

REPORT ON EXAMINATION
OF
THE INSURANCE CORPORATION OF NEW YORK
AS OF
DECEMBER 31, 1999

DATE OF REPORT

JANUARY 10, 2001

EXAMINER

BARRINGTON SCOTT

TABLE OF CONTENTS

<u>ITEM NO.</u>	<u>PAGE NO.</u>
1. Scope of examination	2
2. Description of Company	3
A. Management	4
B. Territory and plan of operation	6
C. Reinsurance	9
D. Holding company system	14
E. Custodial agreement	19
F. Abandoned Property Law	20
G. Significant operating ratios	21
3. Financial statements	22
A. Balance sheet	22
B. Underwriting and investment exhibit	24
4. Aggregate write-ins for other than invested assets	26
5. Losses and loss adjustment expenses	26
6. Loss portfolio transfer account	27
7. Market conduct activities	27
8. Compliance with prior report on examination	28
9. Summary of comments and recommendations	30



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

January 10, 2001

Honorable Neil D. Levin
Superintendent of Insurance
Albany, NY 12257

Sir:

Pursuant to instructions contained in Appointment Number 21506 dated March 3, 2000, I have made an examination into the condition and affairs of The Insurance Corporation of New York as of December 31, 1999, and submit the following report thereon.

Whenever the terms "the Company" or "The Insurance Corporation" appear herein, without qualification, they should be understood to refer to The Insurance Corporation of New York ("INSCORP").

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 conducted as of December 31, 1993. This examination covers the six-year period from January 1, 1994 through December 31, 1999 and was limited in 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 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 Company
- Management and control
- Corporate records
- Fidelity bonds and other insurance
- Territory and plan of operation
- Market conduct activities
- Growth of the Company
- Business in force by states
- Loss experience
- Reinsurance
- Accounts and records
- Financial statements

A review was also made to ascertain what action was taken by the Company with regard to comments and recommendations contained in the prior report on examination.

This examination was conducted at the home office of the Company, located at One Canterbury Green, Stamford, Connecticut 06901.

This report on examination is confined to the financial statements and comments on those matters which involve departures from laws, regulations or rules, or which are deemed to require explanation.

2. DESCRIPTION OF COMPANY

The Company was incorporated as a stock insurance company on May 22, 1968, under the laws of the State of New York with the title of New Reco Reinsurance Corporation of New York, for the purpose of facilitating the acquisition of the Reinsurance Corporation of New York by the Piedmont Management Company, Inc. (“Piedmont”), the parent company. Pursuant to an agreement and a plan of merger dated June 13, 1968 and made effective July 11, 1968, the Reinsurance Corporation of New York merged into “New Reco” with “New Reco”, the continuing corporation, adopting the name, The Reinsurance Corporation of New York (“RECO”).

In December 1994, Piedmont Management Company, Inc. (“Piedmont”) contributed an additional \$17,500,000 in cash to surplus. Due to adverse loss development recorded by the Company, Piedmont contributed \$8,500,000 cash to the Company’s surplus in 1995.

In December of 1995, Piedmont merged with Chartwell Re Corporation (“Chartwell”). The charter of the Reinsurance Corporation of New York was amended effecting its change of name to The Insurance Corporation of New York (“The Insurance Corporation”). This was approved by the Department on June 20, 1996, with an effective date of July 1, 1996.

In October 1999, the New York State Insurance Department approved the acquisition and control of The Insurance Corporation and ReCor Insurance Company Inc. (“ReCor”) by Trenwick Group

Inc. (“Trenwick”). The application provided that Chartwell Re Corporation would merge with, and into, Trenwick, with Trenwick as the surviving corporation. The merger was complete on October 27, 1999.

A. Management

Pursuant to the Company’s charter and bylaws, management of the Company is vested in a board of directors consisting of not less than thirteen nor more than twenty-one members. At December 31, 1999, the board of directors consisted of the following thirteen members:

<u>Name and Residence</u>	<u>Principal Affiliation</u>
Steven Jay Bensinger New York, NY	Executive Vice President, Trenwick America Corporation
Richard Edward Cole Greenwich, CT	Director, Trenwick Group Inc.
Paul Feldsher Trumbull, CT	Executive Vice President and Director, Trenwick America Corporation
James Edward Roberts Easton, CT	Chairman and CEO, The Insurance Corporation of New York
Frederick Davis Watkins West Hartford, CT	Director, Trenwick Group Inc.
Robert Michael DeMichelle New Canaan, CT	President and CEO, Lexington Global Asset Management, Inc.
James Frederick Billet, Jr. Redding, CT	Chairman, President and CEO, Trenwick America Group Inc.
Robert Anthony Giambo Cos Cob, CT	Executive Vice President, Trenwick America Corporation
Joseph Denny Sargent West Hartford, CT	Director, Trenwick Group Inc.
Steven Jay Cohen Massapequa Park, NY	Vice President, Trenwick America Corporation

<u>Name and Residence</u>	<u>Principal Affiliation</u>
Jeffrey Alan Englander New Rochelle, NY	Senior Vice President, Trenwick America Corporation
Alan Lester Hunter Shelton, CT	Executive Vice President and Chief Financial Officer, Trenwick America Corporation
Michael John Warfield Stamford, CT	President, The Insurance Corporation of New York

A review of the minutes of the 18 meetings of the board of directors for the six-year period covered by this examination indicated that the meetings were well attended.

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

<u>Name</u>	<u>Title</u>
James Edward Roberts	Chairman and Chief Executive Officer
Michael John Warfield	President
John Virgilio Del Col	Senior Vice President and Secretary
Yvonne M. Poster	Senior Vice President and Controller

The Company was unable to locate several of the minutes of the audit committee meetings that were held during the examination period. Such meetings took place prior to the merger of Piedmont and Chartwell. It is recommended that the Company maintain such minutes and make them available to the examination staff.

B. Territory and Plan of Operation

The Company is licensed in the District of Columbia and all states except Maine and Hawaii. It is also licensed in Canada. It is licensed 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>Line of Business</u>
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
20	Marine
21	Marine protection and indemnity

The Company is also licensed to write such workers' compensation insurance as may be incident to coverages contemplated under paragraphs 20 and 21 of Section 1113, including insurances described in the Longshoremen's and Harbor Workers' Compensation Act (Public Law No. 803, 69th Cong. as amended; 33 USC Section 901 et seq. as amended). The Company is licensed to write special risk insurance pursuant to Article 63 of the New York Insurance Law and Department Regulation 86 and the kinds of reinsurance as defined in Section 4102(c) and 4103 (a)(4) of the New York Insurance Law.

Based upon the lines of business for which the Company is licensed and pursuant to the requirements of Articles 13 and 41 of the New York Insurance Law, the Company is required to maintain a minimum surplus to policyholders of \$35,000,000.

The following is an exhibit of direct premiums written countrywide and in New York during the examination period, and the percentage that the New York premiums bear to the countrywide premiums:

<u>Year</u>	<u>Countrywide</u>	<u>New York State</u>	<u>Percentage</u>
1994	\$88,081,501	\$13,582,533	15.42%
1995	\$82,623,410	\$13,991,310	16.93%
1996	\$68,307,138	\$13,672,119	20.02%
1997	\$105,634,840	\$13,112,385	12.41%
1998	\$116,852,599	\$13,605,234	11.64%
1999	\$149,525,007	\$22,311,116	14.92%

Prior to its acquisition by Chartwell in late 1995, the Company was an underwriter of treaty and facultative reinsurance through reinsurance brokers for property and casualty risks. Its current business is direct insurance produced by a group of managing general agents (“MGA”), which accounted for approximately 86% of the Company’s direct written premiums for calendar year 1999. Two of the Company’s managing general agents are also members of the same holding company system as the Company. Florida Intercoastal Underwriters, Ltd. (“FIU”), an entity which was 25% owned by Chartwell Re Holdings Corporation, produced 31% of the Company’s direct written premiums for calendar year 1999. Inter-Reco, Inc. was 49% owned by Chartwell Re Holdings on December 31, 1999 and produced 11.3% of the Company’s direct written premiums during calendar year 1999.

Section 80-2.1(d) of Department Regulation 52 defines a controlling producer as a producer who is:

- (1) a member of a holding company system, and who is not controlled by a controlled insurer; or
- (2) a subsidiary or a parent insurer, and who is not a subsidiary of the controlled insurer.

Both FIU and Inter-Reco, Inc. appear to be controlling producers as defined in Department Regulation 52-a. As such, the Company should have made certain annual filings with this Department pursuant to Section 80.2(c) of the aforementioned regulation. Such filings were not made. It is recommended that the Company make the filings as required by Regulation 52-a.

Additionally, HDR Insurance Managers, LLP, which is 20% owned by the Company, produced 22% of the Company's direct written premiums for calendar year 1999.

Department Regulation 120 requires those domestic insurers who appoint managing general agents to comply and file "Form 01" with the Department within thirty days of such appointment. The Company was unable to provide documentation that would indicate that such filings were made for eight of its managing general agents. It is recommended that the Company comply with the provisions of Regulation 120 and make the appropriate filings within the time frame set forth in the regulation.

During the course of the examination, on-site visits were made to three of the Company's managing general agents. The following internal control deficiencies were noted:

- One MGA did not maintain a separate bank account on behalf of the Company; instead, the funds of the Company were maintained in an operating account of the MGA;

- The Company did not obtain an independent financial examination for one of the three MGA visited.

It is recommended that the Company cause its managing general agents to maintain separate bank accounts on behalf of the Company and obtain audited financial statements from all of its managing general agents.

The MGA write business on the Company's policies, then cede to reinsurers based on the Company's direction. The Company initially records the percentage that it wishes to maintain as assumed reinsurance. The Company reverses the entries to include direct business on Schedule T of its annual statements. The Insurance Corporation's direct premiums reported in the 1999 annual statement amounted to \$149,525,007. These writings consisted mainly of commercial multi-peril coverages for condominiums, apartments and office buildings. Also, HDR Insurance Managers, LLP., a managing general agent in which the Insurance Corporation owned 20% of the outstanding shares, produced 22% of The Insurance Corporation's direct premiums written in 1999.

C. Reinsurance

The Company had an assumed quota share reinsurance agreement in effect at December 31, 1999, with Dakota Specialty Insurance Company, a wholly-owned subsidiary of the Company. The agreement covers claims that arise from any occurrence that may occur during the term of the agreement under all binders, policies or contracts of insurance issued by Dakota Specialty Insurance Company. The agreement was approved by the Department on November 8, 1997.

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

As of December 31, 1999, the Company maintained the following ceded reinsurance agreements on the business written by managing general agents on behalf of the Company, as follows:

<u>Type of Contract</u>	<u>Coverage and Cession</u>
<u>Florida Intracoastal Underwriters (FIU)</u>	
Primary Quota Share	87.94%, up to \$27,000,000 policy limit.
Authorized 90.36%	
Unauthorized 9.64%	
Supplemental Quota Share	94.46%, up to \$27,000,000 policy limit.
Authorized 100%	
Property Catastrophe Excess of Loss-First Layer	55% of \$25,000,000 excess of \$35,000,000, per occurrence. Remaining 45% of INSCORP's liability reinsured by the Florida Hurricane Catastrophe Fund described below.
Authorized 79%	
Unauthorized 21%	
Property Catastrophe Excess of Loss-Second Layer	55% of \$35,000,000 excess of \$60,000,000, per occurrence. Remaining 45% of INSCORP's liability reinsured by the Florida Hurricane Catastrophe Fund described below.
Authorized 77%	
Unauthorized 23%	
Property Catastrophe Excess of Loss-Third Layer	55% of \$45,000,000 excess of \$95,000,000, per occurrence. Remaining 45% of INSCORP's liability reinsured by the Florida Hurricane Catastrophe Fund described below.
Authorized 73%	
Unauthorized 27%	
Property Catastrophe Excess of Loss-Fourth Layer	55% of \$60,000,000 excess of \$140,000,000, per occurrence. Remaining 45% of INSCORP's liability reinsured by the Florida Hurricane Catastrophe Fund described below.
Authorized 68%	
Unauthorized 32%	
Casualty Excess of Loss-First Layer	100% of \$750,000 excess of \$250,000, per occurrence.
Authorized 100%	

Type of ContractCoverage and Cession

Casualty Excess of Loss-Second Layer
Authorized 100%

100% of \$1,000,000 excess of
\$1,000,000, per occurrence.

Casualty Excess of Loss-Third Layer
Authorized 100%

100% of \$3,000,000 excess of
\$2,000,000, per occurrence.

Property Facultative Binding Agreement
Authorized 100%

\$41,000,000 excess of \$27,000,000, per risk.

Florida Hurricane Catastrophe Fund
Authorized 100%

45% of \$165,500,000 excess of approximately
\$37,000,000.

Inter-Reco Inc.

Casualty Quota Share
Authorized 94%
Unauthorized 6%

80% of any loss, with a \$1,000,000, policy limit.

Property Quota Share
Authorized 76%
Unauthorized 24%

85% of any loss, with a \$1,000,000, policy limit.

Property Per Risk Excess of Loss
Authorized 67%
Unauthorized 33%

100% of \$9,000,000 excess of \$1,000,000.

Inter-Cas, Ltd.

Quota Share
Authorized 67%
Unauthorized 33%

58% of any loss; subject to a \$1,000,000, policy limit.

Auto Facultative XOL Reinsurance
Authorized 100%

\$4,000,000 excess of \$1,000,000.

Excess of Loss Facultative Placement
Authorized 100%

\$5,000,000 excess of \$5,000,000.

Professional Insurance Underwriters (PIU)

Quota Share
Authorized 54%
Unauthorized 46%

65% of any loss; subject to a \$500,000, policy limit.

Type of ContractCoverage and CessionRisk Control Services, Inc. (RCS)

Workers' Compensation Quota Share

Authorized 33%

Unauthorized 67%

80% of any loss; subject to a \$300,000, policy limit.

Workers' Compensation & Employers'
Liability Excess of Loss

Authorized 100%

100% of \$700,000 excess of \$300,000 per occurrence for employers' liability, statutory excess of loss attaches at \$300,000 and shall not exceed statutory limits for workers' compensation.

HDR Insurance Managers

Umbrella/Excess Quota Share

Authorized 100%

90% of first \$1,000,000, and 100% of limits excess of \$1,000,000; subject to a maximum limit of \$10,000,000.

Property and Inland Marine Quota Share

Authorized 100%

90% of \$2,000,000; property and inland marine have separate limits; combined loss not to exceed 90% of \$4,000,000; net retention of 5% each risk.

Maximum limit of liability and ALAE not to exceed 10 times the Company's net and treaty retention.

Automobile/General Liability Quota Share

Authorized 100%

25% of any loss, up to a maximum policy limit; commercial automobile liability: \$1,000,000, combined single limit; commercial automobile physical damage: \$250,000, any one vehicle; general liability: \$1,000,000, per occurrence/\$2M in the aggregate.

King Insurance Support System (KISS)

Quota Share

Authorized 100%

Section A

80% of any loss, maximum policy limit of: \$400,000-property, \$300,000-liability.

Section B

80% of any loss; maximum policy limit of \$600,000-property, \$500,000-liability.

Primary Quota Share

Authorized 70%

Unauthorized 30%

70% of any loss, maximum policy limit of \$750,000 any one risk, subject to a maximum policy limit of \$1,000,000, per occurrence and \$2,000,000 in the aggregate.

Type of ContractCoverage and CessionKleiner, Fields & Burton, Inc. (KF&B)

Quota Share
 Authorized 85%
 Unauthorized 15%

85% of any loss, maximum policy limit of:
 \$5,000,000, combined single limit; auto liability,
 auto physical damage \$1,000,000, per occurrence.

\$1,000,000 per occurrence/\$2,000,000 aggregate,
 garage liability. General liability is \$2,000,000, per
 occurrence and aggregate.

Public Automobile Excess Cession
 Authorized 60%
 Unauthorized 40%

100% of any loss in excess of \$1,000,000, per
 occurrence; subject to a maximum of \$4,000,000,
 per risk and per occurrence.

San Pro Inc.

Primary Quota Share
 Authorized 100%

75% of any loss, up to a maximum policy limit of
 \$1,000,000, per occurrence and \$2,000,000 in the
 aggregate.

Cencal

Quota Share
 Authorized 28%
 Unauthorized 72%

80% of any loss, up to a maximum policy limit of:
 \$15,000, each person, \$30,000, each occurrence,
 bodily injury liability; \$10,000, each occurrence,
 property damage liability; \$15,000, each person,
 \$30,000 each occurrence, uninsured motorist bodily
 injury liability; \$4,000, each person, medical
 payments; and \$3,500, per occurrence, uninsured
 motorist property damage liability.

Humana Workers' Compensation
 Quota Share
 Authorized 100%

80% of any loss, up to a maximum policy limit of
 \$500,000.

Excess of Loss
 Authorized 100%

100% of \$500,000 excess of \$500,000, per
 occurrence. Subject to statutory limits for workers'
 compensation.

Type of ContractCoverage and CessionW.E. Love & Associates

Commercial Automobile Quota Share
Authorized 100%

100% of any loss, maximum policy limit of:
automobile liability, \$1,000,000
Physical Damage: \$ 250,000, any one unit
\$1,500,000, per catastrophe
\$5,000,000, total values.
General Liability: \$1,000,000 occurrence and
\$2,000,000 aggregate.
Motor Truck Cargo: \$250,000, any one unit and
\$1,000,000, per catastrophe.

In addition to the reinsurance agreements described above, the Company and its affiliates were parties to an aggregate excess of loss agreement with an unaffiliated, unauthorized reinsurer. The agreement, which was effective October 27, 1999, provided coverage to the Company up to an aggregate limit of \$25,000,000 for adverse development on losses incurred prior to the effective date of the agreement.

This type of agreement meets the definition of a loss portfolio transfer as set forth in Department Regulation 108 and is further discussed in items 4 and 6 herein.

D. Holding Company System

The Company is a wholly-owned subsidiary of Chartwell Reinsurance Company, an insurance company. Chartwell Reinsurance Company is wholly-owned by Chartwell Re Holdings Corporation, a Delaware corporation, which is wholly-owned by Trenwick Group Inc., a Delaware company.

A review was made of the filings submitted by the Company pursuant to the requirements of Article 15 of the New York Insurance Law and Department Regulation 52. The filings were deemed to be in compliance with the requirements.

On December 3, 1993, The Insurance Corporation made an initial investment of £100,000 for twenty shares of Riverside Underwriters, Plc (“Riverside”) capital stock and a 1% ownership. Riverside is a corporate member of the Society of Lloyds (“Lloyds”). The shareholders agreement executed by The Insurance Corporation and Riverside on December 3, 1993 requires that the shareholders post a letter of credit equal to nineteen times the amount of its investment. The Insurance Corporation issued a letter of credit on behalf of Riverside for the benefit of Lloyd’s for £1,900,000, which was collateralized by a \$3,343,000 US Treasury security deposited at BBH & Co., New York office. The collateral was reported in Schedule D and Schedule E of the 1999 annual statement. The Insurance Corporation’s percentage ownership in Riverside in 1996 and 1997 was 12% and 16% respectively. Section 1501 of the New York Insurance Law states in part,

“...control shall presume to exist if any person directly or indirectly owns, controls or holds with the power to vote ten percent or more of the voting securities of any other person.”

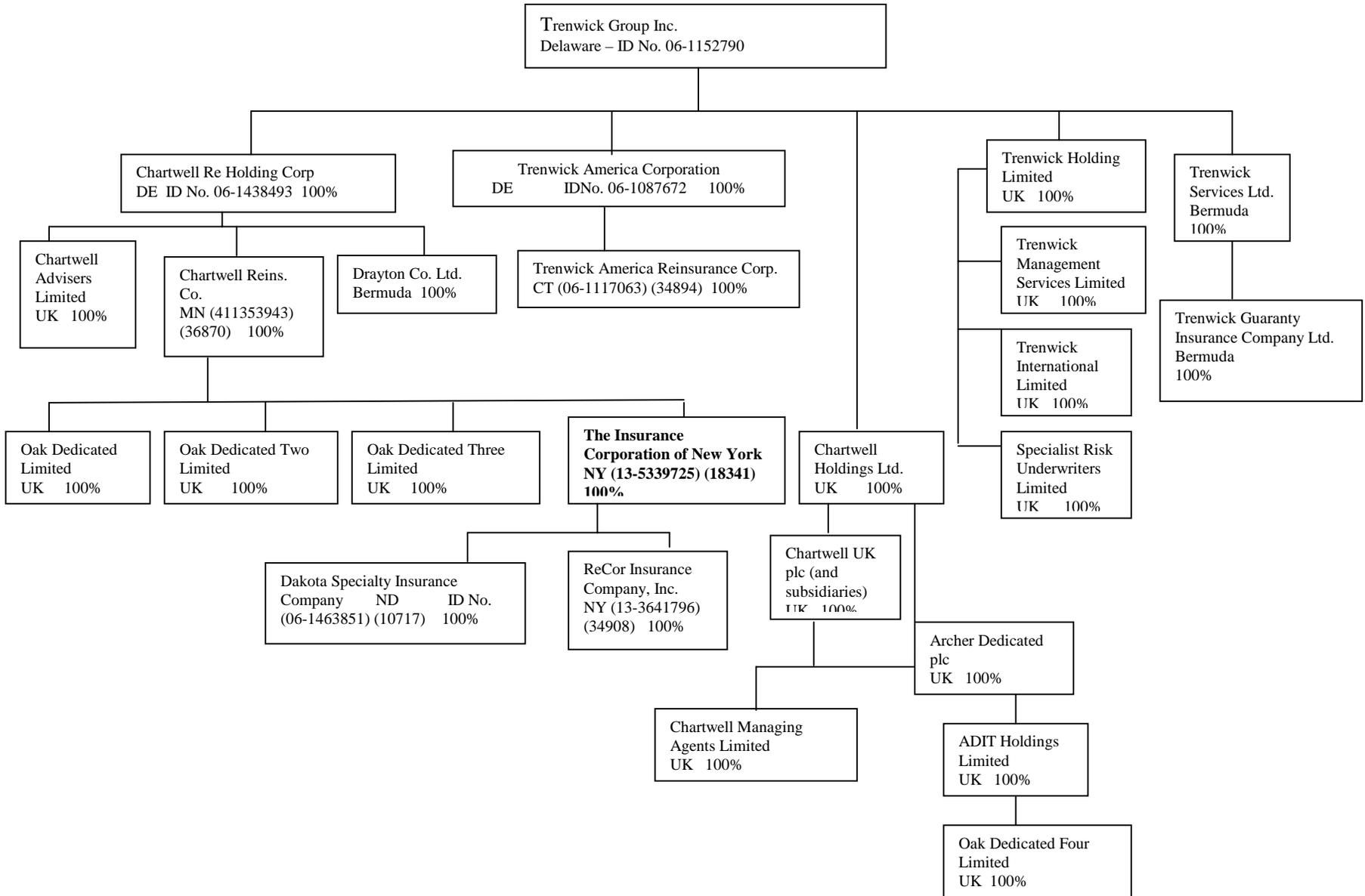
In addition, in its 1995 annual statement the Company reported that it guaranteed approximately \$2.7 million of debt of Craig M. Ferguson & Co. (a general insurance agent) to third parties. It should be noted that the Company also disclosed in its 1995 annual statement that it held a 49% share of Craig M. Ferguson & Co. Section 1501 of the New York Insurance Law states in part,

“...control shall presume to exist if any person directly or indirectly owns, controls or holds with the power to vote ten percent or more of the voting securities of any other person.”

Section 1505(d) of the New York Insurance Law provides that, “the following transactions between a domestic controlled insurer and any person in its holding company system may not be entered into unless the insurer has notified the superintendent in writing of its intention to enter into any such transaction at least thirty days prior thereto, or such shorter period as he may permit, and he has not disapproved it within such period: (1) sales, purchases, exchanges, loans or extensions of credit, or investments, involving more than one-half of one percent but less than five percent of the insurer’s admitted assets at last year-end...”

For the two transactions noted above, the Company did not comply with the notification requirements set forth in Section 1505(d) of the New York Insurance Law. It is recommended that the Company comply with the provisions of Section 1505(d) when entering into agreements with affiliates.

The following is an organizational chart of the holding company system as of December 31, 1999:



Intercompany Agreements

On October 29, 1999, the Company entered into an administrative services agreement with affiliates. The agreement provides that Trenwick Group Inc., (“Trenwick”) and Trenwick America Corporation (“Trenwick America”), both Delaware corporations, shall provide certain accounting, management, consulting and other services to the Company on a cost allocation basis consistent with generally accepted accounting principles and in accordance with New York Insurance Regulation 30.

New York Insurance Department Regulation 30 established guidelines for allocating joint costs among insurers. Section 106.6 of the regulation states in part,

“the methods followed in allocating joint expenses shall be described, kept and supported...”

While the Company could provide an explanation of how joint expenses were allocated, it was not able to produce requested documentation supporting its explanation.

It is recommended that the Company maintain supporting documentation for its allocation of joint costs among insurers.

In addition, on October 27, 1999, the Company entered into a tax allocation agreement with affiliates. The agreement provides that the Company and other affiliates would file consolidated income tax returns with Trenwick. The agreement named Trenwick as the designated agent for the purpose of taking action necessary to filing consolidated returns.

The respective intercompany agreements described above were filed with this Department in September of 1999.

E. Custodial Agreement

The Company's custodial agreements with Fleet Bank, Montreal Trust and BBH and Company were reviewed by the examiner and found to lack various provisions which are deemed by this Department to be representative of good business practices for the contents of such agreements. The custodial agreements should provide necessary safeguards and controls. The protective covenants and provisions referred to are listed below.

1. The bank shall have in force, for its own protection, Bankers' Blanket Bond Insurance of the broadest form available for commercial banks, and will continue to maintain such insurance. The Bank will give the Company 60 days written notice of any material change in the form or amount of such insurance, or termination of this coverage.
2. The bank will at all times give the securities held hereunder the same care given to its own property of a similar nature.
3. The bank will provide the insurer (at least quarterly) with a list of such securities showing a complete description of each issue, which shall include the number of shares or par value of bonds so held at the end of such quarter.
4. The bank will maintain records sufficient to verify information that the insurer is required to report in Schedule D of the Annual Statement blank of the Insurance Department of the State of New York.
5. The bank will furnish the insurer with the appropriate affidavits in the form as may be acceptable to the New York Insurance Department in order for the securities referred to in such affidavits to be recognized as admitted assets of the company.
6. Access shall be during regular banking hours and specifying those persons who shall be entitled to examine on the bank's premises securities held by the bank on its premises and its records regarding securities held, but only upon furnishing the bank with written instructions to that effect from any specified authorized officer.
7. There should be a provision in the agreement that would give the insurer the opportunity to secure the most recent report on the review of the custodian's system of internal controls, pertaining to custodian record keeping, issued by internal or independent auditors.

It is recommended that the agreement between the insurer and each custodian should contain, at a minimum, the protective covenants and provisions deemed by this Department to be representative of good business practices for the contents of such agreements.

F. Abandoned Property Law

Section 1316 of the New York Abandoned Property Law states in part:

“Any amount (except an amount upon which an instrument has been issued which upon its face is non-negotiable by the insured) payable to a resident of this state on or because of a policy of insurance other than life insurance... shall be deemed abandoned property if unclaimed for three years by the person entitled thereto... such abandoned property shall be reported to the comptroller.. on or before the first day of April in each succeeding year.”

During the period 1994 through present, it was determined that the Company had no procedures in effect to handle escheatable items as required by the New York Abandoned Property Law. The Company did not file abandoned property reports with the office of the New York State Comptroller for the period under examination.

It is recommended that the Company establish procedures to handle escheatable items as required by the New York Abandoned Property Law.

It is also recommended that the Company file the requisite abandoned property reports with the office of the New York State Comptroller for the period under examination and such other times as required pursuant to the provisions of the New York Abandoned Property Law.

G. Significant Operating Ratios

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

Net premiums written in 1999 to Surplus as regards policyholders	.35 to 1
Liabilities to liquid Assets (cash and invested assets less investments in affiliates)	82%
Premium in course of collection to Surplus as regards policyholders	3%

All of the above ratios fall within the benchmark ranges as set forth by 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 six-year period covered by this examination:

	<u>Amounts</u>	<u>Ratios</u>
Loss incurred	\$ 321,928,702	73.06%
Loss adjustment expenses incurred	45,767,593	10.39
Other underwriting expenses incurred	174,015,650	39.50
Net underwriting loss	<u>(101,113,856)</u>	<u>(22.95)</u>
Premiums earned	\$ <u>440,598,089</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 as of December 31, 1999:

<u>Assets</u>	<u>Ledger Assets</u>	<u>Non-ledger Assets</u>	<u>Not Admitted Assets</u>	<u>Examination Net-Admitted Assets</u>	<u>Company Net Admitted Assets</u>	<u>Surplus Increase (Decrease)</u>
Bonds	\$273,437,546	\$	\$	\$273,437,546	\$273,437,546	\$
Preferred stocks	7,136,800			7,136,800	7,136,800	
Common stocks	55,557,900	4,494,160	13,629,565	46,422,495	46,422,495	
Cash	19,996,980			19,996,980	19,996,980	
Other invested assets	1,000,000			1,000,000	1,000,000	
Premiums and agents' balances in course of collection	3,844,137			3,844,137	3,844,137	
Premiums and agents' balances booked but deferred and not yet due	6,664,711			6,664,711	6,664,711	
Accrued retrospective premiums	13,772,579			13,772,579	13,772,579	
Funds held by or deposited with reinsured companies	1,552,242			1,552,242	1,552,242	
Reinsurance recoverables on loss and loss adjustment expense payments	18,108,000			18,108,000	18,108,000	
Federal income tax recoverable		3,069,253		3,069,253	3,069,253	
Electronic data processing equipment	5,786			5,786	5,786	
Interest, dividends due and accrued		4,339,082		4,339,082	4,339,082	
Receivable from parent, subsidiaries and affiliates	1,765,819			1,765,819	1,765,819	
Aggregate write-ins for other than invested assets	<u>16,771,165</u>	_____	<u>13,697,047</u>	<u>3,074,118</u>	<u>16,696,375</u>	<u>(13,622,257)</u>
Total assets	<u>\$419,613,665</u>	<u>\$11,902,495</u>	<u>\$ 27,326,612</u>	<u>\$404,189,548</u>	<u>\$417,811,805</u>	<u>\$(13,622,257)</u>

Liabilities

	<u>Examination</u>	<u>Company</u>	Surplus Increase (Decrease)
Losses	\$239,985,901	\$219,081,901	\$(20,904,000)
Reinsurance payable on paid losses and loss adjustment expenses	2,396,000	2,396,000	
Loss adjustment expenses	19,024,518	19,024,518	
Other expenses	1,271,633	1,271,633	
Unearned premiums	17,561,929	17,561,929	
Funds held by company under reinsurance treaties	3,168,611	3,168,611	
Amounts withheld or retained by company for account of others	5,861,643	5,861,643	
Provision for reinsurance	16,598,089	16,598,089	
Net adjustments in assets and liabilities due to foreign exchange rates	6,445,397	6,445,397	
Aggregate write-ins for liabilities	2,184,474	2,184,474	
Loss portfolio transfer	<u>(25,000,000)</u>	<u> </u>	<u>25,000,000</u>
Total liabilities	<u>\$289,498,195</u>	<u>\$293,594,195</u>	<u>\$ 4,096,000</u>
Common capital stock	\$ 3,900,000	\$ 3,900,000	
Gross paid in and contributed surplus	93,567,599	93,567,599	
Unassigned funds	6,223,754	26,750,011	(20,526,257)
Loss portfolio transfer account	<u>11,000,000</u>	<u> </u>	<u>11,000,000</u>
Surplus as regards policyholders	<u>\$114,691,353</u>	<u>\$124,217,610</u>	<u>\$(9,526,257)</u>
Total liabilities and surplus	<u>\$404,189,548</u>	<u>\$417,811,805</u>	

Note: The Internal Revenue Service has not performed any audits of the Company's consolidated federal income tax returns through tax year 1999. 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 by \$54,421,583 during the six-year examination period, January 1, 1994 through December 31, 1999, detailed as follows:

		<u>Statement of Income</u>
<u>Underwriting Income</u>		
Premiums earned		\$440,598,089
Deductions:		
Losses incurred	\$321,928,702	
Loss adjustment expenses incurred	45,767,593	
Other underwriting expense	<u>174,015,650</u>	
Total underwriting deductions		<u>541,711,945</u>
Net underwriting loss		\$(101,113,856)
<u>Investment Income</u>		
Net Investment income earned	\$130,887,626	
Net realized capital gains	<u>9,424,729</u>	
Net investment gain		140,312,355
<u>Other Income</u>		
Net gain or loss from agents' balances charged off	\$ (278,869)	
Miscellaneous income	<u>14,000,368</u>	
Total other income		<u>13,721,499</u>
Net income before federal and foreign income taxes		\$ 52,919,998
Federal income taxes incurred		<u>10,729,315</u>
Net income		\$ <u>42,190,683</u>

Capital and Surplus Account

Surplus as regards policyholders, per report on examination as of
December 31, 1993 \$60,269,770

	<u>Gains</u>	<u>Losses</u>
Net income	\$42,190,683	\$
Net unrealized capital losses		12,772,277
Change in non-admitted assets	1,444,936	
Change in provision for reinsurance	5,963,919	
Change in foreign exchange adjustment		4,405,678
Dividends to Stockholders		4,000,000
Capital Paid in	<u>26,000,000</u>	
Total gains and losses	<u>\$75,599,538</u>	<u>\$21,177,955</u>

Net increase in surplus as regards policyholders 54,421,583

Surplus as regards policyholders, per report on examination as of
December 31, 1999 \$114,691,353

4. AGGREGATE WRITE-INS FOR OTHER THAN INVESTED ASSETS

The examination admitted asset of \$3,148,908 is \$13,622,257 less than the \$16,771,165 reported by the Company in its December 31, 1999 filed annual statement.

In October 1999, the Company paid \$14,000,000 for a retroactive reinsurance cover (See Section C., Reinsurance, in this report). At December 31, 1999, the Company reported amounts recoverable under a retroactive reinsurance agreement as part of this asset. These amounts should have been reported as a negative liability, rather than an asset, in accordance with Department Regulation 108. The financial statements in this report reflect the proper accounting treatment.

5. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination losses and loss adjustment expense reserves of \$259,010,419 are \$20,904,000 more than the \$238,106,419 reported by the Company in its December 31, 1999 filed annual statement. The examination reserves were calculated in accordance with generally accepted actuarial principles and practices and were based upon statistical information reflected in the Company's filed and sworn to annual statements.

The examination increase to the captioned liability was based on a one year development of the Company's loss and loss adjustment expense reserves as set forth in its December 31, 2000 filed annual statement.

6. LOSS PORTFOLIO TRANSFER ACCOUNT

The Company did not report any contra liability for this account in its December 31, 1999 filed annual statement. The examination contra liability of \$25,000,000 was established in order to reclassify the reserves transferred under the loss portfolio transfer described in Section 2c herein. It is noted that the Company reported the reserves transferred a part of the asset "Aggregate Write-Ins for Other than Invested Assets."

The examination's contra liability consists of reserves transferred and amounts recoverable under the loss portfolio transfer and reflects the examination increases to the liabilities for loss and loss adjustment expenses based on the twelve month development as reported by the Company in its December 31, 2000 filed annual statement.

It is recommended that the Company report the reserves transferred under the loss portfolio agreement as a negative liability, pursuant to Department Regulation 108. Additionally, it is recommended that any surplus gain resulting from the loss portfolio transfer be reported as segregated surplus.

7. 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 to encompass the generally more precise scope of a market conduct investigation which is the responsibility of the Market Conduct Unit of the Property Bureau of this Department.

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

- 1) Sales and advertising
- 2) Underwriting
- 3) Rating
- 4) Claims

No problem areas were encountered.

8. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Territory and Plan of Operation</u>	
It is recommended that the Company adhere to the terms of the written contract with Florida Intercoastal Underwriters, Ltd. (FIUL) as regards the maximum premium volume it is permitted to write.	8
The Company has complied with this recommendation.	
It is recommended that the Company adhere to the terms of its written agreements with its agents as regards the timeliness of premium remittances.	8
The Company has complied with this recommendation.	
B. <u>Holding Company</u>	
It is recommended that the Company comply with the provision of Department Regulation 52 and Section 1505 (d) of the New York Insurance Law as regards notifying the Superintendent in writing of its intention to enter into material transactions with any person in its holding company system.	11
The Company has not complied with this recommendation and is reiterated in this report.	
It is recommended that the Company report transactions entered into with Continental National Indemnity Corporation in accordance with the terms agreed upon at the time the Department granted a license to CNIC to do the business of insurance in New York, as if those transactions were subject to Section 1505 of the New York Insurance Law.	13-14
The Company has complied with this recommendation	

<u>ITEM</u>	<u>PAGE NO.</u>
<p>It is recommended that the Company comply with the provisions of Section 1505(d) of the New York Insurance Law as regards the acquisition of mutual funds which are managed and/or controlled by Lexington Management Corporation.</p> <p>The Company has complied with this recommendation.</p>	14
<p>C. <u>Audited Financial Statements</u></p>	
<p>It is recommended that the Company comply with the provisions of Section 307(b) of the New York Insurance Law and Department Regulation 118 with respect to its written engagement contracts with its CPAs.</p> <p>The Company has complied with this recommendation.</p>	17
<p>D. <u>Conflict of Interest</u></p>	
<p>It is recommended that conflict of interest statements be distributed annually and that the existing conflict of interest guidelines be revised to permit the board of directors to properly oversee and resolve the disclosure of any conflicts.</p> <p>The Company has complied with this recommendation.</p>	17
<p>E. <u>Abandoned Property Law</u></p>	
<p>It is recommended that the Company establish procedures to handle escheatable items as required by the New York Abandoned Property Law.</p> <p>The Company has not complied with this recommendation. A similar recommendation is contained in this report.</p>	19
<p>It is also recommended that the Company file the requisite abandoned property reports with the office of the New York State Comptroller for the period under examination and such other times as required pursuant to the provisions of the New York Abandoned Property Law.</p> <p>The Company did not comply with this recommendation. A similar recommendation is contained in this report.</p>	19

<u>ITEM</u>	<u>PAGE NO.</u>
F. <u>Accounts, Records and Internal Controls</u>	
It is recommended that, in the future, the Company investigate and resolve unposted or pending items on its bank reconciliations in a timely manner.	19

The Company has complied with this recommendation.

9. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Management</u>	
It is recommended that, in the future, The Insurance Corporation maintain minutes of the audit committee and make them available to the examination staff.	5
B. <u>Territory and Plan of Operation</u>	
i. It is recommended that the Company make the required annual filings pursuant to Department Regulation 52-a.	8
ii. It is recommended that the Company comply with the provisions of Regulation 120 and make the appropriate filings with this Department.	8
iii. It is recommended that the Company cause its managing general agents to maintain separate bank accounts on behalf of the Company and obtain audited financial statements from all of its managing general agents.	9
C. <u>Holding Company System</u>	
i. It is recommended that the Company comply with the provisions of Section 1505(d) of the New York Insurance Law, when entering into agreements with affiliates.	16
ii. It is recommended that the Company maintain supporting documentation for its allocation of joint costs among insurers.	18
D. <u>Custodial Agreement</u>	
It is recommended that the agreement between the insurer and each custodian should contain, at a minimum, the protective covenants and provisions deemed by this Department to be representative of good business practices for the contents of such agreements.	20

<u>ITEM</u>	<u>PAGE NO.</u>
E. <u>Abandoned Property Law</u>	
i. It is recommended that the Company establish procedures to handle escheatable items as required by the New York Abandoned Property Law.	20
ii. It is also recommended that the Company file the requisite abandoned property reports with the office of the New York State Comptroller for the period under examination and such other times as required pursuant to the provisions of the New York Abandoned Property Law.	20
F. <u>Loss Portfolio Transfer Account</u>	
It is recommended that the Company report the reserves transferred under the loss portfolio agreement as a negative liability, pursuant to Department Regulation 108. Additionally, it is recommended that any surplus gain resulting from the loss portfolio transfer be reported as segregated surplus.	27

Appointment No 21506

STATE OF NEW YORK
INSURANCE DEPARTMENT

I, NEIL D. LEVIN, Superintendent of Insurance of the State of New York,
pursuant to the provisions of the Insurance Law, do hereby appoint:

Barrington Scott

as proper person to examine into the affairs of

The Insurance Corporation of New York

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

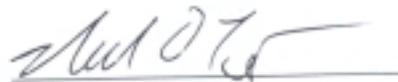
Corporation

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 3rd day of March, 2000




NEIL D. LEVIN
Superintendent of Insurance