REPORT ON EXAMINATION

OF THE

ICM INSURANCE COMPANY

AS OF

DECEMBER 31, 2001

DATE OF REPORT	AUGUST 5, 2002
EXAMINER	DEBORAH SEXTON

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

George E. Pataki
Governor

Gregory V. Serio
Superintendent

August 5, 2002

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 instructions contained in Appointment No. 21836 dated February 14, 2002, attached hereto, I have made an examination into the condition and affairs of the ICM Insurance Company as of December 31, 2001, and submit the following report thereon.

The examination was conducted at the Company's home office located at 100 Commons Way, Holmdel, New Jersey 07033.

Wherever the designations "Company" or "ICM" appear herein without qualification, they should be understood to indicate the ICM Insurance Company. Wherever the designations "ICM, Inc." or "parent" appear herein without qualification, they should be understood to indicate the Insurance Capital Management, Inc.

Wherever the designation "Department" appears herein without qualification, it should be understood to indicate the New York Insurance Department.

1. SCOPE OF EXAMINATION

The previous examination was conducted as of December 31, 1996. This examination covered the five-year period from January 1, 1997 through December 31, 2001 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, losses 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.

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 May 1, 1981 as Baltica-Skandinavia Reinsurance Company of America, Inc. It was licensed and commenced business on September 23, 1981.

The Company ceased writing or accepting any new business in 1994.

On December 22, 2000, Insurance Capital Management, Inc. (a Delaware corporation) purchased all of the outstanding shares of the Company from Tryg-Baltica Forsikring A/S and changed the Company's name to ICM Insurance Company on February 3, 2001. The acquisition included a quasi-reorganization allowing the Company to transfer its unassigned funds, which were reported at $(39.3) million, at September 30, 2000, to gross paid in and contributed surplus. The Department approved the acquisition and quasi-reorganization.

The plan of operation submitted with the acquisition of control information indicated that the Company would commence writing new business in 2000 and increase its writings in each of the subsequent five years. As of the date of this report, the Company has not written any business.

Capital paid up is $5,000,000 consisting of 50,000 shares of $100 par value per share common stock. All authorized shares are issued and outstanding. As of the examination date, gross paid in and contributed surplus was $5,592,077.

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 nor more than seventeen members. As of the examination date, the board of directors was comprised of fourteen members. The board met four times during each calendar year. The directors as of December 31, 2001 were as follows:

Name and Residence	Principle Affiliation
Richard S. Endres Franklin Lakes, NJ	Partner, London Fischer LLP
James L. Fischer Bronxville, NY	Partner, London Fischer LLP
Mark R. Graham Haverford, PA	Chairman, Pinnacle Investments
Joseph G. Grasso Philadelphia, PA	Partner, Thacher, Proffitt & Wood
Robert J. Hall Haverford, PA	Sr. Vice President, Paine Webber Inc.
Clark K. Hunt Dallas, TX	Vice President, Unity Hunt Inc. & Affiliates
Elliott M. Kroll Bedford, NY	Partner, London Fischer LLP
Bernard London Lloyd Harbor, NY	Partner, London Fischer LLP
William K. Lowry, Jr. Upper Saddle River, NJ	Principal, Capital Decision, Inc.
John P. McNiff Plymouth Meeting, PA	President & Founder, Longwood Investment Advisors
Julius A. Rousseau, III New York, NY	Partner, Kroll, Rubin & Fiorella
Gerhard T. VanArkel Haverford, PA	Managing Director, U.S. Trust Company/Radnor Capital
Barrett N. Wissman Dallas, TX	Director, Eventures
Daniel Zemann, Jr. New York, NY	Director, London Fischer LLP

The minutes of all meetings of the board of directors held during the examination period were reviewed. The review indicated that the meetings were generally well attended and each of the directors had a satisfactory attendance record.

The principal officers of the Company as of December 31, 2001, were as follows:

Name	Title
William K. Lowry, Jr.	President
Elliott M. Kroll	Vice President and Secretary
John P. McNiff	Treasurer

Effective March 1, 2000, the Company entered into a service agreement with Chiltington International, Inc. (“Chiltington”), an insurance and reinsurance consulting firm, whereby Chiltington manages the day-to-day operations of the Company. The Company pays Chiltington a flat annual fee of $250,000 plus any documented expenses incurred relating to the Company.

Effective December 1, 2001, the Company entered into an investment services agreement with Chartwell Investors Inc. (“Chartwell”), an investment advisory firm, whereby Chartwell provides investment services for the Company. The services include investment advisory services, purchases and sales of securities, and providing the information necessary to enable the Company to prepare the investment schedules in its annual and quarterly statements. The Company pays Chartwell a flat annual fee for these services.

The provisions of the above service contracts were reviewed and found be in compliance with Department guidelines.

B. Territory and Plan of Operation

The Company is licensed to transact insurance business in the following sixteen states:

New York	Kentucky	Pennsylvania	Utah
Alaska	Maryland	Rhode Island	West Virginia
Colorado	Mississippi	South Dakota	Wisconsin
Delaware	New Jersey	Texas	Wyoming

As of the examination date, 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 Insurance Law:

Paragraph	Kind of Insurance
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 physical damage
20	Marine and inland marine
21	Marine protection and indemnity

The Company is also authorized to transact 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 Worker's Compensation Act (Public Law No. 803, 69th Congress as amended; 33 USC Section 901 et seq. as amended).

Based on 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, ICM Insurance Company is required to maintain a minimum surplus to policyholders in the amount of $2,200,000.

C. Reinsurance

The Company has not written any new or renewal business since 1994. At that time, the Company was protected by various quota share and excess of loss reinsurance agreements, which remain in-force. No new reinsurance agreements have been entered into since 1994.

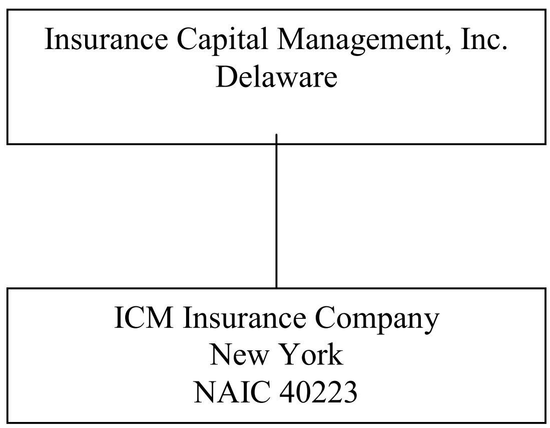
Effective October 1, 2000, the Company entered into a loss portfolio agreement whereby it ceded 100% of its outstanding losses and loss adjustment expenses, net of other reinsurance, to Max Reinsurance Company, a Bermuda insurer ("Max Re"). The Company paid Max Re $22,659,000, which was equal to the outstanding losses and loss adjustment expense reserves (including reinsurance payable on paid losses) reported by the Company as of September 30, 2000. The agreement provides coverage for up to $30,000,000 of losses and loss adjustment expenses. The Company obtained a letter of credit from Max Re equal to the reserves transferred. The Company has accounted for this agreement as retroactive reinsurance pursuant to the provisions of SSAP 62 of the Accounting Practices and Procedures Manual of the National Association of Insurance Commissioners.

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

D. Holding Company System

Prior to December 22, 2000, the Company was wholly-owned by Tryg-Baltica Forsikring A/S. Effective December 22, 2000, the Company is wholly-owned by Insurance Capital Management, Inc., a Delaware corporation.

The following chart illustrates the chain of ownership in the holding company system at December 31, 2001.



The Company's annual holding company registration statements have been filed on a timely basis, pursuant to Article 15 of the New York Insurance Law and Department Regulation 52.

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2001, based upon the results of the examination:

Net premiums written 2001 to Surplus as regards policyholders	0.06:1
Liabilities to liquid assets (cash and invested assets less investment in affiliates)	17.4%
Premiums in course of collection to surplus as regards policyholders	2%

The above ratios fall within the benchmark ranges set forth in the Insurance Regulatory Information System of the National Association of Insurance Commissioners. It is noted that the Company ceased writing new business in 1994 and is currently in a run-off position.

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

	Amounts	Ratios
Losses and loss adjustment expenses incurred	$625,296	98.80%
Other underwriting expenses incurred	178,143	28.10
Net underwriting loss	(170,308)	(26.90)
Premiums earned	$633,131	100.00%

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as determined by this examination, and as reported by the Company:

	Examination			Company	
	Assets	Assets Not Admitted	Net Admitted Assets	Admitted Assets	Surplus Increase (Decrease)
Bonds	$ 997,904	$	$ 997,904	$	$ 997,904
Common stocks	3,667,775		3,667,775		3,667,775
Cash	990,293		990,293	10,454,074	(9,463,781)
Short-term investments	5,243,174		5,243,174	248,856	4,994,318
Premiums and agents' balances in course of collection	224,071		224,071	224,071	
Funds held by or deposited with reinsured companies	348,600		348,600	348,600	
Reinsurance recoverables on loss and loss adjustment expenses	721,645		721,645	721,645	
Retroactive reinsurance recoverable	291,093		291,093		291,093
Interest, dividends and real estate income due and accrued	12,127		12,127	12,127	
Deposit	13,663	13,663			
Total	$12,510,345	$13,663	$12,496,682	$12,009,373	$487,309

Liabilities	Examination	Company	Increase (Decrease) Surplus
Losses and loss adjustment expenses	$14,141,271	$14,141,271	$
Reinsurance payable on paid losses	3,246,208	3,246,208	
Contingent commissions and other similar charges			
Oher expenses	100,000	100,000	
Ceded reinsurance balances payable	9,151	9,151	
Funds held by company under reinsurance treaties	245,365	245,365	
Provision for reinsurance	228,778	228,778	
Interest payable	338,429	338,429	
Payable to loss portfolio transfer reinsurer	721,645		(721,645)
Retroactive reinsurance ceded	(17,387,479)	(17,387,479)	
Total liabilities	$ 1,643,368	$ 921,723	$ (721,645)
Common capital stock	$5,000,000	$5,000,000	
Gross paid in and contributed surplus	5,592,077	5,592,077	
Unassigned funds	$261,237	495,573	$(234,336)
Surplus as regards policyholders	$10,853,314	$11,087,650	$(234,336)
Total liabilities and surplus	$12,496,682	$12,009,373	$ 487,309

Note: The Internal Revenue Service has completed its audits of the Company's federal income tax returns through tax year 1995. All material adjustments, if any, made subsequent to the date of examination and arising from said audits, are reflected in the financial statements included in this report. Audits covering tax years 1996 through 2001 have yet to commence. Except for any impact that might result from the examination changes contained in this report, the examiner is unaware of any potential exposure of the Company to any further income tax assessment and no liability has been established herein relative to such contingency.

B. Underwriting and Investment Exhibit

Surplus as regards policyholders increased $6,271,731 during the five-year examination period from January 1, 1997 to December 31, 2001 detailed as follows:

Statement of Income

Underwriting Income		
Premiums earned		$633,131
Deductions:		
Losses and loss adjustment expenses incurred	$625,296	
Other underwriting expenses incurred	178,143	
Total underwriting deductions		803,439
Net underwriting loss		$(170,308)
Investment Income		
Net investment income earned	$5,911,951	
Net realized capital gains	347,994	
Net investment gain		6,259,945
Net income		$6,089,637

Capital and Surplus Account

Surplus as regards policyholders, per report on examination as of December 31, 1996			$4,208,138
	Gains in Surplus	Losses in Surplus	
Net income	$6,089,637		
Change in not-admitted assets	46,835		
Change in provision for reinsurance	464,704		
Change in excess of statutory reserves over statement reserves	44,000		
Total gains and losses in surplus	$6,645,176	0	
Net increase in surplus as regards policyholders			6,645,176
Surplus as regards policyholders, per report on examination as of December 31, 2001			$10,853,314

4. BONDS

The Company did not report an admitted asset under this caption as of the examination date. This examination has established the captioned admitted asset in the amount of $997,904. The difference represents the reclassification of a United States Treasury note, which the Company reported under the caption "Cash."

5. COMMON STOCKS

The Company did not report an admitted asset under this caption as of the examination date. This examination has established the captioned admitted asset in the amount of $ 3,667,775. The difference represents the reclassification of a mutual fund, which was reported by the Company under the caption "Cash". Pursuant to the Annual Statement instructions from the National Association of Insurance

Commissioners ("NAIC"), mutual funds other than those mutual funds defined in the Purposes and Procedures Manual of the Securities Valuation Office of the NAIC which are reported in Schedule DA, should be reported by the Company under the caption "common stocks".

It was noted that the Company's investment in this mutual fund exceeded 10% of its admitted assets as reported in its last statement on file with the superintendent, which is in violation of Section 1409 of the New York Insurance Law. A review of a custodial asset listing in the second quarter of 2002 indicated that the Company had significantly reduced this investment to an amount that was less than 10% of its reported admitted assets.

No examination change has been made for the excess investment due to the fact that the Company subsequently reduced its investment in this item; however, it is recommended that the Company refrain from investing in excess of 10% of its reported admitted assets in any one institution pursuant to the provisions of Section 1409 of the New York Insurance Law.

6. CASH

The examination admitted asset of $990,293 is $9,463,781 less than the $10,454,074 reported by the Company as of December 31, 2001. The examination change represents the reclassification of certain investments that were incorrectly reported as cash and unreported investment income, as follows:

1. A decrease of $997,904 represents a United States Treasury note, which has been reclassified under the caption "Bonds" (see item 4 of this report).

2. A decrease of $4,994,318 represents a class-one money market mutual fund, which has been reclassified under the caption "Short-term investments" (see item 7 of this report).

3. A decrease of $3,667,775 represents a money market fund, which has been reclassified under the caption “Common stock” (see item 5 of this report).

4. An increase of $ 196,216 represents interest income received by the Company that was not recorded.

It is recommended that the Company report its investments in the proper annual statement categories in accordance with the Annual Statement instructions.

7. SHORT-TERM INVESTMENTS

The examination admitted asset of $5,243,174 is $4,994,318 more than the $248,856 reported by the Company as of December 31, 2001. The difference represents the reclassification of a Class-One Money Market Mutual Fund, which was reported by the Company under the caption “Cash”. Pursuant to the Annual Statement instructions from the National Association of Insurance Commissioners, Class-One Money Market Mutual Funds should be reported by the Company under the caption, “short-term investments.”

It was noted that the Company’s investment in this class-one mutual fund exceeded 10% of its admitted assets as reported in its last statement on file with the superintendent, which is in violation of Section 1409 of the New York Insurance Law. A review of a custodial asset listing in the second quarter of 2002 indicated that the Company had significantly reduced this investment to an amount that was less than 10% of its admitted assets.

No examination change has been made for the excess investment due to the fact that the Company subsequently reduced its investment in this item; however, it is recommended that the Company refrain from investing in excess of 10% of its reported admitted assets in any one institution pursuant to the provisions of Section 1409 of the New York Insurance Law.

8. RETROACTIVE REINSURANCE RECOVERABLE

The Company reported no admitted asset under this caption as of the examination date. This examination has established the captioned admitted asset in the amount of $291,093. The examination admitted asset represents the amount billed to the loss portfolio transfer reinsurer for the fourth quarter of 2001, which was not received as of December 31, 2001.

9. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability of $14,141,271 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 in its filed annual statements.

A review of the Company's open claim files indicated that the outstanding reserves on a number of the files did not appear to have been reviewed for several years. In order to accurately determine the Company's outstanding loss reserves, it is important that the case reserves on its open claim files be reviewed periodically and adjusted, if necessary. It is recommended that the Company's open claim files be reviewed and updated at least semi-annually and that status reports documenting such reviews be kept in the claim files.

The review also indicated that in some instances, amounts reported in the Company's loss runs as loss reserves and loss payments were actually loss adjustment expenses. The misclassification between losses and loss adjustment expenses could potentially distort the results of an analysis of the Company's reserves. It is recommended that the Company take more care in properly distinguishing between losses and loss adjustment expenses when recording them in its system.

10. PAYABLE TO LOSS PORTFOLIO TRANSFER REINSURER

The Company reported no liability under this caption in its December 31, 2001 filed annual statement. The financial statements contained herein reflect a liability of $721,645.

Examination review of the Company's loss portfolio transfer accounting indicated that the Company billed the transferee for third party reinsurance recoveries. The Company also billed its reinsurers for the same amounts. Thus, the Company took credit for the recoveries twice.

It is recommended that the Company properly bill and account for its loss portfolio transfer in the future.

11. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination contained six recommendations. The current status of these recommendations is as follows (page numbers refer to the prior report):

ITEM		PAGE NO.
A.	Board of Directors	5
	It was recommended that any director who cannot attend board of directors' meetings on a regular basis be asked to resign or vacate his position and be replaced with directors who are able to attend board meetings regularly.	
	The Company has complied with this recommendation.	
B.	Territory and Plan of Operation	6
	It was recommended that the Company represent itself as an accredited reinsurer in only those states that have clearly recognized it with such a designation.	
	The Company has complied with this recommendation.	
C.	Holding Company System	8
	It was recommended that the Company list all companies controlled by the ultimate parent in Schedule Y of the annual statement.	
	The Company has complied with this recommendation.	
D.	Custodian Agreement	
	i. It was recommended that the Company amend its custodian agreements to include the proper safeguards and provisions.	10-11
	The Company has complied with this recommendation.	
	ii. It was recommended that the custodian agreement be authorized by a resolution of the insurer's board of directors or an authorized committee thereof.	11
	The Company has complied with this recommendation.	

ITEM		PAGE NO.
E.	Accounts and Records	
	i. It was recommended that the Company disclose its deferred compensation plan in the "Notes to the Financial Statement" as required by the NAIC Annual Statement instructions. The Company no longer has a deferred compensation plan; therefore, this recommendation is no longer applicable.	11
	ii. It was recommended that the Company disclose their pension and profit sharing plan in the "Notes to the Financial Statement" as required by the NAIC Annual Statement instructions. The Company no longer has a pension and profit sharing plan; therefore, this recommendation is no longer applicable.	11
	iii. It was recommended that the Company report its assumed IBNR in Schedule F-Part 1-Column 3. The Company has complied with this recommendation.	11
F.	Loss and Loss Adjustment Expenses	
	i. It was recommended that the Company establish a reserve for all future costs of settling all outstanding claims, in accordance with Section 1303 of the New York Insurance Law. The Company has complied with this recommendation.	17
	ii. It was recommended that in the future the Company report all unpaid expenses relating to the settlement of claims as unallocated loss adjustment expenses rather than as other underwriting expenses. The Company has complied with this recommendation.	17
G.	Provision for Reinsurance	
	i. It was recommended that the Company not include uncollectible reinsurance recoverable balances as an offset to reinsurance recoverable in Schedule F-Part 5-Column 4. The Company has complied with this recommendation.	18
	ii. It was recommended that the Company write off all reinsurance deemed to be uncollectible through the accounts, exhibits and schedules in which they were originally recorded. The Company has complied with this recommendation.	18

ITEM		PAGE NO.
	iii. It was recommended that the Company not include reinsurance from losses assumed as an offset to reinsurance recoverable in Schedule F Part 5-Column 5.	18
	The Company has complied with this recommendation.	
H	Contingency for Potentially Uncollectible Ceded Reserves	
	It was recommended that the Company write off ceded reinsurance balances deemed to be uncollectible rather than set up a liability for Contingency for Uncollectible Ceded Reserves.	19
	The Company has complied with this recommendation.	

12. SUMMARY OF COMMENTS AND RECOMMENDATIONS

ITEM		PAGE NO.
A.	Common Stocks and Short-term Investments	
	It is recommended that the Company refrain from investing in excess of 10% of its reported admitted assets in any one institution pursuant to the provisions of Section 1409 of the New York Insurance Law.	14
B.	Cash	
	It is recommended that the Company report its investments in the proper annual statement categories in accordance with the Annual Statement instructions.	15
C.	Losses and Loss Adjustment Expenses	
	i. It is recommended that the Company's open claim files be reviewed and updated at least semi-annually and that status reports documenting such reviews be kept in the claim files.	16
	ii. It is recommended that the Company take more care in properly distinguishing between losses and loss adjustment expenses when recording them on its system.	17
D.	Payable to Loss Portfolio Transfer Reinsurer	
	It is recommended that the Company properly bill and account for its loss portfolio transfer in the future.	17

Respectfully submitted,

________/S/_______________
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.

_________/S/____________
Deborah Sexton

Subscribed and sworn to before me

this _________day of _______________________2002.

Appendix No. 21836

STATE OF NEW YORK
INSURANCE DEPARTMENT

I, GREGORY V. SERIO, *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

ICM INSURANCE COMPANY

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

Company

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 14th *day of* *February, 2002*

GREGORY V. SERIO
Superintendent of Insurance