

REPORT ON EXAMINATION
OF THE
ROYAL & SUN ALLIANCE PERSONAL INSURANCE COMPANY
AS OF
DECEMBER 31, 2001

DATE OF REPORT

JANUARY 27, 2003

EXAMINER

LU ANN THERRELL

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

George E. Pataki
Governor

Gregory V. Serio
Superintendent

January 27, 2003

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

Sir:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 21862, dated May 7, 2002 attached hereto, I have made an examination into the condition and affairs of the Royal & Sun Alliance Personal Insurance Company as of December 31, 2001 and submit the following report thereon.

The examination was conducted at the Company's administrative office located at 9300 Arrowpoint Boulevard, Charlotte, North Carolina 28273.

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

Wherever the designation the "Company" appears herein without qualification, it should be understood to indicate the Royal & Sun Alliance Personal Insurance Company.

Whenever the designation “Branch” appears herein without qualification, it should be understood to indicate Sun Insurance Office Limited (United States Branch).

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

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

- History of the Company
- Management and control
- Corporate records
- Fidelity bonds and other insurance
- Territory and plan of operation
- Growth of Company
- Reinsurance
- Accounts and records
- Financial statements

A review was also 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 departures from laws, regulations or rules, or which are deemed to require explanation or description.

2. DESCRIPTION OF COMPANY

Sun Insurance Office Limited, London, England, was established in 1710 under the laws of England. The Company entered the United States as a Branch on August 1, 1882. The Company was incorporated on July 25, 1991 under the laws of the State of New York to be the domesticated successor to Sun Insurance Office Limited (United States Branch). On January 1, 1992, the Company assumed all assets and liabilities of the Branch.

On September 15, 1992, ownership of the Company was transferred to Sun Alliance Insurance Overseas Limited, a wholly-owned subsidiary of Sun Alliance Group plc.

Effective January 1, 1994, ownership of the Company was transferred, via a stock exchange, to Sun Alliance USA Inc., a wholly-owned subsidiary of Sun Alliance Group plc.

On July 19, 1996, Sun Alliance Group plc merged with Royal Insurance Holdings plc, forming a new holding company called Royal & Sun Alliance Insurance Group plc.

Effective January 1, 1999, the Company changed its name to the current name.

Effective June 30, 1999, the Company became a wholly-owned subsidiary of Royal Group, Inc. upon the merger of Sun Alliance USA, Inc. into Royal Group, Inc.

On August 21, 2000, 100% of the stock of the Company was contributed to Royal Insurance Company of America by Royal Group, Inc. for a cost of \$223,557,107.

As of December 31, 2001, the capital structure of the Company consisted of 100 outstanding shares of issued and outstanding \$50,000 par value per share common stock that resulted in paid in capital of \$5,000,000.

A. Management

Pursuant to the Company's charter and by-laws, management of the Company is vested in a board of directors consisting of not less than thirteen nor more than twenty-one members. As of December 31, 2001, the board of directors was comprised of thirteen members.

The directors as of December 31, 2001 were as follows:

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

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

The minutes of all board of directors' meetings and committees thereof held during the examination period were reviewed. Four of the board members, Andrea Duszenczuk, Susan Kesselman, James Williams III and Thomas McMahon failed to attend any of the meetings. However, Andrea Duszenczuk was teleconferenced in during one of the meetings held during the examination period.

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 policy decisions may be reached by the board. Individuals who fail to attend at least one-half of the board's regular meetings do not fulfill such criteria. Board members who are unable or unwilling to attend meetings consistently should resign or be replaced.

Section 1201(a)(5)(B)(vi) of the New York Insurance Law, and the Company's charter states that of the directors of the Company, "not less than three shall be residents of this state". The list of directors provided by the company indicates two of the directors, Andrea J. Duszenczuk and Thomas McMahon reside in New York. It is recommended that the company comply with Section 1201(a)(5)(B)(vi) of the New York Insurance Law, Section 6(c) of the company's charter and Article III Section 2 of the

Company's by-laws by ensuring that not less than three members of its board of directors be residents of the State of New York.

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

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

B. Territory and Plan of Operation

As of December 31, 2001, the Company was licensed in all fifty states, the District of Columbia and Puerto Rico.

On a direct basis, or through participation in reinsurance agreements, the Company primarily wrote other liability, commercial multiple peril and aviation business. The business previously written by the Company is currently in run-off and the Company is currently not writing any new business.

The following schedule compares direct premiums written during the examination period within New York State with the total direct premiums written in the United States, including Puerto Rico:

Direct Premiums Written

<u>Calendar Year</u>	<u>Total United States</u>	<u>New York State</u>	<u>Percentage of United States Premiums Written in New York State</u>
1998	\$8,662,823	\$324,032	4.9%
1999	\$(594,194)	\$233,685	(39.3)%
2000	\$64,554	\$(572)	(.9)%
2001	\$58,423	\$1,100	1.9%

As of December 31, 2001, 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>Line of Business</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
16	Fidelity and surety
17	Credit
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine
21	Marine protection and indemnity
22	Residual value
24	Credit unemployment insurance
30	Substantially similar kind of insurance

In addition, the Company is licensed to transact such workers' compensation insurance as may be incident to coverages contemplated under paragraphs 20 and 21 of Section 1113(a), including insurances described in the Longshoremen's and Harbor Workers' Compensation Act (Public Law No. 803, 69

Cong. as amended; 33 USC Section 901 et. seq. as amended), and as authorized by Section 4102(c), insurance of every kind or description outside of the United States and reinsurance of every kind or description.

Based upon the lines of business for which the Company is licensed, and the Company's current capital structure, and pursuant to the requirements of Articles 13 and 41 of the New York Insurance Law, the Company is required to maintain a minimum surplus to policyholders in the amount of \$35,000,000.

C. Reinsurance

The Company participated in an aviation pool managed by Associated Aviation Underwriters ("AAU"). Sixty-nine percent of the Company's business was retroceded to affiliates as follows:

Royal Indemnity Company (28.5%) (1);
 The Sea Insurance Company of America (20%);
 Globe Indemnity Company (18.5%) (2); and
 Tariff Reinsurances Limited (U.S. Branch) (2.0%)

- (1) Transferred from The London Assurance of America Inc. under a reinsurance, assignment and assumption agreement effective July 1, 2000
- (2) Transferred from Alliance Assurance Company of America under a reinsurance, assignment and assumption agreement effective July 1, 2000

Effective January 1, 1998, the Company terminated its participation in the AAU business.

As of the examination date, the Company has positioned itself for sale by terminating several reinsurance agreements and entering into two reinsurance, assignment and assumption agreements. Effective July 1, 2001, the Company terminated its affiliated reinsurance agreements with Royal Indemnity Company, The Sea Insurance Company of America, Globe Indemnity Company, and Tariff Reinsurances Limited (United States Branch). The terminations resulted in the transfer of previously ceded business to the Company. The Company received an equal amount of assets in the amount of \$21,018,741 as a result of the terminations. Effective July 1, 2001, the Company also entered into two

separate reinsurance, assignment and assumption agreements: one with the parent, Royal Insurance Company of America (“RICA”) and a second with an affiliate, Phoenix Assurance Company of New York (“Phoenix”). The agreement with RICA indemnifies the Company in respect of any and all amounts payable with regards to liabilities incurred through insurance and reinsurance in connection with the covered business of the Company, except for the policies issued to insureds domiciled in Puerto Rico. RICA also indemnifies the Company for all costs that arise from or are attributable to the covered business. In consideration, the Company transferred assets of approximately \$25,580,956, and an equal amount of liabilities related to the covered business. RICA assumed all of the rights under third-party reinsurance agreements related to the covered business. RICA also assumed all other liabilities regardless of nature incurred prior to the effective date.

The agreement with Phoenix indemnifies the Company in respect of any and all amounts payable with regards to liabilities incurred through insurance and reinsurance in connection with the covered business of the Company for the policies issued to insureds domiciled in Puerto Rico. Phoenix also indemnifies the Company for all costs that arise from, or are attributable, to the covered business. In consideration, the Company transferred net assets and an equal amount of liabilities of approximately \$1,938,960 for the covered business to Phoenix. Phoenix assumed all of the rights under third-party reinsurance agreements related to the covered business. Phoenix also assumed all other liabilities regardless of nature incurred prior to the effective date.

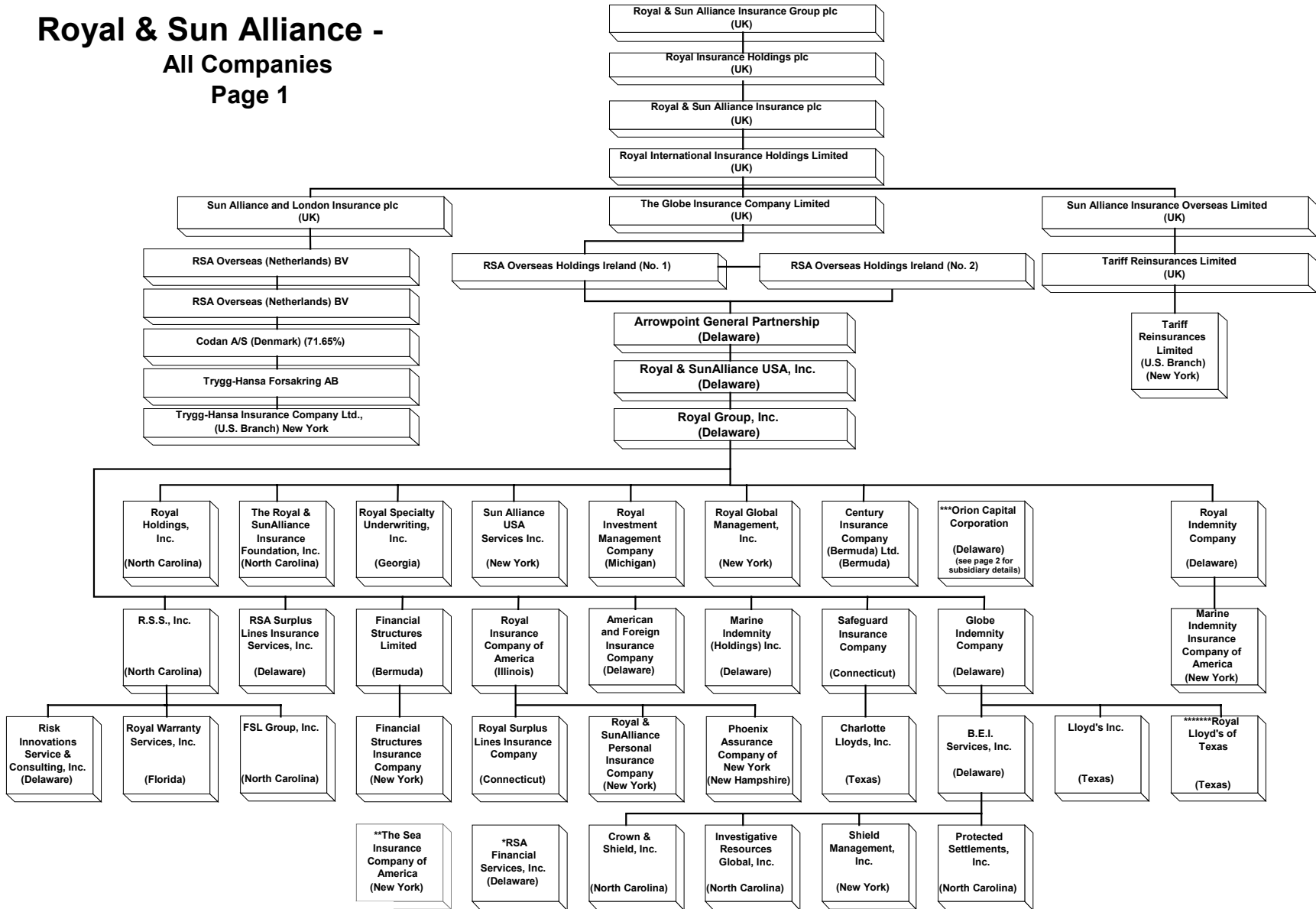
D. Holding Company System

The Company is a wholly-owned subsidiary of Royal Insurance Company of America which is ultimately owned by Royal & Sun Alliance Insurance Group plc.

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

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

Royal & Sun Alliance - All Companies Page 1

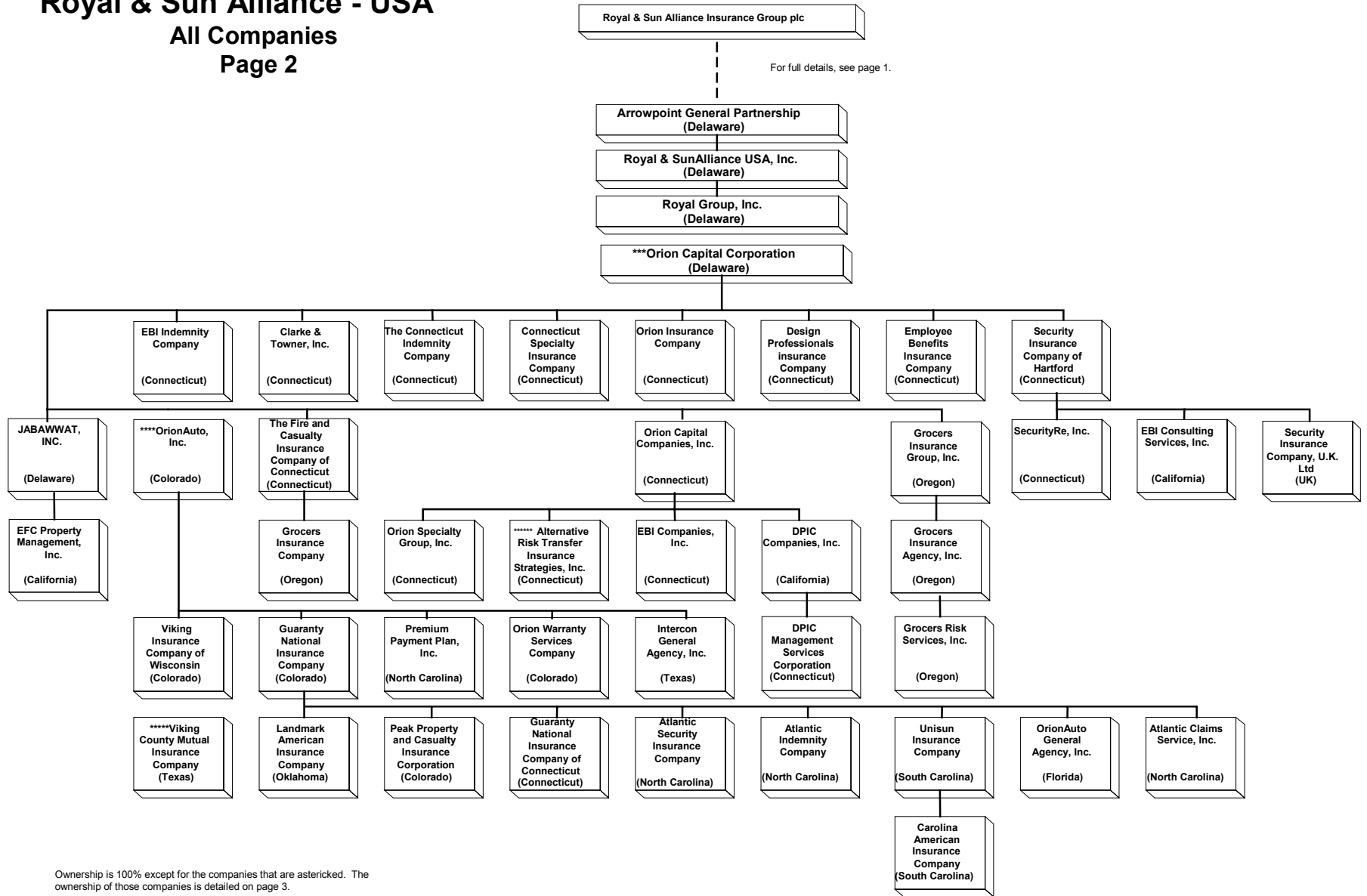


Ownership is 100% except for the companies that are asterisked. The ownership of those companies is detailed on page 3.

Royal & Sun Alliance - USA

All Companies

Page 2



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

Royal & Sun Alliance - USA

All Companies

Page 3

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

*RSA Financial Services, Inc.:

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

**The Sea Insurance Company of America:

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

***Orion Capital Corporation:

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

****OrionAuto, Inc.:

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

***** Viking County Mutual Insurance Company:

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

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

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

***** Royal Lloyd's of Texas

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

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

Tax Allocation Agreement

The Company's federal income tax return is included in the consolidated return of Arrowpoint General Partnership, Royal & SunAlliance USA, Inc., Royal Group Inc., and subsidiaries. On December 31, 1999, the Company entered into a new tax allocation agreement, replacing a previously filed agreement beginning with the 1999 tax year. The Company has indicated the tax allocation agreement effective December 31, 1999 was not submitted to the New York Insurance Department for approval as required by Section 1505 (d) of the New York Insurance Law and Department Circular Letter No. 33 (1979). Although the agreement was disclosed in the Company's HC-1 filings, disclosure in Form B (HC-1) does not take the place of required filings.

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

Administrative Services and Expense Sharing Agreement

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

Investment Management Agreement

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

An amendment to the agreement for investment management services was entered into on September 11, 2000, by and between RIMCO and the Company effective April 23, 1999. The amendment was made to more clearly reflect the investment management fees and indicated that the payments should be made on a quarterly basis. The amendment was not submitted to the Department as required by Section 1505(d)(3) of the New York Insurance Law. The Company indicated the agreement was disclosed in their HC-1 filings. However, disclosure in Form B (HC-1) does not take the place of required filings.

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

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

E. Significant Operating Ratios

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

Net premiums written to surplus as regards policyholders	.01 to 1
Liabilities to liquid assets (cash and invested assets less investment in affiliates)	18%
Premiums in course of collection to surplus as regards policyholders	0%

All of the above ratios fall within the benchmark ranges of the Insurance Regulatory Information System of the National Association of Insurance Commissioners.

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

	<u>Amounts</u>	<u>Ratios</u>
Loss and loss adjustment expenses incurred	\$3,832,614	159.78%
Other underwriting expenses incurred	1,544,177	64.37
Net underwriting gain (loss)	<u>(2,977,996)</u>	<u>(124.15)</u>
Premiums earned	<u>\$2,398,795</u>	<u>100.00%</u>

F. Abandoned Property Law

The Company made the necessary filings as required by the provisions of Section 1316 of the New York Abandoned Property Law.

G. Accounts and Records

i. Contract with Certified Public Accountants

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

ii. Custody Agreement

The domestic custody agreement between Chase Manhattan Bank and the Company was lacking the following provisions as set forth in the NAIC Financial Condition Examiners Handbook:

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

It is recommended that the domestic custody agreement be amended to include the provisions set forth in the NAIC Financial Condition Examiners Handbook.

iii. Compliance with Section 1409 of the New York Insurance Law

As of the examination date, the Company was in violation of Section 1409(a) of the New York Insurance Law, which limits investments in any one institution to ten percent of the insurer's admitted assets. Based on a review of Schedule D-Part 2-Section 2 at December 31, 2001, the Company maintained an investment in the common stock of Chubb Corp. amounting to \$27,738,000, which represents 11.78% of the Company's admitted assets at that date.

It is recommended that the Company comply with the requirements of Section 1409(a) of the New York Insurance Law.

Subsequent to the examination date, the Company sold all shares of the common stock investment in Chubb Corp. No changes have been made to the financial statements contained herein due to the Company's subsequent disposal of the excess investment.

3. FINANCIAL STATEMENTS

A. Balance Sheet

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

	<u>Assets</u>	Non-Admitted <u>Assets</u>	Net Admitted <u>Assets</u>
Bonds	\$133,027,303	\$	\$133,027,303
Preferred stocks	4,133,000		4,133,000
Common stocks	61,362,985		61,362,985
Cash on deposit	12,739,939		12,739,939
Short-term investments	21,964,418		21,964,418
Interest, dividends and real estate income due and accrued	<u>2,256,240</u>	_____	<u>2,256,240</u>
Total assets	<u>\$235,483,885</u>	<u>\$_____0</u>	<u>\$235,483,885</u>

Liabilities, Surplus and Other Funds

Losses and loss adjustment expenses		\$	0
Federal and foreign income taxes			33,784,270
Payable to parent, subsidiaries and affiliates			152,127
Payable for securities			<u>8,279,143</u>
Total liabilities			\$42,215,540
Common capital stock	\$5,000,000		
Gross paid in and contributed surplus	5,700,000		
Unassigned funds (surplus)	<u>182,568,345</u>		
Surplus as regards policyholders			<u>193,268,345</u>
Total liabilities, surplus and other funds			<u>\$235,483,885</u>

Note: The Internal Revenue Service (“IRS”) is currently auditing the 1997 and 1998 tax years and has begun the review of the 1999 and 2000 years. Although the Company is part of the consolidated tax return, the IRS focuses on the companies that are part of the pool. No adjustments have been made to date for any of the non-pool companies for the tax years 1997-2000. The audit for the 2001 tax year has not been scheduled. The examiner is unaware of any potential exposure of the Company to any further tax assessment and no liability has been established relative to such contingency.

B. Underwriting and Investment Exhibit

Surplus as regards policyholders decreased \$178,160,017 during the four-year examination period, January 1, 1998 through December 31, 2001 detailed as follows:

Statement of Income

Underwriting Income

Premiums earned		\$ 2,398,795
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Deductions:

Losses incurred	\$ 3,510,402	
Loss expenses incurred	322,212	
Other underwriting expenses incurred	<u>1,544,177</u>	

Total underwriting deductions		<u>5,376,791</u>
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Net underwriting gain (loss)		\$ (2,977,996)
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Investment Income

Net investment income earned	\$ 39,480,534	
Net realized capital gains	<u>248,403,214</u>	
Net investment gain		287,883,748

Other Income

Total other income		<u>(79)</u>
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Net income, after dividends to policyholders and before federal and foreign income taxes		\$ 284,905,673
Federal and foreign income taxes incurred		<u>81,844,220</u>

Net income		<u><u>\$ 203,061,453</u></u>
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Capital and Surplus Account

Surplus as regards policyholders, December 31, 1997, per report on examination			\$371,428,362
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income	\$203,061,453		
Net unrealized capital gains (losses)		\$205,645,175	
Change in nonadmitted assets	3,226,137		
Change in provision for reinsurance	8,183,568		
Change in excess of statutory reserves over statement reserves	14,000		
Dividends to stockholders	<u> </u>	<u>187,000,000</u>	
Total gains and losses	<u>\$214,485,158</u>	<u>\$392,645,175</u>	
Net decrease in surplus as regards policyholders			<u>(178,160,017)</u>
Surplus as regards policyholders, December 31, 2001, per report on examination			<u>\$193,268,345</u>

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The Company entered into two reinsurance, assignment and assumption agreements effective July 1, 2001. As a result of these agreements there is no liability for losses and loss adjustment expenses (refer to item 2C).

5. MARKET CONDUCT ACTIVITIES

The Company wrote a minimal amount of business during the period under examination, therefore no market conduct procedures were performed.

6. SUBSEQUENT EVENTS

Subsequent to the examination date, the Company was acquired by AXIS Specialty Ltd. The Company intends to change its name to AXIS Reinsurance Company.

7. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report contained the following comments and recommendations (the page numbers shown refer to the prior report):

<u>ITEM</u>	<u>PAGE NO.</u>
A. It is recommended that board members who are unable or unwilling to attend meetings consistently should resign or be replaced.	5
The prior report noted that subsequent to the examination date, the Company had complied with this recommendation by replacing those board members who did not attend meetings consistently.	5
The Company has not complied with this recommendation at the current examination date. The same recommendation is repeated herein.	
B. It is recommended that the Company formulate a business plan.	6-7
Subsequent to the prior examination the Group established a Fleet Project Team. The Fleet Project is developing a strategy for the optimal utilization of the insurance companies within the combined organization. Refer to Item 8, Subsequent Events.	
C. It is recommended that the Company file an expense allocation agreement with the New York Insurance Department.	12
The Company has complied with this recommendation.	

8. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Management</u>	
i. It is recommended board members who are unable or unwilling to attend meetings consistently resign or be replaced.	5
ii. It is recommended that the Company comply with Section 1201 (a)(5)(B)(vi) of the New York Insurance Law, Section 6 of the Company's charter and Article III Section 2 of the Company's by-laws by ensuring that not less than three members of its board of directors be residents of the State of New York.	5
B. <u>Holding Company System</u>	
It is further recommended that, in the future, the Company comply with the prior notification requirements of Section 1505 of the New York Insurance Law.	15
C. <u>Accounts and Records</u>	
i. <u>Contract with Certified Public Accountants</u>	
It is recommended that the Company ensure that all future contracts contain the provisions required by Department Regulation 118.	17
ii. <u>Custody Agreement</u>	
It is recommended that the domestic custody agreement be amended to include provisions set forth in the NAIC Financial Condition Examiners Handbook.	18
iii. <u>Compliance with Section 1409 of the New York Insurance Law</u>	
It is recommended that the Company comply with the requirements of Section 1409(a) of the New York Insurance Law.	18
Subsequent to the examination date, the Company disposed of all the investment in Chubb Corp.	18

Respectfully submitted,

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

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

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

_____/S/_____
Lu Ann Therrell

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

Appointment No. 21862

STATE OF NEW YORK
INSURANCE DEPARTMENT

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

LuAnn Therrell

as proper person to examine into the affairs of the

ROYAL & SUN ALLIANCE PERSONAL 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 7th day of May, 2002




GREGORY V. SERIO
Superintendent of Insurance