

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

REPORT DATE:

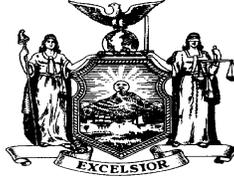
JULY 17, 2002

EXAMINER:

ALFRED W. BLOOMER, JR., CFE

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

July 17, 2002

Honorable Gregory Serio
Superintendent of Insurance
Albany, New York 12257

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 21693 dated January 21, 2001, attached hereto, I have made an examination into the condition and affairs of New York Casualty Insurance Company as of December 31, 1999 and submit the following report thereon.

The examination was conducted at the Company's home office located at 355 Maple Avenue, Harleysville, PA 19438. The Company's statutory home office is located at 120 Washington Street, Watertown, New York, 13601, but it maintains most of the books and records in Harleysville, PA.

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

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

1. SCOPE OF EXAMINATION

The prior examination was conducted as of December 31, 1994. This examination covers the period January 1, 1995 through December 31, 1999. Where deemed appropriate, transactions subsequent to the current examination period were reviewed.

The examination comprised a complete verification of assets and liabilities as of December 31, 1999, 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 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
- Growth of the Company
- Loss experience
- Reinsurance
- Accounts and records

A review was also made to ascertain what action was taken by the Company regarding the 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 require explanation or description.

2. DESCRIPTION OF COMPANY

New York Casualty Insurance Company was incorporated under the laws of the State of New York on October 18, 1976, and was licensed on December 15 of the same year. The Company began business on January 1, 1977, with a paid-in capital of \$1,300,000 and contributed surplus of \$900,000. Resources were realized through the sale of 1,000 shares of \$1,300 par value per share of stock at \$2,200 each to Carlton Holding Corporation (“Carlton Holding”) Watertown, New York.

In March 1982, ownership of NYCIC passed to Phoenix General Insurance Company (“Phoenix General”), Hartford, Connecticut, a wholly-owned subsidiary of Phoenix Mutual Life Insurance Company (“Phoenix Mutual”), Hartford, Connecticut, the ultimate parent, with the purchase of Carlton Holding. Phoenix General’s immediate parent, PM Holding, Inc., Connecticut, was another subsidiary of Phoenix Mutual.

In December 1990, Phoenix Mutual, through PM Holding, Inc., sold Phoenix General Insurance Company to Harleysville Group, Inc., Delaware, a wholly-owned subsidiary of Harleysville Mutual Insurance Company (“Harleysville Mutual”), Harleysville, Pennsylvania. Thus, ownership of New York Casualty Insurance Company was transferred to Harleysville Group, Inc. via the sale of Phoenix General.

Subsequent to the examination date, in 2001, the Company requested and this department approved a name change to Harleysville Insurance Company of New York.

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 met one time during each calendar year covered by the examination, except in 1995, when no meeting was held. The directors as of December 31, 1999 were as follows:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Bruce C. Bassman North Wales, PA	Executive Vice President, Harleysville Mutual Insurance Company
Walter R. Bateman, II Doylestown, PA	President and Chief Executive Officer, Harleysville Mutual Insurance Company
Roger J. Beekley Royersford, PA	Vice President and Controller, New York Casualty Insurance Company
Mark R. Cummins Telford, PA	Assistant Treasurer, New York Casualty Insurance Company
Dennis M. Hyland Harleysville, PA	Vice President, New York Casualty Insurance Company
Richard H. Kelsey Calcium, NY	Treasurer and Assistant Secretary, New York Casualty Insurance Company
Robert J. Lockwood Melrose Park, PA	Senior Vice President, Harleysville Group, Inc.
Bruce J. Magee Berwyn, PA	Senior Vice President and Chief Financial Officer and Assistant Secretary, Harleysville Group, Inc.
William E. Morgan Watertown, NY	Vice President, New York Casualty Insurance Company
M. Lee Patkus Harleysville, PA	Vice President, New York Casualty Insurance Company
Bonnie L. Rankin Watertown, NY	President and Chief Operating Officer, New York Casualty Insurance Company
Catherine B. Strauss Wyndmoor, PA	Senior Vice President, Harleysville Mutual Insurance Company
Robert G. Whitlock, Jr. North Wales, PA	Senior Vice President and Chief Actuary, Harleysville Group, Inc.

During the period under examination, the Company held a total of four board of directors meetings and thirty-three meetings by “consents in writing.” Review of Article II, Section 6 of the Company’s by-laws states that “the foregoing action to eliminate a Board of Directors Meeting shall be limited to those situations where time is of the essence.” The board’s action through the use of “consent in writing” did not appear to meet the criteria set forth in the Company’s by-laws.

It is recommended that the Company comply with its by-laws and utilize the consent in writing format only when time is of the essence.

The minutes of all meetings of the board of directors’ and committees thereof held during the examination period were reviewed. This review revealed that two directors, Robert G. Whitlock, Jr. and Catherine B. Strauss attended less than one-half of the board of directors’ meetings for which they had elected to serve on the board.

Members of the board have a fiduciary responsibility and must evince 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 decisions may be reached by the board. Individual who fail to attend at least one-half of the regular meetings do not fulfill such criteria. Board members who are unable or unwilling to attend meetings consistently should resign or be replaced. Both of these members remain on the board of directors.

The following is a listing of the principal officers of the Company and their respective titles, as of December 31, 1999:

<u>Name</u>	<u>Title</u>
Bonnie L. Rankin	President and Chief Operating Officer
Walter R. Bateman, II	Chairman of the Board of Directors and Chief Executive Officer
Roger A. Brown	Secretary
Richard H. Kelsey	Treasurer and Assistant Secretary
Angela K. Bauer	Assistant Treasurer
Mark R. Cummins	Assistant Treasurer
Roger J. Beekley	Vice President
Dennis M. Hyland	Vice President
William E. Morgan	Vice President
Matthew L. Patkus	Vice President

B. Territory and Plan of Operation

The Company is licensed to do an insurance business in the following states at December 31, 1999:

Connecticut	Maryland	Michigan
New York	Virginia	

The following schedule shows direct premiums written in New York State during the period under examination:

DIRECT PREMIUMS WRITTEN

<u>Calendar Year</u>	<u>New York State</u>	<u>Total United States</u>	<u>Premiums Written in New York State as a percentage of United States Premium</u>
1995	\$35,677,720	\$35,677,720	100%
1996	\$39,934,327	\$39,934,327	100%
1997	\$43,757,952	\$43,757,952	100%
1998	\$58,065,840	\$58,065,840	100%
1999	\$64,953,634	\$64,953,634	100%

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
11	Animal
12	Collision
13	Personal injury liability
14	Property damage liability
15	Fidelity and surety
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine
21	Marine protection and indemnity

The Company may also write such workers' compensation insurance as may be incidental 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, 69th Congress as amended, 33 USC Section 901 et seq. as amended), and the kinds of reinsurance as defined in Section 4102(c) of the New York Insurance Law.

Based upon the kinds of insurance 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 capital of \$500,000 and maintain a minimum surplus to policyholders in the amount of \$1,850,000.

C. Reinsurance

1. Outside Assumed Reinsurance

The Company assumes outside reinsurance in connection with Fair Plans, Assigned Risk, and other mandated pools. The amounts assumed are based only on the Company's direct business in the jurisdictions involved. The results of these assumptions are reflected in the Company's Schedule F. The

Company does not reinsure any of its assumed reinsurance with outsiders, but it is entirely ceded to the inter-company pooling agreement (as described in Section 2c herein) in the same way that the net direct business is ceded.

2. Outside Ceded Reinsurance

The inter-company pooling agreement calls for NYCIC and other pool participants to obtain any outside reinsurance they deem necessary prior to participating in mutual net risk sharing through their 100% cession to Harleysville Mutual. The outside ceded reinsurance is effected through a uniform treaty program whereby each of the pool members is listed as a signatory and named reinsured on each of the several contracts involved. It appears that NYCIC and the other pool members have joint, rather than separate outside reinsurance. The inclusion of NYCIC as named reinsured could result in direct settlement of disputed balances between NYCIC and the assuming company if such assuming company is unable to reach an agreement with Harleysville Mutual. This does not apply to the Company's ceded facultative certificates since only one reinsured is named on those documents.

Harleysville Mutual Insurance Company, the ultimate parent of New York Casualty Insurance Company, handles the accounting for outside reinsurance on a centralized basis. However, each pool member receives its own individual report and Schedule F data reflecting the individual companies on a stand-alone basis.

As of December 31, 1999, the Company had the following outside ceded reinsurance program in place:

<u>Type of Treaty</u>	<u>Cessions</u>
<u>Property Excess of Loss</u> (3 layers) 100% Authorized	\$4,250,000 excess of \$750,000 per occurrence.
<u>Property Catastrophe</u> 52.71% Authorized 47.29% Unauthorized	85% of \$147,000,000 excess of \$20,000,000.
<u>Casualty Excess of loss</u> 1st layer 100% Authorized 2nd layer 85% Authorized 15% Unauthorized 3 rd layer 80% Authorized 20% Unauthorized	\$19,000,000 excess of \$1,000,000.
<u>Workers' Compensation</u>	
Per person excess of loss 100% Unauthorized	\$8,000,000 excess of \$2,000,000, per person subject to a \$24,000,000 annual aggregate.
<u>Catastrophe excess</u> 100% Unauthorized	\$25,000,000 excess of \$5,000,000, per occurrence subject to an aggregate limit of \$75,000,000, with a per person warranty of \$2,500,000.
<u>Blanket excess liability</u> 100% Authorized	\$4,000,000 excess of \$1,000,000, with a commercial acceptance to \$10,000,000.
<u>Surety, Fidelity and Forgery</u> 100% Authorized	Single bond amount to \$10,000,000, with the following retentions: 100% of first \$350,000; 10% of \$6,400,000 excess of \$350,000; and 15% of \$3,250,000 excess of \$6,750,000.
<u>Boiler and Machinery</u> 100% Authorized	100% of all losses to \$50,000,000, per occurrence.
<u>Lawyers' Professional Liability</u> 100% Authorized	75% quota share to \$5,000,000.
<u>Employment Practices Liability and Non-Profit Directors' and Officers'</u> 100% Authorized	Retains 50% of first \$100,000, 25% of excess above \$100,000, with a maximum treaty limit of \$1,000,000.

The Department requires that if an arbitration clause is included in a contract of reinsurance it must include wording that the arbitration is to take place in New York. The wording in all but one of the Company's reinsurance contracts call for the place of arbitration to be in a time or place agreed upon by the arbitrators or a location other than New York. It is recommended that the Company amend such agreements to include the requisite wording.

The lawyers' professional liability quota share insurance agreement contract contains neither an arbitration clause nor an errors and omissions clause. Although not required by New York Insurance Law, it is recommended that the Company amend its reinsurance contracts to include these clauses.

The Company's surety, fidelity and forgery excess of loss reinsurance contract does not contain the insolvency clause wording required by Section 1308 of the New York Insurance Law for the Company to receive credit for the reinsurance. The amount recoverable under this contract was not material to the balance sheet. It is recommended that the Company amend its contract to include the language contained in Section 1308 of the New York Insurance Law.

D. Holding Company System

New York Casualty Insurance Company is a wholly-owned subsidiary of Harleysville Group, Inc. The Company has registered with this Department as a controlled insurer pursuant to the requirements of Article 15 of the New York Insurance Law. All filings made by the Company pursuant to Article 15 of the New York Insurance Law and Department Regulation 52 are complete and current.

The Harleysville holding company system is engaged predominantly in property-casualty insurance business. Geographically, the property-casualty business is concentrated in the Mid-Atlantic states, New England, the Southeast and Michigan. A small amount of life and health business is

conducted by the holding company system's life carrier. A direct reinsurance business formerly conducted by a non-U.S. affiliate has been suspended since 1990. In 1996, Harleysville Group, Inc. purchased Minnesota Fire and Casualty Company.

The holding company system's ultimate parent, Harleysville Mutual Insurance Company, is the largest single producer and leader of the system's eleven companies that are pooled. Harleysville Mutual is the sole stockholder of the aforementioned life insurance carrier and the system's three non-pooled personal auto insurance companies, one in New Jersey and two in Pennsylvania. As of December 31, 1999, Harleysville Mutual owned 57% of Harleysville Group, Inc., which is publicly traded. The remaining 43% of the Harleysville Group is owned by private shareholders.

The insurers within the Harleysville Mutual holding company system are grouped as follows:

Property Casualty Business

Pooled Companies

<u>Company</u>	<u>Pool Percentage</u>
Harleysville Mutual Insurance Company	23%
Harleysville Insurance Company of New Jersey	19%
Huron Insurance Company	18%
Worcester Insurance Company	15%
Lake States Insurance Company	8%
Pennland Insurance Company	5%
Harleysville-Atlantic Insurance Company	5%
Minnesota Fire and Casualty Insurance Company	3%
New York Casualty Insurance Company	2%
Mid-America Insurance Company	1%
Great Oaks Insurance Company	1%

Non-Pooled

Harleysville-Garden State Insurance Company
Mainland Insurance Company

Life Insurance Company

Harleysville Life Insurance Company

Other Companies

Harleysville Services, Inc.

Harleysville Insurance Company (UK) Ltd. (suspended operations in 1990)

Harleysville Group, Inc. (holding company)

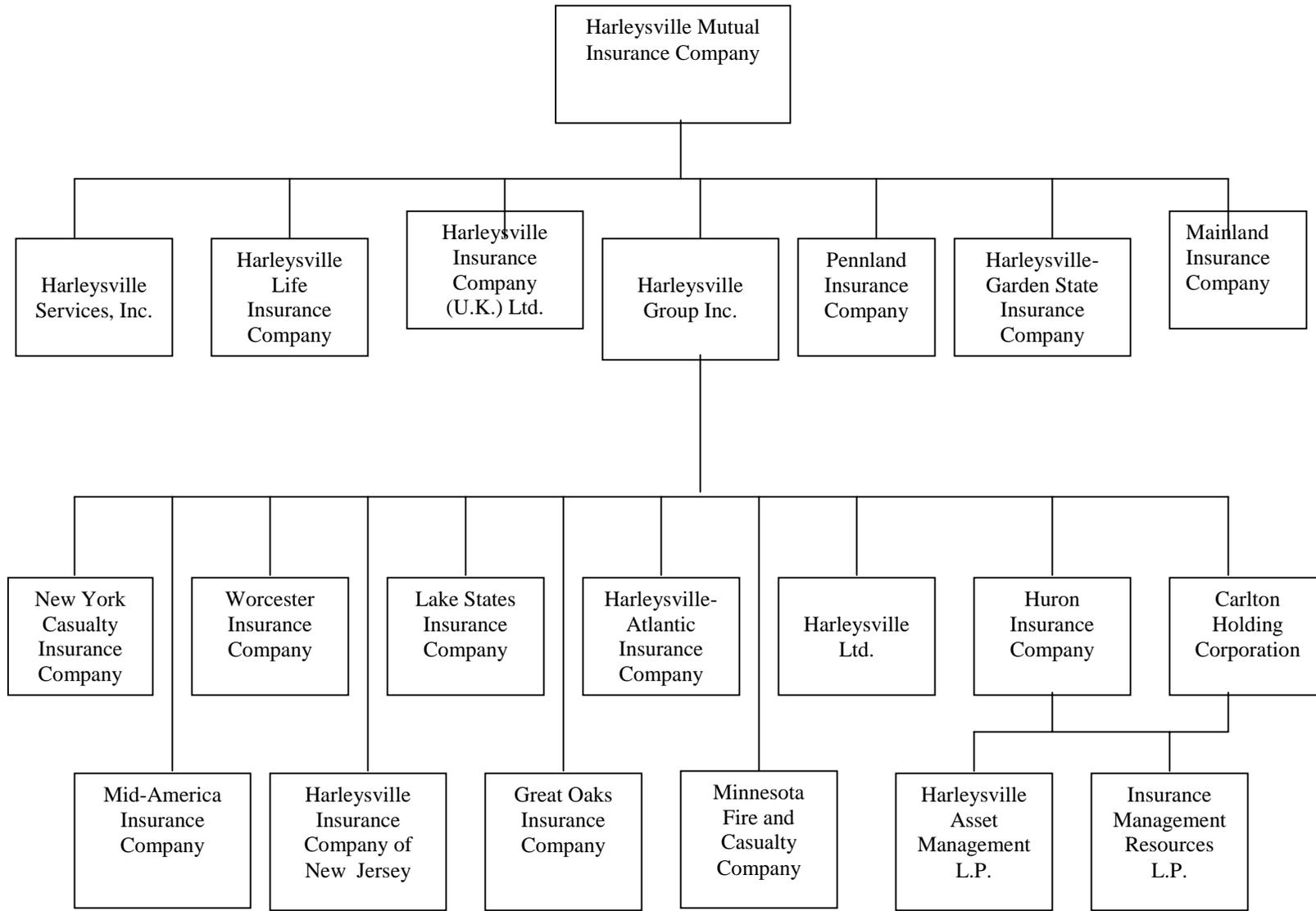
Harleysville Ltd. (partnership to acquire and lease property)

Carlton Holding Company (non-insurance holding company)

Harleysville Asset Management, L.P. (investment management)

Insurance Management Resources L.P. (insurance related services)

As of December 31, 1999, the Company's organizational chart is as follows:



As of the examination date, the Company was party to the following inter-company agreements:

1. Proportional Reinsurance Agreement

The Harleysville Mutual inter-company pooling agreement entitled, “Proportional Reinsurance Agreement” was initiated in 1983 and had been amended on various occasions. Most important, was the decision to amend the agreement in 1985 to facilitate the Harleysville Group, Inc. initial public offering by transferring all outstanding reserves as of December 31, 1985 to Harleysville Mutual Insurance Company. Thus, in effect cleansing the holding company subsidiaries from any environmental concerns. Harleysville Mutual Insurance Company owned 70% of the stock of Harleysville Group, Inc., at the time of the initial public offering. On January 1, 1991, NYCIC was added as a member of the Harleysville Mutual pool. The proportional reinsurance agreement was approved by the Department prior to the Company joining the Harleysville Mutual pool. Since the inception of the pool the agreement has been amended nine times.

Pursuant to the terms of the pooling agreement with Harleysville Mutual, each of the subsidiaries cedes premiums, losses and expenses on all of their business written, net of outside reinsurance, to Harleysville Mutual. In turn, Harleysville Mutual keeps a specified portion of the net pooled business and retrocedes to each of the participating subsidiaries their respective specified portions. The pooling agreement calls for the settlement of balances within 90 days after the end of each quarter. The pooled items are netted through the inter-company accounts.

It was noted that Harleysville Mutual is not licensed in New York State. Under Section 1301(a)(4) of the New York Insurance Law, the Company would be precluded thereby from receiving reinsurance credits due from that source. However, Harleysville Mutual has overcome this

disqualification by maintaining a trust agreement under Regulation 114 at levels that enable the Company to receive full credit for its reinsurance recoverables as of December 31, 1999.

During the period under examination, NYCIC's pool percentage was decreased to 2% in January 1995. In January 1996, The Company's pool percentage was restored to 3%. Effective January 1, 1998, the Company's share of the pool was again reduced from 3% to 2%. The settlement of balances were accomplished through the inter-company accounts. The most recent amendment to the proportional reinsurance agreement was approved by the New York Insurance Department on January 12, 1998.

The proportional reinsurance agreement contains insolvency provisions that meet the requirements of Section 1308 of the New York Insurance Law.

2. Equipment & Supplies Allocation Agreement

Effective February 8, 1994, the Company entered into an equipment and supply allocation agreement with its ultimate parent, Harleysville Mutual Insurance Company. Under this agreement, Harleysville Mutual provides NYCIC with all required equipment, office supplies, and other similar supplies or equipment necessary for the conduct of business, as well as necessary office space needed for the conduct of business of NYCIC. The Company reimburses Harleysville Mutual for the costs of such equipment, supplies and office space on a monthly basis.

3. Salary Allocation Agreement

Effective February 8, 1994, the Company entered into a salary allocation agreement with Harleysville Group, Inc. Pursuant to the agreement, Harleysville Group, Inc. is to perform the payroll duties (payment of salaries and benefits) of NYCIC with respect to its employees. NYCIC reimburses

Harleysville Group, Inc. on a monthly basis for these costs, as well as salary and employee benefits costs for services performed on behalf of the Company.

4. Accounts Receivable Agreement

The Company entered into an accounts receivable agreement with Harleysville Mutual Insurance Company. Pursuant to the terms of the agreement Harleysville Mutual collects receivables generated from insurance premiums and/or agents' commissions on policies issued by the Company. The amounts collected by Harleysville Mutual are to be forwarded to the Company within fifteen days of the end of the month in which the receivable was collected. No fee shall be paid by the Company to Harleysville Mutual. However, actual costs associated with the rendering of services may be paid by the Company pursuant to the salary allocation agreement entered into between the Company and its immediate parent, Harleysville Group, Inc.

5. Financial Tax Sharing Agreement

The Company entered into an amended tax sharing agreement with Harleysville Mutual Insurance Company, its ultimate parent, on January 29, 1999. Pursuant to the terms of this agreement Harleysville Mutual files a consolidated income tax return for the holding company. The tax liability is allocated among the members, based on the pooled percentage in the consolidated income tax return, but no members' share will be greater than 100% of the amount that member would have been responsible for if it had filed a separate federal income tax return. The agreement was approved by this Department pursuant to Section 1505 of the New York Insurance Law.

E. 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	1.36:1
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	77.4%
Premiums in course of collection to surplus as regards policyholders	26.7%

The above ratios fall within the benchmark ranges set forth in the Insurance Regulatory Information System of the National Association of Insurance Commissioners.

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

	<u>Amounts</u>	<u>Ratios</u>
Losses incurred	\$61,434,150	60.76%
Loss adjustment expenses incurred	11,576,921	11.45
Other underwriting expenses incurred	32,803,728	32.44
Net underwriting gain or loss	<u>(4,697,057)</u>	<u>(4.65)</u>
Premiums earned	<u>\$101,117,742</u>	<u>100.00%</u>

F. Abandoned Property Law

Section 1316 of the New York State Abandoned Property Law requires that certain unclaimed insurance proceeds be reported to the State of New York by April 1 of each year. This section requires that a report be submitted to the New York State Controller's Office whether or not the Company holds any unclaimed insurance proceeds. The Company has complied with the requirements of the Abandoned Property Law.

G. Accounts and Records

1. Custodian Agreement

The Company is party to a custodian agreement dated July 1, 1999 with the Bank of New York. The agreement was reviewed and found not to contain the various provisions meeting the guidelines established by the Department for the contents of such agreement. In order to ensure appropriate safeguards and controls for its securities, it is recommended that the Company amend its custodian agreement to include the following protective covenants and provisions:

1. The agreement should contain a provision indicating whether the custodian is covered by Bankers Blanket Bond Insurance of the broadest form available and that the Company will be notified in writing of any material change in the form of such bond, the amount of the bond or of the termination of coverage.
2. The agreement should state that the custodian will give the same care to the insurer's assets as they give to their own assets.
3. The agreement should state that the custodian will provide a list of the property held by it to the Company at least quarterly.
4. The agreement should state that the custodian will maintain records sufficient to verify information the insurer is required to report in Schedule D of its Annual Statement Blank.
5. The agreement should require the custodian furnish affidavits, in the form as may be acceptable to the Department, in order for the assets referred to on such affidavits to be recognized as admitted assets.
6. The agreement should specify that there shall be access allowed during regular banking hours and those persons who shall be entitled to examine the securities held and the records regarding such securities, upon written instructions to that effect furnished by any specific authorized officer of the Company.
7. The agreement should contain a provision which specifies that written instructions shall be signed by any two authorized officers who are specified in a separate list for this purpose, which is furnished to the custodian.
8. The agreement should contain a provision that specifies that, when in connection with any situation involving registration of securities in the name of a nominee of a bank custodian, the agreement should empower the bank to take such action.
9. The agreement should provide that the Company may obtain the most recent report of the review of the custodian's system of internal controls, pertaining to custodian record keeping, issued by the internal or independent auditors.

2. Record Retention

A review of claims was made as part of this examination. Of the ninety-two files requested for review, the Company was able to locate only sixty-nine. Although most of the information is contained in the Company's electronic database, certain documents, that include police reports, legal briefs and others, were not included in the electronic files. Department Regulation 152, Section 243 requires that the Company maintain all claims files for six calendar years after all elements of the claims are resolved and the files are closed or until after the filing of the report on examination in which the claims files were subject to review, whichever is longer.

It is recommended that the Company maintain its records for the minimum periods required by Regulation 152, Section 243.

Subsequent to the examination date, the Company revised its record retention policy to conform to Department Regulation 152.

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, and is the same as that reported by the Company:

<u>Assets</u>	Ledger <u>Assets</u>	Non-Ledger <u>Assets</u>	Assets Not <u>Admitted</u>	Net Admitted <u>Assets</u>
Bonds	\$32,428,273	\$	\$	\$32,428,273
Common stocks	10,000			10,000
Cash	1,993,945			1,993,945
Agents' balances or uncollected premiums	15,457,922		18,513	15,439,409
Funds held by or deposited with reinsured companies	4,539			4,539
Reinsurance recoverables on loss and loss adjustment expense payments	14,592			14,592
Electronic data processing equipment	244,129			244,129
Interest, dividends and real estate income due and accrued		515,001		515,001
Equities and deposits in pools and associations	354,789			354,789
Other assets non-admitted	384,604		384,604	
Aggregate write-ins for other than invested assets	<u>64,059</u>		<u>64,059</u>	
Total Assets	<u>\$50,956,852</u>	<u>\$515,001</u>	<u>\$467,176</u>	<u>\$51,004,677</u>

Liabilities

Losses	\$18,483,177
Loss adjustment expenses	4,403,407
Contingent commissions and other similar charges	444,778
Other expenses	184,428
Taxes, licenses and fees	193,673
Federal and foreign income taxes	12,217
Unearned premiums	8,966,742
Dividends declared and unpaid	817,389
Funds held by company under reinsurance treaties	296,999
Amounts withheld or retained by company for account of others	1,493
Provision for reinsurance	2,000
Excess of statutory reserves over statement reserves	230,524
Payable to parent, subsidiaries and affiliates	<u>2,161,799</u>
Total liabilities	<u>\$36,198,626</u>

Surplus and other funds

Common capital stock	2,000,700
Gross paid in and contributed surplus	3,995,891
Unassigned funds	<u>8,809,460</u>
Surplus as regards policyholders	<u>\$14,806,051</u>
Total liabilities, surplus and other funds	<u>\$51,004,677</u>

Note 1: On December 31, 2001, the Company's ultimate parent, Harleysville Mutual Insurance Company received a written request for arbitration from GE Reinsurance Corporation ("GERE") of a reinsurance placement agreement between Harleysville Mutual and GE Re relating to certain automobile policies written in California through a managing general agent beginning in 1999. The notice provides that GE Re intends to seek rescission of the agreement and reimbursement of its losses. GE Re's claims are based on allegations of non-disclosures by Harleysville Mutual at the time of the agreement. GE Re subsequently terminated payments under the agreement. The Company has declined to arbitrate the contract.

Note 2: The Internal Revenue Service has completed its audits of the Company's Federal income tax returns through tax year 1996. All material adjustments, if any, made subsequent to the date of examination and arising from said audits, are reflected in the financial statements included in this report. Audits covering tax year 1997 is currently in progress, while those covering tax years 1998 and 1999, have yet to commence. Except for any impact which might result from the examination changes contained in this report, 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 \$3,042,438 during the five year examination period, (January 1, 1995 through December 31, 1999) detailed as follows:

Statement of Income

Underwriting Income

Premiums earned		\$101,117,744
Deductions:		
Losses incurred	\$61,434,149	
Loss adjustment expenses incurred	11,576,921	
Other underwriting expenses incurred	<u>32,803,728</u>	
Total underwriting deductions		<u>105,814,798</u>
Net underwriting gain or (loss)		\$(4,697,054)

Investment Income

Net investment income earned	\$11,248,410	
Net realized capital gain	<u>14,363</u>	
Net investment gain		11,262,773

Other Income

Net gain or (loss) from agents' or premium balances charged off	\$(815,402)	
Finance and service charges not included in premiums	<u>2,008,903</u>	
Total other income		<u>1,193,501</u>
Net income before dividends to policyholders and before federal and foreign income taxes		\$7,759,220
Dividends to policyholders		<u>1,009,393</u>
Net income after dividends to policyholders but before federal and foreign income taxes		\$6,749,827
Federal and foreign income taxes incurred		<u>225,043</u>
Net Income		<u>\$6,524,784</u>

Capital and Surplus Account

Surplus as regards policyholders per report on examination as of December 31, 1994			\$11,763,613
	<u>Gains in</u>	<u>Losses in</u>	
	<u>Surplus</u>	<u>Surplus</u>	
Net Income	\$6,524,784		
Net unrealized capital gains or (losses)	9,159		
Change in non-admitted assets		350,606	
Change in provision for reinsurance		2,000	
Change in excess of statutory reserves over statement reserves		138,899	
Dividends to stockholders	<u> </u>	<u>3,000,000</u>	
Total gains and losses	<u>\$6,533,943</u>	<u>\$3,491,505</u>	
Net increase in surplus			<u>3,042,438</u>
Surplus as regards policyholders per report on examination as of December 31, 1999			<u>\$14,806,051</u>

4. LOSSES & LOSS ADJUSTMENT EXPENSES

The examination liabilities of \$18,483,177 for losses and \$4,403,407 for loss adjustment expenses are the same amounts reported by the Company as of the examination date. The examination analysis was conducted in accordance with generally accepted actuarial principles and practices and was based on statistical information contained in the Company's internal records and in its filed annual statements.

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 more precise scope of a market conduct investigation, which is conducted by the Market Conduct Unit of the Property Bureau.

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

- A. Sales and advertising materials
- B. Underwriting
- C. Rating
- D. Claims and complaints handling

No problem areas were encountered.

6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

<u>ITEM</u>	<u>PAGE NO.</u>
<p>A. <u>Management</u></p> <p>The Company's by-laws permit the utilization of consent in writing format, in situations "where time is of the essence." It is the Department's position that directors may act in this manner in very limited emergency situations. Regular board meetings and/or utilization for business ratification does not appear to meet this criteria.</p> <p>The Company has not complied with this recommendation and continues to conduct routine business through this medium. A similar recommendation appears in this report.</p>	<p>4-5</p>
<p>B. <u>Outside Ceded Reinsurance</u></p> <p>The outside reinsurance is effected through a uniform treaty program whereby each of the pool members is listed as signatory and named reinsured on each of the several contracts involved. It appears, therefore, that New York Casualty and other pool members have joint, rather than separate outside reinsurance. The inclusion of New York Casualty and the assuming company if such assuming company is unable to reach an agreement with Harleysville Mutual. This concern does not apply to the Company's facultative certificates because only one reinsured is named on such documents.</p>	<p>8</p>

<u>ITEM</u>	<u>PAGE NO.</u>
<p>The Company has not complied with this recommendation and continues to name each of the pool members as a listed signatory on each of the several contracts involved. A similar comment appears in this report.</p>	
C. <u>Outside Ceded Reinsurance</u>	10
<p>This guarantee clause operates somewhat like a stop-loss reinsurance. The effect was to hold the pre-1991 losses at the incurred level as reported in the Company's annual statement as of December 31, 1990, the sale date of New York Casualty. The Company appears to have received approximately \$2.67 million dollars from its former parent, Phoenix Mutual Insurance Company, pursuant to the reserve clause.</p> <p>This comment no longer applies.</p>	
D. <u>Holding Company System</u>	17-18
<p>It is recommended that all future agreements between the Company and members of its holding company system be filed in accordance with Section 1505(d) of the New York Insurance Law, at least thirty days prior to entering into such agreement.</p> <p>The Company has complied with this recommendation.</p>	
E. <u>Contract with Certified Public Accountants</u>	19-20
<p>It is recommended that the Company, via its ultimate parent, Harleysville Mutual, comply with the requirements of Section 307(b) of the New York Insurance Law and Department Regulation 118.</p> <p>The Company has complied with this recommendation.</p>	
F. <u>Accounts and Records</u>	20-21
<p>It is recommended that the Company amend its custodian agreement to include the protective covenants and provisions which meet the guidelines established by the Department for the contents of such agreements.</p> <p>The Company has not complied with this recommendation and a similar recommendation will appear in this report.</p>	
G. <u>Accounts and Records</u>	22
<p>It is recommended that the Company comply with Section 325(b) of the New York Insurance Law, thus, informing the Superintendent of the exact nature of what record and/or documents are located at the Company's New York Office and the Company's parents office in Harleysville, Pennsylvania.</p>	

<u>ITEM</u>	<u>PAGE NO.</u>
The Company has complied with this recommendation.	
H. <u>Losses and Loss Adjustment Expenses</u>	28-29
<p>The accounting treatment has the effect of overstating the Company's underwriting results. Proper accounting treatment would be to account for this transaction as required by Regulation 108 of the New York Insurance Law. Due to immateriality no adjustment was deemed necessary for examination purposes.</p> <p>The effect of the reserve guarantee agreement on the Company's financial statements has dissipated and the recommendation is no longer applicable.</p>	

7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Management</u>	
i. During the examination period, the Company used the consent in writing formats on an average of six times per year. It is recommended that the Company comply with its by-laws and utilize the consent in writing format only when time is of the essence.	5
ii. Members of the board have a fiduciary responsibility and must evince 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 decisions may be reached by the board. Individuals who fail to attend at least one-half of the regular meetings do not fulfill such criteria. Board members who are unable or unwilling to attend meetings consistently should resign or be replaced.	5
B. <u>Reinsurance</u>	
i. The outside ceded reinsurance is affected through a uniform treaty program whereby each of the pool members is listed as signatory and named reinsured on each of the several contracts involved. It appears, therefore, that NYCIC and other pool members have joint, rather than separate outside reinsurance. The inclusion of NYCIC as named insured could result in direct settlement of disputed balances between NYCIC and the assuming company if such assuming company is unable to reach an agreement with Harleysville Mutual. This concern does not apply to the Company's facultative certificates because only one reinsured is named on such documents.	8

<u>ITEM</u>	<u>PAGE NO.</u>
ii. The Department requires that if an arbitration clause is included in a contract of reinsurance it must include wording that the arbitration is to take place in New York. The wording in all but one of the Company's reinsurance contracts call for the place of arbitration to be in a time or place agreed upon by the arbitrators or a location other than New York. Department policy specifically calls for arbitration to be held in New York if the ceding company is a domestic company. It is recommended that the Company comply with the Department's policy and amend such agreements to include the requisite wording.	10
iii. The lawyers' professional liability quota share reinsurance contract contains neither an arbitration clause nor an errors and omissions clause. Although not required by New York Insurance Law, it is recommended that the Company amend its reinsurance contracts to include these clauses.	10
iv. The Company's surety, fidelity and forgery excess of loss reinsurance contract does not contain the language required by Section 1308 of the New York Insurance Law for the Company to receive credit for the reinsurance. The amount was not material to the examination. It is recommended that the Company amend its contract to include the language contained in Section 1308 of the New York Insurance Law.	10
C. <u>Accounts and Records</u>	
i. It is again recommended that the Company amend its custodian agreement to include the protective covenants and provisions which meet the guidelines established by the Department for the contents of such contracts.	18
ii. It is recommended that the Company maintain its records for the minimum periods required by Department Regulation 152.	19

Respectfully submitted,

_____/S/_____
Alfred W. Bloomer, Jr., CFE
Senior Insurance Examiner

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

ALFRED W. BLOOMER, JR., being duly sworn, deposes and says that the foregoing report submitted by him is true to the best of his knowledge and belief.

_____/S/_____
Alfred W. Bloomer, Jr.

Subscribed and sworn to before me

This _____ day of _____ 2002.

Appointment No. 21693

**STATE OF NEW YORK
INSURANCE DEPARTMENT**

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

Alfred Bloomer

as proper person to examine into the affairs of the

NEW YORK CASUALTY INSURANCE COMPANY

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

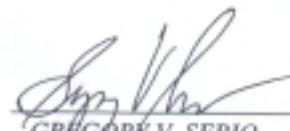
Company

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, 2001





GREGORY V. SERIO

First Deputy Superintendent of Insurance