

REPORT ON EXAMINATION
OF THE
SENECA INSURANCE COMPANY, INC.
AS OF
DECEMBER 31, 2000

DATE OF REPORT:

MARCH 21, 2002

EXAMINER:

JAMES MURPHY

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

March 21, 2002

Honorable Gregory Serio
Superintendent of Insurance
Albany, New York 12257

Sir:

Pursuant to instructions contained in Appointment No. 21713, dated March 29, 2001 and attached hereto, I have made an examination of the conditions and affairs of Seneca Insurance Company, Inc. as of December 31, 2000 and submit the following report thereon.

The examination was conducted at the Company's home office located at 160 Water Street, New York, New York 10038 and at the offices of the Company's managing general agent, Bail USA, Inc., located at 157 Main Street, Greenville, Pennsylvania 16125.

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

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, 1996. This examination covers the period from January 1, 1997 through December 31, 2000. Transactions occurring subsequent to this period were reviewed where deemed necessary by the examiner.

The examination was limited in its scope and only those balance sheet items considered by this Department to require analysis. The items reviewed were cash and invested assets, agents' balances, reinsurance recoverable on loss and loss adjustment expense payments, loss and loss adjustment expense reserves, unearned premium reserve and the provision for reinsurance. The examination included a review of income, disbursements and company records deemed necessary to accomplish such analysis or verification and utilized, to the extent considered appropriate, work performed by the Company's independent public accountants. A review or audit was also made of the following items as called for in the Examiners Handbook of the National Association of Insurance Commissioners:

- History of the Company
- Management and control
- Company records
- Fidelity bonds and other insurance
- Territory and plan of operation
- Growth of the Company
- Business in force
- Loss experience
- Reinsurance
- Market conduct activities
- 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 departures from laws, regulations, or rules or which require explanation or description.

2. DESCRIPTION OF COMPANY

The Company was incorporated on March 29, 1978, under the laws of New York as Eagle Star Insurance Company of America. It was formed to serve as the corporate vehicle in the domestication of the United States Branch of the Eagle Star Insurance Company, Ltd., London, England which entered the United States through the State of New York in 1916. The Company was licensed and the domestication became effective as of July 1, 1978. The present title was adopted on April 8, 1987. On October 8, 1993, a new holding company, Sen-Tech International Holdings, Inc. ("Sen-Tech") was formed. On April 26, 2000, Sen-Tech entered into a merger agreement to be acquired by Crum and Forster Holding Inc. which is a subsidiary of Fairfax Financial Holdings Limited. The transaction was completed on August 31, 2000 with the acquirer being North River Insurance Company, which is a wholly-owned subsidiary of Crum and Forster Holding Inc.

The Company's capital and gross paid-in and contributed surplus were \$4,800,000 and \$24,431,461, respectively, as of December 31, 2000.

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 but not more than twenty-one directors. As of the

examination date, the board of directors was comprised of fourteen members. Directors are elected for a period of one year. Meetings of the board are held quarterly.

The directors as of December 31, 2000, were as follows:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Nikolas Antonopoulos Flushing, NY	President, United States Fire Insurance Company
Andrew A. Barnard Ardsley, NY	President, Odyssey Re
Joseph F. Braunstein, Jr. Thousand Oaks, CA	Vice President-Marketing, United States Fire Insurance Company
Harvey Childs Greenville, PA	Chief Executive Officer, Bail USA, Inc.
Peter J. Daly Basking Ridge, NJ	Sr. Vice President-Surety, United States Fire Insurance Company
Bruce A. Esselborn Dunwoody, GA	Chief Executive Officer, United States Fire Insurance Company
Dennis J. Hammer Somerville, NJ	Sr. Vice President and Controller, United States Fire Insurance Company
Albert B. Lewis New York, NY	Attorney, D'Amato & Lynch
Douglas M. Libby New York, NY	President & Chief Executive Officer, Seneca Insurance Company, Inc.
Gary S. Resman Woodcliff Lake, NJ	Sr. Vice President-Underwriting, United States Fire Insurance Company
Mary Jane Robertson Atlanta, GA	Chief Financial Officer, Treasurer and Sr. Vice President United States Fire Insurance Company
Francis W. Rode	Sr. Vice President-Underwriting,

Mendham, NJ	United States Fire Insurance Company
Francis A. Smith Summit, NJ	Vice President-Actuarial, United States Fire Insurance Company
Marc T. Wolin Merrick, NY	Chief Financial Officer, Treasurer & Secretary, Seneca Insurance Company, Inc.

The examiner's review of the minutes of the meetings of the board of directors and its committees indicated that meetings were well attended.

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

<u>Name</u>	<u>Title</u>
Douglas M. Libby	President and CEO
Marc T. Wolin	CFO, Treasurer and Secretary

B. Territory and Plan of Operation

As of the examination date, the Company was licensed in all states and the District of Columbia. Approximately 67% of the Company's direct writings in the year 2000 were concentrated in California, Colorado, Florida, Kentucky, Maryland and New York. The following schedule compares the direct premiums written in New York State with the total direct premiums written by the Company for each year covered by the examination:

<u>DIRECT PREMIUMS WRITTEN</u>			
<u>Calendar Year</u>	<u>New York State</u>	<u>Total United States</u>	<u>Percentage of premiums Written in New York</u>
1997	\$20,048,733	\$38,769,866	51.8%

1998	\$22,412,840	\$65,654,399	34.2%
1999	\$22,939,312	\$99,721,957	23.0%
2000	\$24,282,474	\$118,773,579	20.5%

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>
4	Fire
5	Miscellaneous property
6	Water damage
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
16	Fidelity and surety
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine
21	Marine protection and indemnity

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 coverages described in the Longshoremen's and Harbor Workers' Compensation Act (Public Law No. 803, 69th Congress, as amended; 33 USC Section 901 et seq. as amended). The Company is also licensed to write special risk insurance pursuant to Section 6302 of the New York Insurance Law.

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 \$3,700,000.

The Company's primary line of business is surety (bail bonds). The bail bond business is produced through a managing general agent. Bail bonds accounted for approximately 66% of net premiums written in the year 2000. The Company's other lines of business are boiler and machinery, excess and surplus property, inland marine, directors' and officers' liability, environmental liability and technology errors and omissions. The business is largely produced from branch offices in New York, Kentucky, Colorado, and Virginia. Products are distributed through approximately 250 retail and wholesale brokers and independent agents.

C. Reinsurance

The Company is primarily a direct writer. The examiners reviewed all ceded reinsurance contracts in effect during the examination period. All of the contracts contained the required standard clauses including insolvency clauses meeting the requirements of Section 1308 of the New York Insurance Law.

The Company had the following reinsurance coverage in effect at December 31, 2000:

<u>Type of Contract</u>	<u>Cession</u>
<u>Quota Share</u>	
Property Quota Share 100 % authorized	50% up to \$500,000, any one risk.
International Boiler Treaty 47% authorized 53% unauthorized	80% quota share to 11/30/01 90% quota share to 12/1/01 PML limit \$5,000,000 total limit \$25,000,000 including 80% of \$2,000,000 property, each and every risk, each and every occurrence.

Electronic Equipment
100% authorized 90% quota share \$5,000,000 limit, per risk/per occurrence.

Employment Practices Liability
100% authorized 90% quota share up to \$1,000,000, each occurrence.

Quota Share

Technology Errors and Omissions
100% authorized 87.5% quota share up to \$2,000,000, each occurrence.
85% quota share up to \$2,000,000, each occurrence.

Environmental Quota Share
100% authorized 92.5% quota share up to \$5,000,000, each occurrence.

Directors' and Officers' Liability
100% authorized 95% quota share of \$5,000,000, each occurrence.

Umbrella
100% authorized 80% quota share first \$1,000,000,
100% quota share next \$4,000,000, each and every occurrence.

Excess of loss

Automatic Property Facility
100% authorized \$3,000,000 excess of \$2,000,000,
\$10,000,000 excess of \$5,000,000, per risk/per occurrence.

Type of Contract

Cession

Excess and Surplus Property
100% authorized \$14,750,000 excess of \$250,000, per risk/per occurrence.

Property Catastrophe Program
30% authorized \$14,000,000 excess of \$1,000,000, any one loss event.
70% unauthorized

Technology Errors & Omissions
100% authorized \$3,000,000 excess of \$2,000,000, each occurrence.

Umbrella Excess
100% authorized \$5,000,000 excess of \$5,000,000, each occurrence.

Workers' Compensation
100% authorized \$9,800,000 excess of \$200,000 first excess of loss,
\$5,000,000 excess of \$5,000,000 second excess of loss,
per risk/per occurrence.

Clash Program
100% authorized \$3,000,000 excess of \$1,000,000
including ECO/XPL and workers' compensation, any one

loss event.

Excess of loss

Multi-line Excess of Loss	\$1,775,000 excess of \$225,000 property/boiler risk.
100% authorized	\$775,000 excess of \$225,000 casualty risk.

D. Holding Company System

Effective August 31, 2000, Fairfax Financial Holdings Limited became the ultimate parent in the holding company system. Members of the holding company system are detailed in the Holding Company - Organizational Chart, appended to this report. No person beneficially owns more than 10% of the presently issued and outstanding shares of Fairfax Financial Holdings Limited. The Company's immediate parent is Sen-Tech International Holdings Inc., which owns 100% of the stock of Seneca.

The Company became a controlled insurer of Fairfax Financial Holdings Limited on August 31, 2000 through its wholly-owned subsidiary North River Insurance Company, which owns 100% of the stock of Sen-Tech, which owns 100% of the stock of Seneca.

Attached hereto as Appendix "A" is a complete listing of all the subsidiaries of Fairfax Financial Holdings Limited.

As a member of a holding company system, the Company files registration statements as required by Article 15 of the New York Insurance Law and Department Regulation 52. All registration files were reviewed and no problems were encountered.

The Company is a party to various service agreements with members of its holding company system. All of the service agreements have been filed and non-disapproved by this Department pursuant to the provisions of Section 1505(d) of the New York Insurance Law.

(1) Tax Allocation Agreement

On December 15, 2000 the Company entered into a tax allocation agreement with its parent, Fairfax, Inc. A formal agreement was executed and submitted to the Department, pursuant to the Department's Circular Letter No. 33 (1979), describing the manner in which the federal income tax for all entities is allocated to each entity. The effective date for this agreement relates to all taxable years beginning on or after January 1, 2000.

As determined by this examination, the tax allocation agreement by and between the Company and its parent, Fairfax, Inc. met the minimum guidelines set forth in New York's Circular Letter No. 33 (1979).

(2) Claims Adjustment Agreement

Effective April 29, 1994, the Company entered into a claims adjustment agreement with Excelsior Claims Administrators, Inc. ("Excelsior"). Pursuant to the terms of the agreement, Excelsior performs various claims services on behalf of the Company.

(3) Administrative Services Agreement

Effective January 31, 2000, the Company entered into an Administrative Services Agreement with U.S. Fire Insurance Company ("U.S. Fire"), a member of the holding company system.

(4) Investment Administration Agreement

Effective August 31, 2000, the Company entered into an Investment Administration Agreement with Fairfax Financial Holdings Limited (“Fairfax Financial”). Pursuant to the terms of the agreement, Fairfax Financial performs various functions relative to the administration of the Company’s investment portfolio.

(5) Investment Management Agreement

Effective August 31, 2000 the Company entered into an Investment Management Agreement with Hamblin Watsa Investment Counsel Ltd. (“Hamblin Watsa”). Pursuant to the terms of the agreement, Hamblin Watsa performs all functions relative to the management of the Company’s investment portfolio.

E. Accounts and Records

(1) Bail Bond Accounting

The Company’s primary line of business is surety (bail bonds). The Company’s bail bond business is produced by a managing general agent, Bail USA. Bail USA appoints local bondsmen as sub-agents. The bail bond agent performs various tasks on behalf of the Company including securing collateral, executing and delivering bonds and paying forfeitures. The bail bond agent indemnifies both Bail USA and the Company against any loss sustained as a result of these bonds. Bail bond premiums are generally 10% of the bail amount. The premiums received from the insured are distributed as follows: bail bond agent retains (82.5%), Bail USA (10%), Seneca (7.5%).

For annual statement presentation, the Company records the entire bail bond premium as though it receives the entire premium when in fact it receives only 7.5% of the total written premium. The Company allocates 92.5% of the premium paid to Bail USA and the bail bond agent as 60% paid losses and 32.5% as paid commissions. As a result all relevant underwriting schedules are inflated. The

Company's accounting treatment of its bail bond business is incorrect and contrary to Department guidelines. It is recommended that the Company discontinue its current bail bond accounting practices and record only the portion of written premiums received and establish an unearned premium reserve on that amount.

Based on the aforementioned, it was determined that the Company should have reported an unearned premium reserve in the amount of \$2,457,176. No examination change is deemed necessary, as the amount is not material to the balance sheet as reported by the Company in its 2000 annual statement. It is recommended that the Company report an unearned premium reserve in its bail bond business in all future filed financial statements.

There is no ceded reinsurance associated with this line of business. However, on Schedule F-Part 3 of its 2000 annual statement, the Company reported ceded unearned premium to various bail bond agents. It is recommended that the Company include only reinsurance transactions on Schedule F in all future filed financial statements.

Section 243.2(d) of New York Regulation 152 states:

“An insurer shall require, by contract or other means, that a person authorized to act on its behalf in connection with the doing of an insurance business, including a managing general agent, an administrator, or other person or entity, shall comply with the provisions of this Part in maintaining records that the insurer would otherwise be required to maintain. Notwithstanding the above, the insurer shall be responsible if the person or entity fails to maintain the records in the required manner.”

Bail USA was not able to provide complete records of all business transacted by its subagents. Therefore, the Company is not in compliance of Section 243.2(d) of New York Regulation 152. It is recommended that the Company comply with the aforementioned section of the regulation by having

either Bail USA, or its subagents, obtain and keep copies of all appropriate records. In addition, it is recommended that the Company require Bail USA to conduct periodic audit of its subagents.

In a bail bond transaction, Seneca's agents are contractually required to indemnify the insurer against a loss. Security underlying the indemnification is in the form of collateral from the indemnitor as well as a build-up fund ("BUF"). The BUF is established by the agents and generally represents 1% of the penal amount of the bond. The insurance company holds these funds in a fiduciary capacity and controls any withdrawals from the accounts. Neither the collateral nor the BUF appear on the financial statements of the insurer.

Paragraph 17 of the managing general agent agreement between Bail USA and the Company states, in part:

"Bail USA shall convey to Seneca at such times and in such forms as Seneca may from time to time request, complete records pertaining to the risks assumed, premiums collected, collateral received and returned..."

Bail USA was not able to provide the amount of collateral held on behalf of the Company. It is recommended that the Company enforce the provisions of its MGA contract relative to the maintenance of records, including collateral records.

(2) Loss Stratification

As part of the examination process, the examiners require that the Company provide certain loss data in a prescribed format. Although the Company was able to produce its actuarial data used for the completion of Schedule P in its filed annual statement, the Company was unable to provide the information on reopened claims necessary for the completion of the loss stratification exhibit. It is

recommended that the Company make an effort to provide the information necessary for the completion of the Department's loss stratification exhibit.

F. Abandoned Property Law

Section 1316 of the captioned law requires certain unclaimed insurance proceeds to be reported to the State of New York by April 1 of each year. The examination review revealed that the Company did not make the required filings. It is recommended that the Company comply with Section 1316 of the New York Abandoned Property Law.

G. Significant Operating Ratios

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

Net premiums written in 2000 to surplus as regards policyholders	2:1
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	77%
Premiums in course of collection to surplus as regards policyholders	1.2%

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

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

	<u>Amounts</u>	<u>Ratios</u>
Losses incurred	\$147,919,082	54.89%
Loss adjustment expenses incurred	20,314,063	7.53
Other underwriting expenses incurred	102,841,270	38.16
Net underwriting (loss)	\$ <u>(1,597,969)</u>	<u>.59</u>

Premiums earned	\$ <u>269,476,446</u>	<u>100.00%</u>
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3. FINANCIAL STATEMENTS

A. Balance Sheet

The following statements show the assets, liabilities and surplus as regards policyholders as determined by this examination as of December 31, 2000. It is the same as the balance sheet filed by the Company.

<u>Assets</u>	<u>Ledger Assets</u>	<u>Non-Ledger Assets</u>	<u>Not-Admitted Assets</u>	<u>Net-Admitted Assets</u>
Bonds	\$74,117,055		\$190,137	\$73,926,918
Common stocks	16,857,516			16,857,516
Cash	14,655,275			14,655,275
Other invested assets	6,602			6,602
Agents' balances or uncollected premiums	5,267,915		36,956	5,230,959
Reinsurance recoverable on loss and loss adjustment expense payments	7,658,517			7,658,517
Electronic data processing equipment	239,986			239,986
Interest due and accrued Receivable from parent, subsidiaries and affiliates	733,000	\$1,214,208		1,214,208
Furniture and equipment	299,019		299,019	733,000
Miscellaneous receivables	<u>60,156</u>	<u> </u>	<u> </u>	<u>60,156</u>
Total assets	<u>\$119,895,041</u>	<u>\$1,214,208</u>	<u>\$526,112</u>	<u>\$120,583,137</u>

Liabilities

Losses		\$34,765,316
Loss adjustment expenses		12,765,424
Contingent commissions and other similar charges		537,722
Other expenses		1,173,162
Taxes licenses and fees		647,029
Federal income taxes		657,535
Unearned premiums		19,634,862
Funds held by company under reinsurance treaties		112,749
Amounts withheld or retained by company for account of others		118,387
Provision for reinsurance		598,185
Fair Plan liability		153
Miscellaneous payables		<u>28,269</u>
Total liabilities		\$71,038,793
Surplus and Other Funds		
Common capital stock	\$ 4,800,000	
Gross paid in and contributed surplus	24,431,461	
Unassigned funds (surplus)	<u>20,312,883</u>	
Surplus as regards policyholders		<u>49,544,344</u>
Total liabilities and surplus		<u>\$120,583,137</u>

Note: The Company's tax returns have never been audited by the Internal Revenue Service. The examiner is unaware of any potential exposure of the Company to any further tax assessment and no liability has been established herein relative to such contingency.

B. Underwriting and Investment Exhibit

Surplus as regards policyholders increased \$14,936,724 during the four-year examination period from January 1, 1997 through December 31, 2000 detailed as follows:

<u>Statement of Income</u>	
<u>Underwriting Income</u>	
Premiums earned	\$269,476,446
Deductions:	
Losses incurred	\$147,919,082
Loss adjustment expenses incurred	20,314,063
Other underwriting expenses incurred	<u>102,841,270</u>
Total underwriting deductions	<u>271,074,415</u>
Net underwriting loss	\$ (1,597,969)
 <u>Investment Income</u>	
Net investment income earned	\$ 20,236,235
Net realized capital gains (losses)	<u>(2,568,359)</u>
Net investment gain	<u>17,667,876</u>
Net income before federal income taxes	\$ 16,069,907
Federal income taxes incurred	<u>3,136,699</u>
Net income	\$ <u>12,933,208</u>

Capital and Surplus Account

Surplus as regards policyholders, per report on examination as of December 31, 1996			\$34,607,620
	<u>Gains in</u>	<u>Losses in</u>	
	<u>Surplus</u>	<u>Surplus</u>	
Net income	\$12,933,208	\$	
Net unrealized capital gains	1,433,304		
Change in non-admitted assets	390,397		
Change in excess of statutory reserves over statement reserves	728,000		
Change in provision for reinsurance	_____	<u>548,185</u>	
Total gains and losses	<u>\$15,484,909</u>	<u>\$548,185</u>	
Net increase in surplus as regards policyholders			<u>14,936,724</u>
Surplus as regards policyholders, per report on examination as of December 31, 2000			<u>\$49,544,344</u>

4. LOSS AND LOSS ADJUSTMENT EXPENSES

The examination liabilities of \$34,765,316 and \$12,765,424 are the same as the amounts reported by the Company as of the examination date. The analysis was conducted in accordance with generally accepted actuarial principles and practices and was based on statistical information contained in the Company's internal records and in its filed annual statements.

5. MARKET CONDUCT ACTIVITIES

In the course of the examination, a review was made of the manner in which the Company conducts its business practices and fulfills its contractual obligations to policyholders and claimants. The

review was general in nature and is not to be construed to encompass the generally more precise scope of a market conduct investigation, which is the responsibility of the Market Conduct Unit of the Department's Property Bureau.

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

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

No problem areas were noted. A detailed review was not conducted during the course of this examination since a separate market conduct examination was performed. The findings of that examination were pending as of the date of this report.

6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

Following are the violations, recommendations and comments contained in the prior report on examination and the subsequent actions taken by the Company in response to each citation:

<u>ITEM</u>	<u>PAGE NO.</u>
<p>A. <u>Management</u></p> <p>It is recommended that the Company act in accordance with its by-laws by holding annual shareholders' meetings and annual meetings of the board of directors.</p> <p>The Company has complied with this recommendation.</p>	<p>5-6</p>
<p>B. <u>Reinsurance</u></p> <p>i. It is recommended that the Company complete Schedule F in accordance with</p>	<p>8</p>

the annual statement instructions.

The Company has complied with this recommendation.

<u>ITEM</u>	<u>PAGE NO.</u>
ii. It is recommended that the Company have all reinsurance agreements signed in a timely manner.	10
The Company has complied with this recommendation.	
C. <u>Holding Company System</u>	
i. It is recommended that the Company comply with the provisions of Article 15 of the New York Insurance Law, which requires all transactions between holding company members to be fair and acceptable, and further requires prior notification to the Superintendent of transactions between an insurer and a member of its holding company system where services are rendered on a regular or systematic basis.	13
The Company has complied with this recommendation.	
ii. It is further recommended that the Company be reimbursed by Sen-Tech for interest lost on funds used to pay the expenses of the parent company.	13
The Company has complied with this recommendation.	
iii. It is recommended that the Company accurately complete Schedule Y in all future filings with this Department.	15
The Company has complied with this recommendation.	
D. <u>Accounts and Records</u>	
i. It is recommended that the Company report the value of its subsidiary stock in compliance with Sections 1414(f) and 1302(a)(4) of the New York Insurance Law.	16-17
The Company has complied with this recommendation.	
ii. It is recommended that the Company properly classify CAIP activity in future annual statements.	17
The Company has complied with this recommendation.	
iii. It is recommended that all letters of credit comply with the requirements of	17

Department Regulation No. 133.

The Company has complied with this recommendation.

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| iv. | It is recommended that all trust agreements comply with the requirements of Department Regulation No. 114. | 17 |
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The Company no longer has any trust agreements in effect.

<u>ITEM</u>		<u>PAGE NO.</u>
v.	It is recommended that the Company not have any securities deposited with security brokers. The Company has complied with this recommendation.	17
vi.	It is recommended that the Company classify overdue receivables as not admitted assets in future filings with this Department. The Company has complied with this recommendation.	17-18
E.	<u>Losses</u>	
i.	It is recommended that the Company reopen claims that had previously been closed before making any additional payments. The Company has complied with this recommendation.	22-23
ii.	It is recommended that the Company report a separate claim with the correct report date for each claimant. The Company has complied with this recommendation.	23 23

7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

Following are the violations, recommendations and comments contained in this report:

<u>ITEM</u>		<u>PAGE NO.</u>
A.	<u>Accounts and Records</u>	
1.	<u>Bail Bond Accounting</u>	
i.	It is recommended that the Company discontinue its current bail bond accounting practices and record only the portions received and establish an	11

unearned premium reserve on that amount.

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|------|---|----|
| ii. | It is recommended that the Company report an unearned premium reserve on its bail bond business in all future filed financial statements. | 11 |
| iii. | It is recommended that the Company include only reinsurance transactions on Schedule F of its filed financial statements. | 11 |
| iv. | The Company is not in compliance of Section 243.2(d) of New York Regulation 152 since its managing general agent failed to maintain complete records. It is recommended that the Company require Bail USA to conduct periodic audits of its subagents. It is also recommended that the Company enforce the provisions of its MGA contract relative to the maintenance of records, including collateral records. | 12 |

ITEM

PAGE NO.

2. Loss Stratification

It is recommended that the Company make an effort to provide the information necessary for the completion of the Department's loss stratification exhibit.	12-13
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B. Abandoned Property Law

It is recommended that the Company comply with Section 1316 of the New York Abandoned Property Law.	13
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APPENDIX "A"SUBSIDIARIES OF FAIRFAX FINANCIAL HOLDINGS LIMITED

The following table sets forth subsidiaries of Fairfax Financial Holdings Limited, together with the jurisdiction of domicile of each and the percentage of voting securities owned as of December 31, 2000. Unless otherwise indicated, all of the persons included in the table are corporations, the voting securities of which are directly owned by Fairfax Financial Holdings Limited.

<u>Name of Subsidiary</u>	<u>Jurisdiction of Incorporation</u>	<u>Percentage of Voting Securities Owned</u>
Primex Adjusters Limited	Canada	100
Federated Insurance Holdings of Canada Ltd.	Canada	100
Federated Insurance Company of Canada	Canada	100
Federated Life Insurance Company of Canada	Canada	100
Contact + Insurance Network Ltd.	Canada	100
Les Courtiers d'Assurance Carrefours ltee	Quebec	100
Lombard Canada Ltd.	Canada	100
Lombard General Insurance Company of Canada	Canada	100
Lombard Insurance Company	Canada	100
Zenith Insurance Company	Canada	100
Zenith Insurance Services Inc.	Canada	41
CRC (Bermuda) Reinsurance Limited	Bermuda	100
Fairfax (Barbados) Insurance Corp.	Barbados	100
Markel Insurance Company of Canada	Canada	100
Proco Transportation Services Inc.	Ontario	100
Markel Professional Transport Training Inc.		100
Hamblin Watsa Investment Counsel Ltd.	Canada	100
Aegis Financial Systems Inc.	Ontario	100
Faircross Holdings Corporation	Ontario	100
Fairbridge Inc.	Ontario	100
Fairfax Realty Inc.	Ontario	100
Village Central Investments Inc.	Ontario	100
Odyssey Re Holdings Ltd.	Canada	100
Odyssey Re Group Ltd.	Canada	100
Odyssey Reinsurance Company of Canada	Canada	100
Fairfax Liquidity Management Hungary Limited Liability Company	Hungary	100
Fairfax Inc.	Wyoming	100
Fairfax Holdings Inc.	Connecticut	100
ORC Re Limited	Ireland	100
Odyssey Reinsurance Group B.V.	Holland	100
906447 Alberta Ltd.	Ontario	100
903079 Alberta Ltd.	Alberta	100
903083 Alberta Ltd.	Alberta	100

<u>Name of Subsidiary</u>	<u>Jurisdiction of Incorporation</u>	<u>Percentage of Voting Securities Owned</u>
The Hub Group Limited	Ontario	43.5 (1)
Fairfax Inc.	Wyoming	100
Crum & Forster Holdings, Inc.	Delaware	100
United States Fire Insurance Company	New York	100
Crum & Forster Specialty Insurance Company		100
Zenith National Insurance Corporation		39.80 (8)
TRG Holding Corporation		100 (3)
The North River Insurance Company	New Jersey	100
Sen-Tech International Holdings, Inc.	Delaware	100
Excelsior Claims Administrators, Inc.	New York	100
ARISE (29% Sen-Tech International, 1% Seneca Insurance Co)	Ohio	100
Seneca Insurance Company, Inc.	New York	100
Seneca Risk Services, Inc.	Kentucky	100
Seneca Specialty Insurance Company, Inc.	Arizona	100
Crum and Forster Insurance Company	New Jersey	100
Crum & Forster Underwriters Co. of Ohio	Ohio	100
Crum & Forster Indemnity Company	New York	100
Crum & Forster Custom Securities, Inc.	California	100
Odyssey Re Holdings Inc. (2.5%)	Delaware	
Odyssey America Reinsurance Corporation	Connecticut	100 (7)
RiverStone Group LLC	Delaware	100
RiverStone Resources LLC	Delaware	100
RiverStone Claims Management LLC	Delaware	100
RiverStone Reinsurance Services LLC	Delaware	100
TIG Holdings, Inc.	Delaware	100
Fairfax Holdings Inc.	Connecticut	100
The Standard Group, Inc.	Texas	100
Standard Managing General Agency, Inc.	Texas	100
Crum & Forster Solutions for Business, Inc.	Delaware	100
Ranger Reinsurance Management Incorporated	Delaware	100
Fairfax Information Technology Services, Inc.	Delaware	100
Springhill Agency	New York	100
ORC Re Limited	Ireland	100
ORC FISV BV	Holland	100
Fairfax Insurance Services Inc.	Ontario	100
Lindsey Morden Group Inc.	Canada	84.9
Lindsey Morden (Barbados) Limited	Barbados	100
Cunningham Lindsey Canada Limited	Canada	100
Lindsey Morden Acquisitions	United Kingdom	99.9
Lindsey Morden Limited	United Kingdom	99.999
Cunningham Group Overseas Limited	United Kingdom	100
Cunningham Lindsey Europe B.V.	Holland	100 (9)

<u>Name of Subsidiary</u>	<u>Jurisdiction of Incorporation</u>	<u>Percentage of Voting Securities Owned</u>
Cunningham Lindsey Marine Limited		100
Cunningham IAP Ltd. ... (9)	United Kingdom	100
Cunningham Lindsey International Ltd.		100
Ellis & Buckle Holdings Limited	United Kingdom	100
Cunningham Ellis & Buckle	United Kingdom	100
Cunningham UK Limited (dormant)		100 (9)
Lindsey Morden Claim Services (Holdings) Limited	United Kingdom	100
Lindsey Morden Claim Services (UK) Ltd. (dormant)	United Kingdom	100
Cunningham Lindsey U.S., Inc.	Texas	100
Cunningham Lindsey Claims Management, Inc.	Delaware	100
Vale National Training Center, Inc.	Texas	100
CorpWings, Inc.	Delaware	100
Claims International (Holdings) Limited	United Kingdom	100
Claims International Limited	United Kingdom	100
Card Claims International Limited (dormant)	United Kingdom	100
Odyssey Reinsurance Group B.V.	Holland	100
FFH Financial Holding S.A.	Luxembourg	100
FAIRFIN FINANCIAL B.V.	Holland	100
Compagnie Transcontinentale de Réassurance Holding S.A.S.	France	100
Compagnie Transcontinentale de Réassurance	France	100
Compagnie Transcontinentale de Réassurance branch	Singapore	100
Compagnie Transcontinentale de Réassurance Investissements S.A.S.	France	100
RiverStone Holdings Limited	United Kingdom	100
Sphere Drake Insurance Limited	United Kingdom	100
RiverStone Management Limited	United Kingdom	100
Sphere Drake Underwriting Management (Australia) Limited	Australia	100
Sphere Drake Nominees Limited	United Kingdom	100
Odyssey Re Corporate Capital Vehicle Limited	United Kingdom	100
Odyssey Re Leasing Limited	United Kingdom	100
Sphere Drake Acquisitions (U.K.) Limited	United Kingdom	100
Sphere Drake Insurance Group Public Limited Company	United Kingdom	90.18
Sphere Drake Holding (U.K.) Public Limited Company	United Kingdom	100
RiverStone Insurance (UK) Limited	United Kingdom	100
FFH Financial Holding A.G.	Switzerland	100
Odyssey Re (Bermuda) Holding Limited	Bermuda	100
Odyssey Re (Bermuda) Limited	Bermuda	100
Odyssey Re (Bermuda) Management Limited	Bermuda	100
Wentworth Insurance Company Ltd.	Barbados	100
Falcon Insurance Company Limited	Hong Kong	100
Falcon South East Asia Limited	Hong Kong	100
Odyssey Re Stockholm Management Aktiebolag	Sweden	100
O.R.G. Sweden Holdings Aktiebolag	Sweden	100
Odyssey Re (Stockholm) Insurance Corporation (public)	Sweden	100

<u>Name of Subsidiary</u>	<u>Jurisdiction of Incorporation</u>	<u>Percentage of Voting Securities Owned</u>
ORG Re (UK) Limited	United Kingdom	100
TIG Holdings 1, Inc.	Delaware	100
TIG Holdings 2, Inc.	Delaware	100
TIG Bermuda Ltd.	Bermuda	100
TIG Insurance Group	California	100
TIG Insurance Company	California	100
TIG Premier Insurance Company	California	100
TIG Indemnity Company	California	100
Fairmont Insurance Company	California	100
TIG Insurance Company of Michigan	Michigan	100
TIG Insurance Corporation of America	Michigan	100
TIG Insurance Company of New York	New York	100
TIG Insurance Company of Texas	Texas	100
TIG Lloyds Insurance Company	Texas	100 (6)
TIG American Specialty Insurance Company	Texas	100
TIG Specialty Insurance Company	California	100
TIG Insurance Company of Colorado	Colorado	100
Countrywide Corporation	Texas	100
Industrial County Mutual Insurance Company	Texas	100 (2)
TIG Holdings 4, Inc.	Delaware	100
Commonwealth Insurance Company	Canada	100
Commonwealth Insurance Company of America	Washington	100
Ranger Insurance Company	Delaware	100
Ranger Insurance Managers, Inc.	Texas	100
Ranger Insurance Finance Company	Texas	100
Ranger Managers Corp.	Texas	100
Ranger Lloyds (an incorporated association)	Texas	100 (5)
Odyssey America Reinsurance Corporation	Connecticut	100 (7)
Odyssey Reinsurance Corporation	Delaware	100
Hudson Insurance Company	Delaware	100
TRG Holding Corporation (47.42%) (3)	Delaware	
The Resolution Group, Inc.	Delaware	100
Envision Claims Management Corporation	New Jersey	100
International Insurance Company	Illinois	100
Resolution Reinsurance Services Corporation	Delaware	100
St. John's Insurance Company Limited	Bermuda	100
TIG Re UK Holdings Corporation	Delaware	100
Newline Holdings UK Limited	United Kingdom	100
Newline Underwriting Management Limited	United Kingdom	100
Newline Corporate Name Limited	United Kingdom	100
Newline Underwriting Limited	United Kingdom	100
TIG Holdings 5, Inc.	Delaware	100
TIG Latin America Inc.	Delaware	100

<u>Name of Subsidiary</u>	<u>Jurisdiction of Incorporation</u>	<u>Percentage of Voting Securities Owned</u>
TIG Servicios Limitada	Chile	100 (4)
Odyssey Re Holdings Inc.	Delaware	97.5
Innovus Integrated Benefits Svcs. L.L.C. (50%)	California	100
Indemni-Med LLC. (70% Economics)	Delaware	100
Perma-Bilt	Nevada	100
Zenith National Insurance Capital Trust	Delaware	100
Zenith Development Corp.	Nevada	100
Zenith Insurance Company	California	100
Znat Insurance Company	California	100
Zenith Star Insurance Company	Texas	100
Calrehab Services, Inc.	California	100
Zenith Risk Management Inc.	Florida	100
1390 Main Street LLC	Delaware	100
Zenith Insurance Management Services Inc.	Florida	100

NOTES:

(1) Not a Fairfax subsidiary

(2) Managed by Countrywide under exclusive General Agency Contract

(3) Fairfax ownership of TRG Holding Corporation Class I Common Stock is 100%:

Odyssey Re Corporation (47.42%), ORC Re Limited (47.42%) and United States Fire Insurance Company (5.15%). Class II non-voting stock ownership: Xerox Financial Services, Inc. (96.62%); issued or reserved for grants pursuant to the Class II stock plan (3.38%).

(4) Fairfax ownership of TIG Servicios Limitada is 100%:

TIG Latin America Inc. (90%) and TIG Holdings 5, Inc. (10%)

(5) Financed and controlled by Ranger Managers Corp.: Lloyds participants have assigned their rights and privileges to Ranger Managers Corp., which also holds the management contract

(6) Countrywide is Attorney-in-Fact pursuant to Powers of Attorney

(7) Fairfax ownership of Odyssey America Reinsurance Corporation is 100%:

TIG Insurance Company (80%), Odyssey Re Holdings Inc. (20%) – TIG owns 97.5% of Odyssey Re Holdings Inc. for an effective 99.5% interest in Odyssey America Reinsurance Corporation.

(8) Companies in the Fairfax group hold shares in Zenith National Insurance Corporation as portfolio investments. In total the company owns 39.8%. The size of the holdings may change and this chart may not be updated to reflect all changes. The Fairfax investment includes United States Fire Insurance Company and TIG Insurance Company each holding 19.2% of the shares of Zenith National, and Odyssey

Reinsurance Corporation, Odyssey America Reinsurance Corporation and North River Insurance Company holding 0.9%, 0.4% and 0.1% respectively.

(9) Subsidiaries are not listed. Please request list.

Respectfully submitted,

_____/S/
James Murphy
Associate Insurance Examiner

STATE OF NEW YORK)
)SS:
COUNTY OF NEW YORK)

JAMES MURPHY, being duly sworn, deposes and says that the foregoing report submitted by him, is true to the best of his knowledge and belief.

_____/S/
James Murphy

Subscribed and sworn to before me

this _____ day of _____ 2001.

Appointment No. 21713

**STATE OF NEW YORK
INSURANCE DEPARTMENT**

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

James Murphy

as proper person to examine into the affairs of the

SENECA INSURANCE COMPANY, INC.

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

Company

with such other information as he shall deem requisite.

In Witness Whereof, I have hereunto subscribed by the name and affixed the official Seal of this Department, at the City of New York,

this 29th day of March, 2001





GREGORY V. SERIO

First Deputy Superintendent of Insurance