

REPORT ON EXAMINATION
OF THE
NEW YORK MARINE AND GENERAL INSURANCE COMPANY
AS OF
DECEMBER 31, 2000

DATE OF REPORT

NOVEMBER 30, 2001

EXAMINER

MELBA BOLIC, CFE

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

November 30, 2001

Honorable Gregory 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 21720 dated April 9, 2001, attached hereto, I have made an examination into the financial condition and affairs of the New York Marine & General Insurance Company as of December 31, 2000, and respectfully submit the following report thereon.

The examination was conducted at the Company's home office located at 330 Madison Avenue, New York, New York 10017. A concurrent examination was made of the Company's subsidiary, Gotham Insurance Company.

Where the designation "Company" appears herein without qualification, it should be understood to indicate the New York Marine and General Insurance Company.

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

1. SCOPE OF EXAMINATION

The previous examination of the Company was conducted as of December 31, 1995. This examination covers the five-year period from January 1, 1996 through December 31, 2000. Transactions subsequent to this period were reviewed where appropriate by the examiner.

The examination comprised a complete verification of assets and liabilities as of December 31, 2000, a review of income and disbursements deemed necessary to accomplish verification and utilized, to the extent considered appropriate, work performed by the Company's independent public accountants. A review or audit was also made of the following items as called for in the Examiners Handbook of the National Association of Insurance Commissioners:

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

A review was also made to ascertain what action was taken by the Company with regard to the comments and recommendations contained 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 as New York Marine Insurance Company on March 22, 1972, under the laws of New York and began business on July 1 of that year. The present corporate title, New York Marine and General Insurance Company, was adopted on September 12, 1979.

Paid in capital of \$8,827,889 consists of 8,827,889 shares of common stock at \$1 par value per share. A total of 15,000,000 common shares are authorized.

NYMAGIC, INC., an insurance holding company, has held all of the Company's outstanding shares of common stock since 1989.

A. Management

The Company and Mutual Marine Office, Inc. ("MMO"), an affiliated company, are parties to a management agreement. Under this management agreement MMO supplies all services, employees and facilities necessary for the conduct of the Company's business. This agreement is more fully described in Item 2D herein, "Holding Company System".

Pursuant to the Company's charter and by-laws, corporate powers are to be exercised by a board of directors consisting of not less than thirteen but not more than nineteen members. As of December 31, 2000, the board of directors was comprised of the following thirteen members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
John R. Anderson Wyckoff, NJ	President & Owner, Cedarhill Consultants Inc.
Robert W. Bailey Darien, CT	Chairman & Chief Executive Officer, NYMAGIC, Inc. and Subsidiaries
Jonathan S. Barnett Madison, NJ	Senior Vice President, Delaware Valley Underwriting Agency of New Jersey, Inc.
John N. Blackman, Jr. Darien, CT	Retired
Mark W. Blackman Darien, CT	Retired
Jean H. Goulding Mamaroneck, NY	Retired
John Kean, Jr. Cold Spring Harbor, NY	Retired
Costa N. Kesington New Brunswick, NJ	Managing Member, Kesington & Ressler, LLC
Charles A. Mitchell Manhasset, NY	Vice President, Mutual Marine Office, Inc. & Affiliates
William R. Scarbrough Bourne, MA	Retired
William A. Thorne Darien, CT	Chairman, Hydrocarbon Products Company
Edward J. Waite, III Morristown, NJ	President, Waite & Associates, LLC
Glenn R. Yanoff Old Brookville, NY	President & Chief Executive Officer, Crackerjack Systems, Inc.

The board met four times during each calendar year under examination. The minutes of all meetings of the board of directors and its subcommittees held during the examination period were reviewed. The meetings were generally well attended and each of the directors had a satisfactory attendance record.

The principal officers of the Company as of December 31, 2000 were as follows:

<u>Name</u>	<u>Title</u>
Robert W. Bailey	Chairman & Chief Executive Officer
Paula-Jane Seidman	Vice President & Secretary
Thomas J. Iacopelli	Chief Financial Officer & Treasurer
George F. Berg	Vice President
Lawrence S. Davis	Vice President
Charles A. Mitchell	Vice President

The Company's procedure for disclosing conflict of interest by its directors, and officers was reviewed. The Company distributes conflict of interest statements annually to each directors and officer. During the examination period, no conflicts of interest were disclosed to the board of directors. However, it was noted that conflict of interest statements were not received from Mr. John N. Blackman for years 1998 through 2000.

It is recommended that the Company ensure that all directors and officers complete conflict of interest statements yearly.

B. Territory and Plan of Operation

The Company is licensed to conduct business in all fifty states, Puerto Rico, and the U.S. Virgin Islands.

The Company specialized in the underwriting of ocean marine, inland marine, aircraft and other liability business on a direct or assumed basis. It underwrites risk on a worldwide basis. It obtains its business through its participation in three insurance pools managed by the following affiliates:

Mutual Marine Office, Inc.
 Mutual Marine Office of the Midwest, Inc.
 Pacific Mutual Marine Office, Inc.

The Company's participation in the pools has increased over the years. Since January 1, 1997, the Company has had a 100% participation in all lines of business produced by the pools. This arrangement is described in Item 2D herein, "Holding Company System".

The following schedule shows direct premiums written by the Company in New York State compared to direct business written in the United States for the five years covered by this examination:

<u>Direct Premiums Written</u>			
<u>Calendar Year</u>	<u>New York State</u>	<u>Total United States</u>	Percentage of U.S. Premiums Written in <u>New York State</u>
1996	\$19,953,014	\$76,335,457	26.14%
1997	\$14,568,232	\$66,890,307	21.78%
1998	\$11,104,988	\$54,020,382	20.56%
1999	\$ 8,842,965	\$46,562,247	18.99%
2000	\$ 7,621,496	\$46,945,259	16.23%

During the period under examination, the Company wrote direct business for risks located outside of the United States as follows:

<u>Calendar Year</u>	<u>Risk located outside of the United States</u>	<u>Total premiums written</u>	<u>Percentage of premiums written outside of the United States</u>
1996	\$31,045,383	\$107,581,054	28.86%
1997	\$15,323,216	\$ 82,375,975	18.60%
1998	\$ 8,858,817	\$ 63,077,554	14.04%
1999	\$ 9,067,923	\$ 55,737,948	16.27%
2000	\$10,494,922	\$ 57,543,768	18.24%

The “Annual Statement Instructions Property & Casualty” promulgated by the National Association of Insurance Commissioners requires the Company to list separately, on Schedule T, each alien jurisdiction where business is written and located. During the period under examination the Company did not comply with this instruction.

It is recommended that the Company comply with the NAIC instructions to the annual statements and list in Schedule T each alien jurisdiction where business is written and located.

As of December 31, 2000, 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>
3	Accident and health
4	Fire
5	Miscellaneous property
6	Water damage
7	Burglary and theft
8	Glass
9	Boiler and machinery
10	Elevator
11	Animal
12	Collision
13	Personal injury liability
14	Property damage liability
15	Workers' compensation and employers' liability

<u>Paragraph</u>	<u>Line of Business</u>
16	Fidelity and surety
17	Credit
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine
21	Marine protection and indemnity

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

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; New York Marine & General Insurance Company is required to maintain a surplus to policyholders in the amount of \$35,000,000. Surplus to policyholders as of December 31, 2000 was \$169,344,854.

C. Reinsurance

The Schedule F data as contained in the Company's annual statements filed for the years within the examination period were found to fairly reflect its reinsurance transactions.

i) Intercompany Reinsurance Agreement

Effective January 1, 1987, the Company and its subsidiary, Gotham Insurance Company ("Gotham"), entered into an agreement whereby the Company assumes 100% of Gotham's premium

writings. The Company cedes 15% of its retained business and related expenses, except for federal and foreign income taxes and investment expenses, to Gotham.

This agreement was submitted to and not disapproved by the Department pursuant to Section 1505(d)(3) of the New York Insurance Law.

ii) Assumed Reinsurance

In addition to the assumed business from its subsidiary, 39% of the Company's gross premiums written during calendar year 2000 were assumed from non-affiliated companies.

The examiner reviewed a sample of assumed reinsurance agreements and noted that some of the agreements contained clauses whereby the Company provided coverage for extra contractual obligations. Pursuant to an opinion issued by this Department's Office of General Counsel, punitive damage awards are not insurable in New York; however, a domestic insurer may issue a reinsurance agreement that contains extra-contractual obligations only if the agreement is modified by the following language:

"...in no event shall coverage be provided to the extent that such coverage is not permitted under New York Law."

It is recommended that the Company not enter into any assumed reinsurance agreements that provide coverage for extra-contractual obligations. Such extra-contractual obligation clause must be modified as set forth above.

iii) Reinsurance Ceded

The Company limits its exposure to losses through the use of various excess of loss, quota share and facultative reinsurance agreements written through the Company's affiliate Mutual Marine Office, Inc. See details of the pool in Item 2D "Holding Company System" – Management Agreements (b).

The Company's retention varies based on the different lines of business written, as well as from year to year. Retention levels are based on several factors, including availability of reinsurance and pricing environment. The Company's maximum exposure on any one loss increased during the examination period from \$1,500,000 to \$2,550,000 in its aviation line of business.

In addition, the Company limits its exposure to catastrophes through the purchase of general excess of loss reinsurance, which provides coverage in the event that multiple insureds incur losses arising from the same occurrence.

During 2000, the Company ceded to both authorized and unauthorized reinsurers. Premiums ceded to authorized companies accounted for approximately 48% of the Company's cessions, while 52% of the cessions were to unauthorized companies.

The examiner reviewed all ceded reinsurance contracts effected during 2000. These contracts all contained the required clauses including insolvency clauses meeting the requirements of Section 1308 of the New York Insurance Law.

As of December 31, 2000, the Company had the following ceded reinsurance program in place:

<u>Type</u>	<u>Coverage</u>	<u>Limits</u>
Excess of loss Seven layers	Aviation	\$160,000,000 in excess of \$3,000,000 on any one loss arising out of one event.
Mirror Excess of loss	Aviation	This reinsurance reduces the Company's retention in layer 1 (\$30,000,000 in excess of \$3,000,000) up to 10% of the amount ceded with a limit of \$3,000,000.
Aggregate Stop Loss	Aviation	\$15,000,000 in excess of Company's net retained losses of \$36,000,000.
Quota Share	Aviation Hull War	50% quota share subject to \$13,000,000 limit any one aircraft, risk or acceptance.
Excess of loss Two layers	Aviation Hull War	\$5,500,000 in excess of \$1,000,000 each and every aircraft, risk or acceptance; or each occurrence at the option of the reinsured.
Excess of Loss	Marine Liability	\$38,500,000 in excess of \$1,500,000 each occurrence, each vessel.
Excess of Loss First Layer	Marine: Hull, cargo, energy (drilling rig) and liability	\$400,000 in excess of \$100,000 each risk arising out of one occurrence. \$800,000 limit per occurrence \$10,000,000 aggregate limit.
Excess of Loss Second Layer	Marine: Hull, cargo, energy (drilling rig) and liability	\$1,000,000 in excess of \$500,000 each risk arising out of one occurrence. \$2,000,000 limit per occurrence \$5,000,000 aggregate limit.

<u>Type</u>	<u>Coverage</u>	<u>Limits</u>
		The Company annual aggregate deductible combined for first and second layers is \$6,500,000.
Excess of loss Third Layer	Marine: Hull, cargo, energy (drilling rig) and liability	\$2,500,000 in excess of \$1,500,000 each risk. \$2,500,000 limit per occurrence.
Excess of Loss Fourth Layer	Marine: Hull, cargo, energy (drilling rig) and liability	\$6,000,000 in excess of \$4,000,000 each risk. \$6,000,000 limit per occurrence.
Clash Excess of Loss	Marine: Hull, cargo, energy (drilling rig) and liability	\$3,500,000 in excess of \$500,000 per occurrence. \$3,500,000 occurrence limit. This treaty provides coverage when the Company exceeds the limits of the three layers described above.
Excess of Loss Catastrophe	General liability	\$24,000,000 in excess of \$1,000,000 each risk arising out of one event.
First Surplus	Hull and cargo (War risks)	\$3,000,000 each vessel, interest or risk; surplus to \$2,000,000 retained line by the Company.
Second Surplus	Hull (War risks)	\$15,000,000 each vessel, interest or risk; surplus to \$5,000,000 retained line by the Company.
Excess of Loss	Energy	\$500,000 excess of \$2,000,000 each risk.
Quota Share	Energy	37.5% of \$4,000,000 each risk.
Excess of Loss	Energy	\$6,000,000 excess of \$4,000,000 each risk.
Excess of Loss	Cargo	\$12,000,000 excess of \$3,000,000 each risk.
Quota Share	Hull and Cargo (War risks)	50% of \$2,000,000 any one interest, any one vessel.
Excess of Loss	Cargo (War risks)	\$60,000,000 excess of \$5,000,000 each contract, any one accident, each vessel or risk.

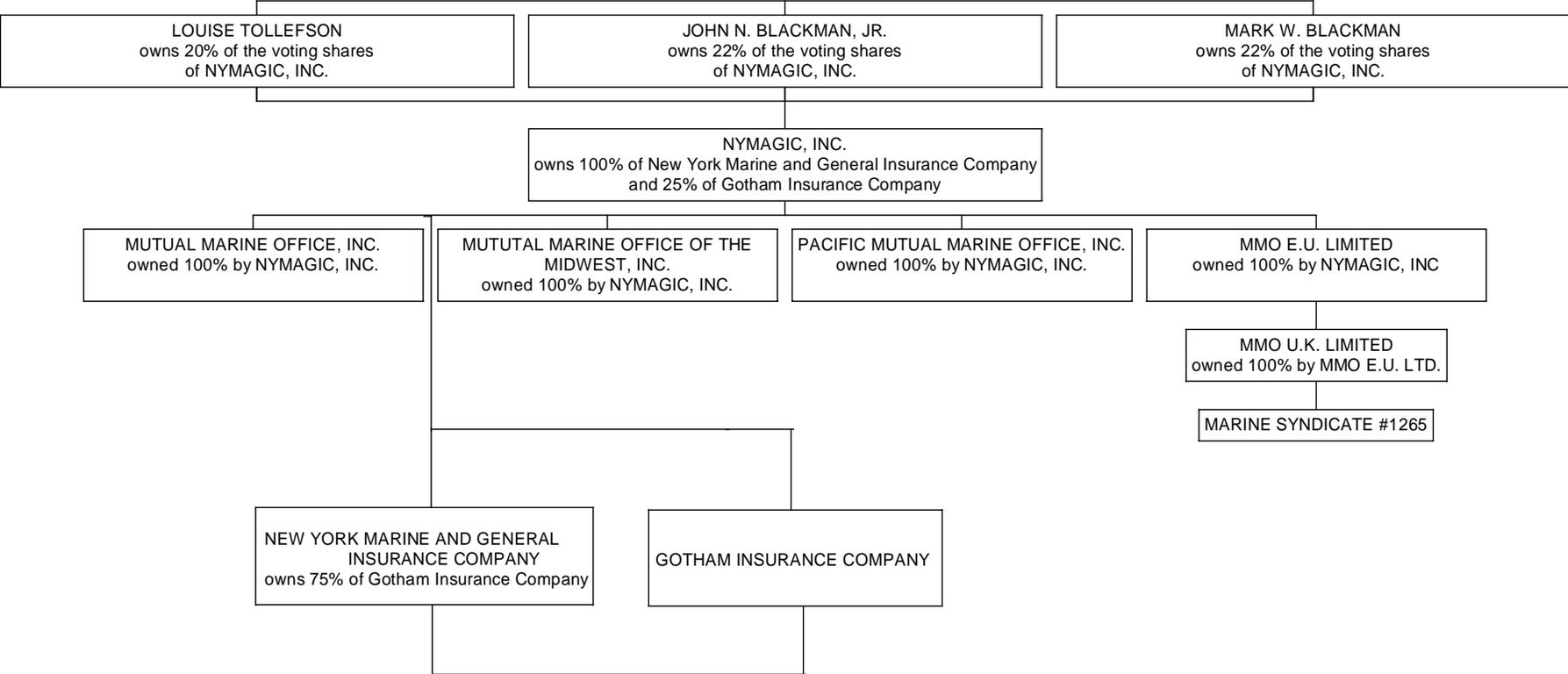
<u>Type</u>	<u>Coverage</u>	<u>Limits</u>
Variable Quota Share	Inland Marine and Surplus line Property	50% for policy limits of \$1,000,000 75% for policy limits of \$2,000,000 83.33% for policy limits of \$3,000,000
Excess of Loss	Inland Marine and Surplus lines Property	\$450,000 excess of \$50,000 ultimate net loss each loss.
Total Loss only	Marine hull and Energy	\$1,000,000 any one vessel, each risk

Some of the ceded reinsurance agreements contain reinstatement premium clauses, which provide for the restoration of treaty limits in the event that recoveries reduce the original reinsurance coverage. Such reinstatements are contingent upon the payment of an additional premium with the exception of layers 1 and 2 of the marine liability excess of loss which offer the reinstatement free of charge. The Company has reinstatement premium protection for some of the aviation excess of loss. This reinstatement premium protection reimburses the Company for any reinstatement premiums that are required to be paid.

D. Holding Company System

As of December 31, 2000, one hundred percent of the outstanding shares of the Company are owned by NYMAGIC, Inc., an insurance holding company domiciled in the State of New York. John N. Blackman, Jr., Mark W. Blackman and Louise Tollefson own 22%, 22% and 20%, respectively, of the voting shares of NYMAGIC, Inc. NYMAGIC, Inc. and the Company own 25% and 75% respectively, of Gotham Insurance Company. In addition, NYMAGIC, Inc. owns 100% of the common stock of the following companies: Pacific Mutual Marine Office, Inc., Mutual Marine Office of the Midwest and Mutual Marine Office, Inc.

The following is an organizational chart of the holding company system as of December 31, 2000:



As a controlled insurer, the Company is required to file registration statements and amendments with this Department, pursuant to Section 1504 of the New York Insurance Law and Department Regulation 52. Part 80-1.2 of Regulation 52 requires that the amendments be filed annually by April 30. The Company did not file amendments to Form HC-1 for the years 1999 and 2000 until June 25, 2001.

It is recommended that in the future, the Company comply with Part 80-1.2 of Regulation 52 and file the amendments annually by April 30.

In addition to the intercompany reinsurance agreement between the Company and its subsidiary Gotham mentioned in Item 2D "Reinsurance", the Company has in effect as of December 31, 2000, the following agreements with members of its holding company system:

1. Management Agreements:

(a) The Company and its affiliate, Mutual Marine Office, Inc. ("MMO"), are parties to a management agreement amended and restated effective April 1, 1986. Under the terms of this agreement MMO supplies all employees, services and facilities necessary for the conduct of the Company's business. The Company pays MMO the following management fees for its services under this agreement:

- 7.5% of gross premiums written on non-pool business;
- 2% of gross direct premiums written on pool business; and
- 1% of gross assumed premium on pool business.

Effective April 1, 1986, the management agreement was amended to allow as compensation to MMO the above percentages in an amount not to exceed the costs and expenses incurred by MMO in fulfilling its obligations under the agreement.

Management fees incurred by the Company under this agreement during the period under examination were as follows:

<u>Year</u>	<u>Company's Management Fee</u>
1996	\$2,498,626
1997	\$1,965,190
1998	\$1,608,321
1999	\$1,462,467
2000	\$1,517,132

The management agreement and amendment were submitted to and not disapproved by the Department pursuant to Section 1505(d)(3) of the New York Insurance Law.

(b) In addition to the above management agreement, the Company is a party to three management agreements with its affiliates:

Mutual Marine Office, Inc.
 Mutual Marine Office of the Midwest, Inc.
 Pacific Mutual Marine Office, Inc.

Under the provisions of these management agreements, the Company obtains its business through its participation in three insurance pools managed by the above affiliates.

The Company's participation in the business underwritten by the pools has increased over the years and, since January 1, 1997, the Company has had a 100% participation in all lines of business produced by the pools. Amendments to this effect were not submitted to the Department until July 10, 2001. The Department did not disapprove these amendments.

Section 1505(d)(3) of the New York Insurance law states as follows:

“The following transactions between a domestic controlled insurer and any person in its holding company system may not be entered into unless the insurer has notified the superintendent in writing of its intention to enter into such transaction at least thirty days prior thereto, or such shorter period as he may permit, and he has not disapproved it within such period:

...rendering of services on a regular or systematic basis.”

It is recommended that in the future, the Company comply with Section 1505(d)(3) of the New York Insurance Law and submit to the Department prior to implementation all amendments to its management agreements.

Under these agreements, the affiliates receive a pool management fee of 5.5% of gross premiums written on pool business, and a pool contingent commission of 10% of underwriting profits for providing underwriting, claims and management services for the pools. In addition, the agreements indicated that the affiliates also receive profits derived from reinsurance contingent commissions on pool business ceded under various reinsurance agreements.

Pool management fees and commissions incurred by the Company under this agreement during the period under examination were as follows:

<u>Year</u>	<u>Pool Management Fee (5.5% of gross premiums)</u>	<u>Pool Contingent Commission(10% of underwriting profits)</u>
1996	\$5,857,305	\$1,001,273
1997	\$5,711,293	\$ 572,321
1998	\$4,768,523	\$1,058,014
1999	\$4,449,732	\$ 630,281
2000	\$4,592,930	\$ 585,003

During the period under examination, Mutual Marine Office, Inc. received profits derived from reinsurance contingent commissions on pool business ceded under various reinsurance agreements as follows:

<u>Year</u>	<u>Reinsurance Commissions</u>
1996	\$1,345,842
1997	\$1,316,151
1998	\$ 285,906
1999	\$1,687,470
2000	\$ 901,382

Effective January 1, 1991, the affiliates signed waivers of fee statements indicating that the affiliates waived the right to receive from the Company the 5.5% commission on business produced under the pool agreements to the extent that such commission exceeds the actual cost incurred by the affiliates in producing pool business for the Company. The Company did not provide the examiner with documentation evidencing submission of these waiver of fees statements to the Department pursuant to Section 1505(d)(3) of the New York Insurance Law.

It was noted that during the period under examination the affiliates did not receive compensation and commissions in excess of their costs incurred to produce business for the Company.

Subsequent to the examination period, on November 9, 2001, the Company submitted to the Department, pursuant to Section 1505(d)(3) of the New York Insurance Law, supplemental waiver of fee statements. These statements indicate that effective January 1, 2002, the affiliates waive their right to receive from the Company pursuant to the pool agreement, any compensation including contingent commissions, to the extent that such compensation exceeds the actual cost incurred by the affiliates in producing such pool business for the Company.

2. Loss Portfolio Transfer Agreement

Effective January 1, 2000, the Company entered into an aggregate stop loss reinsurance agreement with a member of its holding company system, Lloyds Syndicate 1265. Under this agreement the Company assumed certain obligations of Lloyds Syndicate 1265 in the amount of \$400,000. The Company indicated that Lloyds Syndicate 1265 was placed into run off in 2000.

Section 112.4(b) of Department Regulation 108 prohibits a domestic insurer from entering into a loss portfolio transfer with a member of its holding company, except in accordance with the provisions of Section 1505 of the New York Insurance Law.

The Company did not submit to the Department this aggregate stop loss reinsurance agreement as required by Section 1505(d)(2) of the New York Insurance Law, which requires the Superintendent's prior approval for this type of transaction.

It is recommended that the Company comply with Section 1505(d)(2) of the New York Insurance Law and submit to the Department the aggregate stop loss reinsurance agreement entered into with Lloyds Syndicate 1265.

3. Indemnification Agreement

The Company's parent, NYMAGIC, Inc. on December 31, 1993, secured delivery to the Company of an irrevocable letter of credit ("Parental Letter of Credit") which complies with all of the provisions of Department Regulation No. 133. The balance of this Parental Letter of Credit was \$7,500,000 as of the examination date.

The Parental Letter of Credit was issued by Morgan Guaranty Trust Company of New York to secure refund and payment to the Company of any reinsurance recoverable due from one or more assuming insurers.

This agreement provides that in the event of non-renewal of the Parental Letter of Credit, NYMAGIC, Inc. will deposit cash equal to the aggregate amount of the reinsurance recoverable as determined by the Company on date of the notice of non-renewal. Such amounts should be deposited in a separate account in the name of the Company in any United States bank or trust company.

Pursuant to Department Regulation No. 20, the Parental Letter of Credit, indemnification agreement and amendments have been filed with the Department.

4. Tax Allocation Agreement

On December 30, 1987, the Company entered into a tax allocation agreement with Gotham Insurance Company. Under this agreement, effective with the tax year of 1987, the Company and Gotham filed consolidated federal income tax returns. The agreement was submitted to, and not disapproved, by the Department.

It was noted that during the period under examination, the Company filed a consolidated federal income tax return with its parent, NYMAGIC, Inc. and its affiliates Mutual Marine Office, Inc., Pacific Mutual Marine Office, Inc., and Mutual Marine Office of the Midwest, Inc. An amendment to the tax allocation agreement was not submitted to the Department pursuant to Section 1505(d)(3) of the New York Insurance Law.

Subsequent to the examination period, on May 29, 2001, the tax allocation agreement was amended and restated to include the Company's parent, NYMAGIC, Inc., and affiliates Mutual Marine Office, Inc., Pacific Mutual Marine Office, Inc., and Mutual Marine Office of the Midwest, Inc.

In addition, on May 29, 2001, the Company entered into tax reimbursement agreements with its parent and affiliates including MMO EU, Ltd., and MMO UK, Ltd.

The tax allocation and tax reimbursement agreements were submitted to the Department on June 6, 2001 pursuant to Section 1505(d)(3) of the New York Insurance Law. The agreements are currently under review by this Department.

E. Abandoned Property Law

Section 1316 of the captioned law requires that certain unclaimed insurance proceeds be reported to the State of New York by April 1, of each year. The Company is complying with this law.

F. Accounts and Records

1. Custodial Agreement

The Company is a party to a custodial agreement with Northern Trust Company for the safeguarding of its securities. The agreement does not contain the following provisions which are deemed to be representative of good business practices:

1. The Bank shall have in force, for its own protection, the Bankers Blanket Bond Insurance of the broadest form available for commercial banks and will continue to maintain such insurance. The Bank will give the Company 60 days written notice of any material change in the form or amount of such insurance or the termination of coverage.
2. The custodian shall maintain records sufficient to verify information required to be reported in Schedule D of the annual statement blank of the Insurance Department of New York.

3. Custodian shall furnish the Company with the appropriate affidavits in the form as may be acceptable to the custodian and to the New York Insurance Department in order for the securities referred to in such affidavits to be recognized as admitted assets of the Company.
4. Access shall be during regular banking hours and specifying those persons who shall be entitled to examine on the custodian's premises and records regarding securities held but only upon furnishing custodian with written instructions to that effect from any specified authorized officer.
5. In connection with any situation involving registration of securities in the name of a nominee or a bank custodian, the custodian agreement shall empower the bank to take such action.
6. There should be a provision in the agreement that would give the Company the opportunity to secure the most recent report on the review of the custodian's system of internal controls, pertaining to custodian record keeping issued by internal or independent auditors.

It is recommended that the Company amend its custodial agreement with Northern Trust Company to include, at the minimum, the above provisions.

2. Letters of Credit

The Company limits its exposure from losses through the use of various reinsurance treaties written through Mutual Marine Office, Inc. ("MMO") on behalf of the companies participating in the pool. MMO maintains a large number of letters of credit for the benefit of its pool members, including New York Marine and General Insurance Company.

It was noted that the Company's name was not listed as a beneficiary on all letters of credit. Effective January 1, 1997, the Company represents 100% of the pool. It is recommended that in the future the Company's name be listed as beneficiary under all letters of credit agreements.

In addition, it is recommended that all existing letters of credit that do not list the Company as the beneficiary be amended to include an acknowledgement that the letter of credit is being administered by the beneficiary on behalf of New York Marine and General Insurance Company and other members of the pool as appropriate to the period in question.

G. Significant Operating Ratios

The following ratios have been computed as of December 31, 2000, based upon the results of this examination:

Net premiums written in 2000 to surplus as regards policyholders	.31 to 1
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	82.14%
Premiums in course of collection to surplus as regards policyholders	24.86%

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

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

	<u>Amounts</u>	<u>Ratios</u>
Losses incurred	\$132,126,493	47.56%
Loss adjustment expenses incurred	33,478,332	12.05
Other underwriting expenses incurred	90,337,049	32.51
Net underwriting gain	<u>21,896,178</u>	<u>7.88</u>
Premiums earned	<u>\$277,838,052</u>	<u>100.00%</u>

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as determined by this examination as of December 31, 2000. This statement is the same as the balance sheet filed by the Company:

<u>Assets</u>	<u>Ledger Assets</u>	<u>Non-Ledger Assets</u>	<u>Not-Admitted Assets</u>	<u>Net- Admitted Assets</u>
Bonds	\$196,844,956	\$	\$	\$196,844,956
Common stocks	50,271,839	32,328,385		82,600,224
Mortgage loans on real estate	1,570,137			1,570,137
Cash and short-term investments	16,115,250			16,115,250
Other invested assets	1,627,566			1,627,566
Premiums and agents' balances in course of collection	34,217,947		4,191,906	30,026,041
Funds held by or deposited with reinsured companies	172,150			172,150
Reinsurance recoverable on losses and loss adjustment expenses	34,614,466			34,614,466
Interest, dividends and real estate income due and accrued		4,077,605		4,077,605
Equities and deposits in pools and associations	573,360			573,360
Other assets non-admitted	<u>113,636</u>	_____	<u>113,636</u>	_____
Total assets	<u>\$336,121,307</u>	<u>\$36,405,990</u>	<u>\$4,305,542</u>	<u>\$368,221,755</u>

Liabilities

Losses	\$109,748,417
Loss adjustment expenses	21,007,622
Contingent commissions and other similar charges	902,001
Other expenses	264,606
Taxes, licenses and fees	221,000
Federal and foreign income taxes	1,362,889
Unearned premiums	29,086,986
Dividends declared and unpaid:	
Stockholders	655,951
Funds held by company under reinsurance treaties	2,876,758
Provision for reinsurance	26,406,200
Payable for securities	237,015
Reserves for write-offs of pool members' obligations	199,871
Loss portfolio transfer liability	<u>5,907,585</u>
 Total liabilities	 \$198,876,901

Surplus

Common capital stock	\$8,827,889
Gross paid in and contributed surplus	53,318,915
Unassigned funds	<u>107,198,050</u>
 Surplus as regards policyholders	 <u>169,344,854</u>
 Total liabilities and surplus	 <u>\$368,221,755</u>

NOTE: The Internal Revenue Service has not performed any audits of the consolidated federal income tax returns filed on behalf of the Company. 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 \$31,208,741 during the five year examination period January 1, 1996 through December 31, 2000, and is detailed as follows:

Statement of Income

Underwriting Income

Premiums earned		\$277,838,052
<u>Deductions:</u>		
Losses incurred	\$132,126,493	
Loss adjustment expenses incurred	33,478,332	
Other underwriting expenses incurred	<u>90,337,049</u>	
Total underwriting deductions		<u>255,941,874</u>
Net underwriting gain		\$21,896,178

Investment Income

Net investment income earned	\$92,843,242	
Net realized capital gains	<u>31,154,288</u>	
Net investment gain		123,997,530

Other Income

Net loss from agents' balances charged off	\$(1,294,462)	
Write off of insolvent insurers	76,261	
Write off of pool members obligations	(1,585,968)	
Commutation of loss portfolio transfer	2,981,937	
Loss portfolio transfer liability	<u>(600,724)</u>	
Total other income		<u>(422,956)</u>
Net income before federal and foreign income taxes		\$145,470,752
Federal and foreign income taxes incurred		<u>27,015,496</u>
Net income		<u>\$118,455,256</u>

Capital and Surplus Account

Surplus as regards policyholders, per report on examination as of December 31, 1995			\$138,136,113
	Increases in <u>Surplus</u>	Decreases in <u>Surplus</u>	
Net income	\$118,455,256	\$	
Net unrealized capital gains	17,538,924		
Change in non-admitted assets		55,303	
Change in provision for reinsurance		19,780,513	
Dividends to stockholders		79,967,333	
Cummulative effect of change in amortization of bonds		4,982,290	
Total	<u>\$135,994,180</u>	<u>\$104,785,439</u>	
Net Increase in surplus as regards policyholders			<u>31,208,741</u>
Surplus as regards policyholders, per report on examination as of December 31, 2000			<u>\$169,344,854</u>

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for losses and loss adjustment expenses of \$109,748,417 and \$21,007,622, respectively are the same as the amount reported by the Company in its filed 2000 annual statement. The examination analysis was conducted in accordance with generally accepted actuarial principles and practices and was based on statistical information contained in the Company's internal records and 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 generally more precise scope of

a market conduct investigation, which is performed by Market Conduct Section of the Property Bureau of this Department.

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

- A. Sales and advertising
- B. Underwriting
- C. Claims

No problem areas were encountered.

6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination contained three recommendations as follows (page numbers shown refer to the prior report):

<u>ITEM</u>	<u>PAGE NO.</u>
<p>A. It was recommended that the Company submit to the Department prior to implementation all amendments to its pool agreements in accordance with Section 1505 of the New York Insurance Law.</p> <p>The Company did not comply with this recommendation and a similar recommendation is included in this report.</p>	<p>7</p>
<p>B. It was recommended that the Company furnish the Superintendent with the name and title of the corporate officer specifically designated to investigate and resolve complaints.</p> <p>The Company has complied with this recommendation.</p>	<p>22</p>

7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Management</u>	
It is recommended that the Company ensure that all directors and officers complete conflict of interest statements yearly.	5
B. <u>Territory and Plan of Operation</u>	
It is recommended that the Company comply with the NAIC instructions to the annual statements and list in Schedule T each alien jurisdiction where business is written and located.	7
C. <u>Assumed Reinsurance</u>	
It is recommended that in the future the Company not enter into assumption agreements that contain extra-contractual obligation clauses unless they are modified with the following clause: <i>“...in no event shall coverage be provided to the extent that such coverage is not permitted under New York Law.”</i>	9
D. <u>Holding Company System</u>	
1. <u>Regulation 52</u>	
It is recommended that in the future, the Company comply with Part 80-1.2 of Regulation 52 and file the amendments to form HC-1 annually by April 30.	16
2. <u>Management Agreements</u>	
It is recommended that the Company comply with Section 1505(d)(3) of the New York Insurance Law and submit to the Department prior to implementation all amendments to its management agreements.	18
3. <u>Loss Portfolio Transfer Agreement</u>	
It is recommended that the Company comply with Section 1505(d)(2) of the New York Insurance Law and submit to the Department the aggregate stop loss reinsurance agreement entered into with Lloyds Syndicate 1265.	20

<u>ITEM</u>	<u>PAGE NO.</u>
E. <u>Accounts and Records</u>	
1. <u>Custodial Agreement</u>	
It is recommended that the Company amend its custodial agreement with Northern Trust Company to include, at the minimum, the provisions deemed to be representative of good business practices.	23
2. <u>Letters of Credit</u>	
It is recommended that in the future, the Company's name be listed as beneficiary under all letters of credit agreements.	23
It is recommended that all existing letters of credit that do not list the Company as the beneficiary be amended to include an acknowledgement that the letter of credit is being administered by the beneficiary on behalf of New York Marine and General Insurance Company and other members of the pool as appropriate to the period in question.	23

Respectfully submitted,

Melba Bolic
Associate Insurance Examiner

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

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

Melba Bolic

Subscribed and sworn to before me
this ____ day of _____ 2001.

Appointment No. 21720

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:

Melba Bolic

as proper person to examine into the affairs of the

NEW YORK MARINE AND GENERAL INSURANCE COMPANY

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 April, 2001.



A handwritten signature in black ink, appearing to read 'Gregory V. Serio', written over a horizontal line.

GREGORY V. SERIO

First Deputy Superintendent of Insurance