

REPORT ON EXAMINATION
OF THE
EXCISE BOND UNDERWRITERS
AS OF
NOVEMBER 30, 1999

DATE OF REPORT
EXAMINER

NOVEMBER 8, 2000
DEBORAH SEXTON

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

November 8, 2000

Honorable Neil Levin
Superintendent of Insurance
Albany, New York 12257

Sir:

Pursuant to instructions contained in Appointment Number 21608 dated September 7, 2000, attached hereto, I have made an examination into the condition and affairs of the Excise Bond Underwriters located at 100 William Street, New York, 10038 as of November 30, 1999 and respectfully submit the following report thereon.

Where the terms "the Underwriters" or "the Company" appear herein without qualification, they should be understood to indicate Excise Bond Underwriters.

1. SCOPE OF EXAMINATION

The prior examination was conducted as of November 30, 1994. This examination covers the period from December 1, 1994 through November 30, 1999. Transactions and developments occurring subsequent to this period were reviewed where deemed appropriate.

The examination comprised a complete verification of assets and liabilities as of November 30, 1999, 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:

- History of the Underwriters
- Management and control
- Underwriters' accounts and records
- Fidelity bond and other insurance
- Employees' welfare and pension plans
- Territory and plan of operation
- Growth of the Underwriters
- Business in force
- Loss experience
- Treatment of bondholders and claimants

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 UNDERWRITERS

The Excise Bond Underwriters is an unincorporated association formed by stock casualty and surety insurers for the purpose of pooling operations. Business includes the reinsurance of losses, arising from the issuance of excise bonds required by the New York State Liquor Authority in connection with the manufacture, transportation or sale of alcoholic beverages.

A. Management

The Underwriters operate under the provisions of an Amended Excise Reinsurance Agreement of May 1, 1968, which provides for an Executive Committee of seven members. The functions of the committee are analogous to a corporate board of directors. Meetings are held twice a year. The members of the Executive Committee are selected by the members of the pool at a triennial meeting to serve for a term of three years.

Members of the Executive Committee as of November 30, 1999 were:

Federal Insurance Company
 Fidelity & Deposit Company of Maryland
 Great American Insurance Company
 Hanover Insurance Company
 Insurance Company of North America
 Seaboard Surety Company
 United States Fidelity & Guaranty Company

At November 30, 1999, the officers of the Underwriters were as follows:

<u>Name</u>	<u>Title</u>
John L. Comeau	Vice President
Efthymia Tsoukalas	Assistant Vice President
John L. Comeau	Treasurer
Jonathan Weinrich	Counsel

On June 26, 1978, the Underwriters became a subscribing member of Affiliated Reinsurance Associations (AreA), a non-profit, non-incorporated organization established for the purpose of administration of all matters which involve its members. The functions performed by AreA consist of administrative and staff services and related activities necessary for efficient operations of all its members. Excluded from these functions are specific policy determinations and operations of each member as provided in the agreement subscribed to by each member. AreA functions include employment of all personnel, payment of general expenses, leasing of office facilities and equipment, and custodianship of necessary files and records. As of November 30, 1999, other members of AreA were as follows:

Registered Mail Insurance Association
Workers' Compensation Reinsurance Bureau
Railroad Insurance Underwriters

B. Territory and Plan of Operation

Business is acquired from agents and brokers located throughout the State of New York, and is directly written by the Underwriters at its home office. The Underwriters seek recovery from bond holding licensees for all claims paid to the State Liquor Authority on their behalf.

C. Amended Excise Reinsurance Agreement of May 1, 1968

In accordance with the terms of this agreement, the member companies of Excise Bond Underwriters agreed to reinsure each other upon all excise bonds (bonds required by the State of New York in connection with the manufacture, transportation or sale of alcoholic beverages) executed by any member company. At November 30, 1999, the member companies and their percentage of participation in the Underwriters were as follows:

<u>Member</u>	<u>Percentage</u>
Federal Insurance Company	12.490%
Fidelity & Deposit Company of Maryland	16.649
Great American Insurance Company	12.490
Hanover Insurance Company	20.908
Insurance Company of North America	12.490
Seaboard Surety Company	8.324
United States Fidelity & Guaranty Company	<u>16.649</u>
Total	<u>100.000%</u>

Distributions of earnings were made to member companies during 1995, 1996, 1997, 1998 and 1999.

D. Significant Operating Ratios

Based upon the results of this examination, the following ratios have been computed as of November 30, 1999.

Net premiums written to Members' equity	1.68 to 1
Liabilities to Liquid assets	85.6%
Premiums in course of collection to members' equity	19%

The above ratios fall within the benchmark ranges established 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 five-year period covered by this examination:

	<u>Amounts</u>	<u>Ratios</u>
Losses incurred	\$ 700.395	15.65%
Loss adjustment expenses incurred	675.555	15.09
Other underwriting expenses	3.194.160	71.37
Net underwriting gain (loss)	<u>(94.521)</u>	<u>(2.11)</u>
Premiums earned	<u>\$ 4.475.589</u>	<u>100.00%</u>

3. FINANCIAL STATEMENTS

A. Statement of Assets and Liabilities

The following sets forth the assets and liabilities at November 30, 1999 as established by this examination and as set forth by the Underwriters in its 1999 fiscal year-end financial report:

	<u>Ledger Assets</u>	<u>Non-Ledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
MFS Mutual Fund	\$ 1,255,000			\$ 1,255,000
Cash on hand and on deposit	59,733			59,733
Premiums and agents' balances in course of collection	57,158	\$ 675		57,833
Special deposit-post office	300			300
Advance to affiliated reinsurance	55,000			55,000
Interest income due and accrued		5,818		5,818
Equipment, furniture and supplies loss	1,826		1,826	
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 1,429,017</u>	<u>\$ 6,493</u>	<u>\$ 1,826</u>	<u>\$ 1,433,684</u>

Liabilities

Losses	\$	49,001
Loss adjustment expenses		56,076
Taxes, licenses and fees		1,779
Unearned premiums		947,871
Other expenses (payable to parent)		<u>70,761</u>
Total liabilities	\$	1,125,488
Members' Equity		<u>308,196</u>
Total liabilities and members' equity	\$	<u><u>1,433,684</u></u>

NOTE: The Company is a not-for-profit association and is not required to file a federal income tax return.

Underwriting and Investment Exhibit

Members' equity decreased \$(292,272) during the five year examination, December 1, 1994 through November 30, 1999, detailed as follows:

Statement of IncomeUnderwriting Income

Premiums earned		\$4,475,589
Deductions:		
Losses and loss adjustment expenses incurred	\$ 1,375,950	
Other underwriting expenses incurred	<u>3,194,160</u>	
Total underwriting deductions		<u>4,570,110</u>
Net operating loss		\$ (94,521)

Investment Income

Net investment income earned		501,001
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Other income

Other income	\$ 1,802	
Net loss on agents' balances charged off	(124)	
Service charges	<u>16,371</u>	
Total other income		<u>18,049</u>
Net income		<u>\$ 424,529</u>

Members' Equity

Members' Equity November 30, 1994 per report on examination			\$600,468
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income	\$424,529		
Distributions to member companies		\$700,000	
Change in not admitted assets	8,681		
Dissolution of Fidelity Casualty		63,491	
Purchase of additional Hanover shares	38,009		
Total gains and losses	<u>471,219</u>	<u>763,491</u>	
Net decrease in Members' Equity			<u>(292,272)</u>
Members' equity, November 30, 1999 per report on examination			<u>\$308,196</u>

4. ACCOUNTS AND RECORDS

A. Investments

During the five-year exam period, the Company had invested primarily in U.S. Treasury notes. As of November 30, 1999 all notes had matured. As of November 30, 1999, the Company's sole investment was a Government Security Mutual Fund. According to Section 1414 of the New York Insurance Law, investments that are not amortized are to be carried at market value. The Company reported this investment at cost in its financial statement even though the market value of this investment had decreased since the time of purchase. No change was made to the financial section of this report, due to immateriality.

It is recommended that the Company report its investments according to Section 1414 of the New York State Insurance Law.

B. Prepaid Expenses

The Company has historically advanced an amount to its management company, Affiliated Reinsurance Association, to be used to pay future expenses. Such advanced amounts approximate quarterly costs incurred by AreA on behalf of the Company. The Company reported such advances totaling \$55,000 as an admitted asset at November 30, 1999. According to Section 1302(a)(2) of the New York Insurance Law, an insurer may not report prepaid expenses as an admitted asset.

Since the Company operates as an association, whose principal function is to writer liquor liability excise bonds in the State of New York on behalf of its member insurance companies, and the prepaid expense amount was not material, no change was made to the examination financial statements of this report.

However, it is recommended that the Company be mindful of the statutory prohibition of prepaid expenses as an admitted asset, pursuant Section 1302(a) of the New York Insurance Law, should such amounts become a material percentage of its balance sheet.

5. MARKET CONDUCT

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

Excise Bond Underwriters accepts all applications for beer, liquor and permit excise bonds. Since all applications are accepted, there is no underwriting function to be performed. Claims are paid only to the State Liquor Authority when that body fines bondholders. Therefore, claims processing functions common to most insurance companies are not performed by the Underwriters. Bonds are sold through brokers and the Underwriters' advertisements are aimed at them. Rates charged are the same within each class of bonds.

The examination review found no violations of the New York Insurance Law or Department Regulations.

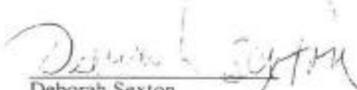
6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination did not contain any recommendations.

7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

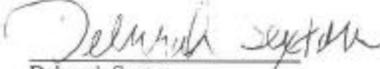
<u>ITEM</u>	<u>PAGE NO</u>
A. <u>ACCOUNTS AND RECORDS</u>	
1. As of November 30, 1999, the Company had, as its sole investment, an investment in a Government Security Mutual Fund. Investments that are not amortized are to be carried at market value. The Company reported this investment at cost in its financial statement even though the market value of this investment had decreased since the time of purchase. No change was made to the financial section of this report, due to immateriality.	11
It is recommended that the Company report its investments according to Section 1414 of the New York State Insurance Law.	
2. It's recommended that the Company be mindful of the statutory prohibition of prepaid expenses as an admitted asset, pursuant to Section 1302(a) of the New York Insurance Law, should such amounts become a material percentage of its balance sheet.	12

Respectfully submitted,


Deborah Sexton
Senior Insurance Examiner

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

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


Deborah Sexton

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, 2001

Appointment No 21583

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:

Deborah Sexton

as proper person to examine into the affairs of the

Excise Bond Underwriters

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

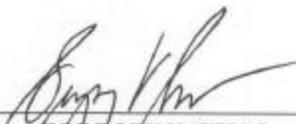
Underwriters

with such other information as she 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