REPORT ON EXAMINATION

OF

VIGILANT INSURANCE COMPANY

AS OF

DECEMBER 31, 2001

| | |
|---|---|
| DATE OF REPORT | MAY 15, 2003 |
| EXAMINER | MARC BRUCKSTEIN, CFE |

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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 15, 2003

Honorable Gregory 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 21844 dated March 7, 2002, and attached hereto, I have made an examination into the condition and affairs of the Vigilant Insurance Company as of December 31, 2001 and submit the following report thereon.

The examination was conducted at the Company's administrative office located at 15 Mountainview Road, Warren, New Jersey and at its statutory home office at 55 Water Street, New York, New York.

Whenever the designations "the Company" or "Vigilant " appear herein without qualification, they should be understood to indicate the Vigilant Insurance Company.

Whenever the designation "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, 1996. This examination covers the five year period from January 1, 1997 through December 31, 2001. Transactions subsequent to this period were reviewed where deemed appropriate.

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 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 Examiners Handbook of the National Association of Insurance Commissioners:

History of the Company
Management and control
Corporate records
Fidelity bond and other insurance
Territory and plan of operation
Market conduct activities
Growth of the Company
Business in force
Reinsurance
Loss experience
Accounts and records
Financial statements

A review was also made to ascertain what action was taken by the Company with regards to comments 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 Company was incorporated on July 17, 1939 under the laws of the State of New York as the Reserve Insurance Company. The Company was organized to write general fire and marine insurance business. Vigilant began operations on October 18, 1939. The present name was adopted on May 1, 1941. The Company is wholly-owned by Federal Insurance Company, an Indiana domiciled insurer, which in turn is wholly-owned by the Chubb Corporation, a New Jersey domiciled holding corporation.

The Company is a member of the Chubb Group of Insurance Companies ("Group"). As of December 31, 2001, the Chubb Group consisted of the following members:

| Company | State of Domicile |
|---|---|
| Federal Insurance Company | Indiana |
| Vigilant Insurance Company | New York |
| Pacific Indemnity Company | Wisconsin |
| Great Northern Insurance Company | Minnesota |
| Chubb Custom Insurance Company | Delaware |
| Chubb Indemnity Insurance Company | New York |
| Chubb National Insurance Company | Indiana |
| Executive Risk Indemnity | Delaware |
| Executive Risk Specialty | Connecticut |
| Quadrant Insurance Company | Connecticut |
| Texas Pacific Indemnity Company | Texas |
| Northwestern Pacific Indemnity | Oregon |
| Chubb Insurance of New Jersey | New Jersey |
| Chubb Lloyds Insurance Company of Texas | Texas |

Capital paid in is $4,500,000 consisting of 200,000 shares of common stock at $22.50 par value per share. The charter of Vigilant Insurance Company, of New York, was amended on May 11, 2000, pursuant to Section 1206 of the New York Insurance Law and approved by the New York Insurance Department. The Company increased its capital from $4,000,000, consisting of 200,000 shares of common stock with a par value of $20.00 per share to $4,500,000 consisting of 200,000 shares of common stock with a par value of $22.50 per share. While capital paid in increased by $500,000, gross paid in and contributed surplus decreased by the same amount. Gross paid in and contributed surplus is $25,168,845, as follows:

| Year | Description | Amount |
|---|---|---|
| 1996 | Beginning gross paid and contributed surplus | $25,668,845 |
| 2000 | Transferred to capital paid in from gross paid in and contributed surplus | (500,000) |
| 2001 | Ending gross paid in and contributed surplus | $25,168,845 |

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 members nor more than twenty-five members. At December 31, 2001, the board of directors was comprised of the following thirteen members.

| Name and Residence | Principal Business Affiliation |
|---|---|
| Jon Corey Bidwell<br>Pelham, NY | Senior Vice President,<br>Chubb & Son, a Division of Federal Insurance Company |
| Joanne Leslie Bober<br>New York, NY | Senior Vice President and General Counsel,<br>The Chubb Corporation |
| George Ronald Fay<br>Randolph, NJ | Executive Vice President,<br>Chubb & Son, a Division of Federal Insurance Company |
| David Seeton Fowler<br>Rumson, NJ | Senior Vice President,<br>The Chubb Corporation |
| Henry Gregory Gulick<br>Middletown, NJ | Vice President and Secretary,<br>The Chubb Corporation |
| David Gardiner Hartman<br>New Providence, NJ | Senior Vice President and Chief Actuary<br>Chubb & Son, a Division of Federal Insurance Company |

| Name and Residence | Principal Business Affiliation |
|---|---|
| Gary Louis Heard<br>New York, NY | Vice President,<br>Chubb & Son, a Division of Federal Insurance Company |
| Charles Morton Luchs<br>Mendham, NJ | Executive Vice President,<br>Chubb & Son, a Division of Federal Insurance Company |
| George Francis Marts<br>Laurel Hollow, NY | Senior Vice President<br>Chubb & Son, a Division of Federal Insurance Company |
| Thomas Firouz Motamed<br>Ho-Ho-Kus, NJ | Executive Vice President,<br>The Chubb Corporation |
| Dean Raymond O'Hare<br>Far Hills, NJ | Chief Executive Officer and Chairman,<br>The Chubb Corporation |
| Michael O'Reilly<br>Franklin Lakes, N.J. | Executive Vice President,<br>The Chubb Corporation |
| Philip John Sempier<br>Little Egg Harbor, NJ | Vice President and Treasurer,<br>The Chubb Corporation |

The board of directors met four times for each of the years under examination. A review of the minutes of the meetings of the board of directors' indicated that the meetings were generally well attended and each board member had acceptable record of attendance.

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

| Name | Title |
|---|---|
| Dean R. O'Hare | Chairman and President |
| David G. Hartman | Vice President and Chief Actuary |
| Henry G. Gulick | Vice President and Secretary |
| Philip J. Sempier | Vice President and Treasurer |
| Roger Charles Prior Brookhouse | Vice President |
| Brant William Free, Jr. | Vice President |
| Glenn Alan Montgomery | Vice President |
| Henry Bruce Schram | Vice President |
| Malcolm Bobb Burton | Vice President |
| Amelia Cannara Lynch | Vice President |
| Michael O'Reilly | Vice President |
| David Seeton Fowler | Vice President |

| Name | Title |
|---|---|
| Robert Alfred Marzocchi | Vice President |
| Frank Edward Robertson | Vice President |

B. Territory and Plan of Operation

As of December 31, 2001, the Company was licensed to write business in all the fifty states, District of Columbia, Puerto Rico and the U.S. Virgin Islands.

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

| Paragraph | Line of Business |
|---|---|
| 3 | Accident & health |
| 4 | Fire |
| 5 | Miscellaneous property |
| 6 | Water damage |
| 7 | Burglary and theft |
| 8 | Glass |
| 9 | Boiler and machinery |
| 10 | Elevator |
| 11 | Animal |
| 12 | Collision |
| 13 | Personal injury liability |
| 14 | Property damage liability |
| 15 | Workers' compensation and employers' liability |
| 16 | Fidelity and surety |
| 17 | Credit Insurance |
| 19 | Motor vehicle and aircraft physical damage |
| 20 | Marine and inland marine |
| 21 | Marine protection and indemnity |
| 22 | Residual value insurance (lease or contract) |
| 26(A)(B)(C)(D) | Gap insurance |
| 27 | Prize indemnification |
| 29 | Legal services insurance |

The Company is also empowered to transact such workers' compensation insurance as may be incident to coverages contemplated under paragraphs 20 and 21 of Section 1113(a) of the New York Insurance Law, 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).

Based upon the lines of business for which the Company is licensed, 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 of $35,000,000.

The following schedule shows the Company's direct premiums written, the direct premiums written in New York State, and the percentage, that the New York premiums bear to the countrywide premiums during the period:

Direct Premiums Written (000's)

| Calendar Year | New York State | Total United States | Percentage of New York State Premiums Written to Total United States |
|---|---|---|---|
| 1997 | $97,961,273 | $435,044,110 | 22.52% |
| 1998 | 99,403,497 | 422,038,937 | 23.55 |
| 1999 | 87,951,675 | 376,742,933 | 23.35 |
| 2000 | 104,443,063 | 403,849,828 | 25.86 |
| 2001 | 113,226,417 | 459,330,311 | 24.65 |
| Totals | $502,985,925 | $2,097,006,119 | 23.99% |

The Company, as part of the Chubb Group, is represented by approximately 5,000 independent agents and accepts business on a regular basis from an estimated 1,000 insurance brokers. Business is also produced through participation in a number of underwriting pools and syndicates. The Chubb Group is a provider of insurance and risk management services, offering a broad range of standard and specialty property and liability coverages as well as specialized policies.

C. Reinsurance

The Chubb Group Reinsurance Pool

The Chubb Group Reinsurance ("Pool") differs from a traditional pooling arrangement, whereby, participants cede all of their business to a lead reinsurer, and the lead reinsurer retrocedes to each company a portion of all net business written. In the case of this Pool, each participating company retains a designated percentage of their own direct business, ceding the remainder of its business to the participating companies. Each Pool participant also assumes their designated percentage of all other Pool participants' business.

Assumed

In the year 2001, the Company's assumed premiums represented 6.1% of its total book of business. Almost all of the assumed premiums were from the Company's participation in the Pool. The Company also assumes a relatively minor volume of business as compared to total book of business from non-affiliated companies.

As part of the Pool realignment of April 2000 all open reserve balances were settled among participating companies and the Pool was concurrently redistributed based on the new pooling percentages. Thus, there should be no significant analytical distortion of year-end reserve balances resulting from any Pool participant having one percentage of participation prior to April 2000 and different percentage of participation after April 2000.

Reinsurance ceded

The Chubb Group purchases reinsurance on a combined group basis and apportions the cost among each participating insurer in proportion to subject premium writings, which generally approximate each company's contributory exposure to reinsured limits. Reinsurance is purchased for each of the major class of business written. In addition to treaty reinsurance coverage, Chubb also purchases facultative reinsurance tailored to the particulars of the underlying risk.

All ceded reinsurance contracts were in the name of the following companies. During 2001, the Chubb Group's apportionment's were as follows:

| Company | Approx. Net Retention |
|---|---|
| Federal Insurance Company | 68.0% |
| Pacific Indemnity | 17.0 |
| Executive Risk Indemnity Inc. | 8.0 |
| Great Northern | 4.0 |
| Vigilant | 0.5 |
| Chubb National | 0.5 |
| Chubb Indemnity | 0.5 |
| Chubb Custom | 0.5 |
| Executive Risk Specialty Insurance Comp | 0.5 |
| Quadrant | 0.5 |
| Totals | 100.0% |

The following affiliated companies cede 100% of their business to a member of the inter-company reinsurance pool:

| Company | State of Domicile |
|---|---|
| Texas Pacific Indemnity Company | Texas |
| Northwestern Pacific Indemnity | Oregon |
| Chubb Insurance of New Jersey | New Jersey |
| Chubb Lloyds Insurance Company of Texas | Texas |

As of December 31, 2001 the Company had the following reinsurance in place:

| Type of Contract | Cession |
|---|---|
| Property | |
| Property per risk<br>3 layers (100% subscribed for all three layers) | $140,000,000 excess of $10,000,000 each and every loss occurrence. |
| North American Property Catastrophe<br>3 layers (45.99%, 90.00%, and 90.00% subscribed respectively) | $350,000,000 excess of $100,000,000 each and every occurrence |
| Casualty | |
| Excess of loss Treaty<br>First layer Section (A) | Treaty involving a single insured with policy limits greater than $25,000,000 then $25,000,000 ultimate net loss each and every event in excess of $25,000,000 ultimate net loss each and every event. |
| First layer Section B (Clash) | Events involving single insureds with limits less than or equal to $25,000,000 and multiple insureds then $25,000,000 ultimate net loss each and every event in excess of $25,000,000, ultimate net loss each and every event. |
| Second layer | $50,000,000 in excess of $50,000,000, each and every loss occurrence. |
| Third layer | $50,000,000 in excess of $100,000,000, each and every loss occurrence. |

(100% Subscribed for all three layers)

| Type of Contract | Cession |
| --- | --- |
| Surety | |
| Surety per risk<br>4 layers (100% subscribed ) | 90% of $90,000,000 net loss, each principal excess of $10,000,000 net loss, each principal. |
| Additional Aggregate excess of loss<br>(80% subscribed) | $50,000,000 net loss, each principal excess of $100,000,000, $100,000,000 net loss each principal. |
| Specialty Lines of Business | |
| Accident and Workers' Compensation | |
| Catastrophe excess of loss<br>5 layers (100% subscribed<br>all five layers) | $245,000,000 each and every occurrence in excess of $5,000,000, each and every occurrence. |

The majority of the reinsurers are authorized companies in New York State.

D. Holding Company System

Vigilant Insurance Company is wholly-owned by Federal Insurance Company, an Indiana domiciled insurer. The Company's ultimate parent is the Chubb Corporation, a New Jersey corporation. The Chubb Corporation has filed registration statements pursuant to the provisions of Article 15 of the New York Insurance Law and New York Insurance Department Regulation 52. The following chart shows the Chubb Corporation holding company structure as of December 31, 2001:

The Chubb Corporation (New Jersey) (100% owned except as noted)
- Federal Insurance Company (IN)
  - Vigilant Insurance Company (NY)
    - Chubb de Columbia (Columbia)(% owned see item "A" )
      - La Federal Compania de Inversiones (Columbia)(% owned – C)
  - Pacific Indemnity Company (WI)
    - Texas Pacific Indemnity Company (TX)
    - Northwestern Pacific Indemnity (OR)
  - Great Northern Insurance Company (MN)
  - Chubb Insurance Company of New Jersey (NJ)
  - Chubb Custom Insurance Company (DE)

- Chubb National Insurance Company (IN)
- Chubb Indemnity Insurance Company (NY)
- Chubb Argentina de Seguros (Argentina –99.9%)
    - Chubb Fianzas Y Garantias (Argentina)
- Executive Risk Indemnity Inc. (DE)
    - Quadrant Indemnity Company (CT)
    - Executive Risk Specialty Insurance Company
- Chubb Insurance Company of Europe, S.A. (Belgium)
    - Masterpiece Netherlands, N.V. (Netherlands 50%)
- Chubb Seguros Holdings Chile, S.A. (Chile)
    - Chubb de Chile Compania, S.A.(Chile)
- Chubb Investment Holdings Inc. (NJ)
- Chubb Insurance Company of Australia Ltd. (Australia)
- CC Canada Holdings Ltd. (Canada)
    - Chubb Insurance Company of Canada (Canada)
- Chubb Pacific Underwriting Management Services Pte Ltd. (Singapore)
- Chubb de Mexico Compania Afianzadora, S.A. (Mexico)
- PT Asuransi Chubb Indonesia (Indonesia, 80%)
- Chubb de Mexico Servicio de Suscrip., S.A. (Mexico) (see item "B" for % owned)
- HISCOX PLC (UK) (27%)
- Chubb Life Solutions –Bermuda Ltd. (Bermuda)
- Chubb Corporate Solutions Insurance Company (IN)
- Chubb de Mexico Compania de Seguros, S.A. de C.V (Mexico)
- Chubb Lloyds Insurance Company of Texas (TX)
- Chubb Financial Solutions – Bermuda Ltd. (Bermuda)
    - Chubb Financial Products – Bermuda Ltd. (Bermuda)

Chubb Atlantic Indemnity Ltd. (Bermuda)

- Chubb Atlantic Reinsurance Specialists Ltd. (Bermuda)
- Allied World Assurance Holdings, Ltd. (Bermuda) (18.70% owned)
- DHC Corporation (Delaware)
    - Foundation Reinsurance (PCC) Ltd. (Guernsey)
    - Chubb Do Brasil Compania De Seguros (Brasil) (99.14% owned)
    - Chubb De Venezuela Compania De Seguros C.A. (Venez) (% owned "E")
        - Chubb De Venezuela Comp. De Serv.Susc.Adm.S.A.De C.V.(Ven)

Chubb & Son, Inc. (New York)

- Chubb Services Corporation (Illinois)
- Chubb & Son, Inc. (IL)
- Chubb Insurance Solutions Agency, Inc. (New Jersey)
- Chubb Underwriting Management Services of Thailand, Ltd. (Thailand)

Chubb Global Financial Services Corporation( Delaware)

- Bhadikij Company, Ltd. (Thai) (49% owned)
- Chubb Insurance Company (Thailand) Ltd. (Thai) (25% owned)
- CA Managers (Bermuda) Ltd. (Bermuda)
- Mollers' Brokers Ltd. (Hong Kong)

Mollers' Insurance Services Ltd. (Hong Kong)
Mollers' Insurance Underwriters Ltd. (Hong Kong)
Harbor Island Indemnity Ltd. (Bermuda)

Chubb Computer Services, Inc. (New Jersey)
The Chubb Institute, Inc. (New Jersey)

Chubb Financial Solutions Inc (Delaware)
Chubb Financial Solutions Representative Services Ltd. (UK)
Chubb Financial Products (Ireland) Ltd. (Ireland)

Bellemead Development Corporation (Delaware)
Chubb Custom Market, Inc. (New Jersey)
Chubb Investment Services Ltd. (UK)
Chubb Asset Managers, Inc. (DE)
Transit Air Services, Inc. (New Jersey)
Chubb Capital Corporation (New Jersey)
Chubb Investment Company of New Jersey, Inc. (New Jersey)
Chubb do Brasil Servicios e Participacoes, Ltd. (Brazil)
Chubb Equity Managers, Inc. (Delaware)
Personal Lines Insurance Brokerage, Inc.(New Jersey)
Chubb Multinational Manager, Inc. (New Jersey)
Chubb Re, Inc. (New Jersey)
Chubb Executive Risk, Inc. (Delaware)
Executive Risk Capital Trust (Delaware)
Executive Risk (Bermuda) Ltd. (Bermuda)
Executive Risk Management Associates (Connecticut) (70% owned "D")
Sullivan Kelly, Inc. (California)
Sullivan Kelly of Arizona Inc. (Arizona)

(A) 88.31% Owned by Vigilant
6.13% Owned by Federal
4.22% Owned by Chubb Corp. NJ
0.92% Owned by Pacific Indemnity
0.42% Owned by Great Northern

(B) 99.73% Owned by Federal
0.15% Owned by Vigilant
0.05% Owned by Pacific Indemnity
0.05% Owned by Great Northern
0.02% Owned by Chubb Canada

(C) 94.0% Owned by Chubb De Colombia
1.2% Owned by Vigilant
1.2% Owned by Federal
1.2% Owned by Chubb Corp. NJ
1.2% Owned by Pacific Indemnity
1.2% Owned by Great Northern

(D) 30% Owned by Sullivan Kelly, Inc

(E) 96.0% Owned by DHC Corp
1.0% Owned by The Chubb Corp
1.0% Owned by Chubb Global Financial Services Corp
1.0% Owned by Chubb & Son, Inc.
1.0% Owned by Chubb Investment Company of New Jersey, Inc.

At December 31, 2001, the Company had the following agreements in effect with one or more of its affiliated companies:

Management Agreement

Federal Insurance Company, as the parent of Chubb group of insurance companies per an agreement dated January 1, 1998, acts as manager for the insurance business of Vigilant Insurance Company. The agreement was approved by the Department.

Consolidated Federal Income Tax Allocation Agreement

Chubb Corporation, per an agreement dated July 30, 1981 along with a supplemental agreement dated July 20, 1994 and approved by the Department on June 30, 1994, files a consolidated federal income tax return on behalf of the Company and various affiliates.

Agency Agreement

Personal Lines Insurance Brokerage, Inc., per an agreement dated June 1, 1990 and amended December 1, 2001, acts as personal lines agency for the Company and certain affiliates. The agreement was approved by the Department.

E. Accounts and Records

(1) Inter-company Transactions

In June of 2001, the Company had sold securities to an affiliate in the holding company system totaling $17.5 million. This amount was approximately 10.30% of the Company's admitted assets as of the previous year-end, therefore required prior approval from the superintendent in accordance with Section 1505(c ) of the New York Insurance Law. The

Company did not obtain prior approval for the transactions. It is recommended that in the future that the Company comply with Section 1505 (c ) of the New York Insurance Law.

(2) High Deductibles

Section 3443 of the Insurance Law permits the issuance of workers' compensation and employers' liability insurance policies containing deductibles. It is the position of both the Insurance Department and the Department of Taxation and Finance that premium tax must be collected and paid on these policies. The Department of Taxation and Finance, in support of this position, stated in a July 2, 1991 letter to the Insurance Department that the amount of the deductible paid by the policyholder to the insurer should be treated as a premium paid to the insurer for the purpose of Section 1510 of the New York Tax Law.

In 1993, in response to numerous inquiries, the Insurance Department stated its position that the premium upon which premium tax is to be calculated is "the premium as calculated at the beginning of the policy period plus all of the losses and accompanying expenses for which the company is ultimately reimbursed by the insured". This opinion was published in the March 1993 issue of the Insurance Department Bulletin.

It was noted that during the course of this examination the company failed to report the deductible portion of these policies as premium and also failed to include such amounts as premium for the purposes of Section 1510 of the New York Tax Law.

F. Significant Operating Ratios

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

| | |
|---|---|
| Net premiums written in 2001 to surplus as regards policyholders | .50 to 1 |
| Liabilities to liquid assets (cash and invested assets less investments in affiliates) | 86.50% |
| Premiums in course of collection to surplus as regards policyholders | 42.73% |

The first two ratios fall within the benchmark ranges of the Insurance Regulatory Information System of the National Association of Insurance Commissioners. However, premiums in course of collection to surplus as regards policyholders falls outside the established benchmark and is due to the Company's participation in the pooling arrangement described in Section 2C herein.

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

| | Amounts | Ratios |
|---|---|---|
| Losses and loss adjustment expenses incurred | $585,770,991 | 64.35% |
| Other underwriting expenses incurred | 227,205,170 | 24.96 |
| Net underwriting gain/ loss | 97,466,864 | 10.69 |
| Premiums earned | $910,277,913 | 100.0% |

G. Dividends to Stockholders – Vigilant Insurance Company

During the five-year period covered under the examination, the Company had paid a total of $765,000,000 in dividends to policyholders at nine separate times. Three of the nine payments were considered to be extraordinary dividends pursuant to Section 4105 of the New York Insurance, which the Company had received approval from the New York Insurance Department. The extraordinary dividends were distributed when the Company's pooling percentage was reduced in the Chubb Group Pool. Vigilant's pooling percentage was reduced from 10.6% to 5% in 1997 and reduces again in 2000 from 5% to .5%.

| Year | Amount |
|---|---|
| 1997 | $375,000,000* |
| 1998 | $ 10,000,000 |
| 1998 | $ 10,000,000 |
| 1998 | $ 10,000,000 |
| 1999 | $ 10,000,000 |
| 1999 | $ 10,000,000 |
| 1999 | $ 10,000,000 |
| 2000 | $250,000,000* |
| 2000 | $ 80,000,000* |
| Total | $765,000,000 |

* Extraordinary distribution

## 3. FINANCIAL STATEMENTS

### A. Balance Sheet

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

| Assets | Ledger Assets | Non-Admitted Assets | Net Admitted Assets |
|---|---|---|---|
| Bonds | $118,509,883 | $ | $118,509,883 |
| Stocks | 6,820,359 | | 6,820,359 |
| Cash on hand & on deposit | 30,182,036 | | 30,182,036 |
| Premiums, agents' balances in course of collection | 35,756,946 | 7,280,388 | 28,476,558 |
| Premiums, agent's balances & installments booked but deferred & not yet due | 59,348,368 | | 59,348,368 |
| Accrued retrospective premiums | 83,000 | 5,831 | 77,169 |
| Amounts billed & receivable under high deductibles policies | 204,655 | | 199,207 |
| Reinsurance recoverable on loss & loss adjustment expense | 979,674 | | 979,674 |
| Interest, dividends & Real Estate income due & accrued | 1,470,929 | | 1,470,929 |
| Receivable from parent, subsidiaries and affiliates | 1,592,888 | | 1,592,888 |
| Equities & deposits in pools & associations | 221,199 | | 221,199 |
| Other than invested assets | 26,813 | 26,813 | |
| Total Assets | $255,196,750 | $ 7,318,480 | $247,878,270 |

Liabilities, Surplus and Other Funds

| | | |
|---|---|---|
| Losses and loss adjustment expenses | | $59,716,982 |
| Commissions payable, contingents commissions & other similar charges | | 657,759 |
| Other expenses | | 661,489 |
| Taxes, licenses and fees (excluding federal & foreign income taxes) | | 242,564 |
| Federal and foreign income taxes | | 3,479,445 |
| Unearned premiums | | 17,356,396 |
| Dividends declared and unpaid: policyholders | | 363,018 |
| Ceded reinsurance premiums payable (net of ceding commissions) | | 64,291,962 |
| Funds held by company under reinsurance treaties | | 34,991 |
| Amounts withheld or retained by company for account of others | | 1,412,513 |
| Provision for reinsurance | | 601,645 |
| Payable to parent, subsidiaries & associates | | 32,079,363 |
| Payable for securities | | 51,179 |
| Aggregate write-ins for other liabilities | | 281,689 |
| Total liabilities | | $181,230,995 |
| | | |
| Common capital stock | $4,500,000 | |
| Gross paid in and contributed surplus | 25,168,845 | |
| Unassigned funds (surplus) | 36,978,430 | |
| Surplus as regards policyholders | | 66,647,275 |
| Total liabilities and surplus | | $247,878,270 |

Note: The Internal Revenue Service has completed its audit of the consolidated federal income tax returns filed on behalf of the Company through tax year 1996. All material adjustments, if any, made subsequent to the date of the examination and arising from said audits, are reflected in the financial statements included in this report. Audits covering tax years 1996 to 2001 are in process. The examiner is unaware of any potential exposure of the Company to any tax assessment and no liability has been established herein relative to such contingency.

B. Underwriting and Investment Exhibit

Surplus as regards policyholders decreased $459,106,819 during the five-year examination period, January 1, 1997 through December 31, 2001 detailed as follows:

Statement of Income

| | | |
|---|---|---|
| Underwriting Income | | |
| Premiums earned | | $910,277,913 |
| Deductions: | | |
| Losses and loss adjustment expenses incurred | $585,770,991 | |
| Other underwriting expenses | 227,205,170 | |
| Total underwriting deductions | | 812,976,161 |
| Net underwriting gain | | $97,301,752 |
| Investment Income | | |
| Net investment income earned | $177,596,329 | |
| Net realized capital gains | 74,022,440 | |
| Net investment gain | | 251,618,769 |
| Other Income(Loss) | | |
| Net gain (loss) from premiums/ agents' balance charged off charged off | $(789,063) | |
| Aggregate write-ins for miscellaneous income | (344,725) | |
| Total other income (loss) | | (1,133,788) |
| Net income before dividends to policyholders, and before fed & foreign income taxes | | $347,786,733 |
| Dividends to policyholders | | 5,807,095 |
| Net income before federal and foreign income taxes | | $341,979,638 |
| Federal and foreign income taxes incurred | | 10,196,935 |
| Net income | | $331,782,703 |

Capital and Surplus Account

| | Gains in Surplus | Losses in Surplus | |
|---|---|---|---|
| Surplus as regards policyholders as of December 31, 1996 per Report on Examination | | | $525,754,094 |
| Net income | $331,782,703 | | |
| Net unrealized capital gains or losses | | $35,920,735 | |
| Change in net unrealized foreign exchange capital gain (loss) | | 92,965 | |
| Change in not admitted assets | | 2,690,913 | |
| Provision for reinsurance | 3,622,011 | | |
| Change in excess reserve over statutory reserves | 10,017,000 | | |
| Cumulative effect of changes in accounting principles | | 985,220 | |
| Change in Capital paid-in | 500,000 | | |
| Change in Surplus paid-in | | 500,000 | |
| Dividends to Stockholders | | 765,000,000 | |
| Change in contingency reserve for municipal obligation | 161,300 | | |
| Total gains and losses | $346,083,014 | $805,189,833 | |
| Net decrease in surplus | | | (459,106,819) |
| Surplus as regards policyholders as of December 31, 2001 per Report on Examination | | | $66,647,275 |

## 4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability of $59,716,982 is the same as the 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 statement.

## 5. MARKET CONDUCT ACTIVITIES

In the course of this 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 is general in nature and is not to be construed to encompass the generally more precise scope of a market conduct investigation.

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

1) Sales and advertising
2) Treatment of policyholders and claimants

No problem areas was encountered.

## 5. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination contained the following comments detailed as follows (page numbers refer to the prior report):

| ITEM | | PAGE NO. |
|---|---|---|
| A. | Reinsurance | |
| | One reinsurance agreement and three reinsurance addendums were not signed by reinsurers providing the majority of coverage under those agreements. In addition, two reinsurance agreements did not contain dates for the settlement of losses. It is recommended that the Company comply with Chapter 22 of the Accounting Practices and Procedures Manual and obtain signed interest and liabilities statements and addendums within the nine months of the commencement of the reinsurance agreement or the addendums. Furthermore, it is recommended that the Company amend its reinsurance agreements to include dates from the settlement of losses. | 13 |
| | The Company has complied with these recommendation. | |

| ITEM NO. | | PAGE NO. |
|---|---|---|
| B. | Holding Company System | |
| | The Company has submitted only one of its three inter-company agreements to the Department for non-disapproval as required by Section 1505(d)(3) of the New York Insurance Law. Subsequent to the examination date, the Company submitted both of its holding company agreements to the Department. It is recommended that the Company submit all future inter-company agreements to the Department for its review in accordance with Section 1505(d)(3) of the New York Insurance Law. | 17 |
| | The Company has complied with this recommendation by filing all inter-company agreements with the Department for its review in accordance with Section 1505(d)(3) of the New York Insurance Law. | |
| C. | Accounts and Records | |
| i. | It is recommended that the Company establish the necessary procedures to accurately account for the premium notes by allocating the correct amounts to the respective companies. A similar comment was contained in the report on examination as December 31, 1991 relative to this item. | 17 |
| | The Company has complied with this recommendation by not reporting premium notes in their December 31, 2001 annual statement. | |
| | It is recommended that pooled amounts due to non-affiliates be separated and reported as due to associated companies; the remainder should be reported as payable to parent, subsidiaries and affiliates in accordance with the annual statement instructions. | 18 |
| | The Company has complied with this recommendation by separating pooled amounts due to non-affiliates and reporting them as due to associated companies; the remainder is reported as Payable to parent, subsidiaries and affiliates in accordance with the annual statement instructions. | |
| ii. | It is recommended that the Company comply with the annual statement instructions and report inter-company balances as receivable from parent, subsidiaries and affiliates. | 18 |
| | The Company has complied with this recommendation by complying with the annual statement instructions by reporting the inter-company balances as receivable from parent, subsidiaries and affiliates. | |
| iii. | It is recommended that the Company comply with Section 325 of the New York Insurance Law and maintain complete records at its New York office. | 19 |
| | The Company has complied with this recommendation. | |

| ITEM | | PAGE NO. |
| --- | --- | --- |
| iv. | It is recommended that the Company amend its custodial agreement with the Bank of New York to include those provisions that are indicative of sound business practices. | 19 |
| | The Company has complied with this recommendation by including those provisions that are indicative of sound business practices in their custodial agreement with the Bank of New York. | |

## 6. SUMMARY OF COMMENTS AND RECOMMENDATIONS

| ITEM | | PAGE NO. |
| --- | --- | --- |
| A. | Accounts and Records | |
| | Inter-company Transactions | |
| | It is recommended that in the future that the Company comply with Section 1505 (c) of the New York Insurance Law by receiving prior approval from the superintendent for all transactions with affiliates that are five percent or more of the insurer’s admitted assets at last year-end. | 15 |
| | High Deductibles | |
| | It was noted that during the course of this examination the company failed to report the deductible portion of these policies as premium and also failed to include such amounts as premium for the purposes of Section 1510 of the New York Tax Law. | 15 |

Respectfully submitted,

__________/S/____________
Marc Bruckstein, CFE
Senior Insurance Examiner

STATE OF NEW YORK )
)SS.
)
COUNTY OF NEW YORK)

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

__________/S/__________
Marc Bruckstein, CFE

Subscribed and sworn to before me
this ______day of ____________________2003.

*Appointment No.* 21844

*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:*

**Marc Bruckstein**

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

**VIGILANT 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 7th day of March, 2002*

*GREGORY V. SERIO*
*Superintendent of Insurance*