

REPORT ON EXAMINATION
OF THE
MARINE INDEMNITY INSURANCE COMPANY OF AMERICA
AS OF
DECEMBER 31, 2001

DATE OF REPORT

FEBRUARY 25, 2003

EXAMINER

LU ANN THERRELL

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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

February 25, 2003

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

Sir:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 21867 dated May 9, 2002, attached hereto, I have made an examination into the condition and affairs of the Marine Indemnity Insurance Company of America as of December 31, 2001 and submit the following report thereon.

The examination was conducted at the Company's administrative office located at 9300 Arrowpoint Boulevard, Charlotte, North Carolina 28201.

The Company's statutory home office is located at One Chase Plaza, 38th floor, New York, New York 10005.

Wherever the designation "the Company" appears herein without qualification, it should be understood to mean the Marine Indemnity Insurance Company of America.

Wherever the designation “Department” appears herein without qualification, it should be understood to mean the New York Insurance Department.

1. SCOPE OF EXAMINATION

The previous examination was conducted as of December 31, 1997. This examination covered the four-year period from January 1, 1998 through December 31, 2001. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

The examination comprised a complete verification of assets and liabilities as of December 31, 2001, a review of income and disbursements deemed necessary to accomplish such verification, and utilized, to the extent considered appropriate, work performed by the Company's independent certified public accountants. A review or audit was also made of the following items as called for in the Financial Condition Examiners' Handbook of the National Association of Insurance Commissioners:

- History of Company
- Management and control
- Corporate records
- Fidelity bonds and other insurance
- Territory and plan of operation
- Growth of Company
- Business in force by states
- Reinsurance
- Accounts and records
- Financial statements
- Market conduct activities

A review was also made to ascertain what action was taken by the Company with regard to comments and recommendations made 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 Indemnity Marine Assurance Company, Limited, was organized on July 4, 1825 under the laws of the United Kingdom. A United States Branch was established in 1889 under the laws of the State of New York. In 1968, financial control of the Indemnity Marine Assurance Company, Limited was transferred to its ultimate parent company, the Commercial Union Assurance Company, Limited of London, England. On December 27, 1973, the United States Branch was domesticated into a newly formed domestic insurer, the Marine Indemnity Insurance Company of America, to take effect on January 1, 1974. Ownership of the Company was transferred to the Scottish Lion Insurance Company, Limited in September 1974 and its parent company, the Scottish Lion Holdings, Ltd., on June 5, 1981.

Complete financial control of the Company was acquired on July 15, 1982 by Bermuda Fire & Marine International, Inc., a Delaware corporation which was a wholly-owned subsidiary of Bermuda Fire & Marine Insurance Company, Ltd., Bermuda.

Financial control of the Company was acquired on November 7, 1990 when Sun Alliance USA, Inc. purchased Bermuda Fire Marine International, Inc. and renamed it Marine Indemnity (Holdings), Inc., a Delaware corporation.

On July 19, 1996, Sun Alliance Group plc changed its name to Royal & Sun Alliance Insurance Group plc concurrent with a merger with Royal Insurance Holdings plc (“Royal”) under which all of the shares of Royal were acquired in exchange for shares in the renamed Royal & Sun Alliance Insurance Group plc. The Company’s immediate parent is Royal Indemnity Company.

As of December 31, 2001 the capital structure of the Company consisted of shares of 16,000 issued and outstanding common stock at \$200 par value per share, that resulted in a paid in capital of \$3,200,000.

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 twenty-one members. As of the examination date, the board of directors was comprised of thirteen members. The directors as of December 31, 2001 were as follows:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Terry Broderick Charlotte, NC	President and Chief Executive Officer, Royal Insurance
Andrea Duszenczuk East Amherst, NY	Segment Underwriting Manager – Syracuse, NY, Royal Insurance
Joseph F. Fisher Charlotte, NC	Senior Vice President and Chief Financial Officer, Royal Insurance
Ernest Frohboese Charlotte, NC	Senior Vice President and Chief Investment Officer, Royal Insurance
Susan Kesselman Bedminster, NJ	Vice President, Royal Insurance
Michael McGinley Charlotte, NC	Senior Vice President and Chief Claims Officer, Royal Insurance
Thomas McMahon New York, NY	Vice President, Royal Insurance
Stephen Mulready Wethersfield, CT	Senior Vice President, Royal Insurance
Daniel Reppert Fort Mill, SC	Senior Vice President, Royal Insurance

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Paul H. Stewman Charlotte, NC	Executive Vice President, Royal Insurance
John Tighe Charlotte, NC	Senior Vice President, Royal Insurance
Joyce W. Wheeler Charlotte, NC	Senior Vice President, Chief Corporate Officer and General Counsel, Royal Insurance
James Williams, III Charlotte, NC	Senior Vice President and Chief Information Officer, Royal Insurance

The minutes of all meetings of the board of directors and committees thereof held during the examination period were reviewed. Three of the board members, Andrea Duszenczuk, Susan Kesselman and Thomas McMahon failed to attend any of the meetings, except Andrea Duszenczuk, who was teleconferenced in during one of the five meetings held during the examination period. Members of the board have a fiduciary responsibility and must evidence an ongoing interest in the affairs of the insurer. It is essential that board members attend meetings consistently and set forth their views on relevant matters so that appropriate policy decisions may be reached by the board. Individuals who fail to attend at least one-half of the board's regular meetings do not fill such criteria. Board members who are unable or unwilling to attend meetings consistently should resign or be replaced.

In accordance with Section 1201(a)(5)(B)(vi) of the New York Insurance Law, the Company's charter states that of the directors of the Company, "not less than three shall be residents of this state". The list of directors provided by the Company indicates only two of the directors, Andrea J. Duszenczuk and Thomas McMahon reside in New York. It is recommended that the Company comply with Section 1201(a)(5)(B)(vi) of the New York Insurance Law, Article VI of the Company's charter and Article III, Section 2 of the Company's by-laws by ensuring that not less than three of its board of directors be residents of the State of New York.

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

<u>Name</u>	<u>Title</u>
Terry Broderick	President and Chief Executive Officer
Paul H. Stewman	Executive Vice President
Joseph F. Fisher	Senior Vice President and Chief Financial Officer
Ernest C. Frohboese	Senior Vice President and Chief Investment Officer
Michael J. McGinley	Senior Vice President and Chief Claims Officer
Stephen M. Mulready	Senior Vice President
Daniel A. Reppert	Senior Vice President
John Tighe	Senior Vice President
Joyce W. Wheeler	Senior Vice President, Chief Corporate Officer, & General Counsel
James G. Williams, III	Senior Vice President and Chief Information Officer
Linda Young Pettigrew	Secretary
Gwyn Wallace Fuller	Treasurer

B. Territory and Plan of Operation

As of the examination date, in addition to New York, the Company was licensed in the following states:

California	Illinois	Michigan	Oregon
Florida	Louisiana	Missouri	Pennsylvania
Georgia	Maryland	New Jersey	Virginia
Hawaii	Massachusetts	Ohio	Washington

As of December 31, 2001 the Company was licensed to transact the kinds of insurance as defined in the following numbered paragraphs of Section 1113(a) of the New York Insurance Law:

<u>Paragraph</u>	<u>Kind of Insurance</u>
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

<u>Paragraph</u>	<u>Kind of Insurance</u>
16	Fidelity and surety
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine
21	Marine protection and indemnity

In addition, the Company is licensed 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 No. 803, 69 Cong., as amended; 33 USC Section 901 et. seq. as amended). Additionally, the Company is licensed to conduct the business of special risk insurance pursuant to Article 63 of the New York Insurance Law.

Based upon the lines of business for which the Company is licensed, and the Company's current capital structure, and pursuant to the requirements of Articles 13 and 41 of the New York Insurance Law, the Company is required to maintain a minimum surplus to policyholders in the amount of \$1,900,000. To maintain its Special Risk license issued pursuant to Article 63, the Company is required to maintain a surplus to policyholders of at least \$3,800,000.

During the previous examination, direct written premiums were written as a participant in the Wm. H. McGee & Co., Inc. inter-office reinsurance pools (U.S. and Canada) ("McGee"). The principal lines of business underwritten by McGee-U.S. and McGee-Canada were ocean marine, inland marine and commercial multiple peril. The Company withdrew from the McGee-U.S. pool in 1998. This business is currently in run-off. The Company withdrew from the McGee-Canada pool in 1997 and entered in to a transfer and assumption agreement with Royal Insurance Company of Canada on February 2, 1998.

The direct written premiums for the period under examination are as follows:

<u>Calendar Year</u>	<u>New York State</u>	<u>Total United States</u>	<u>Percentage of U. S. Premiums Written in New York State</u>
1998	0	\$154,163	0%
1999	0	\$850,464	0%
2000	\$4,420	\$858,817	.51%
2001	\$(502)	\$1,200,890	(.04)%

C. Reinsurance

McGee Pool Run-Off

The ceded reinsurance program maintained by McGee for the benefit of participating companies is designed to protect them from excessive and catastrophic losses. The following reinsurance program was in place at December 31, 1997. McGee has indicated that this program is still in place and that there have been no changes or commutations with any of the reinsurers. McGee maintained the following reinsurance coverages on behalf of the participating companies:

<u>Type of Treaty</u>	<u>Coverage</u>
<u>Inland Marine First Surplus</u>	
Inland Marine	Cede up to five lines as surplus to the manager's retention, not less than 25% on any one risk.
Property business	Cede up to one line as surplus to the manager's retention.
Special risk business	Cede up to one line as surplus to the manager's retention.
<u>Cargo Surplus Cessions Quota Share</u>	Accept up to \$15,000,000 being any one original assured, account, contract, vessel, aircraft, conveyance or location. Cession is to be in respect of that proportion of the limit of the original declaration in excess of \$5,000,000.
<u>Hull Quota Share</u>	80% quota share of \$1,500,000 any one vessel on Hull and Hull interests.
	80% quota share of \$1,500,000 any one vessel on Protection and Indemnity risks.

<u>Type of Treaty</u>	<u>Coverage</u>
	80% quota share of \$ 1,500,000 any one risk on Physical Damage under Marina and Dealers policies. \$1,500,000 any one risk on other interest.
<u>Armored Car First Excess of Loss</u>	\$500,000 excess of \$500,000 each and every loss.
<u>Armored Car Second Excess of Loss</u>	\$1,500,000 excess of \$1,000,000 each and every loss.
<u>Armored Car Excess of Loss Back-up</u>	\$2,000,000 excess of \$500,000 each and every loss.
<u>Armored Car Excess Cessions</u>	90% of \$2,500,000 each risk, each loss excess of \$2,500,000 each risk.
<u>Worldwide Excess of Loss</u>	
Section 1 -Cargo, Inland marine, Multiple Line Multiple peril business, excluding CMP Special Risks class	\$3,500,000 excess of \$1,500,000 each and every loss, per risk or location.
Section 2-Ocean Cargo, including Air Transit Risks where applicable and not otherwise covered in Section 1 above.	\$3,500,000 excess of \$1,500,000 each and every loss, per policy.
<u>Cargo Underlying Risk Excess of Loss</u>	\$1,000,000 excess of \$500,000 each and every loss, per risk or location.
<u>Cargo Reinstatement Premium Excess of Loss</u>	\$1,000,000 excess of \$500,000, each and every loss, per risk or location.
<u>General Excess of Loss</u>	
Section 1a-Ocean Marine	\$3,500,000 excess of \$1,500,000.
Section 1b-Ocean Marine	\$3,500,000 excess of \$600,000 in respect of American Hull Insurance Syndicate.
Section 1c-Ocean Marine	\$3,500,000 excess of \$250,000 in respect of American Offshore Insurance Syndicate.
If loss involves 1b and 1c	\$3,500,000 excess of \$1,500,000 \$3,500,000 excess of \$600,000.
Section 2-Inland Marine and Multiple Line and/or Multiple peril divisions	\$2,500,000 excess of \$2,500,000.
Section 3-If loss involves interest covered in Sections 1 and 2	\$2,500,000 excess of \$2,500,000.

<u>Type of Treaty</u>	<u>Coverage</u>
<u>General Second Excess of Loss</u>	\$7,500,000 excess of combined limits and retentions of underlying layers.
<u>General Third Excess of Loss</u>	\$10,000,000 excess of combined limits and retentions of underlying layers.
<u>General Fourth Excess of Loss</u>	\$12,500,000 excess of combined limits and retentions of underlying layers.
<u>General Fifth Excess of Loss</u>	\$15,000,000 excess of combined limits and retentions of underlying layer.
<u>General Sixth Excess of Loss</u>	\$15,000,000 excess of combined limits and retentions of underlying layers.
<u>Jewelry, Furs & Personal Articles Quota Share</u>	100% quota share \$250,000 any one item \$1,000,000 any one insured.
<u>Fine Arts Quota Share</u>	
Section 1 - Personal and Museums	100% quota share \$5,000,000 any one policy \$1,000,000 any one item.
Section 2-Dealers	\$1,000,000 any one policy.

The Company also maintains reinsurance through the Royal & SunAlliance corporate covers on the surplus lines business written during the period under examination as follows:

<u>Line of Business</u>	<u>Coverage Terms/Limitations</u>
Environmental Quota Share	65% Quota Share up to \$1,000,000 each risk.
Excess Cessions	
2 Layers	90% Quota Share up to \$4,000,000 excess of \$1,000,000 each risk.
Casualty Excess of Loss	\$250,000 excess of \$250,000 each and every loss occurrence, each insured
2 Layers	\$500,000 excess of \$500,000 each and every loss occurrence, each insured.
Casualty Quota Share Excess Cessions	Other Casualty Liability 90% Quota Share \$1,000,000 excess of \$1,000,000 each and every loss occurrence each insured.

<u>Line of Business</u>	<u>Coverage Terms/Limitations</u>
	Professional Liability 90% Quota Share \$4,000,000 excess of \$1,000,000 each and every occurrence, each insured.
Property Program Surplus Cessions	1st \$1,000,000 Limit Quota Share 2 nd \$2,000,000 Limit Quota Share 3 rd \$3,000,000 Limit Quota Share
Umbrella & Excess Liability 2 Layers	63.33% Quota Share up to \$15,000,000 each loss, each insured and/or in the aggregate each insured. 94.3% Quota Share of policy limits up to and including \$35,000,000 excess of \$15,000,000 each loss, each insured and/or in the aggregate each insured.
Primary Casualty	60% Quota Share \$2,000,000 Limit
D&O Quota Share	50% Quota Share \$10,000,000 Limit
Management Assurance Directors & Officers, etc.	a) Quota Share of first \$500,000 in excess of \$3,000,000 up to 70% of \$22,000,000 aggregate.
Excess Liability	b) Quota Share of next \$24,500,000 Excess: 60% Quota Share of \$25,000,000.
Professional Liability	c) 60% of each Net loss in excess of \$1,000,000 up to 60% of \$4,000,000.
Technology Errors & Omissions, etc.	d) 65% in excess of \$1,000,000 up to 65% of \$14,000,000.
Worldwide Intellectual Property Liability Protection	e) 15% each policy up to \$5,000,000 35% each policy in excess of \$5,000,000 40% each policy in excess of \$15,000,000
Casualty CAT/Clash	Other Casualty: \$5,000,000 excess \$406,250 Professional Liability: \$5,000,000 excess \$706,250 Environmental: \$5,000,000 excess of \$750,000

D. Holding Company System

The Company is a wholly-owned subsidiary of Royal Indemnity Company and is ultimately owned by Royal and Sun Alliance Insurance Group plc., a British corporation.

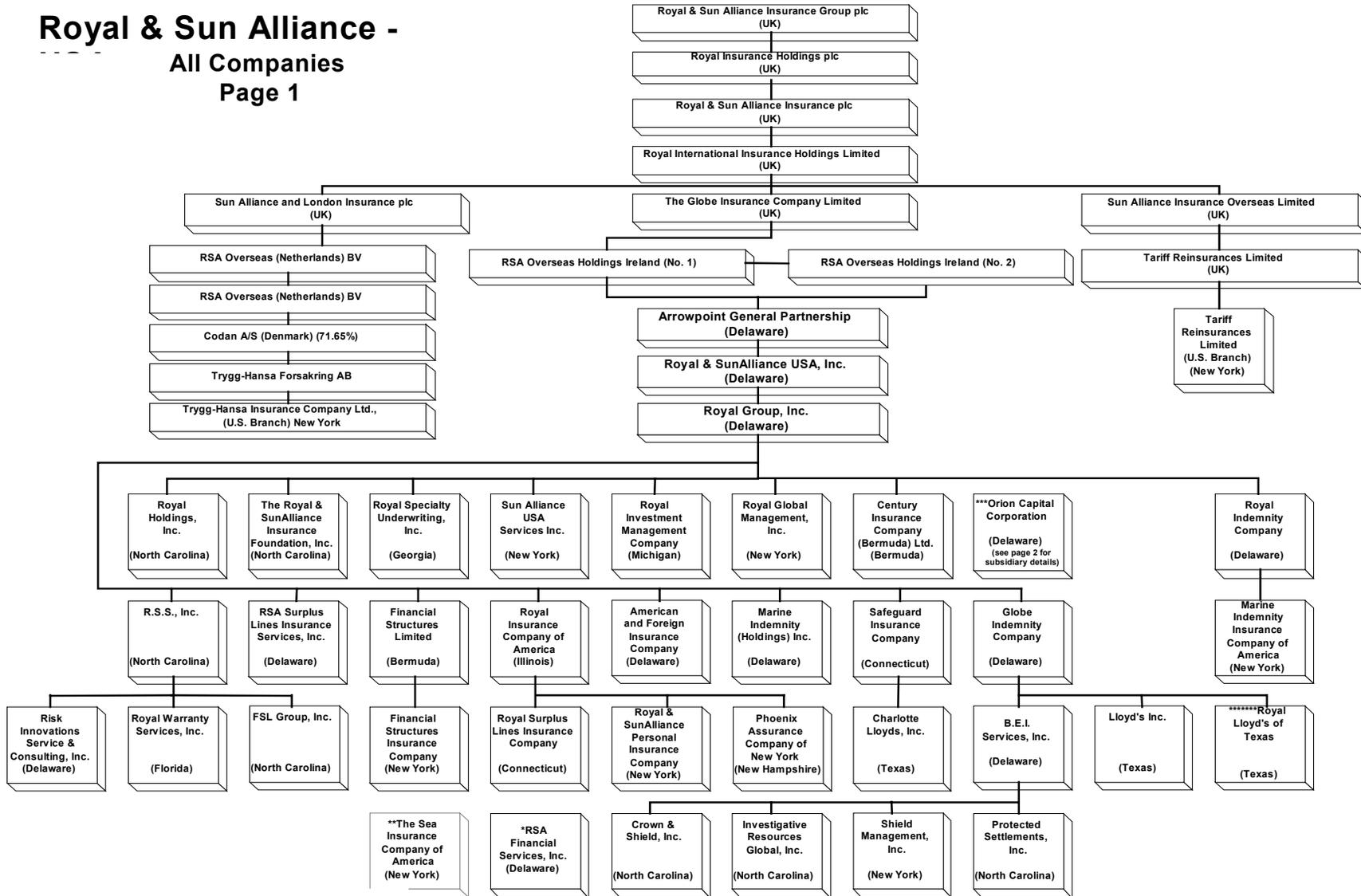
A review was made of the filings submitted by the Company pursuant to the requirements and standards set forth for holding company organizations under Article 15 of the New York Insurance Law and Department Regulation 52.

The following chart shows the position of the Company in the holding company system as of December 31, 2001:

Royal & Sun Alliance -

All Companies

Page 1

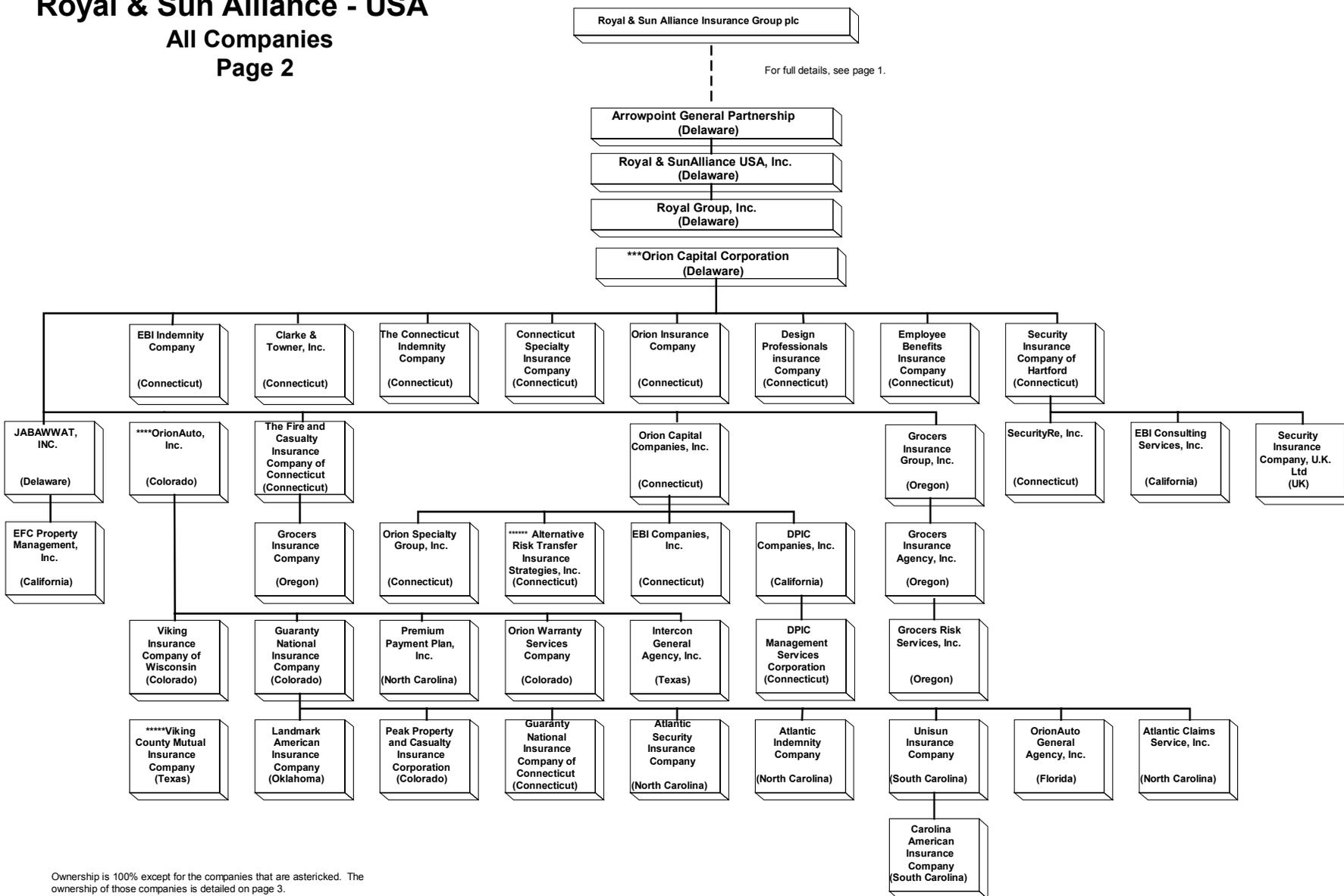


Ownership is 100% except for the companies that are asterisked. The ownership of those companies is detailed on page 3.

Royal & Sun Alliance - USA

All Companies

Page 2



Ownership is 100% except for the companies that are astericked. The ownership of those companies is detailed on page 3.

Royal & Sun Alliance - USA

All Companies

Page 3

Ownership of the Royal & SunAlliance companies is 100% except for the following:

*RSA Financial Services, Inc.:

Royal Indemnity Company - 42.9%
Royal Insurance Company of America - 23.8%
Globe Indemnity Company - 13.6%
Safeguard Insurance Company - 12.3%
American and Foreign Insurance Company - 7.4%

**The Sea Insurance Company of America:

Royal Insurance Company of America - 40.0%
Royal Indemnity Company - 37.0%
Safeguard Insurance Company - 10.0%
American and Foreign Insurance Company - 7.0%
Globe Indemnity Company - 6.0%

***Orion Capital Corporation:

Royal Group, Inc. - 89.4%
EFC Property Management, Inc. - 2.4%
Royal Insurance Company of America - 1.8%
The Connecticut Indemnity Company - 1.5%
SecurityRe, Inc. - 1.4%
Royal Indemnity Company - 1.2%
The Fire and Casualty Insurance Company of Connecticut - 0.6%
Globe Indemnity Company - 0.6%
Security Insurance Company of Hartford - 0.4%
JABAWWAT, Inc. - 0.3%
American and Foreign Insurance Company - 0.2%
Safeguard Insurance Company - 0.2%

****OrionAuto, Inc.:

Security Insurance Company of Hartford - 32.2%
Royal Indemnity Company - 31.4%
Royal Insurance Company of America - 19.9%
American and Foreign Insurance Company - 6.6%
Safeguard Insurance Company - 6.3%
The Fire and Casualty Insurance Company of Connecticut - 3.6%

***** Viking County Mutual Insurance Company:

Owned by the policyholders; managed by Viking Insurance Company of Wisconsin

***** Alternative Risk Transfer Insurance Strategies, Inc.:

Orion Capital Companies, Inc. - 80%
Royal Group, Inc. - 20%

***** Royal Lloyd's of Texas

Association of Underwriters; Globe Indemnity has Trust Agreements with the Underwriters

The Company was a party to the following holding company agreements as of December 31, 2001:

Tax Allocation Agreement dated December 31, 1999

The Company's federal income tax return is included in the consolidated return of Arrowpoint General Partnership, Royal & SunAlliance USA, Inc., Royal Group, Inc., and various subsidiaries. The agreement dated December 31, 1999, replaces a previously filed agreement, beginning with the 1999 tax year. The Company has indicated the tax allocation agreement dated December 31, 1999 was not submitted to the New York Insurance Department for approval as required by Section 1505(d) of the New York Insurance Law and Circular Letter 33 (1979). Although the agreement was disclosed in the Company's HC-1 filings, disclosure in the Form B (HC-1) does not take the place of required filings pursuant to Section 1505 of the New York Insurance Law and Department Circular Letter 33 (1979).

Subsequent to the examination date, in January 2003, the Company submitted the tax allocation agreement dated December 31, 1999 to the Department. The Department non-objected to the implementation of this agreement.

Administrative Services and Expense Sharing Agreement effective January 1, 2001

The Company is party to an administrative services and expense sharing agreement pursuant to which Royal Indemnity Company provides services including but not limited to financial, legal and regulatory, information services, and human resources, and allocates costs related to such services amongst the affiliated companies. The administrative services and expense sharing agreement effective January 1, 2001 was submitted to the Department in accordance with Section 1505(d) of the New York Insurance Law, and non-objected to provided that the effective date of the agreement be no sooner than December 7, 2001. It is noted that expenses were charged to all companies from January 1, 2001.

Investment Management Agreement effective April 23, 1999

The Company is party to an investment management agreement with Royal Investment Management Company ("RIMCO"). RIMCO provides services relating to the management of the Company's investment portfolio, subject to the investment policy statement approved by the board of directors. These services include, but are not limited to investment analysis, research and purchase and sale of investments. The Company is charged a management fee for these services based on the ledger value of the Company's investment portfolio.

An amendment to this agreement was entered into on September 11, 2000, effective April 23, 1999. The amendment was made to more clearly reflect the investment management fees and indicated the payments should be made on a quarterly basis. The amendment was not submitted to the Department as required by Section 1505(d) of the New York Insurance Law. Although the amendment was disclosed in the Company's HC-1 filings, disclosure in the Form B (HC-1) does not take the place of required filings pursuant to Section 1505(d) of the New York Insurance Law.

Subsequent to the examination date, in January 2003, the Company submitted to the Department the amendment to the investment management agreement. The Department non-objected to the implementation of this amendment.

It is further recommended that, in the future, the Company comply with the prior notification requirements of Section 1505 of the New York Insurance Law.

E. Significant Operating Ratios

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

Net premiums written to surplus as regards policyholders	2%
Liabilities to liquid assets (cash and invested assets less investment in affiliates)	14%
Premiums in course of collection to surplus as regards policyholders	0%

The above ratios fall within the benchmark ranges of 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 four year period covered by this examination.

	<u>Amounts</u>	<u>Ratios</u>
Losses loss adjustment expenses incurred	\$2,272,772	197.30%
Other underwriting expenses incurred	333,288	28.93
Net underwriting gain (loss)	<u>(1,454,120)</u>	<u>(126.23)</u>
Premiums earned	<u>\$1,151,940</u>	<u>100.00%</u>

F. Abandoned Property Law

The Company filed the required statements pursuant to the provisions of Section 1316 of the New York Abandoned Property Law.

G. Accounts and Records

i) Contract with Certified Public Accountants

Department Regulation 118, Section 89.2 requires an insurer to enter into a written contract with its certified public accountants. In addition, Section 89.2 of the regulation indicates the terms that the contract must encompass. The contract between the Company and its independent accountants did not conform to the provisions of Regulation 118. It is recommended that the Company ensure that all future agreements with the certified public accountants contain the provisions required by Department Regulation 118.

ii) Custodial Agreements

The domestic custody agreement between Chase Manhattan Bank and the Company, was found to be lacking the following provisions as set forth in the NAIC Financial Condition Examiners' Handbook, Part 1, Section IV - H:

1. That in the event that the custodian gains entry in a clearing corporation through an agent, there should be a written agreement between the custodian and the agent that the agent shall be subjected to the same liability for loss of securities as the custodian. If the agent is governed by laws that differ from regulation of the custodian, the Commissioner of Insurance of the state of domicile may accept a standard of liability applicable to the agent that is different from the standard of liability;
2. That if the custodial agreement has been terminated or if 100% of the account assets in any one custody account have been withdrawn, the custodian shall provide written notification, within three business days of termination or withdrawal, to the insurer's domiciliary commissioner;
3. The custodian and its agents, upon reasonable request, shall be required to send all reports which they receive from a clearing corporation or the Federal Reserve book-entry system which the clearing corporation or the Federal Reserve permits to be redistributed and reports prepared by the custodian's outside auditors, to the insurance company on their respective systems of internal control;

4. That the custodian shall provide, upon written request from a regulator or an authorized officer of the insurance company, the appropriate affidavits, with respect to the insurance company's securities held by the custodian;
5. That the custodian shall secure and maintain insurance protection in an adequate amount.

It is recommended that the domestic custody agreement be amended to include the provisions set forth in the NAIC Financial Condition Examiners' Handbook, Part 1, Section IV-H.

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, 2001. This is the same as the balance sheet filed by the Company:

<u>Assets</u>	<u>Assets</u>	Non-admitted <u>Assets</u>	Net Admitted <u>Assets</u>
Bonds	\$19,174,727	\$	\$19,174,727
Common stocks	90,000		90,000
Cash on deposit	28,619		28,619
Short-term investments	1,074,703		1,074,703
Premiums and agents' balances in course of collection	10,802	99,990	(89,188)
Funds held by or deposited with reinsured companies	643		643
Reinsurance recoverable on loss and lae payments	166,334		166,334
Interest, dividends and real estate income due and accrued	326,173		326,173
Equities and deposits in pools and associations	20,154		20,154
Aggregate write-ins for other than invested assets	150,076	23,170	126,906
Total assets	<u>\$21,042,231</u>	<u>\$ 123,160</u>	<u>\$20,919,071</u>

Liabilities

Losses and loss adjustment expenses	\$ 1,786,899
Taxes, licenses and fees	3,211
Federal and foreign income taxes	118,900
Unearned premiums	192,161
Ceded reinsurance premiums payable	117,433
Funds held by company under reinsurance treaties	2,105
Amounts withheld or retained by company for account of others	2,522
Provision for reinsurance	97,676
Drafts outstanding	78,460
Payable to parent, subsidiaries and affiliates	403,967
Aggregate write-ins for liabilities	<u>30,925</u>
 Total liabilities	 \$ 2,834,259

Surplus and Other Funds

Common capital stock	\$ 3,200,000
Gross paid in and contributed surplus	12,300,000
Unassigned funds (surplus)	<u>2,584,812</u>
 Surplus as regards policyholders	 <u>18,084,812</u>
 Total liabilities, surplus and other funds	 <u>\$ 20,919,071</u>

NOTE: The IRS is close to completing the review of the 1997 and 1998 tax years and has begun the review of the 1999 and 2000 years. Although the Company is part of the consolidated tax return, the IRS focuses on the companies that are part of the Pool. No adjustments have been made to date for any of the non-Pool companies for the tax years 1997-2000. The audit for the 2001 tax year has not been scheduled. 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 \$152,507 during the four year examination period, January 1, 1998 through December 31, 2001, detailed as follows:

Statement of IncomeUnderwriting Income

Premiums earned		\$ 1,151,940
Deductions:		
Losses and loss adjustment expenses incurred	\$ 2,272,772	
Other underwriting expenses incurred	<u>333,288</u>	
Total underwriting deductions		<u>2,606,060</u>
Net underwriting gain (loss)		\$ (1,454,120)

Investment Income

Net investment income earned	\$ 4,649,888	
Net realized capital gains (losses)	<u>(553,239)</u>	
Net investment gain		4,096,649

Other Income

Total other income		<u>(1,367,167)</u>
Net income, after dividends to policyholders and before federal and foreign income taxes		\$ 1,275,362
Federal and foreign income taxes incurred		<u>608,359</u>
Net income		<u><u>\$ 667,003</u></u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 1997, per report on examination			\$17,932,305
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income	\$667,003		
Net unrealized capital gains (losses)		\$45,736	
Change in non-admitted assets	41,309		
Change in provision for reinsurance	197,324		
Change in foreign exchange adjustment	1,292,607		
Dividends to stockholders	<u> </u>	<u>2,000,000</u>	
Total gains and losses	<u>\$2,198,243</u>	<u>\$2,045,736</u>	
Net increase in surplus as regards policyholders			<u>152,507</u>
Surplus as regards policyholders, December 31, 2001, per report on examination			<u>\$18,084,812</u>

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability of \$1,786,899 for losses and loss adjustment expenses (“LAE”) is the same amount as shown by the Company in its 2001 annual statement. The examination reserves were determined in accordance with generally accepted actuarial principles and practices and were based on analyses of statistical information contained in the Company’s internal records and filed annual statements. The examiners’ review of the Company’s reserves included an analysis of the work done by the Company’s independent actuary for losses and loss adjustment expenses. The examiners verified the loss data contained in Schedule P. All claims with an unpaid reserve in excess of \$10,000 were chosen for review. As a result of the review, six (6) of the claims with a total unpaid loss and LAE reserve of \$710,886 were claims on policies written on other affiliated company’s paper. Two were written on Royal Insurance Company of America, two on American & Foreign Insurance Company, one on Safeguard

Insurance Company, and one on the Fire & Casualty Insurance Company of Connecticut. Effective January 1, 2002, this business was assumed by two affiliates. Pursuant to the reinsurance assignment and assumption agreements, the Company transferred liabilities and an equal amount of assets related to the covered business as of January 1, 2002. As noted above, the liability for unpaid losses and loss adjustment expenses was found to be overstated by \$710,886. In addition, during 2001, the Company paid \$26,252 for loss and loss adjustment expenses relative to the six claims identified as being incorrectly coded to the Company.

It is recommended that the Company recover the \$710,886 identified overpayment related to the unpaid loss and loss adjustment expenses transferred as of January 1, 2002 from the appropriate affiliates. It is further recommended that the Company recover the \$26,252 loss and loss adjustment expenses paid during 2001 relative to the six claims identified as being erroneously coded to the Company from the appropriate affiliates.

It is noted that Royal Group, Inc. is in the process of developing a program which will match outstanding claims to a policy master file to determine if the company code is correct. In those instances where the company code is not correct, a report will be generated indicating the correct company code for that claim. The report will be used to initiate corrections. It is anticipated that the report will be completed by the end of the first quarter of 2003 and that corrective action will be completed by the end of the second quarter 2003.

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 to encompass the generally more precise scope of a market conduct investigation which is the responsibility of Market Conduct Unit of the Property Bureau of this Department. Since the Company is in run-off and currently operating as a shell company, the focus of the market conduct review was the treatment of the policyholder in the review of claim payments. No concerns were noted during the claims review.

6. SUBSEQUENT EVENTS

Effective January 1, 2002, Marine Indemnity Insurance Company of America (“Marine”) entered into two reinsurance, assignment and assumption agreements to transfer all of its business, arising from its operations prior to the effective date to two affiliates, Phoenix Assurance Company of New York (business excluding Connecticut) and Landmark American Insurance Company (Connecticut business). The Company transferred assets and liabilities in the amount of \$1,865,707 to settle the January 1, 2002 portfolio.

These agreements were put into place in order to render Marine a shell company that would be available for sale. The plan of complete liquidation obtained from the board minutes of April 24, 2002 states in part,

“that in the event Marine cannot be sold it will be liquidated in accordance with applicable state law.”

Royal Indemnity Company entered into a stock purchase and sale agreement, dated November 14, 2002, to sell the Company. The New York Insurance Department's approval is pending.

7. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report contained four comments, as follows (page number refers to the prior report):

<u>ITEM</u>	<u>PAGE NO.</u>
<p>A. It is again recommended that board members who are unable or unwilling to attend meetings consistently should resign or be replaced.</p> <p>The prior report noted that subsequent to the examination date, the Company had complied with this recommendation by replacing those board members who did not attend board meetings consistently.</p> <p>The Company has not complied with this recommendation at the current examination date. The same recommendation is repeated herein.</p>	5
<p>B. It is recommended that the Company adopt a business plan.</p> <p>Subsequent to the prior examination, the Group established a Fleet Project Team. The Fleet Project is developing a strategy for the optimal utilization of the insurance companies within the combined organization. Refer to Item 8, Subsequent Events.</p>	7
<p>C. It is recommended that the Company file an expense allocation agreement with the New York Insurance Department.</p> <p>The Company has complied with this recommendation.</p>	16
<p>D. It is recommended that the Company comply with the provisions of Section 1407(a) of the New York Insurance Law.</p> <p>The prior report on examination noted that subsequent to the examination date, the Company disposed of its excess foreign investments and purchased a U.S. Treasury Note, bringing the Company into compliance with Section 1407(a)(7) of the New York Insurance Law.</p> <p>The Company was in compliance at the current examination date.</p>	17

8. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>		<u>PAGE NO.</u>
A.	<u>Management</u>	
i.	It is recommended that board members who are unable or unwilling to attend meetings consistently resign or be replaced.	5
ii.	It is recommended that the company comply with Section 1201(a)(5)(B)(vi) of the New York Insurance Law, Article VI of the Company's charter and Article III Section 2 of the Company's by-laws by ensuring that not less than three of its board of directors be residents of the State of New York.	5
B.	<u>Holding Company System</u>	
	It is recommended that, in the future, the Company comply with the prior notification requirements of Section 1505 of the New York Insurance Law.	17
C.	<u>Accounts and Records</u>	
i.	<u>Contract with Certified Public Accountants</u>	
	It is recommended that the Company ensure that all future agreements with its independent certified accountants contain the provisions required by Department Regulation 118.	19
ii.	<u>Custodial Agreements</u>	
	It is recommended that the domestic custody agreement be amended to include the provisions set forth in the NAIC Financial Condition Examiners' Handbook, Part 1, Section IV-H.	20
D.	<u>Losses and Loss Adjustment Expenses</u>	
i.	It is recommended that the Company recover the \$710,886 identified overpayment related to the unpaid loss and loss adjustment expenses transferred as of January 1, 2002 from the appropriate affiliates.	
ii.	It is further recommended that the Company recover the \$26,252 losses and loss adjustment expenses paid during 2001 relative to the six claims identified as being erroneously coded to the Company from the appropriate affiliates.	

Respectfully submitted,

_____/S/_____
Lu Ann Therrell, CFE
Insurance Examiner

STATE OF NORTH CAROLINA)
)SS.
)
COUNTY OF MECKLENBURG)

LU ANN D. THERRELL, being duly sworn, deposes and says that the foregoing report submitted by her is true to the best of her knowledge and belief.

_____/S/_____
Lu Ann Therrell

Subscribed and sworn to before me
this _____ day of _____ 2003.

Appointment No. 21867

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:

LuAnn Therrell

as proper person to examine into the affairs of the

MARINE INDEMNITY INSURANCE COMPANY OF AMERICA

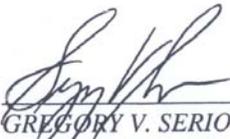
and to make a report to me in writing of the condition of the said

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 9th day of May, 2002



GREGORY V. SERIO
Superintendent of Insurance