocated loss adjustment expenses associated with the run-off of the Company’s obligations. The consideration for this transaction consisted of cash and invested assets of \$208 million. In addition, the Company also assigned its rights to all other retrocessional recoveries to ZRNA.

Pursuant to the expansion of limit clause of the agreement, approximately 90% of all receipts including the initial consideration and subsequent reinsurance recoveries and 100% of all claims and claim expense payments under the agreement are credited to, or deducted from, respectively, an experience account to which interest is credited at a discounted treasury rate. To the extent the expansion of limit amount exceeds the \$305 million maximum limit, the limit will be increased by that amount.

The reinsurance agreement remains in effect for an unlimited time until all rights and obligations under it have been discharged. It contains an insolvency clause that conform to the requirements of Section 1308 of the New York Insurance Law.

D. Holding Company System

On November 6, 1992, the Company was purchased by Centre Reinsurance Holdings (Delaware) Limited (“Centre”) as part of the plan of reorganization approved by this Department. Centre, a Delaware corporation, controls and directly owns the Company. Centre, together with its subsidiaries and affiliates, are engaged primarily in the business of insurance and reinsurance.

Pursuant to Section 1503 of the New York Insurance Law and Department Regulation 52, Zurich Allied AG and Allied Zurich PLC, the ultimate parent, files forms HC-1, the holding company registration statement, on behalf of the Company. All filings were in conformity with the statutory requirements.

The Company has entered into the following transactions with its parent and affiliates:

1. Investment Management Agreement

In 1998, the Company entered into an Investment Management Agreement with Scudder Kemper Investments, Inc. (“Scudder”), an affiliate. Under the terms of this agreement, Scudder manages the investment portfolios of the Company in return for a fee based on a percentage of the average total market value of the assets under management and the return on investments. All assets managed by Scudder under this Agreement are subject to approval or authorization by the Company’s board of directors.

2. Service Agreement

Under the terms of an agreement dated 1992, Centre Reinsurance Holdings Limited provides accounting and various administrative services to the Company. However, the Company retains the final authority over decisions and policies. The services are provided at cost to the Company and are

apportioned in conformity with generally accepted accounting principles and within the requirements of Section 1505(a) of the New York Insurance Law and Department Regulation No. 30 of the Department.

The Company has also entered into a service agreement with Centre Re Services. In turn, Centre Re Services entered into an agreement with Cambridge Integrated Services Group Incorporated (“Cambridge”), formerly Integrated Run-off and Insurance Services Company, dated November 6, 1992. Cambridge is to provide Constellation with claims handling and processing, and other services emanating from the Company’s Reinsurance Agreement with Zurich Reinsurance (North America), Incorporated (“ZRNA”).

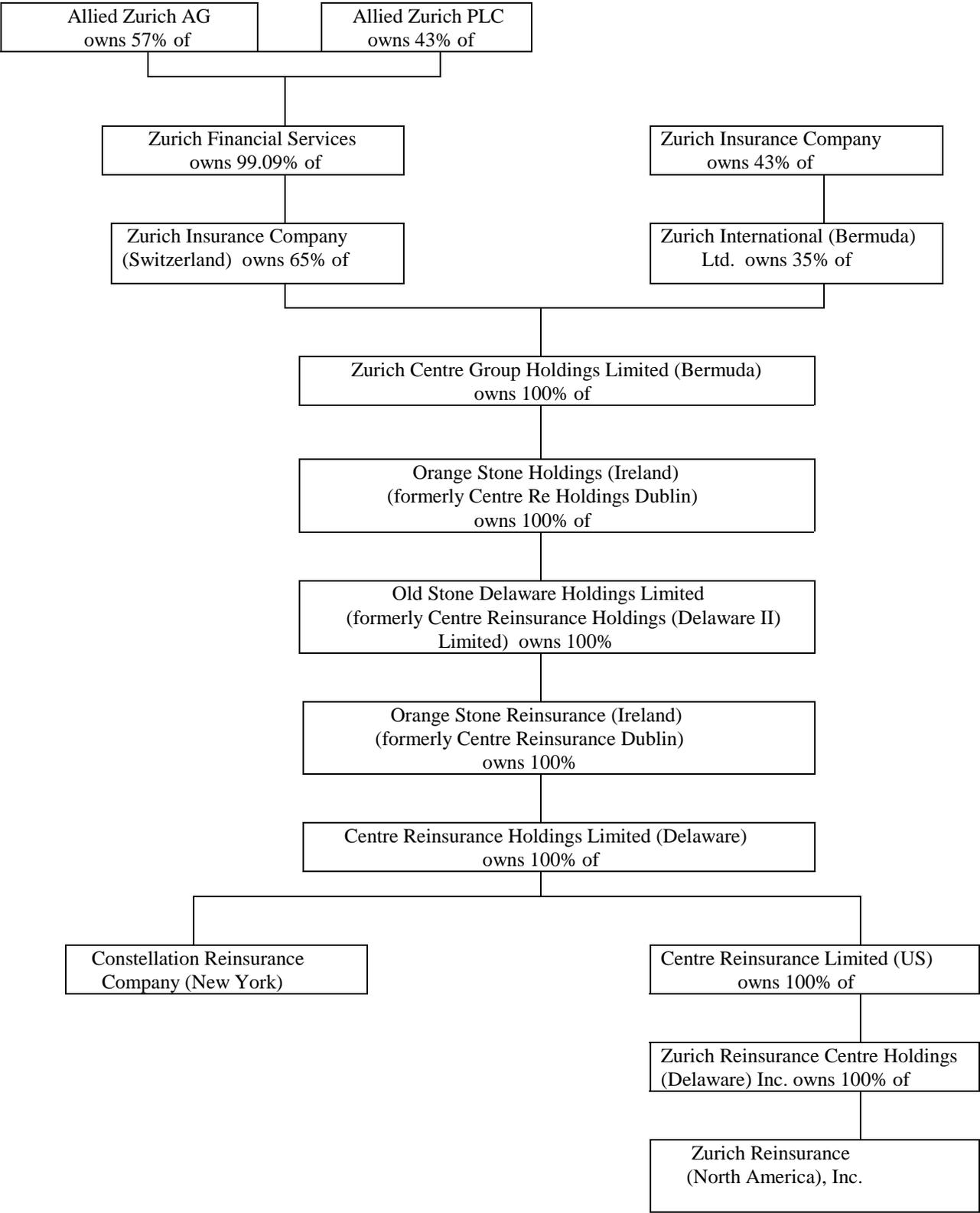
### 3. Tax Allocation Agreement

The Company participates in a consolidated income tax allocation agreement with its intermediate parent company, Old Stone Delaware Holdings Limited, formerly Centre Reinsurance Holdings (Delaware II) Limited, and its affiliates.

The agreement complies with Department Circular Letter 33 (1979), which sets forth the requirements of such agreements.

As required by Section 1505 of the New York Insurance Law, all of the agreements described above were filed with and non-disapproved by this Department.

The following is a chart depicting a segment of the holding company system:



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	N/A
Liabilities to Liquid assets (cash and invested assets less investment in affiliates)	35.11%
Premiums in course of collection to Surplus as regards policyholders	N/A

The first and third ratios shown above were not calculated due to the fact that the Company does not currently write any business. The Company's result on the second ratio is within the benchmark range established by the Insurance Regulatory Information System of the National Association of Insurance Commissioners.

Due to the fact that the Company is in run-off and cedes its losses via a loss portfolio transfer, the operating and underwriting ratios would not be meaningful and therefore, were not computed.

### 3. FINANCIAL STATEMENTS

#### A. Balance Sheet

The following schedule reflects the financial condition of the Company as of December 31, 1999 as determined by this examination. The 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>Net-Admitted Assets</u>
Bonds	\$2,552,488	\$	\$2,552,488
Cash on deposit	3,315,824		3,315,824
Interest, dividends and real estate income due and accrued	_____	<u>28,865</u>	<u>28,865</u>
Total assets	<u>\$5,868,312</u>	<u>\$28,865</u>	<u>\$5,897,177</u>

#### Liabilities

Losses and loss adjustment expenses	\$27,586,795
Federal and foreign income taxes (excluding deferred taxes)	271,946
Payable to parent, subsidiaries and affiliates	1,798,768
Zurich Reinsurance (North America), Inc. - Loss Portfolio Transfer	<u>(27,586,795)</u>
Total liabilities	<u>\$ 2,070,714</u>
Common capital stock	\$2,350,000
Gross paid in and contributed surplus	150,000
Unassigned funds (surplus)	<u>1,326,463</u>
Surplus as regards policyholders	<u>\$3,826,463</u>
Total liabilities and surplus	<u>\$5,897,177</u>

Note: The Internal Revenue Service has not conducted nor is currently conducting any audits of the consolidated income tax returns filed on behalf of the Company. 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 to policyholders increased \$1,251,328 during the six-year examination period, December 31, 1993 through December 31, 1999, detailed as follows:

Statement of Income

Underwriting Income

Premiums earned		\$	0
Deductions:			
Losses and loss adjustment expenses incurred	\$(809,936)		
Other underwriting expenses incurred	<u>1,809</u>		
Total underwriting deductions			<u>(808,127)</u>
Net underwriting gain			\$808,127

Investment Income

Net investment income earned	\$1,491,164		
Net realized capital gains	<u>8,837</u>		
Net investment gain			1,500,001

Other Income

Miscellaneous income	\$13,377		
Loss portfolio transfer	<u>(838,298)</u>		
Total other income			<u>(824,921)</u>
Net income before federal and foreign income taxes		\$	1,483,207
Federal and foreign income taxes incurred			<u>231,879</u>
Net income		<u>\$</u>	<u>1,251,328</u>

Capital and Surplus Account

Surplus as regards policyholders per report on examination, as of December 31, 1993		\$2,575,135
	<u>Gains in Surplus</u>	
Net income	\$ 1,251,328	
	_____	
Total gain	<u>\$ 1,251,328</u>	
Net increase in surplus as regards to policyholders		<u>1,251,328</u>
Surplus as regards policyholders per report on examination as of December 31, 1999		<u>\$3,826,463</u>

**4. LOSSES AND LOSS ADJUSTMENT EXPENSES**

The examination liability of \$27,586,795 is the same as the amount reported by the Company as of the examination date.

The examination analysis relied on work performed by the Company's independent accountant as well as the Company's internal actuarial studies.

The Company was purchased by Center Reinsurance Holdings Limited (Delaware) from the Department's Liquidation Bureau for the purpose of running off its insurance business. Pursuant to the reorganization plan submitted to this Department, the Company is running off its "reinsurance business," and loss payments are processed in chronological order on a quarterly basis. With the approval of the Department, the Company reports all loss activity in Schedule P – Part 1 O – Reinsurance B.

Certain data problems were noted during the course of the examination, as a result of the Company's exit from liquidation to its current ownership and the migration of data between the two computer systems. The Company has been working since 1993 to update its claim database, and believes that the current database, with reconstructed data, is a reasonably accurate base for the 1985-1999 period.

## **5. MARKET CONDUCT ACTIVITIES**

The Company is a professional reinsurer and, as such, has no direct contact with insureds.

## **6. COMMENTS WITH PRIOR REPORT ON EXAMINATION**

<u>ITEM NO.</u>	<u>PAGE NO.</u>
<p>A. As discussed in Item F, accounts and records of this report, the Company reported all loss activity in Schedule P - Part 1 Q- Reinsurance D, with the approval of the Department. It should be noted, however, that the Company's claims database is currently being updated. Accordingly, the data as reported in Schedule P was insufficient to enable the examiner to evaluate the adequacy of the Company's reserves for unpaid losses.</p> <p>The Company has been working since 1993 to update its claim database, and believes that the current database, with reconstructed data, is a reasonably accurate base for the 1985-1999 period.</p>	11
<p>B. The plan of reorganization indicates that an exact determination of Constellation's total liability would have to await the development of each claim assumed and might not occur for a period of many years. The plan is based upon the most probable estimate of Constellation's gross unpaid losses, determined actuarially by Arthur Anderson &amp; Co. as of December 31, 1990.</p> <p>The Company has been working since 1993 to update its claim database, and believes that the current database, with reconstructed data, is a reasonably accurate base for the 1985-1999 period.</p>	11

7. **SUMMARY OF COMMENTS AND RECOMMENDATIONS**

ITEM

PAGE NO.

A. Board of Directors

It is recommended that any director who cannot attend board of directors' meetings on a regular basis should resign or be replaced.

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Respectfully submitted,

\_\_\_\_\_/S/\_\_\_\_\_  
Erwin Roca,  
Senior Insurance Examiner

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

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

\_\_\_\_\_/S/\_\_\_\_\_  
Erwin Roca

Subscribed and sworn to before me

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

Appointment No 21584

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:

**Erwin Roca**

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

**Constellation Reinsurance Company**

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

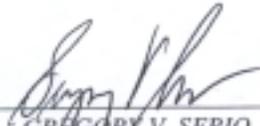
**Company**

*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