

REPORT ON EXAMINATION
OF THE
TARIFF REINSURANCES LIMITED (UNITED STATES BRANCH)
AS OF
DECEMBER 31, 2001

DATE OF REPORT

JANUARY 27, 2003

EXAMINER

LU ANN THERRELL

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

George E. Pataki
Governor

Gregory V. Serio
Superintendent

January 27, 2003

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

Sir:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 21864, dated May 7, 2002, attached hereto, I have made an examination into the condition and affairs of the Tariff Reinsurances Limited (U.S. Branch) as of December 31, 2001 and submit the following report thereon.

The examination was conducted at the Branch's main administrative office located at 9300 Arrowpoint Boulevard, Charlotte, NC 28201.

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

Whenever the designation "Branch" appears herein without qualification, it should be understood to refer to the Tariff Reinsurances Limited (United States Branch).

Whenever the designation the “Department” appears herein without qualification, it should be understood to mean 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 subsequent to this period were reviewed where deemed appropriate by the examiner.

The examination comprised a complete verification of assets and liabilities as of December 31, 2001, a review of income and disbursements deemed necessary to accomplish such verification and utilized, to the extent deemed appropriate, work performed by the Branch'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 Branch
- Management and control
- Corporate records
- Fidelity bonds and other insurance
- Territory and plan of operation
- Growth of Branch
- Business in force by state
- Reinsurance
- Accounts and records
- Financial statements

A review was also made to ascertain what action was taken by the Branch with regard to comments and recommendations contained in the prior report on examination.

This report on examination is confined to financial statements and comments on those matters which involve departures from laws, regulations or rules, or which are deemed to require explanation or description.

2. DESCRIPTION OF BRANCH

Tariff Reinsurances Limited was incorporated on July 25, 1919 in England. Effective May 23, 1991 Sun Alliance USA Inc. of New York was granted Power of Attorney. The Branch was formed on June 28, 1991 and licensed under the regulatory authority of the State of New York on December 31, 1991.

On July 19, 1996, Sun Alliance Group plc. changed its name to Royal & Sun Alliance 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 & Sun Alliance Insurance Group plc.

Effective June 4, 1999, the ownership of Sun Alliance USA Inc., the Branch’s United States (“U.S.”) manager, was contributed to Royal Group, Inc. Sun Alliance USA Inc. was then merged into Royal Group, Inc. effective June 30, 1999. Shield Management, Inc., an indirect subsidiary of Royal Group, Inc. has assumed Sun Alliance USA Inc.’s responsibilities under the management agreement. No other formal documentation was put in place to assign this agreement to Shield Management, Inc. and no new Power of Attorney was executed.

It is recommended that Tariff Reinsurances Limited formalize the assignment of the management agreement to Shield Management, Inc. and execute a new power of attorney.

A. Management

Shield Management, Inc., an affiliate, serves as U.S. manager and attorney-in-fact for the Branch.

The directors of Shield Management, Inc. as of December 31, 2001 were as follows:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
John Tighe Charlotte, NC	President, Royal & Sun Alliance USA
Joyce W. Wheeler Charlotte, NC	Senior Vice President and Secretary, Royal & Sun Alliance USA
Tomoaki Yoshida Scarsdale, NY	Director and Employee of Nissay Dowa General Insurance Co., Ltd.

The minutes of all meetings of the board of directors of Shield Management, Inc. and committees thereof held during the examination period were reviewed. The review revealed that all meetings were well attended. It is noted however, that the minutes for Shield Management, Inc. did not specifically mention the activities of the Branch. Specifically, with regards to the approval of investments, the board of directors approved the investment transactions of “the Company” without identifying the specific Company or Branch that the investment transactions related to. Shield Management, Inc. manages at least one other New York domiciled U.S. Branch. Further, it is noted that the periods for which investment transactions were approved did not encompass the entire examination period, thus certain investments acquired during the period under examination were not approved as required by Section 1411(a) of the New York Insurance Law.

It is recommended that the board of directors specifically identify the Company or Branch for which investment transactions are being approved. It is further recommended that in the future, the board

of directors comply with Section 1411(a) of the New York Insurance Law and authorize or approve all investments made by the Branch.

The principal officers of Shield Management, Inc. as of December 31, 2001 were as follows:

<u>Name</u>	<u>Title</u>
John Tighe	President
Ernest C. Frohboese	Senior Vice President and Chief Investment Officer
Joyce W. Wheeler	Senior Vice President and Secretary
Sean A. Beatty	Vice President and Finance Officer
John J. Limpert	Vice President and Appointed Actuary
Thomas McMahon	Assistant General Manager

B. Territory and Plan of Operation

As of December 31, 2001, the Branch was licensed only in New York State. During the period under examination the Branch did not write any direct business. The Branch assumed a minimal amount of business from affiliates (Refer to item 2C).

As of the examination date, the Branch was authorized to transact the kinds of insurance as defined in the following numbered paragraphs of Section 1113(a) of the New York Insurance Law:

<u>Paragraph</u>	<u>Kind of Insurance</u>
3	Accident and health
4	Fire
5	Miscellaneous property
6	Water 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

<u>Paragraph</u>	<u>Kind of Insurance</u>
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

In addition, the Branch is licensed to transact such workers' compensation insurance as may be incident to coverages contemplated under paragraphs 20 and 21 of Section 1113(a), including insurances described in the Longshoremen's and Harbor Workers' Compensation Act (Public Law No. 803, 69 Cong. as amended; 33 USC Section 901 et. seq. as amended), and as authorized by Section 4102(c), reinsurance of every kind or description to the extent permitted by the certified copy of its charter document on file in the New York Insurance Department, provided, however, that the authority conferred by this license shall be limited to the writing of contracts issued for delivery in the United States, insuring risks of policyholders within the United States.

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

C. Reinsurance

Effective December 31, 1993, the Branch entered into a reinsurance treaty with an affiliate, Royal & Sun Alliance Personal Insurance Company ("SUN") (formerly Sun Insurance Office of America Inc.) whereby it assumed 2% of the business Sun had entered into with Chubb and Son inter-office reinsurance pool. Effective January 1, 1996, the agreement was amended and restated to broaden the definition of covered business to include all liabilities of Royal & Sun Alliance Personal Insurance Company under all policies of insurance and contracts of reinsurance written by Royal & Sun Alliance

Personal Insurance Company. The agreement was terminated effective July 1, 2001 by portfolio withdrawal of unearned premium reserves and commutation and withdrawal of outstanding loss reserves. The Branch transferred net liabilities and assets of \$609,239 to Royal & Sun Alliance Personal Insurance Company as a result of this termination.

These agreements were submitted to the New York Insurance Department pursuant to the requirements of Section 1505(d) of the New York Insurance Law and non-objected to by the Department.

D. Holding Company System

Control of the Branch is held by Tariff Reinsurances Limited, a U.K. Company, and is ultimately owned through intermediate holding companies, by Royal & Sun Alliance Insurance Group plc.

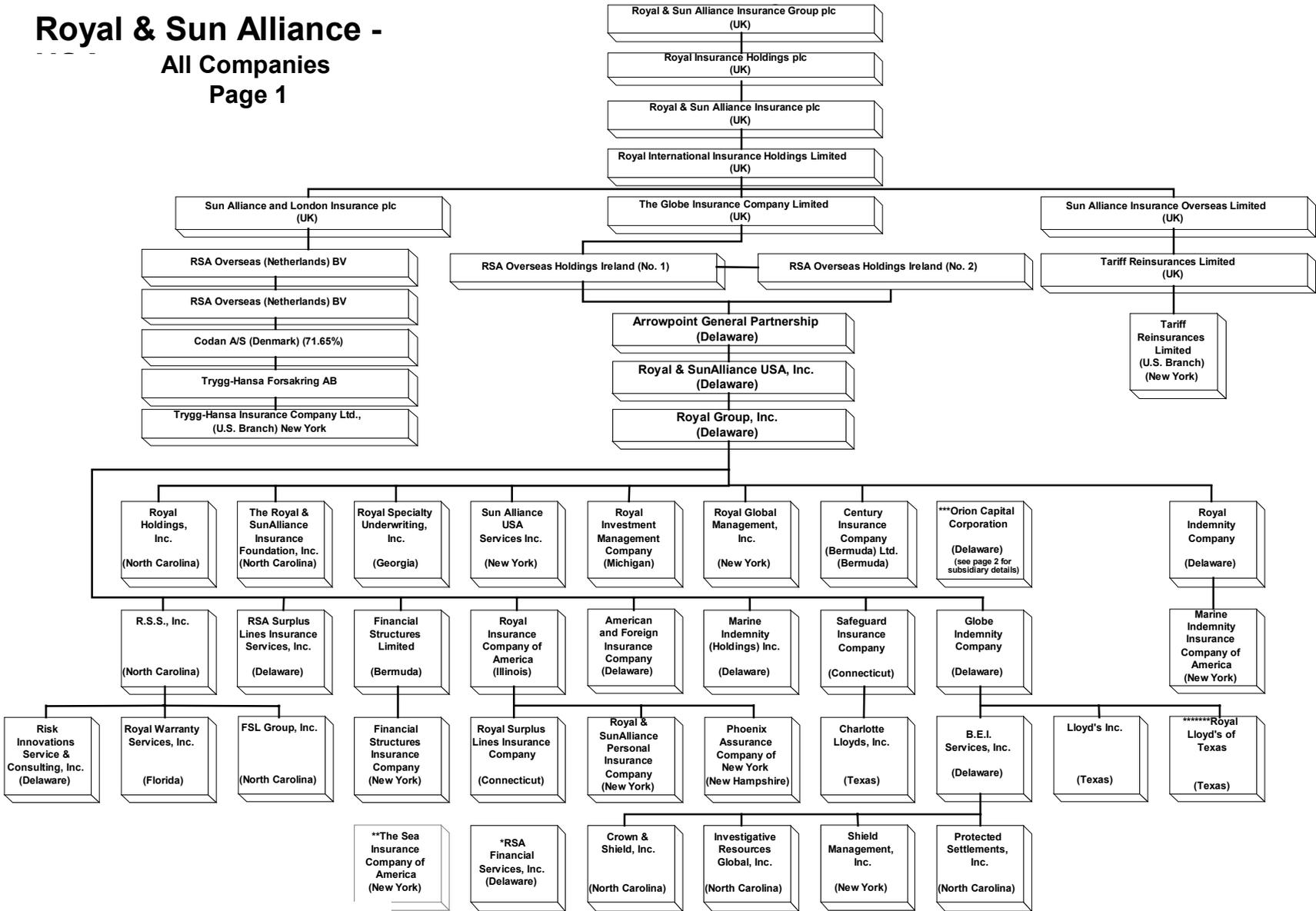
A review was made of the filings submitted by the Branch pursuant to the requirements and standards set forth for holding company organizations under Article 15 of the New York Insurance Law and Department Regulation 52.

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

Royal & Sun Alliance -

All Companies

Page 1

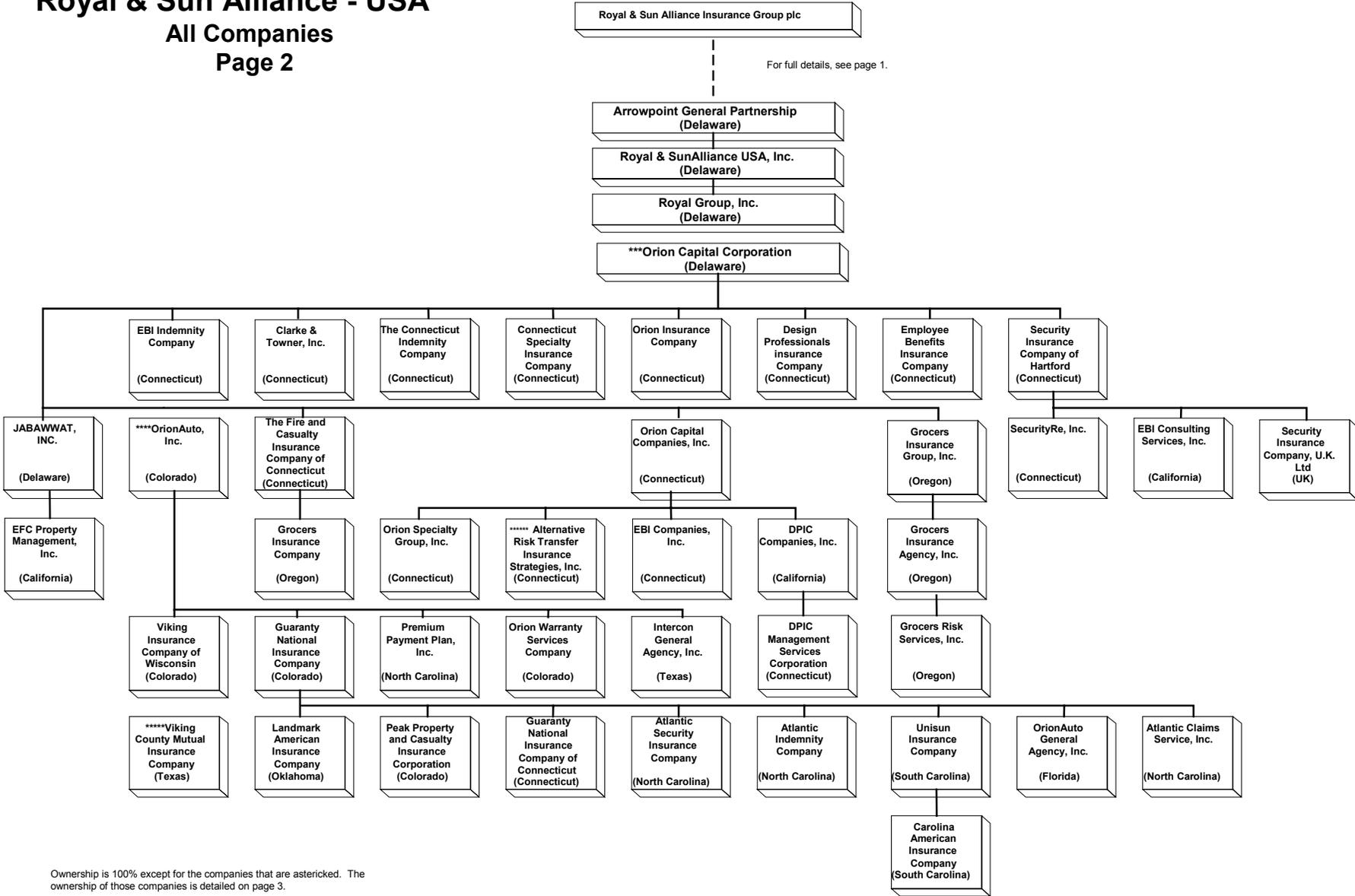


Ownership is 100% except for the companies that are asterisked. The ownership of those companies is detailed on page 3.

Royal & Sun Alliance - USA

All Companies

Page 2



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

Royal & Sun Alliance - USA

All Companies

Page 3

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

*RSA Financial Services, Inc.:

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

**The Sea Insurance Company of America:

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

***Orion Capital Corporation:

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

****OrionAuto, Inc.:

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

***** Viking County Mutual Insurance Company:

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

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

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

***** Royal Lloyd's of Texas

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

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

Administrative Services and Expense Sharing Agreement

Effective January 1, 2001, services are provided to the Branch pursuant to an administrative services and expense sharing agreement which allocates costs among affiliated companies. However, it is noted that the Branch is not listed as a participant of this agreement. The administrative services and expense sharing agreement effective January 1, 2001 was submitted timely to the Department but was not approved until December 7, 2001.

It is recommended the Branch be formally added as a party to this agreement.

Investment Management Agreement

The Branch has an investment management agreement which appoints Sun Alliance Investment Management Limited (“SAIM”), based in London, England, to act as investment manager of its portfolio of investments for a management fee, in respect to the portfolio under management.

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 (2001) to surplus as regards policyholders	0%
Liabilities to liquid assets (cash and invested assets less investment in affiliates)	1%
Premiums in course of collection to surplus as regards policyholders	0%

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

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

	<u>Amounts</u>	<u>Ratios</u>
Losses and loss adjustment expenses incurred	\$247,261	159.77%
Other underwriting expenses incurred	53,677	34.68
Net underwriting gain (loss)	<u>(146,175)</u>	<u>(94.45)</u>
Premiums earned	<u>\$154,763</u>	<u>100.00%</u>

F. Abandoned Property Law

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

G. Accounts and Records

i. Contract with Certified Public Accountants

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

ii. Domestic Custody Agreement

The Domestic Custody Agreement between Chase Manhattan Bank and the Branch was found to be lacking the following provisions as required by 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 liability;
2. That if the custodial agreement has been terminated or if 100% of the account assets in any one custody account have been withdrawn, the custodian shall provide written notification, within three business days of termination or withdrawal, to the insurer's domiciliary commissioner;
3. The custodian and its agents, upon reasonable request, shall be required to send all reports which they receive from a clearing corporation or the Federal Reserve book-entry system which the clearing corporation or the Federal Reserve permits to be redistributed and reports prepared by the custodian's outside auditors, to the insurance company on their respective systems of internal control;
4. That the custodian shall provide, upon written request from a regulator or an authorized officer of the insurance company, the appropriate affidavits, with respect to the insurance company's securities held by the custodian;
5. That the custodian shall secure and maintain insurance protection in an adequate amount.

It is recommended the Branch amend its custodial agreement to include the safeguards and provisions per the NAIC Financial Condition Examiners' Handbook, Part 1, Section IV-H.

iii. Annual Statement Disclosure

Note 9F of the Notes to the Financial Statements indicates the Branch is a party to the tax allocation agreement. The Branch files a stand-alone tax return and is not a party to the tax allocation agreement.

There is an investment management agreement dated February 28, 1995 between Tariff Reinsurances Ltd. and Sun Alliance Investment Management, Ltd. under which the investments of the Branch are managed. Note 10F of the Notes to the Financial Statements indicates that the investments are managed by Royal Investment Management Company (“RIMCO”) and that the Branch has an agreement with RIMCO.

It is recommended the Branch manager exercise more care in completing the Notes to the Financial Statements in all future statements filed with this Department.

3. FINANCIAL STATEMENTS

Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as determined by this examination as of December 31, 2001. This statement is the same as the balance sheet filed by the Branch.

<u>Assets</u>	<u>Assets</u>	Non-Admitted <u>Assets</u>	Net Admitted <u>Assets</u>
Bonds	\$15,054,287	\$	\$15,054,287
Cash on deposit	363,432		363,432
Short-term investments	46,555,105		46,555,105
Federal and foreign income tax recoverable and interest thereon	74,437		74,437
Interest, dividends and real estate income tax due and accrued	<u>213,350</u>	_____	<u>213,350</u>
Total assets	<u>\$62,260,611</u>	\$ _____	<u>\$62,260,611</u>

Liabilities, Surplus and Other Funds

Losses and loss adjustment expenses		\$
Other expenses		56,000
Payable to parent, subsidiaries and affiliates		<u>499,981</u>
Total liabilities		\$555,981
Statutory deposit	\$3,000,000	
Unassigned funds (surplus)	<u>58,704,630</u>	
Surplus as regards policyholders		<u>61,704,630</u>
Total liabilities, surplus and other funds		<u>\$62,260,611</u>

Note: The tax years prior to 1999 are closed by the statute of limitations. The tax years from 1999 through 2001 are open for audit adjustments. The tax returns for the Branch have not been subject to audit in the past nor has the Branch been notified that any of the open years will be reviewed. The examiner is unaware of any potential exposure of the Branch 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 \$8,185,299 during the four-year examination period, January 1, 1998 through December 31, 2001 detailed as follows:

Statement of Income

Underwriting Income

Premiums earned		\$ 154,763
Deductions:		
Losses and loss expenses incurred	\$ 247,261	
Other underwriting expenses incurred	<u>53,677</u>	
Total underwriting deductions		<u>300,938</u>
Net underwriting gain (loss)		\$ (146,175)

Investment Income

Net investment income earned	\$ 12,650,160	
Net realized capital gains (losses)	<u>11,745</u>	
Net investment gain (loss)		12,661,905

Other Income

Total other income		<u>(5)</u>
Net income, after dividends to policyholders and before federal and foreign income taxes		\$ 12,515,725
Federal and foreign income taxes incurred		<u>4,330,426</u>
Net Income		<u><u>\$ 8,185,299</u></u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 1997, per report on examination			\$53,519,331
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income	<u>\$ 8,185,299</u>	<u> </u>	
Total gains and losses	<u>\$ 8,185,299</u>	<u>\$ </u>	
Net increase in surplus as regards policyholders			<u>8,185,299</u>
Surplus as regards policyholders, December 31, 2001, per report on examination			<u><u>\$61,704,630</u></u>

C. Trusteed Surplus Statement

The following statement shows the trusteed surplus of the Branch calculated in accordance with Section 1312 of the New York Insurance Law and as determined by this examination.

The Branch's trusteed surplus meets the statutory minimum requirements.

Assets

Deposits held for the protection of all of its policyholders and creditors within the United States:

A. General State Deposits

United States Treasury Notes	\$ 3,015,874	
Accrued interest	<u>34,399</u>	
Total general state deposits		\$ 3,050,273

B. Trusteed Assets

Vested in and held by the United States Trustee-Chase Manhattan Bank, N.A. - pursuant to Section 1315 of the New York Insurance Law:

United States Treasury Notes	\$ 45,783,525	
Accrued interest	<u>177,278</u>	
Total deposits with trustees		<u>45,960,803</u>
Total gross assets in the United States with state insurance departments, state officers and trustees		<u><u>\$ 49,011,076</u></u>

Liabilities

Total liabilities and reserves per report on examination	\$ 555,981	
Deductions from Net Liabilities and Reserves		<u> </u>
Net liabilities (Section 1312)	\$ 555,981	
Trusteed Surplus		<u>48,455,095</u>
Total liabilities and trusteed surplus		<u><u>\$ 49,011,076</u></u>

Note: The amount reported on Schedule E, Part 2 is \$211,167 less than the above reported total assets.

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability of \$0 is the same as the amount reported by the Branch as of the examination date. As mentioned in the reinsurance section of this report, the reinsurance agreement with Royal & SunAlliance Personal Insurance Company was terminated effective July 1, 2001 by portfolio withdrawal of unearned premium reserves and commutation and withdrawal of outstanding loss reserves. As a result, at the examination date, the Branch has no liability for losses and loss adjustment expenses.

5. MARKET CONDUCT ACTIVITIES

The Branch did not write any direct business during the period under examination, therefore no market conduct procedures were performed.

6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

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

<u>ITEM</u>	<u>PAGE NO.</u>
<p>A. It is recommended that the Branch formulate 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 organization.</p>	<p>4</p>
<p>B. It was recommended that the Branch comply with Section 1404(a)(10) of the New York Insurance Law.</p>	<p>11</p>

ITEMPAGE NO.

Subsequent to the previous examination date, the Branch complied with this recommendation by disposing of its excess investments under Section 1404(a)(10) of the New York Insurance Law and purchasing additional U.S. Treasury Notes.

As of the current examination date, the Branch's investments are in compliance with the limitations set forth in Article 14 of the New York Insurance Law.

7. **SUMMARY OF COMMENTS AND RECOMMENDATIONS**

ITEMPAGE NO.

A. Management

- | | | |
|-----|---|---|
| i. | It is recommended that Tariff Reinsurances Limited formalize the assignment of the management agreement to Shield Management, Inc. and execute a new power of attorney. | 3 |
| ii. | It is recommended that the board of directors specifically identify the Company or Branch for which investment transactions are being approved. It is further recommended that in the future the board of directors comply with Section 1411 (a) of the New York Insurance Law and authorize or approve all investments made by the Branch. | 4 |

B. Holding Company System

It is recommended the Branch be formally added as a party to the administrative and expense sharing agreement.	11
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C. Accounts and Records

- | | | |
|------|---|----|
| i. | It is recommended that the Branch ensure all future agreements with its certified public accountants contain the provisions required by Department Regulation 118. | 12 |
| ii. | It is recommended the Branch revise its custodial agreements to include the safeguards and provisions outlined in the NAIC Financial Condition Examiners Handbook, Part1, Section IV-H. | 13 |
| iii. | It is recommended the Branch manager exercise more care in completing the Notes to the Financial Statements in all future statements filed with this Department. | 14 |

Appointment No. 21864

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

**TARIFF REINSURANCE LIMITED
(UNITED STATES BRANCH)**

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

Branch

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