

REPORT ON EXAMINATION
OF
EVEREADY INSURANCE COMPANY
AS OF
DECEMBER 31, 1999

DATE OF REPORT

JANUARY 9, 2001

EXAMINER

JAINARINE TILAKDHARRY

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

January 9, 2001

Honorable Neil D. Levin
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 21617, dated September 26, 2000, attached hereto, I have made an examination into the conditions and affairs of the Eveready Insurance Company as of December 31, 1999 and submit the following report thereon.

The examination was conducted at the Company's home office located at 59 Maiden Lane, New York, New York 10038.

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

1. SCOPE OF EXAMINATION

The previous examination was conducted as of December 31, 1995. This examination covers the four-year period from January 1, 1996 through December 31, 1999, and was limited in its scope to a review or audit of only those balance sheet items considered by this Department to require analysis, verification or description, including: invested assets, inter-company balances, loss and loss adjustment expense reserves and provision for reinsurance. The examination included a review of income, disbursements and company records deemed necessary to accomplish such analysis or verification and utilized, to the extent considered appropriate, work performed by the Company's independent certified public accountants. A review or audit was also made of the following items as called for in the Examiners Handbook of the National Association of Insurance Commissioners:

- History of Company
- Management and control
- Corporate records
- Fidelity bonds, other insurance and pension plans
- Territory and plan of operation
- Market conduct activities
- Growth of Company
- Business in force
- Loss experience
- Reinsurance
- Accounts and records
- Financial statements

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

Transactions made subsequent to this period were reviewed where deemed appropriate by the examiner. This report on examination is confined to financial statements and comments on those matters

which involve departures from laws, regulations or rules, or which are deemed to require explanation or description.

2. DESCRIPTION OF COMPANY

The Company was incorporated under the laws of the State of New York on August 8, 1963 and became licensed to transact insurance business effective May 1, 1965.

At the date of this examination, the capital of the Company was \$350,000 consisting of 700,000 shares with a par value of \$.50 per share. Gross paid in and contributed surplus amounted to \$490,000 at December 31, 1999.

A. Management

Pursuant to the Company's charter and by-laws, management of the Company is vested in a board of directors consisting of not less than thirteen members. As of the examination date, the board of directors was comprised of thirteen members. The board met at least four times during each calendar year during the examination period.

The Company's directors as of December 31, 1999 were as follows:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Abraham Baum Mexico City, Mexico	Entrepreneur
Gudelio Friedstadt Mexico City, Mexico	Entrepreneur
Herbert Futoran Woodbury, NY	Attorney of Record and Vice President, Eveready Insurance Company
Jeffrey Futoran Woodbury, NY	Lawyer
Roni Futoran Woodbury, NY	Science Teacher
Malcolm Robinson Manhasset, NY	Manager, Wallace Brokerage Corporation
William Silverman Brooklyn, NY	Retired
Alan Wollerstein Dix Hills, NY	Attorney of Record and Vice President, Eveready Insurance Company
Irene Wollerstein New York, NY	Artist
Isidore Wollerstein New York, NY	Chairman of the Board of Directors and President, Eveready Insurance Company
Marc Wollerstein Roslyn, NY	Secretary and Vice President, Eveready Insurance Company
Neil Wollerstein Dix Hills, NY	Attorney, Legal Aid Society
Howard Wong Riverdale, NJ	Treasurer and Assistant Secretary, Eveready Insurance Company

The minutes of all meetings of the board of directors held during the examination period were reviewed. All meetings were well attended overall by each member except for one board member. This board member died in 1999. His poor attendance was also noted in prior reports on examination.

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

As of December 31, 1999, the principal officers of the Company were:

<u>Name</u>	<u>Title</u>
Isidore Wollerstein	Chairman of the Board and President
Alan Wollerstein	Vice President
Herbert Futoran	Vice President
Howard Wong	Treasurer and Assistant Secretary
Marc Wollerstein	Secretary and Vice President

B. Territory and Plan of Operation

At December 31, 1999, the Company was licensed to do business in New York State only.

The following schedule shows the Company's direct premiums written in New York State during the period of the examination:

<u>Calendar Year</u>	<u>Direct Premiums Written</u>
1996	\$15,994,483
1997	\$15,311,928
1998	\$15,364,700
1999	\$16,542,607

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

<u>Paragraph</u>	<u>Line of Business</u>
13	Personal injury liability
14	Property damage liability
19	Motor vehicle and aircraft physical damage

All business is generated through brokers. Based on the lines of business for which the Company is licensed, and the Company's current structure, and pursuant to the requirements of Articles 14 and 41 of the New York Insurance Law, Eveready Insurance Company is required to maintain a minimum surplus to policyholders in the amount of \$350,000.

C. Reinsurance

The Company did not assume any reinsurance during the four-year period of this examination.

The data contained in Schedule F of the Company's annual statements filed for the years within the examination period were found to accurately reflect its reinsurance transactions.

The reinsurance contract effected during the examination period was reviewed and was found to contain the necessary clauses required by statute, including the insolvency clause required by Section 1308 of the New York Insurance Law.

The Company had the following ceded reinsurance program in effect at December 31, 1999:

<u>Line of Business</u>	<u>Type of Cession</u>	<u>Limits</u>
Personal automobile bodily injury liability, personal uninsured and underinsured motorists coverages and personal automobile personal injury protection 100% authorized	Quota share	50% of \$100,000 retention, each occurrence.
Personal automobile property damage liability 100% authorized	Quota share	50% of \$100,000 retention, each occurrence.
Automobile physical damage liability 100% authorized	Excess of loss	\$75,000 excess of \$15,000, each occurrence.
Automobile bodily injury liability 100% authorized	Excess of loss	\$900,000 excess of \$100,000, each occurrence.
Automobile property damage liability 100% authorized	Excess of loss	\$900,000 excess of \$100,000, each occurrence.
Automobile liability combined single limit bodily injury 100% authorized	Excess of loss	\$900,000 excess of \$100,000, each occurrence.
Automobile liability combined single property damage 100% authorized	Excess of loss	\$900,000 excess of \$100,000, each occurrence.
Uninsured and underinsured motorists coverages 100% authorized	Excess of loss	\$200,000 excess of \$100,000, each occurrence.

<u>Line of Business</u>	<u>Type of Cession</u>	<u>Limits</u>
Automobile personal injury protection 100% authorized	Excess of loss	\$900,000 excess of \$100,000, each occurrence.
Other bodily injury liability 100% authorized	Excess of loss	\$900,000 excess of \$100,000, each occurrence.
Property damage liability 100% authorized	Excess of loss	\$900,000 excess of \$100,000, each occurrence.
Other liability combined single limit bodily injury 100% authorized	Excess of loss	\$900,000 excess of \$100,000, each occurrence.
Other liability combined single limit property damage 100% authorized	Excess of loss	\$900,000 excess of \$100,000, each occurrence.
Combination retention cover on automobile bodily injury liability, uninsured and underinsured motorists coverages and automobile personal injury protection 100% authorized	Excess of loss	The difference between the sum of the separate company retentions on the classes of business involved and the company retention for this combination retention cover.
Automobile physical damage 100% authorized	Catastrophe excess of loss	95% of \$400,000 excess of \$100,000 ultimate net loss but not exceeding 95% of \$800,000 with respect to all loss events commencing during the term.

It was noted that the contract described above provided for a ceded commission rate of 38.5%. This ceded commission rate provided approximately \$500,000 in surplus aid as of the date of this examination, and caused the Company to score outside the benchmark range on the IRIS ratio “Surplus aid to Surplus”. Users of the Company’s financial statement should be aware of the possible distinctive effect of this on the Company’s reported surplus.

The Company did not perform a cash flow analysis to show that there was transfer of risk to the reinsurer on this reinsurance contract. The Company provided a memorandum, which was obtained from the reinsurer, stating that the contract transferred risk.

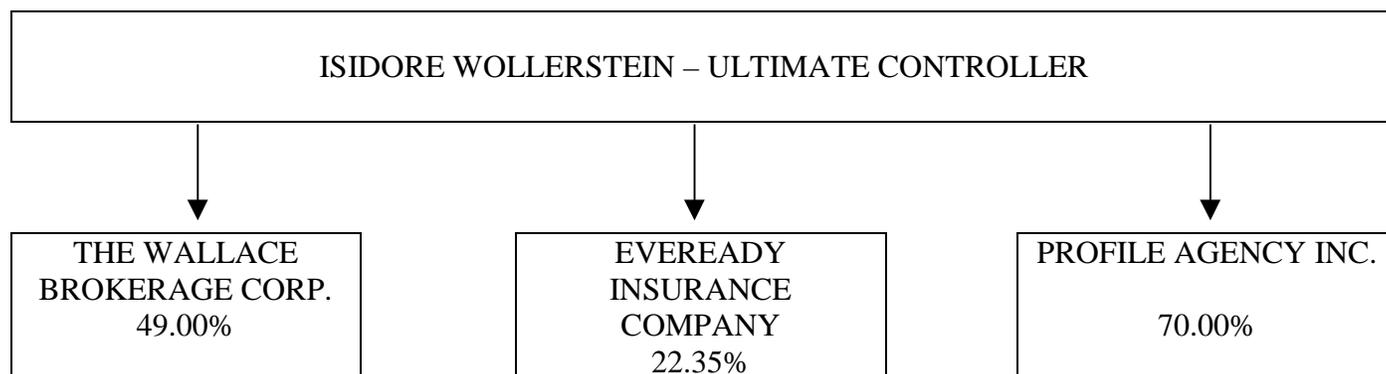
It's recommended that the Company maintain appropriate documentation that demonstrates that its reinsurance agreement transfer risk in accordance with Chapter 22 of the National Association of Insurance Commissioners' ("NAIC") Accounting Practices and Procedures Manual.

D. Holding Company System

Isidore Wollerstein has been deemed the ultimate controlling person of Eveready Insurance Company by reason of his ownership of 22.35% of Eveready's common stock. Mr. Wollerstein is also the controlling person of Wallace Brokerage Corporation and Profile Agency Incorporated. Mr. Wollerstein, together with the three controlled entities, constitutes a holding company system as defined in Section 1501(a)(6) of the New York Insurance Law.

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

The following chart depicts the Company's position within the Holding Company System:



E. Significant Operating Ratios

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

Net premiums written in 1999 to Surplus as regards policyholders	1.95 to 1
Liabilities to Liquid assets (cash and invested assets less investments in affiliates)	102.06%
Premiums in course of collection to surplus as regards policyholders	22.12%

The above ratios fall within the benchmark ranges set forth in the Insurance Regulatory Information System of the National Association of Insurance Commissioners.

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

	<u>Amounts</u>	<u>Ratios</u>
Losses incurred	\$22,621,571	53.89%
Loss adjustment expenses incurred	7,401,448	17.63
Other underwriting expenses incurred	15,055,394	35.87
Net underwriting loss	<u>(3,101,122)</u>	<u>(7.39)</u>
Premiums earned	<u>\$41,977,291</u>	<u>100.00%</u>

F. Abandoned Property Law

It was noted that the Company did file abandoned property reports with the Office of the Comptroller of the State of New York during the examination period as required by Section 1316 of the Abandoned Property Law.

3. FINANCIAL STATEMENTS

A. Balance Sheet

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

<u>Assets</u>	<u>Ledger</u> <u>Assets</u>	<u>Non-Ledger</u> <u>Assets</u>	<u>Not-admitted</u> <u>Assets</u>	<u>Admitted</u> <u>Assets</u>
Bonds	\$12,778,170			\$12,778,170
Stocks: Preferred stocks	307,000	(27,626)		279,374
Common stocks	331,919	299,278		631,197
Cash and short-term investments	802,545			802,545
Premiums and agents' balances in course of collection	1,266,494		331,406	935,088
Premiums and agents' balances and installments booked but deferred and not yet due	3,933,432			3,933,432
Reinsurance recoverable on loss and loss adjustment expense payments	988,288			988,288
Electronic data processing equipment	37,497			37,497
Interest, and dividends due and accrued	148,469			148,469
Furniture, equipment and supplies	935		935	
Deposits with bureaus	<u>3,300</u>	<u> </u>	<u>3,300</u>	<u> </u>
Total assets	<u>\$20,598,049</u>	<u>\$271,652</u>	<u>\$335,641</u>	<u>\$20,534,060</u>

Liabilities

Losses	\$6,884,415
Loss adjustment expenses	1,728,000
Taxes, licenses and fees	31,899
Other expenses	32,566
Unearned premiums	<u>6,113,387</u>
Total liabilities	<u>\$14,790,267</u>

Surplus and Other Funds

Common capital stock	\$350,000
Gross paid in and contributed surplus	490,000
Unassigned funds	<u>4,903,793</u>
Surplus as regards policyholders	<u>\$5,743,793</u>
Total liabilities, surplus and other funds	<u>\$20,534,060</u>

Note: The Company has never been audited by the Internal Revenue Service. Any potential exposure of the Company to any income tax assessment that may arise as a result of an IRS audit has not been established herein.

B. Underwriting and Investment Exhibit

Surplus as regards policyholders increased \$1,957,347, during the four-year examination period, January 1, 1996 through December 31, 1999, and is detailed as follows:

Statement of Income

Underwriting Income

Premiums earned \$41,977,291

Deductions:

Losses incurred \$22,621,571
Loss adjustment expenses incurred 7,401,448
Other underwriting expenses incurred 15,055,394

Total underwriting deductions 45,078,413

Net underwriting loss \$(3,101,122)

Investment Income

Net investment income earned \$3,607,094
Net realized capital gains 89,367

Net investment gain 3,696,461

Other Income

Finance charges not included in premiums \$1,824,468
Agents' balances charged off (433,150)
Miscellaneous income 192,385

Total other income 1,583,703

Net income before federal income taxes \$2,179,042

Federal income taxes incurred 241,484

Net income \$1,937,558

Capital and Surplus Accounts

Surplus as regards policyholders December 31, 1995, per report on examination			\$3,786,445
	<u>Gain in Surplus</u>	<u>Losses in Surplus</u>	
Net income	\$1,937,558		
Net unrealized capital gains	331,589		
Change in non admitted assets	767,222		
Dividends to stockholders		1,011,500	
Miscellaneous losses in surplus	—————	<u>67,552</u>	
Total gain and losses	<u>\$3,036,369</u>	<u>\$1,079,022</u>	
Net increased in surplus as regards policyholders			<u>1,957,347</u>
Surplus as regards policyholders December 31, 1999, per report on examination			<u>\$5,743,792</u>

4. LOSSES

The examination liability of \$6,884,415 is the same as the amount reported by the Company as of December 31, 1999. The examination analysis was conducted in accordance with generally accepted actuarial principles and practices and was based on statistical information contained in the Company's internal records and its filed annual statements.

5. LOSS ADJUSTMENT EXPENSES

The examination liability of \$1,728,000 is the same as the amount reported by the Company as of December 31, 1999. The examination analysis was conducted in accordance with generally accepted actuarial principles and practices and was based on statistical information contained in the Company's internal records and its filed annual statements.

6. MARKET CONDUCT ACTIVITIES

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

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

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

No problem areas were encountered.

7. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination as of December 31, 1995, contained comments and recommendations as follows (page numbers refer to prior report):

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Attendance at Board of Directors' Meetings</u>	
It was recommended that the board members who are unwilling or unable to attend meetings consistently should be asked to resign or be replaced.	3
The Company did not comply with this recommendation and this is reiterated herein.	
B. <u>Election of Board Members</u>	
It was recommended that the board formally recognize the election of all Board members not previously included in the minutes and that the election of all new directors in the future be properly recorded.	3-4
The Company has complied with this recommendation.	
C. <u>Records on Reinsurance Program</u>	
It was recommended that the Company maintain pertinent records relating to its reinsurance program.	6
The Company has complied with this recommendation.	

ITEM

PAGE NO.

D. Salvage and Subrogation

It was recommended that the Company properly reflect salvage and subrogation not yet received in accordance with the annual statement instructions in its future filed annual statements.

10

The Company has complied with this recommendation.

E. Reinsurance Recoverable on Loss and Loss Adjustment Expense Payments

It was recommended that the Company report all Reinsurance recoverable on paid loss and loss adjustment expenses as a separate asset on the balance sheet in its filed annual statements.

10

The Company has complied with this recommendation.

F. Agents' Balances or Uncollected Premiums

It was recommended that the Company maintain adequate aging schedules for agents' balances that will enable the Department to determine if premiums are more than 90 days past due.

10

The Company has complied with this recommendation.

G. Expense Allocation

It was recommended that the Company comply with Department Regulation 30 and maintain details of all expense allocations.

11

The Company has complied with this recommendation.

H. Authorized Signatures

It was recommended that the Company establish a threshold above which all checks must be endorsed by at least two officers and that all checks be kept in a secure place to prevent unauthorized use.

11

The board of directors passed a resolution that requires checks of five thousand dollars or more to be signed by two officers.

I. Accountants Report

It was recommended that the Company submit its audited accountants' report, along with an evaluation of the Company's accounting procedures and internal control system, no later than June 1 of each year as required by Section 307(b)(1) of the New York Insurance Law.

11

The Company has complied with this recommendation.

J. Abandoned Property Law

It was recommended that the Company comply with Section 1316 of the New York Abandoned Property Law. 12

The Company has complied with this recommendation.

K. Fidelity Bond

It was recommended that the Company maintain the proper fidelity bond insurance coverage. 12

The Company has complied with this recommendation.

8. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>	<u>PAGE NO.</u>
A. It is recommended that the board members who are unwilling or unable to attend meetings consistently should be asked to resign or be replaced.	5
B. It is recommended that the Company maintain appropriate documentation that demonstrates that its reinsurance agreement transfer risk in accordance with Chapter 22 of the National Association of Insurance Commissioners' ("NAIC") Accounting Practices and Procedures Manual.	9

Respectfully submitted,

"/s/"
Jainarine Tilakdharry
Senior Insurance Examiner

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

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

"/s/"
Jainarine Tilakdharry

Subscribed and sworn to before me
this 18th day of January 2001.

JOSE T. GUESON
Notary Public, State of New York
No. 41-4951406
Qualified in Queens County
Commission Expires May 22, 1920

STATE OF NEW YORK
INSURANCE DEPARTMENT

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

Jainarine Tilakdharry

as proper person to examine into the affairs of the

Eveready Insurance Company

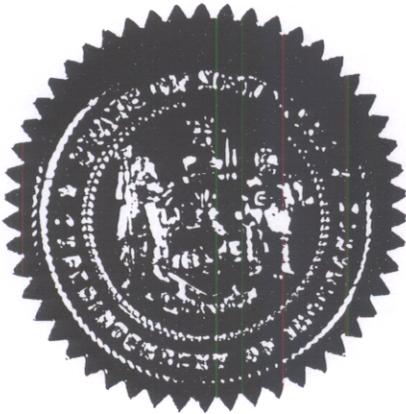
and to make a report to me in writing of the condition of the said

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 26th day of September, 2000



"S"

GREGORY V. SERIO
First Deputy Superintendent of Insurance