

REPORT ON EXAMINATION

OF THE

INSURANCE COMPANY OF GREATER NEW YORK

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 21591, dated September 7, 2000, attached hereto, I have made an examination into the financial condition and affairs of the Insurance Company of Greater New York as of December 31, 1999 and respectfully submit the following report thereon.

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

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

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, the 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.

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 is a wholly-owned subsidiary of the Greater New York Mutual Insurance Company, and 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. Mead
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

Name and ResidencePrincipal Business Affiliation

Max Solomon
New York, NY

Executive Vice President, Treasurer & Secretary,
Greater New York Mutual Insurance Company

A review of the minutes of the board of directors' meetings 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 Connecticut, Delaware, Maryland, Massachusetts, New Jersey, New York, and Pennsylvania.

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

DIRECT PREMIUMS WRITTEN (in thousands)

	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>Total</u>
New York	\$20,396	\$13,530	\$14,824	\$9,501	\$11,302	\$69,553
Countrywide	\$35,115	\$28,736	\$26,359	\$20,168	\$23,820	\$134,198
Percentage of New York to Total	58%	47%	56%	47%	47%	52%

Most business originates through independent agents and brokers. The Company maintains branch offices in Boston, MA, 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-cancellable 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

<u>Paragraph</u>	<u>Kinds of Insurance</u>
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 insurance 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).

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 lines of which the Company is licensed and pursuant to the requirements of Articles 13 and 63 of the New York Insurance Law, the Company must maintain at all times a surplus to policyholders of \$4,300,000.

C. Reinsurance

The Company is primarily a direct writer. The major portion of its assumed reinsurance represents business obtained through the pooling agreement with its parent, GNY.

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.

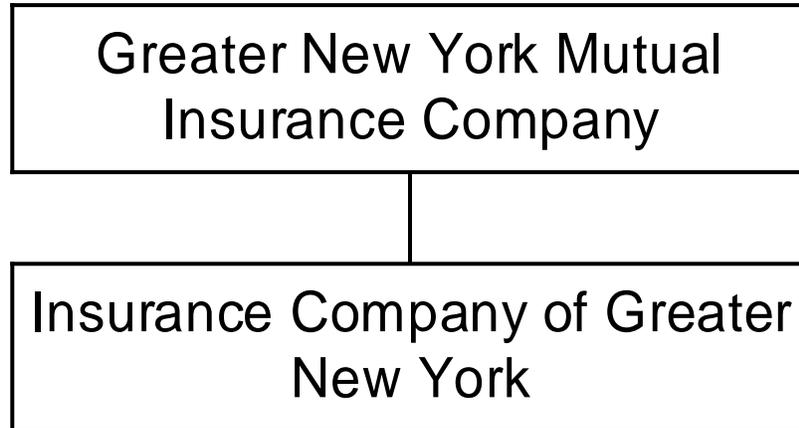
The Group has in effect the following reinsurance contracts at December 31, 1999:

<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.
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.

Inter-company Pooling Agreement

The Company and GNY operate under an inter-company pooling agreement, which has been in effect since January 2, 1968. The agreement provides for GNY to assume 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 participation percentages. The participation percentages as of December 31, 1999 were 10% to the Company and 90% to GNY. Pursuant to this agreement, GNY agrees to sell, transfer and assign ten percent (10%) of GNY's underwriting assets (including agents' balances, uncollected premiums and reinsurance recoverable) and related liabilities to the Company. The provision for reinsurance is a related liability of reinsurance recoverable and losses. The Company did not report any provision for reinsurance in its 1999 Annual Statement. However, due to immateriality, no financial change is made.

It is recommended that the Company report a provision for reinsurance equal to ten 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	.27 to 1
Liabilities to Liquid assets (cash and invested assets less investments in affiliates)	54.0%
Premiums in course of collection to Surplus as regards policyholders	4.9%

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	\$21,344,649	57.92%
Loss adjustment expenses incurred	8,706,056	23.62
Other underwriting expenses incurred	10,785,133	29.27
Net underwriting (loss)	<u>(3,983,538)</u>	<u>(10.81)</u>
Premiums earned	<u>\$36,852,300</u>	<u>100.00%</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	\$50,968,543	\$	\$	\$50,968,543
Cash	973,734			973,734
Agents' balances	2,306,347		361,098	1,945,249
Funds held by or deposited with reinsurance companies	30			30
Reinsurance recoverables on loss and loss adjustment expense payments	274,097			274,097
Interest, dividends and real estate income due and accrued		861,115		861,115
Contingent commissions	89,956			89,956
N.Y. Section 15-8 Recoverable	<u>163,399</u>	_____	_____	<u>163,399</u>
Total assets	<u>\$54,776,106</u>	<u>\$861,115</u>	<u>\$361,098</u>	<u>\$55,276,123</u>

Liabilities, Surplus and Other Funds

Losses		\$18,814,660
Loss adjustment expenses		3,210,672
Contingent commissions		37,500
Other expenses		268,214
Taxes, licenses and fees		53,100
Federal income taxes		19,175
Unearned premiums		4,393,263
Dividends declared and unpaid: Policyholders		169,821
Payable to parent		1,069,397
Deferred annuities		<u>3,534</u>
 Total liabilities		 \$28,039,336
 Common capital stock	\$5,000,000	
Unassigned funds	<u>22,236,787</u>	
 Surplus as regards policyholders		 <u>27,236,787</u>
 Total liabilities and surplus		 <u>\$55,276,123</u>

NOTE: The Company has never been audited by the Internal Revenue Service. 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 \$8,481,046 during the five-year examination period, January 1, 1995 through December 31, 1999, detailed as follows:

Statement of Income

Underwriting income

Premiums earned		\$36,852,300
Deductions:		
Losses incurred	\$21,344,649	
Loss adjustment expenses incurred	8,706,056	
Other underwriting expenses incurred	<u>10,785,133</u>	
Total underwriting deductions		<u>40,835,838</u>
Net underwriting loss		\$(3,983,538)

Investment income

Net investment income earned	\$16,851,055	
Net realized capital losses	<u>(14,063)</u>	
Net investment gain		16,836,992

Other income:

Net loss from agents' balances charged off	\$(504,012)	
Miscellaneous income	<u>22,090</u>	
Net other income (loss)		<u>(481,922)</u>

Net income before dividends to policyholders and before federal and foreign income taxes		\$12,371,378
Dividends to policyholders		<u>971,758</u>

Net income, after dividends to policyholders and before federal and foreign income taxes		\$11,399,774
Federal and foreign income taxes incurred		<u>3,098,333</u>

Net income		<u>\$8,301,441</u>
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Capital and Surplus Account

Surplus as regards policyholders, per report on examination, as of December 31, 1994	\$18,755,741
	<u>Gains in Surplus</u>
Net income	\$8,301,441
Change in non-admitted assets	178,971
Miscellaneous income	<u>634</u>
Net increase in surplus as regards policyholders	<u>8,481,046</u>
Surplus as regards policyholders, per report on examination as of December 31, 1999	<u>\$27,236,787</u>

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liabilities for losses and loss adjustment expenses, totaling \$18,814,660 and \$3,210,672 respectively, are the same amounts as 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 no comments or recommendations.

7. SUMMARY OF COMMENTS AND RECOMMENDATIONS**ITEM****PAGE NO.****A. Intercompany Pooling Agreement**

It is recommended that the Company report a provision for reinsurance equal to ten 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

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

Insurance Company of Greater New York

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

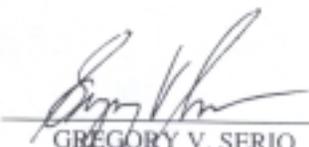
Company

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