

REPORT ON EXAMINATION  
OF THE  
STATE-WIDE INSURANCE COMPANY  
AS OF  
DECEMBER 31, 1999

DATE OF REPORT

FEBRUARY 9, 2001

EXAMINER

ISAAC ZAMDAS

## TABLE OF CONTENTS

<u>ITEM NO.</u>	<u>PAGE NO.</u>
1. Scope of examination	2
2. Description of company	2
A. Management	3
B. Territory and plan of operation	5
C. Reinsurance	6
D. Holding company system	6
E. Significant operating ratios	9
F. Abandoned Property Law	10
G. Fidelity bond insurance coverage	10
H. Custodial agreements	10
3. Financial statement	
A. Balance sheet	13
B. Underwriting and investment exhibit	15
4. Losses and loss adjustment expenses	17
5. Market conduct activities	17
6. Compliance with prior report on examination	18
7. Summary of comments and recommendations	18



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

February 9, 2001

Honorable Neil D. Levin  
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 Letter 21612, dated September 12, 2000, attached hereto, I have made an examination into the condition and affairs of the State-Wide Insurance Company as of December 31, 1999, and respectfully submit the following report thereon.

The examination was conducted at the Company's home office at 20 Main Street, Hempstead, New York, 11550.

Where the designations "State-Wide" or "Company" appear herein without qualification, they should be understood to indicate the State-Wide Insurance Company. Where the designation "Department" appears herein without qualification it should be understood to indicate the New York State Insurance Department.

## **2. SCOPE OF EXAMINATION**

The prior examination was conducted as of December 31, 1994. This examination covered the five years from January 1, 1995 through December 31, 1999 and was limited in scope to a review or audit of only those balance sheet items considered by this Department to require analysis, verification or description, including: invested assets and loss and loss adjustment expenses reserves. 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.

This report on examination is confined to financial statements and comments on those matters which involve departures from laws, regulations or rules which are deemed to require explanation or description. Transactions subsequent to this period were reviewed where deemed appropriate.

## **2. DESCRIPTION OF COMPANY**

State-Wide was incorporated under the laws of the State of New York on August 18, 1954. It was licensed on September 9, 1954 and commenced business on October 1, 1954.

The original name of the Company was Truckman's Insurance Company. By Charter amendment dated July 30, 1956, and approved by the Superintendent on September 24, 1956, the corporate name was changed to State-Wide Insurance Company.

Effective November 18, 1976, State-Wide merged with Banner Casualty Company which was its former wholly-owned subsidiary.

On November 15, 1989, majority control (87%) of State-Wide was acquired by SWICO Enterprises, Ltd., a Delaware holding company. This is discussed further in Item 2D.

A. Management

The Company's charter and by-laws, restated as of November 27, 1984, provided that its corporate powers shall be exercised through a board of directors and through such officers and agents empowered by the board. The board shall not consist of less than thirteen nor more than twenty-one members.

A review of the corporate minutes of the board revealed that the meetings were generally well attended.

As of December 31, 1999, the fourteen members of the board together with their principal business affiliations were as follows:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Renan Asuncion Plainview, NY	Vice President and Treasurer, State-Wide Insurance Co. and SWICO Enterprises, Ltd.
Michael Berken Massapequa Park, NY	Vice President, State-Wide Insurance Company
Alfred Besunder Rockville Centre, NY	Attorney
Gennaro M. Cicalese Wantagh, NY	CPA, American Institute of Certified Public Accountants
Joyce Factor Smithtown, NY	Retired
Anna H. Felson Floral Park, NY	Vice-President, Felson Enterprises, Inc.
Gerral E. Felson Bayside, NY	Chairman, President & CEO, State-Wide Insurance Company & SWICO Enterprises, Ltd.
Errol D. Forman Mattituck, NY	President, Peoples Coin Laundry NO.2
Harold Goldstein Palisades, NJ	Accountant
Robyn A. Goldstein West New York, NJ	Consultant
Scott Koltun Plainview, NY	Attorney
Ronald I. Lemberger Lloyd Neck, NY	Vice President and Secretary, State-Wide Insurance Co. & SWICO Enterprises, Ltd.
Paul Montalbano Manorville, NY	Attorney
Larry Press Cedarhurst, NY	President, Larry Press Inc. & American Accredited Adjusters Inc.

The principal officers of the Company as of December 31, 1999 were as follows:

<u>NAME</u>	<u>TITLE</u>
Gerral E. Felson	Chairman of the Board/ President/CEO
Alfred Besunder	Vice Chairman of the Board
Ronald I. Lemberger	Secretary/Vice-president
Renan Asuncion	Treasurer/Vice-president
Ann B. Looney	Vice-president
Michael Berkin	Vice-president
George V. Johnson	Vice-president

#### B. Territory and Plan of Operation

As of December 31, 1999, the Company was licensed to transact business in the states of New York and New Jersey. During the examination period, the Company only wrote business in the state of New York.

The Company is licensed to transact the following kinds of insurance as empowered by its charter and described in the following numbered paragraphs of Section 1113(a) of the New York Insurance Law:

<u>Paragraph</u>	<u>Line of Business</u>
4	Fire
5	Miscellaneous property
6	Water damage
7	Burglary and theft
8	Glass
12	Collision
13	Personal injury liability
14	Property damage liability
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine

The Company primarily insures automobile liability and automobile physical damage, with risk concentrated in the New York metropolitan area.

Seventy-five percent of the Company's business is produced by insurance brokers. The remaining twenty-five percent of business is produced directly by the Company.

Based upon the lines of business for which the Company is licensed, its current capital structure, and pursuant to the requirements of Articles 13 and 41 of the New York Insurance Law, State-Wide is required to maintain a minimum surplus to policyholders of \$850,000.

#### C Reinsurance

As of December 31, 1999, State-Wide had no ceded reinsurance agreements in effect. It terminated its only reinsurance agreement on December 31, 1998.

#### D. Holding Company

On November 15, 1989, State-Wide became a controlled insurer of SWICO Enterprises Ltd., ("SWICO"), a Delaware corporation. This was as a result of an offer made by SWICO to each shareholder of State-Wide, who owned 100 or more shares of State-Wide common stock, to exchange these shares for shares of SWICO. As of

December 31, 1999, shareholders of SWICO owned 149,446 shares of State-Wide common stock, constituting 88% of State-Wide issued and outstanding shares.

State-Wide has not filed certified financial statements for controlling persons in its annual holding company registration statements with this Department during the period of this examination in accordance with Regulation 52. In a letter dated October 10, 1995 to State-Wide the Department indicated that certified financial statements are required from all controlling owners of SWICO.

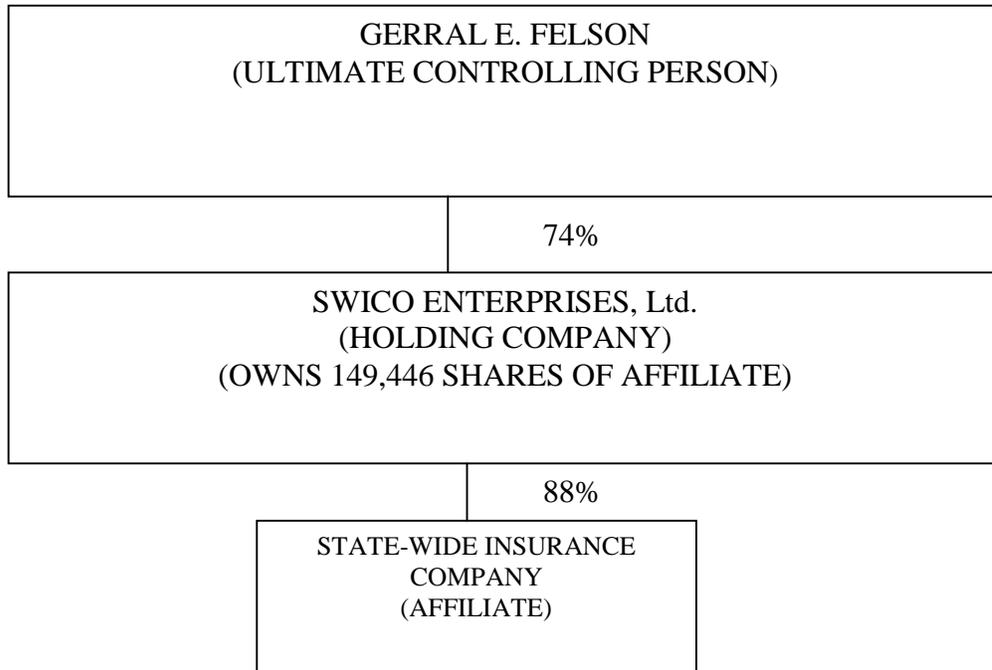
During the examination period, Gerral E. Felson acquired control of SWICO. Her current holdings are approximately 74% of SWICO's outstanding shares. In accordance with Section 1506 of the New York Insurance Law, any person acquiring control of a domestic insurer shall file and receive the Superintendent's prior approval. Gerral E. Felson did not request approval prior to gaining control of State-Wide.

The Company did not report Gerral E. Felson as the controlling person of State-Wide in Schedule Y of the Company's annual statement filing.

It is recommended that in accordance with Section 1506 of the New York Insurance Law, Gerral E. Felson should file for and receive approval to acquire control of State-Wide. In addition, the Company should file certified financial statements for Gerral E. Felson in its annual holding company filings as required by Department Regulation 52.

It is also recommended that in future annual statement filings with the Department, Schedule Y should reflect Gerral E. Felson as the ultimate controlling person.

The following is an organizational chart as of December 31, 1999:



E. Significant Operating Ratios

The following ratios have been computed as of December 31, 1999, based upon the results of this examination:

Net premiums written in 1999 to Surplus to policyholders	.69:1
Liabilities to liquid assets (cash and invested assets less investment in affiliates)	64%
Premiums in course of collection to Surplus as regards policyholders	.4%

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

The underwriting ratios presented below are on an earned/incurred basis and encompass the period January 1, 1995 through December 31, 1999, as covered by this examination:

	<u>Amounts</u>	<u>Ratios</u>
Losses incurred	\$77,482,034	61.5%
Loss adjustment expenses incurred	25,203,021	20.0
Other underwriting expenses incurred	25,556,165	20.3
Net underwriting loss	<u>(2,337,495)</u>	<u>(1.8)</u>
Premiums earned	<u>\$125,903,725</u>	<u>100%</u>

#### F. Abandoned Property Law

The Company has complied with the provisions of Sections 1315 and 1316 of the New York State Abandoned Property Law by filing the required statements with the State Comptroller's Office for the years under examination.

#### G. Fidelity Bond Insurance Coverage

State-Wide currently has \$350,000 in fidelity insurance coverage. Based on the amount of the Company's assets and income, the suggested minimum fidelity insurance coverage as set forth in the National Association of Commissioners Examiners Handbook is \$450,000. It is recommended that the Company increase its fidelity bond insurance coverage from \$350,000 to \$450,000.

#### H. Custodial Agreements

The Company's custodial agreements with Fleet Bank and Chase Manhattan Bank were reviewed by the examiner and found to lack various provisions which are deemed by this Department to be representative of good business practices for the content of such agreements. The custodial agreement should provide necessary safeguards and control. The protective covenants and provisions referred to are listed below:

Custodian Agreement with Chase Manhattan Bank

- 1) The bank shall have in force, for its own protection, Bankers Blanket Bond Insurance of the broadest form available for commercial banks and will continue to maintain such insurance. The bank will give the Company 60 days written notice of any material change in the form or amount of such insurance or termination of this coverage.
- 2) The bank will at all times give the securities held by it hereunder the same care it give its own property of a similar nature.
- 3) Maintain records sufficient to verify information the Company is required to report in Schedule D of the annual statement blank of the Insurance Department of the State of New York.
- 4) Furnish the Company with appropriate affidavits in the form as may be acceptable to the bank and to the New York Insurance Department in order for the securities referred to in such affidavits to be recognized as admitted assets of the Company.
- 5) Access shall be during regular banking hours and specifying those persons who shall be entitled to examine on the bank's premises securities held by the bank on its premises and its records regarding securities held, but only upon furnishing the bank with written instructions to that effect from any specified authorized officer.
- 6) There should be a provision in the agreement that would give the insurer the opportunity to secure the most recent report on the review of the custodian's record keeping, issued by internal or independent auditors.

Fleet Bank Custodian Agreement

- 1) The bank shall have in force, for its own protection, Bankers Blanket bond Insurance of the broadest form available for commercial banks and will continue to maintain such insurance. The bank will give the Company 60 days written notice of any material change in the form or amount of such insurance or termination of this coverage.
- 2) Maintain records sufficient to verify information the Company is required to report in Schedule D of the annual statement blank of the Insurance Department of the State of New York.
- 3) Furnish the Company with appropriate affidavits in the form as may be acceptable to the bank and to the New York Insurance Department in order for the securities referred to in such affidavits to be recognized as admitted assets of the Company.

- 4) Access shall be during regular banking hours and specifying those persons who shall be entitled to examine on the bank's premises securities held by the bank on its premises and its records regarding securities held, but only upon furnishing the bank with written instructions to that effect from any specified authorized officer.
- 5) Written instructions hereunder shall be signed by any two of the Company's authorized officers specified in a separate list for this purpose which will be furnished to the bank from time to time signed by the treasurer or an assistant treasurer and certified under the corporate seal by the secretary or an assistant secretary.
- 6) There should be provision in the agreement that would give the insurer the opportunity to secure the most recent report on the review of the custodian's record keeping, issued by internal or independent auditors.

It is recommended that State-Wide amend its custodial agreements so that they contain, at a minimum the protective covenants and provisions deemed by this Department to be representative of good business practices for the contents of such agreements.

### **3. FINANCIAL STATEMENTS**

#### A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as determined by this examination and is the same as that reported by the Company in its December 31, 1999 filed annual statement:

<u>Assets</u>	<u>Ledger Assets</u>	<u>Non-ledger Assets</u>	<u>Assets Not Admitted</u>	<u>Admitted Assets</u>
Bonds	\$67,967,8454	\$	\$	\$67,967,845
Common stocks	976,227	2,677,341		3,653,568
Mortgage loans on real estate	89,640			89,640
Real estate	975,764			975,764
Cash on hand and on deposit	3,381,962			3,381,962
Receivable for securities	56,170			56,170
Premiums, agents' balances in course of collection	540,204		419,100	121,104
Premiums, agents' balances and installments booked but deferred and not yet due	3,892,927			3,892,927
Reinsurance recoverables on loss and loss adjustment expense payment	98,563			98,563
Federal income tax recoverable and interest thereon		61,582		61,582
EDP equipment	229,315			229,315
Interest, dividends and real estate income due and accrued		1,273,220		1,273,220
Equities and deposits in pools and associations	11,505			11,505
Furniture, equipment and supplies	101,316		101,316	
Contingent commissions receivable	38,157			38,157
Deposit Motor Vehicle Bureau	24,316			24,316
State and local insurance Tax receivable	13,585			13,585
Miscellaneous receivables	<u>1,895</u>	<u>          </u>	<u>1,895</u>	<u>          </u>
Total assets	<u>\$ 78,399,391</u>	<u>\$4,012,143</u>	<u>\$522,311</u>	<u>\$81,889,223</u>

Liabilities

Losses	\$33,690,461
Loss adjustment expenses	6,923,720
Other expenses	851,982
Unearned premiums	10,328,284
Amounts withheld or retained by company for account of others	947
Accounts payable	2,048
Payable for unclaimed checks	<u>155,356</u>
Total liabilities	<u>\$51,952,798</u>
Common capital stock	\$ 850,000
Gross paid in and contributed surplus	924,800
Unassigned funds (surplus)	<u>28,161,625</u>
Surplus as regards policyholders	<u>\$29,936,425</u>
Total liabilities, capital and surplus	<u><u>\$81,889,223</u></u>

NOTE: The Company was not audited by the Internal Revenue Service during the examination period. Any potential exposure of the Company to any income tax assessment that may arise as a result of an IRS audit has not been established herein.

## B. Underwriting and Investment Exhibit

The surplus as regards policyholders increased \$15,560,866 during the five-year period, January 1, 1995 through December 31, 1999, and is detailed as follows:

### Statement of Income

#### Underwriting Income

Premiums earned		\$125,903,725
<u>Deductions:</u>		
Losses incurred	\$77,482,034	
Loss adjustment expenses incurred	25,203,021	
Other underwriting expenses incurred	<u>25,556,165</u>	
Total underwriting deductions		<u>(128,241,220)</u>
Net underwriting loss		<u>\$(2,337,495)</u>

#### Investment Income

Net investment income earned	\$18,039,098	
Net realized capital gains	<u>428,127</u>	
Net investment gain		18,467,225

#### Other Income

Net gain from agents' or premiums balances charged off	\$(689,573)	
Finance/service charges	1,547,736	
Authorization of organization expenses	(162)	
Interest NYS franchise tax	(8,721)	
Company's share in operation of pools and associations	(2,619)	
Penalty – Article 15, NYS Ins. Law	(51,150)	
Class Action – recovery of investments	11,466	
NYS Insurance Department penalties	(7,784)	
Miscellaneous income	<u>(58,970)</u>	
Total other income		<u>813,641</u>
Net income before federal income taxes		\$16,943,371
Federal income taxes incurred		<u>2,638,884</u>
Net income		<u>\$14,304,487</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 1994, per report on examination			\$14,375,559
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income	\$14,304,487	\$	
Net unrealized capital gains	3,034,391		
Change in not admitted assets		74,394	
Dividends to stockholders		1,530,000	
Extraordinary amounts of taxes for prior years	_____	<u>173,618</u>	
Total gains and losses	<u>\$17,338,878</u>	<u>\$1,778,012</u>	
Net increase in surplus as regards policyholders			<u>15,560,866</u>
Surplus as regards policyholders per report of December 31, 1999, per report on examination			<u>\$29,936,425</u>

### 3. LOSSES & LOSS ADJUSTMENT EXPENSES

The examination liability for losses of \$33,690,461 is the same amount reported by the Company as of the examination date. The examination liability for loss adjustment expenses of \$6,923,720 is the same amount reported by the Company as of the examination date. The examination analysis was conducted in accordance with generally accepted actuarial principles and practices and was based on statistical information contained in the Company's internal records and in its filed annual statements.

### 5. MARKET CONDUCT ACTIVITIES

In the course of this examination, a review was made of the manner in which the Company conducts its business 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 Property Bureau of this Department.

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 problems were encountered in this examination.

It was noted during the last market conduct examination in connection with automobile insurance policies revealed that the company was in violation of Sections 5102 and 5106 of the New York Insurance Law. State-Wide was also found to have violated Regulation 64 and 68. The Company agreed to these violations in a Department stipulation dated September 29, 1999 and paid a civil penalty of \$51,150.

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

There were no comments or recommendations stated in the prior report on examination.

## **7. SUMMARY OF COMMENTS AND RECOMMENDATIONS**

<u>Item</u>	<u>Page No.</u>
<b>A. <u>Holding Company System</u></b>	
1. It is recommended that in accordance with Section 1506 of the New York Insurance Law, Gerral E. Felson should file for and receive approval to acquire control of State-Wide.	7
2. It is recommended that State-Wide file certified financial statements for Gerral E. Felson in its annual holding company filings as required by Department Regulation 52.	7
3. It is recommended that in future annual statement filings with this Department, Schedule Y should reflect Gerral E. Felson as the ultimate controlling person.	8

<u>Item</u>	<u>Page No.</u>
B. <u>Fidelity Bond Insurance Coverage</u>	
It is recommended that the Company increase its fidelity bond insurance coverage from \$350,000 to \$450,000.	10
C. <u>Custodial Agreements</u>	
It is recommended that State-Wide amend its custodial agreements so that they contain the recommended protective covenants and provisions deemed by this Department to be representative of good business for the contents of such agreements.	12



Respectfully submitted.

S/S  
ISAAC ZAMDAS, CIE  
Associate Insurance Examiner

STATE OF NEW YORK )  
 )  
 )  
COUNTY OF NEW YORK )

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

S/S  
ISAAC ZAMDAS, CIE

Subscribed and sworn to before me  
This 21 day of May 2001

S/S  
JOSE T. GUESON  
NOTARY PUBLIC, State of New York  
No. 01024951406  
Qualified in Queens County  
Commission Expires May 22, 2003

Appointment No. 21612

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:

**Isaac Zamdas**

*as proper person to examine into the affairs of the*

**STATEWIDE INSURANCE COMPANY**

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

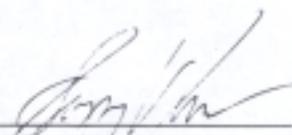
**Company**

*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 12th day of September, 2000*



  
\_\_\_\_\_  
GREGORY V. SERIO  
First Deputy Superintendent of Insurance