

REPORT ON EXAMINATION
OF THE
ROCHDALE INSURANCE COMPANY
AS OF
DECEMBER 31, 2000

DATE OF REPORT

JANUARY 14, 2002

EXAMINER

VERONICA DUNCAN-BLACK

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

January 14, 2002

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

Sir:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 21781 dated September 26, 2001, attached hereto, I have made an examination into the condition and affairs of the Rochdale Insurance Company as of December 31, 2000 and respectively submit the following report thereon.

The examination was conducted at the Company's home office located at 59 Maiden Lane, New York, New York 10038.

Wherever the designations "Rochdale " or "Company" appear herein without qualification, they should be understood to indicate the Rochdale Insurance Company.

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

1. SCOPE OF EXAMINATION

The prior examination was conducted as of December 31, 1993. This examination covers a seven year period from January 1, 1994 through December 31, 2000 and was limited in its scope to a review or audit of only those balance sheet items considered by this Department to require analysis, verification or description, including: invested assets, inter-company balances, loss and loss adjustment expense reserves and the provision for reinsurance. The examination included a review of income, disbursements and the Company's records deemed necessary to accomplish such analysis or 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 Company
- Management and control
- Corporate records
- Fidelity bond and other insurance
- Territory and plan of operation
- Market conduct activities
- Growth of Company
- Accounts and records
- Financial statements

A review was made to ascertain what action was taken by the Company with regard to 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 departure from laws, regulation or rules, or which are deemed to require explanation or description.

2. DESCRIPTION OF COMPANY

Rochdale Insurance Company was incorporated on June 29, 1955 under the laws of the State of New York and began business on September 14, 1955. Duncanson & Holt, Inc., a New York underwriting management firm, acquired sole ownership of the Company on December 22, 1976.

Following the Insurance Department's approval dated July 20, 1992, the Company's ownership was transferred to Rochdale Capital Corporation, a privately held company incorporated in the State of New York, owned by the former parent's senior management.

On October 19, 1999, because the Company's surplus level went below the minimum amount required by Section 4103 of the New York Insurance Law, the Company was served with a court order of rehabilitation and went under the control of the New York Insurance Department Liquidation Bureau.

On June 5, 2000, AmTrust Financial Services, Inc., ("AmTrust") acquired all of the Company's issued and outstanding stock. In addition to the purchase price of the Company, AmTrust contributed \$2,730,923 to Rochdale's capital and paid in surplus, increasing the Company's surplus to the minimum required amount by the Department. In accordance with a court order and the infusion of the above capital by AmTrust, the Superintendent was discharged as rehabilitator of Rochdale on June 8, 2000.

On December 29, 2000, Technology Insurance Company, a wholly-owned subsidiary of Amtrust, acquired all of Rochdale's issued and outstanding common stock.

As of December 31, 2000, all of the issued and outstanding capital stock of the Company, which consists of 10,000 shares of common stock with a par value of \$150.00 per share is owned by Technology Insurance Company.

A. Management

Pursuant to the Company's charter and by-laws, the management of the Company is vested in a board of directors consisting of not less than thirteen nor more than nineteen members. As of the examination date, the board of directors was comprised of the following five members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Francis A. Ascolillo Beverly Hills, FL	President, Rochdale Insurance Company
Michael Karfunkel Brooklyn, NY	Chairman of the Board and President, American Stock Transfer & Trust Co.
George Karfunkel Brooklyn, New York	Senior Vice President & Director, American Stock Transfer & Trust Co.
Jay J. Miller New York, NY	Director, Rochdale Insurance Company
Barry D. Zyskind Brooklyn, NY	Vice President, Rochdale Insurance Company

In March 2001, this Department informed the Company that its filed annual statement listed only five directors, and that Section 1202 of the New York Insurance Law provided that a domestic property/casualty insurer should have at least thirteen directors. The Company addressed the Department's concerns and forwarded biographical affidavits for the following directors to make their total directorship thirteen:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Donald T. DeCarlo Southold, NY	Partner, Lord, Bissell & Brook
Leah Karfunkel Brooklyn, NY	Vice President, American Stock Transfer & Trust Co.
Hebert Julian Lemmer Westfield, NJ	Partner, Fluxman Rabinowitz
Anne Newberger Brookly, NY	Products and Development, American Stock Transfer & Trust Co.
Henry Reinhold Brooklyn, NY	Controller American Stock Transfer & Trust Co.
Eli Tisser Brooklyn, NY	Treasurer, Rochdale Insurance Company
Stephen Barry Unger Brooklyn, NY	General Counsel, AmTrust Financial Services, Inc.
Esther Zyskind Brooklyn, NY	Director, Rochdale Insurance Company

The Company did not hold any board of directors' or shareholders' meetings for the period under examination. Section 602(b) of the Business Corporation Law requires that a meeting of the shareholders be held annually for the election of the directors. The Company's charter and by-laws also requires the Company to elect its board of directors at the annual meeting of the stockholders. It is recommended that the Company comply with the provisions of its charter and by-laws as well as Section 602(b) of the Business Corporation Law with regard to the election of its board of directors.

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

<u>Name</u>	<u>Title</u>
Francis A. Ascolillo	President
Barry C. Zyskind	Executive Vice President
Jay J. Miller	Secretary
Eli Tisser	Treasurer

B. Territory and Plan of Operation

As of December 31, 2000, the Company was authorized to transact business in the District of Columbia and the following states:

Arkansas	North Dakota
Georgia	South Dakota
Montana	Texas
Nebraska	Utah
New York	Wisconsin

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
7	Burglary and theft
8	Glass
9	Boiler and machinery
10	Elevator
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
21	Marine protection and indemnity

The Company is also 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 803, 69th Congress as amended; 33 USC Section 901 et. seq. as amended).

During this examination, Rochdale submitted a request to this Department to amend its licenses to add fidelity and surety insurance as defined in paragraph 16 of Section 1113(a) of the New York Insurance Law. Effective February 22, 2002, the Company received approval from this Department to amend its license accordingly.

Based upon the lines of business for which the Company is licensed, and its current capital structure, and pursuant to the requirements of Articles 13 and 41 of the New York Insurance Law, the Company is required to maintain a minimum surplus to policyholders in the amount of \$1,500,000.

As of December 31, 2000, Rochdale writings were limited to its surety lines of business. The Company provides stock transfer or surety coverage to one of its affiliates, American Stock Transfer and Trust Company ("American Stock Transfer"). Surety bonds are issued as strictly an accommodation to American Stock Transfer in order to comply with regulations related to cancellation of lost or stolen stock certificates. At present, the Company's emphasis is on maintaining its surety program as well as writing workers' compensation business. The workers' compensation business is being produced through independent agents and brokers.

C. Reinsurance

The Company continues to run-off its property and casualty exposures in force as of the date it entered rehabilitation. The ceded reinsurance program in effect as of that date continues to apply to that business.

The Company's current book of surety business is not subject to any reinsurance.

D. Holding Company System

The Company is a wholly-owned subsidiary of Technology Insurance Company ("Technology"), Inc., a New Hampshire domiciled insurer which is a subsidiary of AmTrust Financial Services, Inc. On June 5, 2000, AmTrust Financial Services acquired 100% of the shares of common stock of Rochdale. On December 29, 2000, Amtrust transferred 100% of Rochdale's common shares (10,000 shares) to Technology Insurance Company. The transfer represented a combination of capital contribution in the amount of \$1,124,866 and a settlement of indebtedness to Technology in the amount of \$1,606,057.

Inter-Company Management, Cost Allocation and Tax Allocation Agreement

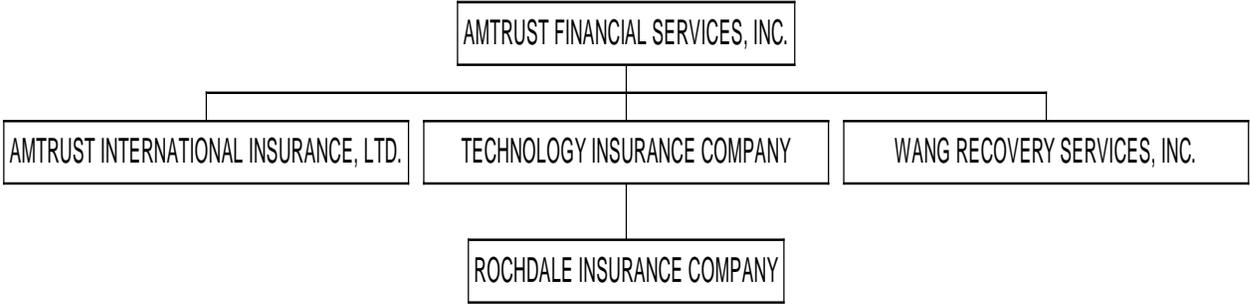
The Company is currently a party to an inter-company management and cost allocation agreement and a tax allocation agreement. Under the terms of the inter-company management and cost allocation agreement, the Company's ultimate parent, AmTrust, has agreed to provide certain management services, including, but not limited to federal and state compliance, investment management, statutory and GAAP accounting, loss reserving, and rating agency relationship. The Department approved the inter-company management and cost allocation agreement effective June 18, 2000. Management of the Company also informed the examiner that AmTrust also provides claims services to Rochdale pursuant to this agreement. The examiner noted that the inter-company management and cost allocation agreement does

not include coverage for claims services and recommends that the Company amend this agreement to include such services.

In accordance with the terms of the tax allocation agreement, the Company shall be included in the consolidated federal income tax return with its immediate and ultimate parents. The tax liability or refund under the agreement represents the amount the Company would pay or receive if it had filed a separate return with the Internal Revenue Service. This agreement was not submitted to this Department for approval pursuant to Section 1505(d) of the New York Insurance Law or Circular Letter No.33 (1979), which requires that every domestic insurer file a copy of its tax allocation agreement with the New York State Insurance Department if it elects to file a consolidated income tax return with its holding company. It is recommended that in the future that the Company file with the Department prior to implementing any inter-company agreements pursuant to Section 1505(d) of the New York Insurance Law and Circular Letter No.33 (1979).

As a member of the holding company system, the Company files registration statements pursuant to the requirements of Article 15 of New York Insurance and Department Regulation 52.

The following is the chart of the Holding Company System as of examination date:



E. Significant Operating Ratios

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

Net premiums written to surplus as regards policyholders	.07 to 1
Liabilities to liquid assets (cash and invested assets less investment in affiliates)	86%
Premiums in course of collection to surplus as regards policyholders	0.06%

The above ratios fall within the benchmark ranges as 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 seven-year period covered by this examination:

	<u>Amounts</u>	<u>Ratios</u>
Losses incurred	\$12,756,436	87.87%
Loss adjustment expense	2,118,868	14.60
Other underwriting expense	6,760,274	46.57
Net underwriting (loss)	<u>(7,118,779)</u>	<u>(49.04)</u>
Premiums earned	<u>\$14,516,799</u>	<u>100.00%</u>

F. Custodian Agreement

As of this examination date, the Company's securities were being held by a bank without the benefit of a formal custodian agreement. A custodian agreement is essential so that the Company's assets are properly safeguarded. It is recommended that the Company obtain a custodial agreement with the following protective covenants and provisions:

1. The bank shall have in force, for its own protection, Bankers Blanket Bond Insurance of the broadest from available for commercial banks and will continue to maintain such insurance. You will give us 60 days written notice of any material change in the form or amount of such insurance or termination of this coverage.
2. You will at all times give the securities held by you hereunder the same care you give your own property of a similar nature.
3. Furnish the insurer (at least quarterly) with a list of such securities showing a complete description of each issue, which shall include the number of shares or par value of bonds so held at the end of such quarter.
4. Maintain records sufficient to verify information we are required to report in Schedule D of the Annual Statement blank of the Insurance Department of the State of New York.
5. Furnish us with the appropriate affidavits in the form as may be acceptable to you 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.
6. Access shall be during your regular banking hours and specifying those persons who shall be entitled to examine on your premises securities held by you on your premises and your records regarding securities held, but only upon furnishing you with written instructions to that effect from any specified authorized officer.
7. Written instructions hereunder shall be signed by any two of its Authorized Officers specified in a separate list for this purpose which will be furnished to you from time to time signed by the treasurer or an assistant treasurer or an assistant secretary.
8. In connection with any situation involving registration of securities in the name of a nominee of a bank custodian, the custodian agreement should empower the bank to take such action.
9. There should be a provision in the agreement that would give the insurer the opportunity to secure the most recent report on the review of the custodian's system of internal controls, pertaining to custodian record keeping, issued by internal or independent auditors.

G. Accounts and Records

(i) Annual Statement

The examiner noted that there were differences between the Company's filed annual statement and its books of accounts. The Company management explained that several adjusting entries were made to its books based upon its certified public accountant's recommendation. The Company further explained that these adjustments resulted from various errors in its bookkeeping; for example, incorrect calculation

of the amortization for its securities, incorrect recording for the termination of a loss portfolio agreement, and writeoffs of uncollectible receivables and adjustments due to timing differences. The Company did not provide a reconciliation from the trial balance to the filed annual statement. This delayed the timely completion of the examination. The Company also did not re-file its December 31, 2000 annual statement to reflect the adjustments made to its books.

The examiner noted that the net changes for these adjustments had a minimal net effect on surplus and deemed it not necessary for the Company to re-file its annual statement. The examiner, however, recommends in the future that the Company maintain reconciliation from its trial balance to its filed annual statement.

(ii) Regulation 30

A review of the Company's compliance with the Department Regulation 30 was performed as part of this examination. It was noted that Part 4, Expense Exhibit, of the annual statement that the Company's overhead expenses were not allocated to the loss adjustment function. Regulation 30, Part 107.3 states that the composition of each expense group shall be categorized under investment expenses, loss adjustment expenses, taxes, general expenses, and acquisition, field and collection expenses. In addition, Part 107.4(e)(1) of such regulation also states the following:

“The method and bases followed in allocation to expense groups shall be described, kept and supported.”

Based on the examiner's review, it appears that the expenses are not properly allocated pursuant Department Regulation 30. It is recommended that the Company undertake a study to determine the proper amounts to allocate between expenses classified pursuant to Department Regulation 30.

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and surplus as determined by this examination and is the same as reported by the Corporation on its December 31, 2000 annual statement:

<u>Assets</u>	<u>Ledger Assets</u>	<u>Non-ledger Assets</u>	<u>Not-Admitted Assets</u>	<u>Admitted Assets</u>
Bonds	\$ 403,662	\$	\$	\$ 403,662
Common Stocks	659,712		101,452	558,260
Cash & Short-term investments	8,633,141			8,633,141
Other invested assets	66,667	10,730		77,397
Premiums and agents' balances in course of collection	184,681		17,974	166,707
Funds held by or deposited with reinsured companies	140,451			140,451
Reinsurance recoverable on loss payments	424,140			424,140
Electronic data processing equipment	300,748			300,748
Interest, dividends and real estate income due and accrued	2,938			2,938
Aggregation write-ins: Escrow account received	<u>400,000</u>	<u> </u>	<u> </u>	<u>400,000</u>
Total assets	<u>\$11,216,140</u>	<u>\$10,730</u>	<u>\$119,426</u>	<u>\$11,107,444</u>

Liabilities

Losses		\$6,941,873
Reinsurance payable on paid loss and loss adjustment expenses		859,724
Loss adjustment expenses		50,000
Other expenses		21,188
Taxes, licenses, and fees		5,000
Funds held by company under reinsurance treaties		12,539
Provision for reinsurance		<u>433,680</u>
Total liabilities		\$8,324,004

Surplus

Common capital stock	\$1,500,000	
Gross paid in and contributed surplus	8,968,247	
Unassigned funds (surplus)	<u>(7,684,807)</u>	
Surplus as regards policyholders, December 31, 2000		<u>2,783,440</u>
Total liabilities and surplus		<u>\$11,107,444</u>

Note: The Company has never been audited by the Internal Revenue Service. The examiner is unaware of any potential exposure of the Company to any tax assessment and no liability has been established herein.

B. Underwriting and investment exhibit

Surplus as regards policyholders increased \$1,130,311 during the seven-year examination period, January 1, 1994 through December 31, 2000, as follows:

Statement of Income

Underwriting Income

Premiums earned		\$14,516,799
Deductions:		
Losses expense incurred	\$12,756,436	
Loss adjustment expense incurred	2,118,868	
Other underwriting expenses incurred	<u>6,760,274</u>	
Total underwriting deductions		<u>21,635,578</u>
Net underwriting gain or (loss)		\$(7,118,779)

Investment Income

Net investment income earned	\$4,878,816	
Net realized capital gains	<u>258,711</u>	
Net investment gain		5,137,527

Other Income

Net loss from agents' balances charged off	\$(17,974)	
Miscellaneous income	<u>(1,807,092)</u>	
Total Other Income		<u>(1,825,066)</u>
Net Income or (loss)		<u><u>\$(3,806,318)</u></u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 1993 per prior report on examination			\$1,653,131
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income	\$	\$3,806,318	
Net unrealized capital gains (losses)	451,491		
Change in non-admitted assets	1,062,166		
Change in provisions for reinsurance	72,047		
Surplus adjustments:			
paid in	2,930,923		
Surplus note	<u>420,000</u>	_____	
Total gains and losses	<u>\$4,936,627</u>	<u>\$3,806,318</u>	
Net gain in surplus			<u>1,130,309</u>
Surplus as regards policyholders, per report on examination as of December 31, 2000			<u>\$2,783,440</u>

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liabilities for losses and loss adjustment expenses reserve, \$6,941,873 and \$50,000 respectively, are the same as 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, as verified by the examiner.

Based upon a review of the Company's reserving method, a review of its actuarial reports and supporting documentation therein and the Company's nine-month loss development reported in its September 2001 quarterly statement, it was concluded that the Company's reserves were adequate.

5. MARKET CONDUCT ACTIVITIES

In the course of this examination, a review was made of the manner in which the Company conducts 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 the responsibility of the Market Conduct Unit of the Property Bureau of this Department.

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

- A. Sales and advertising
- B. Underwriting
- C. Rating
- D. Treatment of policyholders

The examiner noted in a review of the captioned areas that the Company did not engage in any sales and advertising activity nor did not pay any claims for the period ended December 31, 2000. No problems were noted in the other areas of review.

6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination contained ten recommendations and comments. The current status of these matters is as follows (page numbers refer to the prior report):

<u>ITEM</u>	<u>PAGE NO.</u>
<p>A. <u>Board Minutes</u></p> <p>It is recommended that a detail list of purchases and sale of investments be attached to the minutes.</p> <p>The Company has complied with this recommendation.</p> <p>It is recommended that the Company establish a written policy to monitor the Company's investments.</p> <p>The Company has complied with this recommendation.</p>	<p>5</p> <p>5</p>
<p>B. <u>Holding Company</u></p> <p>It is recommended that the Company comply with the requirements of Circular Letter No. 33 (1979)</p> <p>The Company has not complied with this recommendation. A similar recommendation is made in this report.</p>	<p>10</p>
<p>C. <u>Custodian agreement</u></p> <p>It is recommended that the Company obtain custodian agreements containing the required protective covenants and provisions deemed of good business practices in order to properly safeguard its investments.</p> <p>The Company has not complied with this recommendation. A similar recommendation is made in this report.</p>	<p>12-13</p>
<p>D. <u>Fidelity Bond Insurance</u></p> <p>It is recommended that the Company maintain fidelity bond coverage required for its officers.</p> <p>The Company has complied with this recommendation.</p>	<p>14</p>

<u>ITEM</u>		<u>PAGE NO.</u>
E.	<u>Accounts and Records</u>	
	It is recommended that the Company maintain a receivable aging to determine all overdue premium balances.	14
	The Company has complied with this recommendation.	
F.	<u>Travel and Other Expenses</u>	
	Gratuity to reinsurance brokers and intermediaries do not appear to be in the Company's best interest given its financial position.	14-15
	This is not applicable to this examination.	
	It is recommended that the Company comply with Section 1217 of the New York Insurance Law.	15
	The Company has complied with this recommendation.	
	It is recommended that the Company adopt expense reimbursement guidelines for its employees and also have a written expense allocation agreement for expenses between the Company and its parent.	16
	The Company has complied with this recommendation.	
G.	<u>Real Estate-Other Properties</u>	
	It is recommended that the Company properly value and properly report these investments in its future filed annual statements	20
	This is not applicable to this examination.	

7. SUMMARY COMMENTS AND RECOMMENDATIONS

<u>ITEM #</u>	<u>PAGE NO.</u>
A. <u>Management</u>	
It is recommended that the Company comply with the provisions of its charter and by-laws as well as Section 602(b) of the Business Corporation Law with regard to the election of its board of directors.	5
B. <u>Holding Company System</u>	
<u>Inter-Company Management, Cost Allocation and Tax Allocation Agreement</u>	
(i) It is recommended that the Company amends its inter-company management agreement and cost allocation agreement to include claims services.	8
(ii) It is recommended that in the future that the Company file with the Department prior to implementing any inter-company agreements pursuant to Section 1505(d) of the New York Insurance Law and Circular Letter No.33 (1979).	9
C. <u>Custodian Agreement</u>	
It is recommended that the Company obtain custodian agreements containing the required protective covenants and provisions in order to properly safeguard its investments.	11
D. <u>Accounts and Records</u>	
<u>Annual Statement</u>	
It is recommended in the future that the Company maintain a reconciliation from its trial balance to its filed annual statement.	13
<u>Regulation 30</u>	
It is recommended that the Company undertake a study to determine the proper amounts to allocate between expenses classified pursuant to Department Regulation 30.	14

Respectfully submitted,

Veronica Duncan-Black
Senior Insurance Examiner

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

VERONICA DUNCAN-BLACK, being duly sworn, deposes and says that the foregoing report submitted by her is true to the best of her knowledge and belief.

VERONICA DUNCAN-BLACK

Subscribed and sworn to before me
this ____ day of _____ 2002.

Appointment No. 21781

**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:

Veronica Duncan Black

as proper person to examine into the affairs of the

ROCHDALE 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 26th day of September, 2001





GREGORY V. SERIO
Superintendent of Insurance

