

REPORT ON EXAMINATION
OF THE
MIIX INSURANCE COMPANY OF NEW YORK
AS OF
DECEMBER 31, 2001

DATE OF REPORT

FEBRUARY 6, 2003

EXAMINER

DEBORAH SEXTON

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

George E. Pataki
Governor

Gregory V. Serio
Superintendent

February 6, 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 instructions contained in Appointment No 21819, dated January 23, 2002, attached hereto, I have made an examination into the condition and affairs of the MIIX Insurance Company of New York as of December 31, 2001, and submit the following report thereon.

The examination was conducted at the Company's home office located at 2 Princess Road, Lawrenceville, New Jersey 08648.

Wherever the designations "Company" or "MIIX" appear herein without qualification, they should be understood to indicate the MIIX Insurance Company of New York.

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

1. SCOPE OF EXAMINATION

The previous examination was conducted as of December 31, 1996. This examination covers the five-year period from January 1, 1997 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. The examination included a review of income, disbursements and company records deemed necessary to accomplish such analysis or verification. This examination did not rely on the use of any work performed by the Company's independent certified public accountants, as their work pertained to the audit of the MIIX Group, Inc. as a whole, and had no specific work or testing done for this Company.

A review or audit was also made of the following items as called for in Examiners' Handbook of the National Association of Insurance Commissioners:

- History of Company
- Management and control
- Territory and plan of operation
- Reinsurance
- Holding company system
- Corporate records
- Fidelity bond and other insurance
- Financial statements

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

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

2. DESCRIPTION OF COMPANY

The Company was incorporated under the laws of the State of New York on August 28, 1922, as a direct writing co-operative fire insurance company under the name of the Surety Co-operative Fire Insurance Company. During the examination period Christiania Insurance Company (“Christiania”) purchased the Company (last known as Surety Reinsurance Company) and transferred Surety Reinsurance’s entire book of business to itself. On January 1, 1997, Folksamerica Reinsurance Company purchased Christiania Insurance Company. The entire book of Christiania’s business, including that of Surety Reinsurance Company was transferred to Folksamerica under a transfer and assumption agreement.

On May 29, 1998, Surety Reinsurance Company was purchased by Lawrenceville Holdings, Inc. (“LHI”), a New Jersey corporation ultimately controlled by Medical Inter-Insurance Exchange (MIIX) of New Jersey. LHI owns 100% of the outstanding stock of the Company. The Company was then granted permission to change its name to MIIX Insurance Company of New York.

The Company has not written any business since its acquisition by LHI. The Company was purchased as a means to assume business generated from the MIIX Group Inc., however, no business was ever written.

Upon acquisition, the Company had capital paid-in of \$3,000,000 consisting of 75,000 shares of \$40 par value per share common stock. The Company received permission under Section 1206 of the New York Insurance Law on April 20, 1999 to increase its paid-in surplus to \$4,000,000 consisting of 100,000 shares of \$40 per share common stock. All authorized shares are issued and outstanding.

A. Management

Pursuant to the Company's charter and by-laws, management of the Company is vested in a board of directors consisting of not less than thirteen nor more than seventeen members. As of the examination date, the board of directors was comprised of thirteen members. The board has met once a year since 1998. The directors as of December 31, 2001, were as follows:

| <u>Name and Residence</u> | <u>Principal Business Affiliation</u> |
|---|---|
| Vincent Cavorti Yonkers, NY | Litigation Supervisor, New Jersey State Medical Underwriters, Inc. |
| Patricia Costante Lawrenceville, NJ | Chairman & Chief Executive Officer, New Jersey State Medical Underwriters, Inc. |
| Patricia Getkin Pomona, NY | Litigation Supervisor/Special Projects, New Jersey State Medical Underwriters, Inc. |
| Edward Grab Lawrenceville, NJ | Senior Vice President. New Jersey State Medical Underwriters, Inc. |
| Paul J Hirsch, MD Bridgewater, NJ | Physician, BioSport Orthopedics and Sports Medicine |
| Joseph Hudson Medford, NJ | Executive Vice President, Marketing and Business Development, New Jersey State Medical Underwriters, Inc. |
| Vincent Maressa, Esq. Titusville, NJ | Executive Director, Medical Society of New Jersey |

Name and ResidencePrincipal Business Affiliation

Thomas McClellan Redman
Pennington, NJ 08534

Senior Vice President, CFO and Treasurer,
New Jersey State Medical Underwriters, Inc.

Carl Restivo Jr, MD
Wayne, NJ

Physician,
Private Practice

Martin L. Sorger, MD
Montclair, NJ

Physician,
Montclair Orthopedic Group

Catherine E. Williams
Tullytown, PA

Senior Vice President Corporate Affairs,
New Jersey State Medical Underwriters, Inc.

Connie Yost
Yardley, PA

Vice President Finance,
Kroll, Rubin & Fiorella

Nina Zotter
Newtown, PA

Assistant Vice President-Asset Management,
New Jersey State Medical Underwriters

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

Section 1201(a)(5)(B)(vi) of the New York Insurance Law states that the board of directors shall have at least three of its members reside within New York State. As of the examination date, only two members resided in New York.

It is recommended that the board elect a new member in order to have three directors that reside within New York State, in accordance with Section 1201(a)(5)(B)(vi) of the New York Insurance Law.

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

| <u>Name</u> | <u>Title</u> |
|----------------------------|--|
| Patricia Anne Costante | President & Chief Executive Officer |
| Thomas McClellan Redman | Senior Vice President, Chief Financial Officer & Treasurer |
| Catherine Eleanor Williams | Senior Vice President & Secretary |

B. Territory and Plan of Operation

The Company is licensed to transact insurance business only in New York.

As of the examination date, the Company was authorized to transact the kinds of insurance as defined in the following numbered paragraphs of Section 1113(a) of the New York Insurance Law:

| <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 |
| 19 | Motor vehicle and aircraft physical damage |
| 20 | Marine and inland marine |

During the examination period, the Company did not write any business. Based on the lines of business for which the Company is licensed, and the Company's current capital structure, and pursuant to the requirements of Articles 13 and 41 of the New York Insurance Law, MIIX Insurance Company of New York is required to maintain a minimum surplus to policyholders in the amount of \$2,500,000 and a minimum capital of \$4,000,000.

C. Reinsurance

The Company has not written any business since being acquired by LHI in 1998.

The Company has one assumed reinsurance contract with its ultimate parent MIIX Group Inc. However, before it was implemented the MIIX Group, Inc. placed itself into rehabilitation with the state of New Jersey and is currently not writing any business.

D. Holding Company System

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

The MIIX Group, Inc.
100% owned

MIIX Insurance Company
NAIC : 10933
100 % owned

New Jersey State Medical Underwriters, Inc.
and its Subsidiaries
New Jersey
100% owned

Lawrenceville Holdings, Inc.
100% owned

Lawrenceville Re, Ltd
100% owned

Hamilton National Leasing
Corp
100% owned

Lawrenceville Property and
Casualty Company
NAIC 28916
100% owned

MIIX Insurance Company of New
York
NAIC 17205
100 % owned

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

The Company was a party to a tax sharing agreement in effect with the MIIX Group, Inc., that was filed with the New York Insurance Department on September 7, 1998.

E. Significant Operating Ratios

The Company has not written or assumed any business during the examination period and therefore operating ratios were not calculated.

F. Accounts and Records

Management could not produce any documentation indicating the approved signatories for its cash accounts. It is recommended that the management update the signatory information for its cash accounts.

Additionally, management could not produce any copies of the Company's custodial account agreements for examination review. Management has represented that any custodial agreements would have been under the Company's former name, Surety Reinsurance Company. However, subsequent to the completion of the examination, the Company updated its custodial accounts to reflect the current name of the Company.

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as determined by this examination and as reported by the Company as of December 31, 2001:

| | <u>Assets</u> | <u>Assets Not Admitted</u> | <u>Net Admitted Assets</u> |
|--|-------------------------------|--------------------------------|--------------------------------|
| Bonds | \$6,221,391 | | \$6,221,391 |
| Cash | 595,107 | | 595,107 |
| Short-term Investments | 378,354 | | 378,354 |
| Interest, dividends and real estate income due and accrued | 109,613 | | 109,613 |
| Receivables for securities | <u>29,375</u> | <u> </u> | <u>29,375</u> |
| Total assets | <u><u>\$7,333,840</u></u> | <u><u> </u></u> | <u><u>\$7,333,840</u></u> |

Liabilities

| | | |
|--|--|-----------|
| Federal and foreign income taxes | | \$8,243 |
| Payable to parent, subsidiaries and affiliates | | <u>20</u> |
| Total liabilities | | \$8,263 |

Surplus and Other Funds

| | | |
|--|----------------|--------------------|
| Common capital stock | \$4,000,000 | |
| Gross paid-in and contributed surplus | 2,519,119 | |
| Unassigned funds | <u>806,458</u> | |
| Surplus as regards policyholders | | <u>7,325,577</u> |
| Total liabilities, surplus and other funds | | <u>\$7,330,840</u> |

Note: The Internal Revenue Service had not audited the Company during the examination period. 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 \$5,772,069 during the five-year examination period from January 1, 1997 to December 31, 2001 detailed as follows:

Statement of Income

Underwriting Income

| | | |
|-----------------|--|-----|
| Premiums earned | | \$0 |
|-----------------|--|-----|

Deductions:

| | | |
|--|------------------|--|
| Losses and loss adjustment expenses incurred | <u>\$198,506</u> | |
|--|------------------|--|

| | | |
|-------------------------------|--|----------------|
| Total underwriting deductions | | <u>198,506</u> |
|-------------------------------|--|----------------|

| | | |
|-----------------------|--|-------------|
| Net underwriting loss | | \$(198,506) |
|-----------------------|--|-------------|

| | | |
|---------------------|--|---------|
| <u>Other Income</u> | | (5,570) |
|---------------------|--|---------|

Investment Income

| | | |
|------------------------------|--------------------|--|
| Net investment income earned | <u>\$1,412,498</u> | |
|------------------------------|--------------------|--|

| | | |
|---------------------|--|------------------|
| Net investment gain | | <u>1,412,498</u> |
|---------------------|--|------------------|

| | | |
|--|--|-------------|
| Total net income before federal income taxes | | \$1,208,422 |
|--|--|-------------|

| | | |
|-------------------------------|--|----------------|
| Federal Income Taxes incurred | | <u>401,962</u> |
|-------------------------------|--|----------------|

| | | |
|------------|--|------------------|
| Net Income | | <u>\$806,460</u> |
|------------|--|------------------|

Capital and Surplus Account

| | | | |
|--|-------------------------|--------------------------|--------------------|
| Surplus as regards policyholders per report on examination as of December 31, 1996 | | | \$1,553,509 |
| | <u>Gains in Surplus</u> | <u>Losses in Surplus</u> | |
| Net income | \$806,460 | | |
| Unrealized loss due to change in value of common stocks | | \$4,090 | |
| Change in paid in capital | 3,000,000 | | |
| Change in surplus | 1,850,000 | | |
| Final transfer of Surety retroactive reinsurance reserves | <u>119,698</u> | _____ | |
| Total gains and losses in surplus | <u>\$5,776,158</u> | <u>\$ 4,090</u> | |
| Net increase in surplus as regards policyholders | | | <u>5,772,068</u> |
| Surplus as regards policyholders per report on examination as of December 31, 2001 | | | <u>\$7,325,577</u> |

4. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

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

| <u>ITEM</u> | <u>PAGE NO.</u> |
|---|-----------------|
| A. <u>Accounts and Records</u> | |
| It is recommended that the Company calculate and report the excess of statutory reserves over statement reserves, when applicable, in future financial statements submitted to this Department, as required by Section 4117(c) of the New York Insurance Law. | 5 |
| The Company has complied with this recommendation. | |

5. SUMMARY OF COMMENTS AND RECOMMENDATIONS

| <u>ITEM</u> | <u>PAGE NO.</u> |
|--|-----------------|
| A. <u>Board of Directors</u> | |
| It is recommended that the Company elect another board member that resides within New York State in accordance with Section 1201(a)(5)(b)(vi) of the New York Insurance Law. | 5 |
| B. <u>Accounts and Records</u> | |
| It is recommended that management update the signatory information for its cash accounts. | 9 |

Respectfully submitted,

_____/S/_____
Deborah Sexton,
Senior Insurance Examiner

STATE OF NEW YORK)
)SS.
)
COUNTY OF NEW YORK)

DEBORAH SEXTON being duly sworn deposes and says that the foregoing report submitted by her is true to the best of her knowledge and belief.

_____/S/_____
Deborah Sexton

Subscribed and sworn to before me

this _____ day of _____ 2003.

Appointment No. 21819

STATE OF NEW YORK
INSURANCE DEPARTMENT

I, GREGORY V. SERIO, Superintendent of Insurance of the State of New York,
pursuant to the provisions of the Insurance Law, do hereby appoint:

Deborah Sexton

as proper person to examine into the affairs of the

MIIX INSURANCE COMPANY OF 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 23rd day of January, 2002





GREGORY V. SERIO
Superintendent of Insurance