

REPORT ON EXAMINATION
OF
THE SEA INSURANCE COMPANY OF AMERICA
AS OF
DECEMBER 31, 2001

DATE OF REPORT

MAY 29, 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

May 29, 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 21863 dated May 7, 2002, attached hereto, I have made an examination into the condition and affairs of The Sea Insurance Company of America 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 28201.

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 mean The Sea Insurance Company of America.

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 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 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 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 Financial Condition Examiners' Handbook of the National Association of Insurance Commissioners:

- History of Company
- Management and control
- Corporate records
- Fidelity bonds and other insurance
- Territory and plan of operation
- 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 comments and recommendations made 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 Sea Insurance Company Limited of London, England was established in 1875 under the laws of England. The United States Branch was established in 1876 under the laws of New York. It was domesticated into a corporation organized on July 25, 1991, under the laws the State of New York with the domesticated successor company being named The Sea Insurance Company of America. On January 1, 1992, the Company assumed all assets and liabilities of the United States 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 changed its name to Royal & SunAlliance Insurance Group plc concurrent with a merger with Royal Insurance Holdings plc (“Royal”) under which all of the shares of Royal were acquired in exchange for shares in the renamed Royal & SunAlliance Insurance Group plc (“RSA”).

On November 16, 1999, RSA purchased Orion Capital Corporation and all of its subsidiaries. RSA is an international insurance group, which writes most of the major classes of property, casualty, and life insurance.

The Company's capital consists of 100 shares of common stock, authorized, issued and outstanding, with a par value of \$50,000 per share.

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 the examination date, 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 J. 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 C. Frohboese Charlotte, NC	Senior Vice President and Chief Investment Officer, Royal Insurance
Susan C. Kesselman Bedminster, NJ	Vice President, Royal Insurance
Michael J. McGinley Charlotte, NC	Senior Vice President and Chief Claims Officer, Royal Insurance
Thomas McMahon New York, NY	Vice President, Royal Insurance
Stephen M. Mulready Wethersfield, CT	Senior Vice President, Royal Insurance
Daniel A. Reppert Fort Mill, SC	Senior Vice President, Royal Insurance
Paul H. Stewman Charlotte, NC	Executive Vice President, Royal Insurance

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
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 G. Williams, III Charlotte, NC	Senior Vice President and Chief Information Officer, Royal Insurance

The minutes of all meetings of the board of directors and committees thereof held during the examination period were reviewed. It is noted that five of the board members, Andrea Duszenczuk, Susan Kesselman, Thomas McMahon, James Williams III, and Daniel Reppert, failed to attend any of the meetings they were eligible to attend, except Andrea Duszenczuk, who was teleconferenced in during one of the seven meetings held during the examination period. James Williams III and Daniel Reppert, elected in April 2001 failed to attend the one meeting they were eligible to attend. In addition, two members, Stephen Mulready and John Tighe, only attended 33% of the meetings they were eligible to attend. Members of the board have a fiduciary responsibility and must evidence 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 meetings do not fill such criteria. Board members who are unable or unwilling to attend meetings consistently should resign or be replaced.

In accordance with Section 1201(a)(5)(B)(vi) of the New York Insurance Law, 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 following were the principal officers of the Company as of December 31, 2001:

<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 Claims 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
James G. Williams III	Senior Vice President and Chief Information Officer
Linda Young Pettigrew	Corporate Secretary
Gwyn Wallace Fuller	Treasurer

B. Territory and Plan of Operation

As of the examination date, the Company was licensed in the District of Columbia and all states except Hawaii.

During the period under examination, the Company did not write any direct business. From January 1, 1998 to June 30, 2001, the Company assumed a minimal amount of business from Royal & SunAlliance Personal Insurance Company, an affiliate. Effective October 1, 2001, the Royal Insurance 1989 reinsurance pooling agreement was amended to include the Company (refer to item 2C).

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>Kind of Insurance</u>
3	Accident and health
4	Fire
5	Miscellaneous property damage
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
30	Substantially similar kinds of insurance

The Company was also licensed as of December 31, 2001, 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

Effective October 1, 2001, the Company was added as a party to the Royal Insurance 1989 reinsurance pooling agreement. Under the arrangement, all underwriting commitments of each member of the pool are 100% reinsured with Royal Indemnity Company. After reinsurance is transacted with third parties by Royal Indemnity Company, the remaining pool of underwriting risks are then retroceded to the pool participants based on the pooling participation percentages. As of December 31, 2001, the parties to the pooling agreement and their respective pooling participation percentages were as follows:

<u>Member Companies</u>	<u>State of Domicile</u>	<u>Pooling %</u>
Royal Indemnity Company	DE	25%
Royal Insurance Company of America	IL	25
Security Insurance Company of Hartford	CT	10
The Sea Insurance Company of America	NY	10
America and Foreign Insurance Company	DE	5
Globe Indemnity Company	DE	5
Guaranty National Insurance Company	CO	5
Safeguard Insurance Company	CT	5
Viking Insurance Company of Wisconsin	CO	4
Phoenix Assurance Company of New York	NH	2
The Connecticut Indemnity Company	CT	2
Connecticut Specialty Insurance Company	CT	0
Design Professionals Insurance Company	CT	0
EBI Indemnity Company	CT	0
Employee Benefits Insurance Company	CT	0
The Fire and Casualty Insurance Company of Connecticut	CT	<u>2</u>
Total		<u>100%</u>

Royal Indemnity Company as lead company of the pool retains the amount established for the statutory liability, "Provision for reinsurance".

The Royal Insurance 1989 reinsurance pooling agreement as amended was submitted to the Department and non-objected to provided that the Department's prior approval will be required in the

event that Connecticut Specialty Insurance Company's expected cessions to the pool exceeded 2% of the total pool writings.

It is noted that subsequent to the date of this examination, effective March 31, 2002, the pooling agreement as amended, was further amended to remove Connecticut Specialty Insurance Company from the agreement.

D. Holding Company System

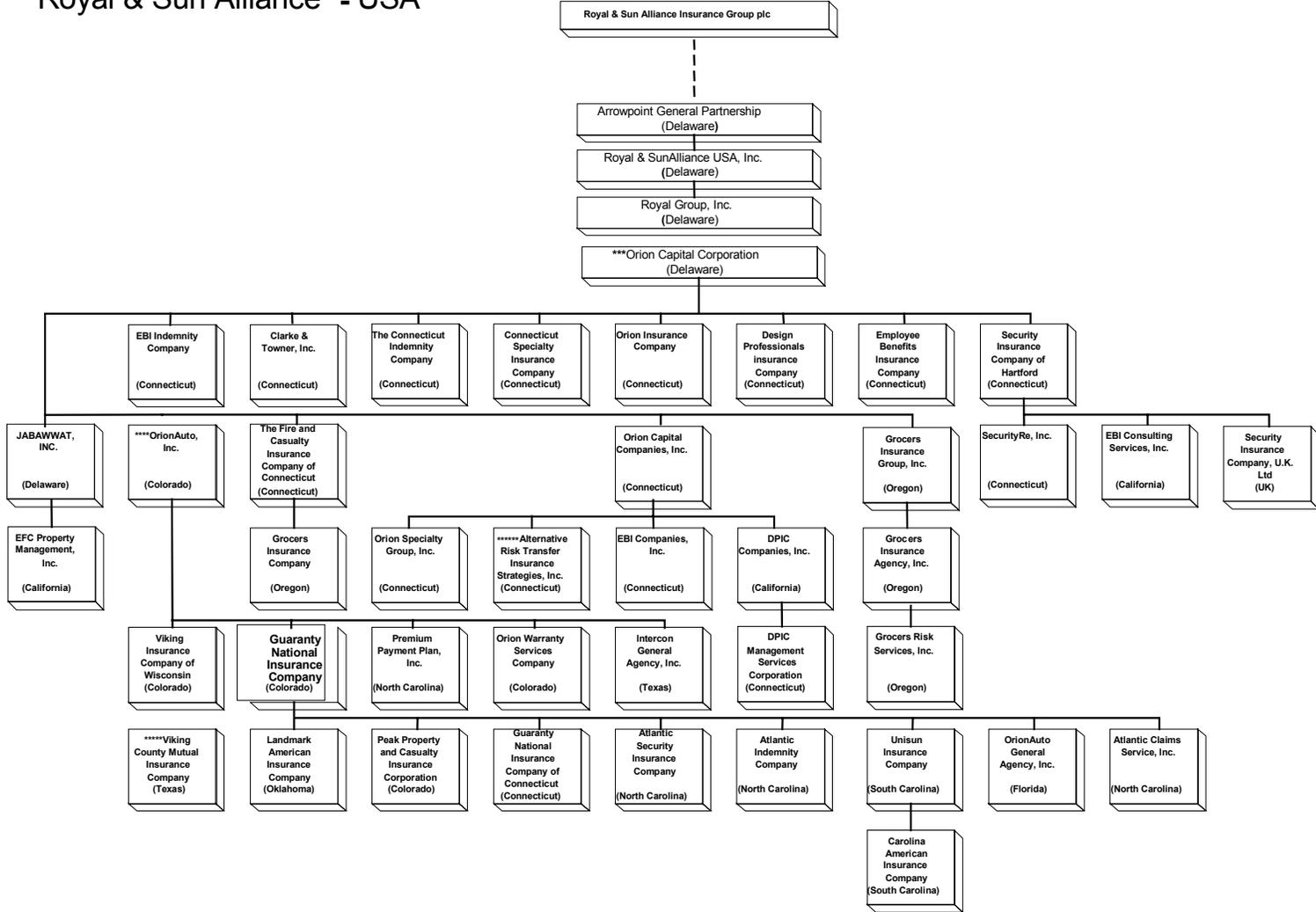
The Company is owned by five affiliated companies of Royal Group, Inc. ("Group"), an insurance holding company incorporated in the State of Delaware. The owners and their respective ownership percentages are: Royal Insurance Company of America 40%; Royal Indemnity Company 37%; Safeguard Insurance Company 10%; American and Foreign Insurance Company 7%; and Globe Indemnity Company 6%.

The ultimate parent of Royal Group, Inc. is Royal & Sun Alliance Group plc, a UK company.

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 following chart shows the position of the Company in the holding company system as of December 31, 2001:

Royal & Sun Alliance - USA



Royal & SunAlliance – USA

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%
- 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. 80.0%
- Royal Group, Inc. – 20.0%

*****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 dated December 31, 1999

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 various subsidiaries. The agreement dated December 31, 1999, replaces a previously filed agreement, beginning with the 1999 tax year. The Company has indicated the tax allocation agreement dated 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 Circular Letter 33 (1979). Although the agreement was disclosed in the Company's HC-1 filings, disclosure in the Form B (HC-1) does not take the place of required filings pursuant to New York Insurance Law-Section 1505 and Department Circular Letter 33(1979).

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 effective January 1, 2001

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, and 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 effective April 23, 1999

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 to indicate 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. Although the amendment was disclosed in the Company's HC-1 filings, disclosure in the Form HC-1 does not take the place of required filings pursuant to Section 1505 of the New York Insurance Law.

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 this amendment.

Amended & Restated Master Loan Participation Agreement

Effective November 15, 2001, the Company became a party to the amended and restated master loan participation agreement. Pursuant to the agreement, Royal Indemnity Company, as lead lender, lends money to various borrowers. The loans are evidenced by a promissory note, a mortgage/deed of trust, assignment of rents and leases and certain other documents and instruments. The lead lender sells, assigns, transfers and delivers to each participant the percentage of the principal amount of the loan as set forth in the agreement. The Company's pro rata share is 10%.

It is noted, however, that the Company failed to submit the amended and restated master loan participation agreement to the Department in accordance with Section 1505 (d)(1) of the New York Insurance Law.

At December 31, 2001, the Company reported admitted assets of \$13,221,497 for Mortgage loans on real estate, first liens, and \$27,485,799 for Credit Tenant Loans as a result of its participation in this agreement.

It is recommended that the Company submit a copy of the amended and restated master loan participation agreement to the Department for review.

It is further recommended that in the future, the Company comply with the prior notification and /or prior approval requirements of 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	225%
Liabilities to Liquid Assets (cash and invested assets less investment in affiliates)	106%
Premiums in course of collection to Surplus as regards policyholders	66%

The “liabilities to liquid assets ratio” and the “premiums in course of collection to surplus as regards policyholders” ratio fall beyond the benchmark ranges of the Insurance Regulatory Information System of the National Association of Insurance Commissioners. The unusual values for these ratios are due to the examination increase in loss and loss adjustment expense reserves leading to a decrease in surplus. Refer to Item 4 of this report for further information on the examination changes.

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>
Losses loss adjustment expenses incurred	\$157,813,354	264.92%
Other underwriting expenses incurred	13,700,396	22.99
Net underwriting gain (loss)	<u>(111,942,761)</u>	<u>(187.91)</u>
Premiums earned	<u>\$59,570,989</u>	<u>100.00%</u>

F. Abandoned Property Law

The Company filed the required statements pursuant to the provisions of the New York Abandoned Property Law.

G. Accounts and Records

The Company reports all financial accounting transactions on the Oracle General Ledger (“OGL”), which was implemented January 1, 2001. The OGL is part of the new Royal Financial System (“RFS”), which has replaced the previous financial systems used by Royal (“GEAC”), Orion Capital (“Oracle”) and Orion Auto (“Lawson”). RFS resides in a client/server environment that uses an Oracle database for information storage. The major components of RFS are three modules of Oracle applications: Oracle General Ledger, Oracle Accounts Payable and Oracle Fixed Assets. OGL is the official book of records for all financial accounting operations.

The corporate merger, which took place in 1999, the software conversion referred to above, and repooling of the accounts in 2001 created major challenges for the financial reporting cycles. Several annual statement balance sheet items, most notably Receivable/Payable to Parent, Subsidiaries and Affiliates, Amounts withheld or retained by company for account of others, Drafts outstanding and Aggregate Write-Ins for Assets and Liabilities were not reconciled and contained significant known errors as of the examination date. The Group was mandated by its UK parent to initiate and complete a reconciliation process. The Group devoted significant time and resources to the reconciliation effort, bringing in outside consultants to assist the Group in correcting the problems within the systems. Adjusting entries resulting from this reconciliation process were booked in 2002 and included in the 2002 financial statements, however, this project is ongoing at the date of this examination report. Due to the

fact that the accounts were not reconciled back to the examination date, the examiners were unable to determine the direct effect of these entries on the Company's surplus as of December 31, 2001.

i. Intercompany Receivables

It is recommended that the Company reconcile the intercompany receivable/payable accounts. With regards to all transactions within the holding company system affecting the Company, it is recommended that the Company comply with Section 1505(b) of the New York Insurance Law which states:

“the books, accounts and records of each such party to all such transactions shall be so maintained as to clearly and accurately disclose the nature and details of the transactions including such accounting information as is necessary to support the reasonableness of the charges or fees to the respective parties.”

It is further recommended that the Company settle all intercompany receivable/payable balances in a timely manner and in accordance with the related agreements. In accordance with Department Circular Letter No. 15 (1975) intercompany receivables not settled within 90 days shall be non-admitted.

ii. Prepaid Expenses

It was noted that the Company admitted prepaid rent in the amount of \$532,447, based on the Company's percentage of the Pool. In accordance with Section 1302(a)(2) of the New York Insurance Law, prepaid or deferred charges for expenses other than taxes paid prior to the due date on real property acquired or used pursuant to Section 1404(a)(5) or 1405(a)(4), and commissions paid by the insurer shall be not admitted.

It is recommended that in the future the Company comply with Section 1302(a)(2), and properly not admit such prepaid expenses.

iii. Agents' Balances

In reviewing the Company's data files for Agents' balances, it was noted that the Company understated the not-admitted portion of the receivables associated with its PMS system. The reason for this understatement was due to the Company's practice of aging premiums based on the entry date of transactions as opposed to the effective date. According to SSAP No. 6, the due dates for all premium balances are determined by the effective date of the underlying contract or endorsement. Due to the immateriality of the difference noted, no examination change has been made in this report.

It is recommended that in the future the Company comply with SSAP No. 6, of the NAIC Practices and Procedures Manual.

iv. Unearned Premium Reserves

The pool as of December 31, 2001 was booking certain multi-month policies on a one-month basis.

In accordance with SSAP No. 53:

“written premiums for all contracts shall be recorded as of the effective date of the contract. Upon recording written premium, a liability, the unearned premium reserve, shall be established to reflect the amount of premium for the portion of the insurance coverage that has not yet expired”.

It is recommended that in the future the Company comply with SSAP No. 53 regarding the recording of written premiums and the establishment of a liability for unearned premiums. Due to the immateriality of the difference noted, no examination change has been made in this report.

v. Contract with Certified Public Accountants

Department Regulation 118, Section 89.2 requires an insurer to enter into a written contract with its certified public accountants. 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 with its certified public accountants contain the provisions required by Department Regulation 118.

vi. Custodial Agreements

The domestic custody agreement between Chase Manhattan Bank and the Company, was found to be lacking the following provisions as set forth in the NAIC Financial Condition Examiners' Handbook, Part 1, Section IV – H:

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 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, Part 1, Section IV-H.

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, 2001 and as reported by the Company.

<u>Assets</u>	<u>Assets</u>	<u>Per Examination</u>		<u>Per Company</u>		Surplus Increase (Decrease)
		Not Admitted <u>Assets</u>	Net Admitted <u>Assets</u>	Net Admitted <u>Assets</u>	Net Admitted <u>Assets</u>	
Bonds	\$392,217,570	\$ 0	\$392,217,570	\$392,217,570	\$	
Preferred Stocks	14,679,615	0	14,679,615	14,679,615		
Common stocks	237,427,826	0	237,427,826	237,427,826		
Real estate	13,221,497	0	13,221,497	13,221,497		
Cash and short-term investments	42,993,211	0	42,993,211	42,993,211		
Aggregate write-ins for invested assets	(242,816)	0	(242,816)	(242,816)		
Agents' balances or uncollected						
Premiums	106,402,099	11,556,864	94,845,235	94,845,235		
Accrued retrospective premiums	6,599,921	156,230	6,443,691	6,443,691		
Amount billed and receivable under						
high deductible policies	6,591,401	1,355,597	5,235,804	5,235,804		
Reinsurance recoverables on loss and						
Loss adjustment expenses	31,820,524	0	31,820,524	31,820,524		
Guaranty funds receivable or on						
Deposit	590,926	0	590,926	590,926		
Electronic data processing equipment						
and software	1,889,706	1,739,279	150,427	150,427		
Interest, dividends and real estate						
income due and accrued	6,678,126	0	6,678,126	6,678,126		
Receivable from parent, subsidiary						
and affiliates	14,881,043	966,609	13,914,434	13,914,434		
Equities and deposits in pools and						
associations	2,450,787	182,557	2,268,230	2,268,230		
Other assets non-admitted	4,673,614	4,673,614	0	0		
Aggregate write-ins for other than						
Invested assets	<u>14,134,615</u>	<u>4,161,201</u>	<u>9,973,414</u>	<u>9,973,414</u>		
Total assets	<u>\$897,009,665</u>	<u>\$24,791,951</u>	<u>\$872,217,714</u>	<u>\$872,217,714</u>	<u>\$</u>	<u>0</u>

Liabilities, Surplus and Other Funds

	<u>Examination</u>	<u>Company</u>	Surplus Increase (Decrease)
Losses and loss adjustment expenses	\$ 536,738,792	\$ 464,026,792	\$ (72,712,000)
Commissions payable, contingent commission and other similar charges	3,733,798	3,733,798	
Other expenses	4,344,780	4,344,780	
Taxes, licenses and fees	5,960,530	5,960,530	
Federal and foreign income taxes	21,553,343	21,553,343	
Unearned premiums	129,258,325	129,258,325	
Dividends declared and unpaid: Policyholders	86,000	86,000	
Ceded reinsurance premiums payable	26,510,421	26,510,421	
Funds held by company under reinsurance treaties	14,058,593	14,058,593	
Amounts withheld or retained by company for account of others	5,116,393	5,116,393	
Drafts outstanding	15,842,527	15,842,527	
Payable for securities	12,741,543	12,741,543	
Aggregate write-ins for liabilities	<u>13,311,160</u>	<u>13,311,160</u>	
 Total liabilities	 <u>\$ 789,256,205</u>	 <u>\$ 716,544,205</u>	 <u>\$ (72,712,000)</u>
 <u>Surplus and Other Funds</u>			
Common capital stock	\$ 5,000,000	\$ 5,000,000	\$
Gross paid in and contributed surplus	5,700,000	5,700,000	
Unassigned funds (surplus)	<u>72,261,509</u>	<u>144,973,509</u>	<u>(72,712,000)</u>
 Surplus as regards policyholders	 <u>\$ 82,961,509</u>	 <u>\$ 155,673,509</u>	 <u>\$ (72,712,000)</u>
 Total liabilities, surplus and other funds	 <u>\$ 872,217,714</u>	 <u>\$ 872,217,714</u>	

NOTE: The Internal Revenue Service is close to completing the review of the 1997 and 1998 tax years and has begun the review of the 1999 and 2000 years. 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 by \$199,224,784 per examination during the four year examination period, January 1, 1998 through December 31, 2001, detailed as follows:

Statement of Income

Premiums earned		\$ 59,570,989
Deductions:		
Losses and loss adjustment expenses incurred	\$ 157,813,354	
Other underwriting expenses incurred	<u>13,700,396</u>	
Total underwriting deductions		<u>171,513,750</u>
Net underwriting gain (loss)		\$ (111,942,761)
<u>Investment Income</u>		
Net investment income earned	\$ 39,274,633	
Net realized capital gains (losses)	<u>141,152,518</u>	
Net investment gain (loss)		180,427,151
<u>Other Income</u>		
Net gain or (loss) from agents' balances charged off	\$ (48,990)	
Finance and service charges not included in premiums	<u>83,995</u>	
Total other income		<u>35,005</u>
Net income before dividends and before federal and foreign income taxes		\$ 68,519,395
Dividends to stockholders		<u>1,286,592</u>
Net income, after dividends and before federal and foreign income taxes		\$ 67,232,803
Federal and foreign income taxes incurred		<u>72,428,116</u>
Net Income (Loss)		<u>\$ (5,195,313)</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 1997, per report on examination			\$282,186,293
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income	\$	\$	5,195,313
Net unrealized capital gains or losses			123,722,556
Change in non-admitted assets			24,806,915
Dividends to stockholders			<u>45,500,000</u>
Total gains and losses	\$	\$	<u>199,224,784</u>
Net decrease in surplus as regards policyholders			<u>199,224,784</u>
Surplus as regards policyholders, December 31, 2001, per report on examination			<u>\$82,961,509</u>

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability of \$536,738,792 is \$72,712,000 more than the \$464,026,792 reported by the Company in its December 31, 2001, filed annual statement. The examination analysis of the loss and loss adjustment expenses reserves was conducted in accordance with generally accepted actuarial principles and was based on statistical information contained in the Company's internal records and in its filed annual statements.

The examination increase is equal to the Company's reported development of the December 31, 2001 loss and loss adjustment expense reserves to March 31, 2003 using the Company's filed statements.

It is noted that as of December 31, 2002, the Royal USA Group has recognized a \$687.8 million total deficiency for accident years 2001 and prior. Included in this deficiency is \$208.9 million for

asbestos and environmental exposures and \$105.0 million for catastrophes related to the World Trade Center attack.

An actuarial review as of December 31, 2001 performed by INS Consultants, Inc. has estimated a deficiency of \$643.6 million in Royal USA Group's booked net loss and loss adjustment expense reserves of \$4,909.2 million. For the Royal Pool, the consulting actuary's required net loss and loss adjustment expense reserves as of the examination date were \$617.9 higher than the Pool's booked net loss and loss adjustment expense reserves of \$4,608.68 million. The Company's portion of the deficiency would be 10% of \$617.9 million, or \$61.7 million. Since the development reported by the Company on an individual basis exceeded the Company's portion of the estimated deficiency, the examination change reflects the Company's reported development.

5. SUBSEQUENT EVENTS

Effective March 31, 2002, the Royal Insurance 1989 pooling agreement, as amended, ("Royal Indemnity Pool") was amended to remove Connecticut Specialty Insurance Company from the agreement. Prior to this agreement, Connecticut Specialty participated in the Royal Indemnity Pool at 0% participation. Connecticut Specialty Insurance Company was later sold to AXIS Specialty U.S. Holdings, Inc. on October 1, 2002.

On November 7, 2002, Royal SunAlliance Insurance Group plc ("RSAUK") announced a restructuring plan to strengthen its capital base and position of RSAUK and its subsidiaries worldwide. The plan is part of an on going capital enhancement plan to enable the Royal Group to more fully benefit from current market conditions. Under the plan, the Royal and SunAlliance USA's organization has reconfigured operations into two divisions, which focus on mainstream property and casualty business

and standard and non-standard personal insurance. The plan includes the expected sale of several non-core United States businesses that do not align with Royal and SunAlliance USA's long-term goals. The plan is currently in varying stages of completion.

Effective December 31, 2002, four members of the Royal Indemnity Pool were merged into one entity. Design Professionals Insurance Company, EBI Indemnity Company and Employee Benefits Insurance Company were merged into Security Insurance Company of Hartford.

The Company reported surplus in the amount of \$89,585,251 at December 31, 2002 and its risk based capital ("RBC") ratio fell below 200% to 178%. The Company filed a RBC plan with various Insurance Departments as required. As of March 31, 2003 the surplus reported was \$91,679,379.

6. **COMPLIANCE WITH PRIOR REPORT ON EXAMINATION**

The prior report contained three comments, as follows (page number refers to the prior report):

<u>ITEM</u>		<u>PAGE NO.</u>
A.	<p>It is recommended that board members who are unable or unwilling to attend meetings consistently should resign or be replaced.</p> <p>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 board meetings consistently.</p> <p>The Company has not complied with this recommendation at the current examination date. The same recommendation is repeated herein.</p>	5
B.	<p>It is recommended that the Company adopt a business plan.</p> <p>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.</p>	5
C.	<p>It is recommended that the Company file an expense allocation agreement with the New York Insurance Department.</p> <p>The Company has complied with this recommendation.</p>	11

7. **SUMMARY OF COMMENTS AND RECOMMENDATIONS**

<u>ITEM</u>		<u>PAGE NO.</u>
A.	<u>Management</u>	
i.	It is recommended that 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(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.	5
B.	<u>Holding Company System</u>	
i.	It is recommended that the Company submit a copy of the amended & restated master loan participation agreement to the Department for review.	15
ii.	It is further recommended that in the future, the Company comply with the prior notification and /or prior approval requirements of Section 1505 of the New York Insurance Law.	15
C.	<u>Accounts and Records</u>	
i.	<u>Intercompany Receivables</u>	
	It is recommended that the Company reconcile the intercompany receivable/payable accounts.	18
	It is recommended that the Company comply with Section 1505(b) of the New York Insurance Law.	18
	It is further recommended that the Company settle all intercompany receivable/payable balances in a timely manner and in accordance with the related agreements. In accordance with Department Circular Letter No. 15 (1975) intercompany receivables not settled within 90 days shall be non-admitted.	18
ii.	<u>Prepaid Expenses</u>	
	It is recommended that in the future the Company comply with Section 1302(a)(2), and properly not admit such prepaid expenses.	18

<u>ITEM</u>		<u>PAGE NO.</u>
iii.	<u>Agents' Balances</u>	
	It is recommended that in the future the Company comply with SSAP No. 6, of the NAIC Practices and Procedures Manual.	19
iv.	<u>Unearned Premium Reserves</u>	
	It is recommended that in the future the Company comply with SSAP No. 53 regarding the recording of written premiums and the establishment of a liability for unearned premiums.	19
v.	<u>Contract with Certified Public Accountants</u>	
	It is recommended that the Company ensure that all future agreements with its certified public accountants contain the provisions required by Department Regulation 118.	20
vi.	<u>Custodial Agreements</u>	
	It is recommended that the domestic custody agreement be amended to include the provisions set forth in the NAIC Financial Condition Examiners Handbook, Part 1, Section IV-H.	21

Appointment No. 21863

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

THE SEA INSURANCE COMPANY

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

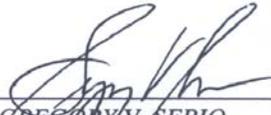
Company

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