

REPORT ON EXAMINATION  
OF THE  
GOLDSTREET INSURANCE COMPANY  
(Formerly Goldstreet Syndicate)  
AS OF  
DECEMBER 31, 1999

DATE OF REPORT

JUNE 1, 2001

EXAMINER

MARC H. BRUCKSTEIN

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

June 1, 2001

Honorable Gregory V. Serio  
Superintendent of Insurance  
Albany, New York 12257

Sir:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Letter 21658, attached hereto, I have made an examination into the condition and affairs of the Goldstreet Insurance Company as of December 31, 1999, and respectfully submit the following report thereon.

Whenever the term "Company" appears herein without qualification, it should be understood to refer to Goldstreet Insurance Company. Whenever the term "Parent" appears herein, without qualification, it should be understood to refer to Sequa Corporation. Whenever the term "Department" appears herein, without qualification, it should be understood to refer to the New York Insurance Department.

## **1. SCOPE OF EXAMINATION**

The prior examination was an organization examination, which was conducted as of July 17, 1996, upon the organization of the Company. This examination covered the period from July 18, 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 the 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.

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.

The examination was conducted at the office of Chilington International Inc., the Company's manager, at One Bethany Road, Hazlet, New Jersey.

## **2. DESCRIPTION OF COMPANY**

Goldstreet Insurance Company (formerly Goldstreet Syndicate) was incorporated in New York State in March 1996. It was formed and licensed to assume all of the assets, liabilities and obligations of Goldstreet Syndicate Corporation (the "Syndicate") through a transfer and assumption agreement. This transfer was made to facilitate the closure of the New York Insurance Exchange ("Exchange") which had entered into liquidation effective September 30, 1996. The Syndicate was dissolved in October 1996.

Ownership of the Company (Sequa Corporation 70.18% and Republic Insurance Company 29.82%) remained the same as that of the Syndicate.

Goldstreet Insurance Company's business consists of the runoff of assumed reinsurance business from the dissolved Goldstreet Syndicate. The business consisted of assumed reinsurance treaties and facultative certificates for calendar years 1987 and prior.

On July 17, 1997, the New York Insurance Department approved Goldstreet Insurance Company's purchase of 3,000 shares of its outstanding common stock for a consideration of \$3,000,000 from the Company's two shareholders in amounts proportional to their ownership interest in the Company. The source of the funds for the \$3,000,000 came from the sale of short-term securities held by the Company.

Pursuant to its charter, the Company's authorized capital consists of 10,000 shares of \$100 par value per share common stock, of which 4,912.6 are issued to Sequa Corporation, 2,087.4 are issued to Republic Insurance Company and 3,000 shares are issued to the Company as treasury stock.

The New York Insurance Exchange ceased writing business effective December 1991. Pursuant to the requirements of the Constitution and By-Laws of the Exchange and Insurance Laws of the State of New York, the Company, as well as all other Exchange underwriting members were each contingently liable for up to a maximum of \$500,000, for the unpaid contractual obligations of underwriting members who were found to be insolvent.

A hearing was held on October 29, 1998, where the Superintendent of Insurance of New York State presented his report and the status of the liquidation of the New York Insurance Exchange to the

Supreme Court of New York State. After the report was confirmed and approved, the liquidator paid the general creditors' claims (in full with interest) and the tax liability. The remaining assets were then distributed, pro-rata, to the subvention certificate holders.

Goldstreet Insurance Company had two subvention certificates for a total of \$250,000, which had been reported as not admitted assets on the Company's balance sheet since inception of the Company in 1996. Goldstreet's share from the total two subvention certificates was \$41,925, which was received on June 16, 1999. The liquidation of the Exchange was closed by the Superintendent, thereby releasing the Company of any and all of their obligations.

A. Management

Pursuant to the Company's charter and by-laws, management is vested in a board of directors consisting of not less than thirteen members and no more than nineteen members.

As of December 31, 1999, the Company's board of directors consisted of the following thirteen members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Monte Adlman Larchmont, New York	Vice President, Sequa Corporation
Jesse Battino Upper Saddle River, New Jersey	Vice President, Sequa Corporation.
Robert D. Devito Lincoln, New Jersey	Assistant Controller, Sequa Corporation
Kenneth A. Drucker Weston, Connecticut	Vice President & Treasurer, Sequa Corporation

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Michael Gurrieri Hartsdale, New York	Corporate Claims Manager, Sequa Corporation
Gerald S. Gutterman Mt. Vernon, New York	Vice President Finance, Sequa Corporation
William P. Ksiazek Jr. New City, New York	Corporate Vice President & Controller, Sequa Corporation
Linda G. Kyriakou Rocky Point, New York	Vice President, Sequa Corporation
James P. Langelotti North Salem, New York	Director, Treasurer, Sequa Corporation
Richard H. McMahon New York, New York	Director, Sequa Corporation
John J. Van Decker Passaic, New Jersey	Director, Corporate Accounting, Sequa Corporation
Ellen Wiese Brooklyn, New York	Director, Risk Management, Sequa Corporation
Donald H. Wustrow Aberdeen, New Jersey	Executive Vice President, Chiltington International Inc.

The minutes of the meetings held during the examination period by the Company's board of directors and committees thereof were reviewed. The Company could not provide any documentation that indicated that meetings were held during calendar years 1997, 1999 and 2000. This appears to be in violation of the Section 7 of the Company's by-laws, which states that regular meetings of the board of directors shall be held at least four times annually.

It is recommended that the Company comply with its by-laws and the board should have at least four regular meetings annually.

For the meetings that were held during the examination period, the following directors failed to attend at least one-half of the meetings that they were eligible to attend:

Monte Adlman	William Ksiazek, Jr.
Thomas Basil	Linda Kyriakou
Robert Devito	James Langelotti
Michael Gurerieri	Richard McMahon
Jenny Kade	J. Van Decker

Board members have a fiduciary responsibility and must evince an ongoing 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 the board may reach appropriate decisions. Individuals who fail to attend meetings on a consistent basis do not fulfill such responsibility. Board members who are unable or unwilling to attend meetings consistently should resign or be replaced.

Section 1411(a) of the New York Insurance Law provides as follows:

“No domestic insurer shall make any loan or investment...unless authorized or approved by its board of directors or a committee thereof responsible for supervising or making such investment or loan. The committee’s minutes shall be recorded and a report submitted to the board of directors at its next meeting.”

Based on an examination review of the board minutes provided by the Company, it did not appear that the board of directors was complying with the aforementioned section of the Insurance Law. It is recommended that the Company comply with the provisions of Section 1411(a) of the New York Insurance Law.

In its response to General Interrogatory 9(c) of its 1999 filed annual statement, the Company erroneously indicated that it had established procedures for disclosures on conflicts of interest. It was noted that such policies were instituted subsequent to the date of this examination.

The following were the principal officers of the Company on December 31, 1999:

<u>Name</u>	<u>Title</u>
Kenneth A. Drucker	President
James P. Langelotti	Treasurer & Vice President
Ellen Wiese	Secretary & Vice President
Gerarld S. Gutterman	Vice President
William P Ksiazek Jr.	Vice President

The Company has no employees of their own. Since September 5, 1995, the Company's operations have been serviced by Chiltington International Inc. ("Chiltington") via a service agreement. Chiltington conducts the daily operations of the Company at its office located in Hazlet, New Jersey.

B. Territory and Plan of Operation

Goldstreet Insurance Company is licensed only in New York State to write insurance business. However, the Company was organized to accept only the runoff of assumed business from the dissolved Goldstreet Syndicate. Pursuant to Section 1203 of the New York Insurance Law, Goldstreet Insurance Company would need prior approval from the Superintendent to resume an insurance business, since they have ceased writing any insurance business for more than one year continuously.

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

<u>Paragraph</u>	<u>Line of Insurance</u>
3	Accident and health
4	Fire
5	Miscellaneous property damage
6	Water damage
7	Burglary and theft
8	Glass
9	Boiler and machinery
12	Collision
13	Personal injury liability
14	Property damage liability
15	Workers' compensation and employers' liability
19	Motor vehicle and aircraft
20	Marine
21	Marine protection and indemnity

The Company may also write such workers' compensation insurance as may be incidental to coverages contemplated under paragraphs 20 and 21 of Section 1113(a) including insurances described in the Longshoremen's and Harbor Workers' Compensation Act (Public Law No 803, 69<sup>th</sup> Congress as amended).

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, Goldstreet Insurance Company is required to maintain a minimum surplus to policyholders in the amount of \$1,450,000.

C. Reinsurance

The Schedule F data contained in the Company's annual statements filed for the years within the examination period was found to accurately reflect its reinsurance transactions, with the exception of data reported in Schedule F, Part 1, Column 10 - "Amount of Assets Pledged or Compensating Balances to Secure Letters of Credit" of the Company's filed annual statement, for years 1996, 1997, 1998 and 1999.

The Company had securities in New York Regulation 114 trust account pledged to Employers Casualty Insurance Company and Republic Insurance Company which were not disclosed. It is recommended that the Company take proper care when completing Schedule F of the annual statement before submitting it to the Department. The Company has properly disclosed securities held related to the New York Regulation 114 trust account in its filed 2000 annual statement, Schedule F, Part 1, Column 10.

All of the Company's assumed reinsurance business is runoff business which was originally written by Goldstreet Syndicate.

During 1999, Chilton commuted reinsurance agreements for ten of Goldstreet's reinsureds, whereby outstanding reserves of \$850,417 were commuted for a consideration of \$806,510.

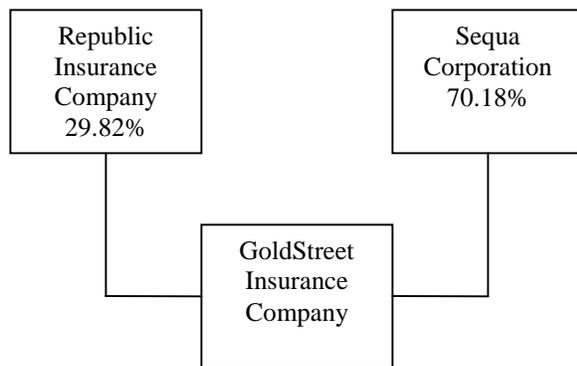
The Company is also a party to ceded excess of loss reinsurance agreements which reduce its gross loss liability. The reinsurance agreements remain in effect for an unlimited time until all rights and obligations under it have been discharged. The agreements contain insolvency clauses that conform to the requirements of Section 1308 of the New York Insurance Law.

D. Holding Company System

The Company is controlled by Sequa Corporation, a Delaware industrial corporation who has a 70.18% ownership. The Republic Insurance Company, a Texas corporation owns the remaining 29.82% of Goldstreet Insurance Company. Republic Insurance Company had filed and received a determination of non-control as set forth in Section 1506 of the New York Insurance Law. These companies owned the same percentages in the former company, Goldstreet Syndicate.

The Company has made the appropriate filings required by Article 15 of the New York Insurance Law and Department Regulation 52 for years 1996 and 1999, but no filing has been completed for years 1997 and 1998. It is recommended that the Company make the appropriate filing for every year as required by Article 15 of the New York Insurance Law and Department Regulation 52.

The following is a chart of the Company's 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 during 1999 to Surplus as regards policyholders	.03%
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	65.64%
Premiums in course of collection to surplus as regards policyholders	N/A

The first two ratios presented above fell within the benchmark ranges set forth in the Insurance Regulatory Information System of the National Association of Insurance Commissioners. The third ratio was not computed due to the fact that the Company did not report any premiums in the course of collection as of December 31, 1999.

The underwriting amounts presented below are on an earned/incurred basis and encompass the three-year, five and one-half month period covered by this examination:

	<u>Amounts</u>
Losses incurred	\$4,059,347
Loss adjustment expenses incurred	692,980
Other underwriting expenses incurred	1,969,624
Net underwriting (loss)	<u>(6,724,391)</u>
Premiums earned	<u>\$ (2,440)</u>

Goldstreet Insurance Company is in runoff status and their premiums earned for the period under examination are negative, therefore the underwriting ratios have not been computed.

F. Accounts and Records

Goldstreet Insurance Company, in its response to the general interrogatory section of its December 31, 1999 filed annual statement, stated that the latest financial report on examination that was available from either its state of domicile or the Company was as of December 31, 1991. However, the last filed financial report on examination of Goldstreet Syndicate, which was made available to this examination, was as of December 31, 1982. It is recommended that the Company take proper care when completing interrogatories of its annual statement submitted to this Department

G. Abandoned Property Law

The Company has not complied with the provisions of Sections 1315 and 1316 of the New York State Abandoned Property Law by not filing the required reports with the State Comptroller's Office for the years under examination. It is recommended that the Company comply with provisions of Sections 1315 and 1316 of the New York State Abandoned Property Law and file the proper forms with the State

Comptroller's Office. Subsequent to the examination date, the Company received the required forms and has filed them with the State Comptroller's Office for year 2000.

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and surplus as determined by this examination as of December 31, 1999. This statement is the same as the Company's filed Annual Statement:

<u>Assets</u>	Ledger <u>Assets</u>	Non-Ledger <u>Assets</u>	Not-Admitted <u>Assets</u>	Admitted <u>Assets</u>
Bonds	\$15,784,373	\$	\$	\$15,784,373
Cash on hand and on deposit	881,440			881,440
Short-term investments	3,179,058			3,179,058
Agents' balances	514,660		514,660	
Funds held by or deposited with reinsured companies	32,573			32,573
Reinsurance recoverable on loss and loss adjustment expense payments	577,337			577,337
Interest, dividends and real estate income due and accrued		<u>302,164</u>		<u>302,164</u>
Total assets	<u>\$20,969,441</u>	<u>\$302,164</u>	<u>\$514,660</u>	<u>\$20,756,945</u>

Liabilities

Losses	\$10,105,886
Reinsurance payable on paid loss and loss adjustment expenses	1,840,882
Loss adjustment expenses	236,647
Other expenses	25,000
Funds held by company under reinsurance treaties	145,000
Provision for reinsurance	<u>671,964</u>
Total liabilities	<u>\$13,025,379</u>

Surplus

Common capital stock	\$ 1,000,000
Gross paid in and contributed surplus	9,492,676
Unassigned funds (surplus)	238,890
Less treasury stock	<u>(3,000,000)</u>
Surplus as regards policyholders	<u>\$ 7,731,566</u>
Total liabilities and surplus	<u>\$ 20,756,945</u>

NOTE: The Internal Revenue Service has not audited the Company's federal income tax returns since Goldstreet Insurance Company was incorporated in 1996. In September 1998, the Company received tax-exempt status under Section 501(a) of the Internal Revenue Code. Accordingly, no provision for Federal income taxes has been provided in the statements of operations. 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 \$3,370,871 during the three-year, five and one-half month examination period July 18, 1996 through December 31, 1999 detailed as follows:

Statement of Income

Underwriting Income

Premiums earned		\$(2,440)
Deductions:		
Losses incurred	\$4,059,347	
Loss adjustment expenses incurred	692,980	
Other underwriting expenses incurred	<u>1,969,624</u>	
Total underwriting deductions		<u>6,721,951</u>
Net underwriting (loss)		\$(6,724,391)

Investment Income

Net investment income earned	\$4,906,082	
Net realized capital gains	<u>(125,880)</u>	
Net investment gain		4,780,202

Other Income

Miscellaneous income	\$374,964	
NYIT Security Fund Distribution	<u>136,733</u>	
Total Other Income		<u>\$511,697</u>
Net income		<u>\$(1,432,492)</u>

Capital and Surplus Account

Surplus as regard policyholders July 17, 1996, per report on examination			\$4,360,695
	<u>Gain in Surplus</u>	<u>Losses in Surplus</u>	
Net income	\$	\$1,432,492	
Net unrealized capital losses	0		
Change in not admitted assets	982,740		
Change in liability for reinsurance	380,410		
Change in treasury stock		3,000,000	
Merger of Goldstreet Syndicate into Goldstreet Insurance Company	<u>6,440,213</u>		
Total gains and losses	<u>7,803,363</u>	<u>4,432,492</u>	
Net increase in surplus			<u>3,370,871</u>
Surplus as regards policyholders December 31, 1999, per report on examination			<u>\$7,731,566</u>

#### 4. **BONDS**

In 1996, and in order to comply with the requirements of Section 4104 of the New York Insurance Law, the Company had deposited certain eligible securities in the name of the Superintendent, as trustee, as security for the policyholders of Goldstreet Insurance Company. Such securities were deposited in a custody account pursuant to the provisions of Section 1314 of the New York Insurance Law. These securities had matured in July 15, 1999, and the proceeds thereof were placed into a money market fund that invested in government securities and/or repurchase agreements that were fully collateralized by government securities.

Section 1318 of the New York Insurance Law provides that:

“...every deposit made with the superintendent shall be in the securities specified in paragraphs one and two of subsection (b) of section one thousand four hundred two of this chapter...”

Section 1402(b) specifies the securities as follows:

- (1) Obligations of the United States or of any agency thereof provided such agency obligations are guaranteed as to principal and interest by the United States.
- (2) Direct obligations of this state or of any county, district or municipality thereof.

Thus, it would appear that a money market fund that invests in government securities and/or repurchase agreements does not qualify as eligible securities. It is recommended that the Company substitute the appropriate investments in its Section 1314 account.

**5. LOSSES AND LOSS ADJUSTMENT EXPENSES**

The examination liability of \$10,342,533 is the same as the amount reported by the Company as of the examination date. The examination analysis was conducted in accordance with generally accepted actuarial principles and practices and was based on statistical information contained in the Company's internal records and its filed annual statements.

**6. MARKET CONDUCT ACTIVITIES**

The Company is a professional reinsurer and has no direct contact with insureds. However, in the course of this examination, a review was made of the manner in which the Company conducts its business practices and fulfills its contractual obligations. No problems were encountered.

**7. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION**

The prior report on examination has no prior comments or recommendations.

**8. SUMMARY OF COMMENTS AND RECOMMENDATIONS**

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Management</u>	
i. It is recommended that the Company comply with its by-laws and the board should have at least four regular meetings annually.	5
ii. It is recommended that board members who are unable or unwilling to attend meetings consistently should resign or be replaced.	6
iii. It is recommended that the Company comply with Section 1411(a) of the New York Insurance Law.	6

B. Reinsurance

It is recommended that the Company take proper care when completing Schedule F and all other parts of the annual statement, and ensure that all data in the annual statement is correct before submitting it to the Department. 9

C. Holding Company System

It is recommended that the Company make the appropriate filing for every year as required by Article 15 of the New York Insurance Law and Department Regulation 52. 10

D. Accounts and records

It is recommended that the Company take proper care when completing interrogatories of the annual statement before filing it with the New York Insurance Department. 11

E. Abandoned Property Law

It is recommended that the Company comply with provisions of Sections 1315 and 1316 of the New York State Abandoned Property Law, and file the proper forms with the State Comptroller's Office. 11

Subsequent to the examination date the Company received the required forms and has filed them with the State Comptroller's Office for the year 2000.

F. Bonds

It is recommended that the Company substitute the appropriate investments in its Section 1314 account. 17

Respectfully submitted,

\_\_\_\_\_/S/\_\_\_\_\_  
Marc H. Bruckstein  
Senior Insurance Examiner

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

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

\_\_\_\_\_/S/\_\_\_\_\_  
MARC H. BRUCKSTEIN

Subscribed and sworn to before me  
this \_\_\_\_\_ day of \_\_\_\_\_ 2001.

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:

**Marc Bruckstein**

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

**GOLDSTREET 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 4th day of December, 2000*



A handwritten signature in dark ink, appearing to read 'Gregory V. Serio', written over a horizontal line.

**GREGORY V. SERIO**  
*First Deputy Superintendent of Insurance*