

REPORT ON EXAMINATION

OF THE

GREATER NEW YORK MUTUAL INSURANCE COMPANY

AS OF

DECEMBER 31, 1999

DATE OF REPORT

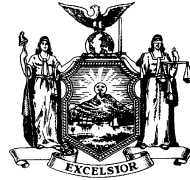
FEBRUARY 23, 2001

EXAMINER

ROBERT A. VARGAS

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

February 23, 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 21590, dated September 7, 2000, attached hereto, I have made an examination into the financial condition and affairs of the Greater New York Mutual Insurance Company as of December 31, 1999 and respectfully submit the following report thereon.

Whenever the terms "Company" or "GNY" appear in this report, it should be understood to mean the Greater New York Mutual Insurance Company.

Whenever the term "INSCO" appears in this report, it should be understood to mean the Insurance Company of Greater New York.

Whenever the term "Group" appears in this report, it should be understood to mean the Greater New York Mutual Insurance Company and its wholly-owned subsidiary, Insurance Company of Greater New York.

Whenever the term “Department” appears in this report, it should be understood to mean the New York State Insurance Department.

1. SCOPE OF EXAMINATION

The prior examination was conducted as of December 31, 1994. The current examination covers the five-year period from January 1, 1995 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 public accountants.

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.

The examination was conducted at the Company's home office located at 200 Madison Avenue, New York, New York 10016.

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 on August 19, 1927 as a membership corporation under the laws of the State of New York as the “Greater New York Taxpayers Mutual Insurance Association.” As such it afforded public liability coverage to property owners in the Greater New York area. Its present name was adopted on March 17, 1954.

The Company’s wholly-owned subsidiary, Insurance Company of Greater New York, was formed in September 1967. Since January 1968, both companies have pooled premiums, losses and expenses under a reinsurance pooling agreement discussed under the caption, “Intercompany Pooling Agreement” (see Item 2C).

A. Management

The Company’s by-laws provide that its business affairs are to be managed and controlled by a board of directors consisting of at least thirteen directors.

At December 31, 1999, the board of directors was composed of thirteen members as follows:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Max Freund New York, NY	Partner, Rosenman & Colin
Warren William Heck New York, NY	President, Greater New York Mutual Insurance Company
Carol Trencher Ivanick New York, NY	Partner, Dewey, Ballantine LLP
Charles Frederick Jacey Belle Mead, NJ	C.F. Jacey

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Robert Peter Lewis North Salem, NY	Retired
Lance Malcolm Liebman New York, NY	Professor, Columbia Law School
Jeffrey Stuart Maurer Kings Point, NY	President, United States Trust Company
Henry George Miller Scarsdale, NY	Partner, Clark, Gagliardi & Miller
Arthur William Murphy New York, NY	Professor, Columbia Law School
Robert Frances O'Leary Naples, FL	Retired
Alexander Eugene Rosenthal Scarsdale, NY	Chairman of the Board & CEO, Greater New York Mutual Insurance Company
Paul Segal New York, NY	Architect, Paul Segal and Associates
Max Solomon New York, NY	Executive Vice President, Treasurer & Secretary, Greater New York Mutual Insurance Company

A review of the meetings of the board of directors held during the five-year examination period indicated that all meetings were well attended.

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

<u>Name</u>	<u>Title</u>
Alexander E. Rosenthal	Chairman and CEO
Warren William Heck	President
Max Solomon	Executive VP-Secretary
John B. Minner	Senior VP-Treasurer
Dominick Vicari	Senior VP-Controller

B. Territory and Plan of Operation

At December 31, 1999, the Company was authorized to transact business in all states and the District of Columbia except Alaska, California, Florida, Hawaii, Maine and Texas.

The following schedule shows direct premiums written in New York State as a percentage of those written countrywide:

	<u>DIRECT PREMIUMS WRITTEN (in thousands)</u>					
	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>Total</u>
New York	\$41,751	\$45,273	\$44,743	\$44,621	\$48,375	\$224,763
Countrywide	\$61,025	\$61,563	\$59,329	\$58,488	\$63,057	\$303,462
Percentage of New York to Total	68%	73%	75%	76%	76%	74%

The majority (more than 98% in 1999) of the Company's business is written in New York, New Jersey, Connecticut and Pennsylvania. Most of the business originates through independent agents and brokers. The Company maintains branch offices in Glastonbury, CT and East Brunswick, NJ. Each office handles both underwriting and claims functions for its specific territory.

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

<u>Paragraph</u>	<u>Kinds of Insurance</u>
3(i)	Accident and health
3(ii)	Non-cancelable disability
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 physical damage
20	Marine and inland marine
21	Marine protection and indemnity

The Company is also empowered to transact such workers' compensation business as may be incident 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 803, 69th Congress, as amended; USC Section 901 et seq. as amended).

The Company is also licensed to transact the kinds of insurance and reinsurance as defined in Section 4102(c) of the New York Insurance Law. Furthermore, pursuant to Section 6302 of the New York Insurance Law, the Company is licensed to write special risks in the "Free Trade Zone".

Based upon the kinds of insurance for which the company is licensed, and pursuant to the requirements of Articles 13, 41 and 63 of the New York Insurance Law, the Company must maintain at all times a surplus to policyholders of \$35,000,000.

C. Reinsurance

The Company is primarily a direct writer. The major portion of assumed reinsurance represents business obtained through the pooling agreement with its subsidiary, INSCO. In addition, a minimal amount of assumed business is generated by mandated participation in the F.A.I.R. plans of several states.

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, except as noted in Section D herein.

The examiner reviewed all ceded reinsurance contracts effected during the examination period. These contracts contained the required standard clauses including the insolvency clauses meeting the requirements of Section 1308 of the New York Insurance Law.

The Group has in effect the following reinsurance contracts at December 31, 1999:

<u>Type of Contract</u>	<u>Cession</u>
<u>Property Excess of Loss</u>	
Five Layers	\$49,900,000 excess of \$100,000, any one risk on all property lines.
Special Real Estate Program	\$950,000 excess of \$50,000, any one risk on all property insurance.
<u>Property Catastrophe</u>	
Six layers	\$95% of \$39,650,000 excess of \$350,000, per occurrence.
<u>Casualty Business</u>	
Six layers	\$49,700,000 excess of \$300,000, per occurrence subject to an annual deductible of 4% of net earned premium income.
Workers' Compensation Catastrophe	. \$50,000,000 excess of \$50,000,000, per occurrence.

Type of ContractCession

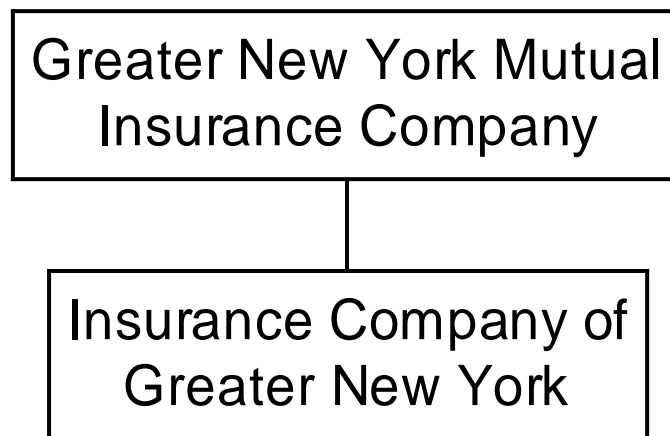
Special Real Estate Program

\$950,000 excess of \$50,000, per occurrence.

The review also disclosed that the Company's cessions were mainly to authorized reinsurers.

D. Affiliated Companies

Below is an organizational chart of the Company as of December 31, 1999:



Greater New York Mutual is the ultimate parent company and is a domestic mutual insurance company. Therefore, it is not subject to Article 15 of the New York Insurance Law.

Intercompany Pooling Agreement

The Company and its subsidiary (INSCO) operate under an inter-company pooling agreement, which has been in effect since January 2, 1968. The agreement provides that the Company assumes 100% of INSCO's net writings. The combined premiums, losses, and expenses net of reinsurance ceded to third parties, are prorated on the basis of the pooling participation percentages. The participation percentages as of December 31, 1999, are 90% to the Company and 10% to INSCO. Pursuant to this agreement, GNY agrees to sell, transfer and assign (10%) of GNY's underwriting assets (including agents' balances,

uncollected premiums and reinsurance recoverable) and related liabilities to INSCO. The provision for reinsurance is a related liability of reinsurance recoverable. The Company did not report a provision for reinsurance in its 1999 Annual Statement. However, due to immateriality, no financial change was made.

It is recommended that the Company report a provision for reinsurance equal to ninety percent of the pooled liability as reported by the Group or amend the pooling agreement to delete the pooling of reinsurance recoverable and related liabilities (including the provision for reinsurance).

E. Significant Operating Ratios

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

	<u>Ratio</u>
Net premiums written in 1999 to Surplus as regards policyholders	.34 to 1
Liabilities to Liquid assets (cash and invested assets less investments in affiliates)	65.0%
Premiums in course of collection to Surplus as regards policyholders	6.3%

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 five-year period covered by this examination:

	<u>Amounts</u>	<u>Ratios</u>
Losses incurred	\$192,101,856	57.9%
Loss adjustment expenses incurred	78,352,080	23.6
Other underwriting expenses incurred	97,068,621	29.3
Net underwriting gain (loss)	<u>(35,851,856)</u>	<u>(10.8)</u>
Premiums earned	<u>\$331,670,701</u>	<u>100.0%</u>

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as determined by this examination and is the same as that reported by the Company in its filed Annual Statement as of December 31,1999:

<u>Assets</u>	<u>Ledger Assets</u>	<u>Non-ledger Assets</u>	<u>Not Admitted Assets</u>	<u>Net-Admitted Assets</u>
Bonds	\$356,789,080	\$	\$	\$356,789,080
Preferred stocks	458,905		29,869	429,036
Common stocks	15,905,686	24,558,562		40,464,248
Cash	7,600,663			7,600,663
Agents' balances	20,757,119		3,249,885	17,507,234
Funds held by or deposited with reinsurance companies	267			267
Reinsurance recoverables on loss and loss adjustment expense payments	2,466,872			2,466,872
Federal income tax recoverable		488,675		488,675
Electronic data processing equipment	333,956			333,956
Interest, dividends and real estate income due and accrued		6,120,066		6,120,066
Receivable from parent, subsidiaries and affiliates	1,069,397			1,069,397
Furniture, equipment and supplies	392,471		392,471	
Contingent commission	809,603			809,603
N.Y. Section 15-8 recoverable	<u>1,470,593</u>			<u>1,470,593</u>
Total assets	<u>\$408,054,612.</u>	<u>\$31,167,303</u>	<u>\$3,672,225</u>	<u>\$435,549,690</u>

Liabilities, Surplus and Other Funds

Losses		\$169,331,940
Loss adjustment expenses		28,896,051
Contingent commissions		337,500
Other expenses		2,413,921
Taxes, licenses and fees		477,903
Unearned premiums		39,539,367
Dividends declared and unpaid: Policyholders		1,528,388
Amounts withheld or retained by company for account of others		309,604
Provision for reinsurance		2,283,141
Deferred annuities		<u>31,809</u>
Total liabilities		\$245,149,624
Special contingent surplus	\$1,700,000	
Unassigned funds	<u>188,700,066</u>	
Surplus as regards policyholders		<u>190,400,066</u>
Total liabilities and surplus		<u>\$435,549,690</u>

NOTE: The Company has never been audited by The Internal Revenue Service. The examiner is unaware of any potential exposure to the Company of 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 \$64,644,532 during the five-year examination period, January 1, 1995 through December 31, 1999, detailed as follows:

Statement of Income

Underwriting income

Premiums earned		\$331,670,701
Deductions:		
Losses incurred	\$192,101,856	
Loss adjustment expenses incurred	78,352,080	
Other underwriting expenses incurred	97,068,621	
		<u>367,522,557</u>
Total underwriting deductions		<u>367,522,557</u>
Net underwriting loss		<u>\$(35,851,856)</u>

Investment income

Net investment income earned	\$124,387,169	
Net realized capital gain	28,268	
		<u>124,415,437</u>
Net investment gain		124,415,437

Other income or (loss)

Net loss from agents' balances charged off	\$(4,536,109)	
Miscellaneous income	198,808	
		<u>(4,337,301)</u>
Total other income (loss)		<u>(4,337,301)</u>

Net income before dividends to policyholders and before federal and foreign income taxes		\$84,226,280
Dividends to policyholders		<u>8,745,813</u>

Net income, after dividends to policyholders and before federal and foreign income taxes		\$75,480,467
Federal and foreign income taxes incurred		<u>19,724,978</u>

Net income		<u>\$55,755,489</u>
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Capital and Surplus Account

Surplus as regards policyholders, per Report on examination, as of December 31, 1994			\$125,755,534
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income	\$55,755,489		
Net unrealized capital gains	8,966,324		
Change in non-admitted assets	2,200,160		
Change in provision in reinsurance		\$2,283,141	
Deferred annuities	<u>5,700</u>	<u> </u>	
Total gains and losses in surplus	<u>\$66,927,673</u>	<u>2,283,141</u>	
Net increase in surplus as regards policyholders			<u>64,644,532</u>
Surplus as regards policyholders, per report on examination as of December 31, 1999			<u>\$190,400,066</u>

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liabilities for losses and loss adjustment expenses, totaling \$169,331,940 and \$28,896,051 respectively, are the same as the amounts reported by the Company in its 1999 filed annual statement.

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 control records and in its filed annual statements. The results indicated that the reserves as established by the Company as of the examination date were adequate.

5. MARKET CONDUCT ACTIVITIES

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 to policyholders and claimants. The review was general in nature and is not to be construed as to encompass the more precise scope of a market conduct investigation, which is the responsibility of the Market Conduct Unit of the Property Bureau.

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

1. Sales and advertising
2. Underwriting
3. Rating
4. Claims

To accomplish this review, the Company's advertising material, applications, policy forms, correspondence files, rates, and claims were examined.

No problem areas were encountered.

6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination contained one comment and recommendation, which is summarized below with the Company's subsequent action thereon. (The page number shown below refers to the prior report):

<u>ITEM</u>	<u>PAGE NO.</u>
<u>Provision for Reinsurance</u>	
A. It was recommended that the Company follow statutory accounting procedures in its filed annual and quarterly statements.	16
The Company complied with this recommendation	

7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Intercompany Pooling Agreement</u>	
It is recommended that the Company report a provision for reinsurance equal to ninety percent of the pooled liability as reported by the Group or amend the pooling agreement to delete the pooling of reinsurance recoverable and related liabilities (including the provision for reinsurance).	9

Appointment No 21590

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:

Robert Vargas

as proper person to examine into the affairs of the

Greater New York Mutual Insurance Company

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

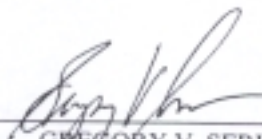
Company

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 7th day of September, 2000





GREGORY V. SERIO
First Deputy Superintendent of Insurance