ASSOCIATION REPORT ON EXAMINATION

OF THE

ZURICH AMERICAN INSURANCE COMPANY

AS OF

DECEMBER 31, 1998

Zone	Examiner	State
1	James E. Masterson, CFE	New York
2	Carolyn M. Elliott, CFE, CPA, CIE, FLMI	Mississippi
4	Tim Gadler, CFE	Nevada

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Chairman, NAIC Financial Condition Subcommittee (EX4)
Kansas City, MO 64108-2604

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Honorable Alfred W. Gross
Secretary, Southeastern Zone
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Honorable Jose Montemayor
Secretary, Western Zone
Commissioner of Insurance
State of Texas
Austin Texas 78701

Honorable Neil D. Levin
Superintendent of Insurance
State of New York
Albany, NY 12257

Dear Sirs and Madam:

In accordance with your several instructions, an Association Examination has been made as of December 31, 1998 into the financial condition and affairs of the Zurich American Insurance Company and the following report thereon is respectfully submitted.

Where the designations "Company" or "ZAIC" appear herein without qualification, they should be understood to mean Zurich American Insurance Company.

Respectfully submitted,

_____________/S/_________________
James E. Masterson, CFE
Principal Insurance Examiner
New York State Insurance Department
Representing Northeastern Zone

_____________/S/_________________
Carolyn M. Elliott, CFE, CPA, CIE, FLMI
Insurance Examiner
Mississippi Insurance Department
Representing Southeastern Zone

_____________/S/_________________
Tim Gadler, CFE
Insurance Examiner
Nevada Insurance Department
Representing Northeastern Zone

REPORT ON EXAMINATION

OF THE

ZURICH AMERICAN INSURANCE COMPANY

AS OF

DECEMBER 31, 1998

DATE OF REPORT	NOVEMBER 27, 2000
EXAMINER	JAMES E. MASTERSON, CFE

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

November 27, 2000

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 Number 21444 dated July 29, 1999, attached hereto, I have made an examination into the condition and affairs of the Zurich American Insurance Company, a domestic corporation, as of December 31, 1998 and submit the following report thereon.

The examination was conducted at the Company’s administrative office located at 1400 American Lane, Schaumburg, IL 60196. The Company and its affiliated insurer, American Guarantee and Liability Insurance Company, were examined concurrently.

Whenever the terms, "the Company" or "ZAIC" appear herein without qualification, they should be understood to indicate Zurich American Insurance Company.

1. SCOPE OF EXAMINATION

The previous examination was conducted as of December 31, 1993. This examination covers the five year period from January 1, 1994 through December 31, 1998. Transactions occurring subsequent to the examination date were reviewed where deemed appropriate.

The examination comprised a complete verification of assets and liabilities as of December 31, 1998, 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 bonds and other insurance
Territory and plan of operation
Growth of the Company
Business in force
Loss experience
Market conduct activities
Accounts and records
Financial statements

A review was also made to ascertain what actions were taken by the Company with regard to comments and recommendations 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

Zurich American Insurance Company was incorporated under the laws of the State of New York on June 3, 1998 and commenced business on December 31, 1998. The Company was organized to provide the vehicle for the domestication of the United States Branch of Zurich Insurance Company under Article 72 of the New York Insurance Law. On December 31, 1998, all of the assets and liabilities of the Branch were transferred into the Company and the Branch ceased to exist.

Capital paid in is $5,000,000 consisting of 5,000 shares of $1,000 par value per share. All authorized shares are outstanding and are owned by Zurich Holding Company of America ("ZHCA"), a Delaware holding company. Gross paid in and contributed surplus was $501,310,851. The total capitalization of $506,310,851 was contributed by ZHCA on December 31, 1998 and consisted of bonds totaling $36,818,670 plus 100% of the outstanding common stock of American Guarantee and Liability Insurance Company, a New York domiciled insurer, which was valued at $469,492,181.

During the examination period, the U.S. Branch made remittances to and received remittances from its home office. The net remittances to the home office during the examination period totaled $253,555,298 as follows:

	1994	1995	1996	1997	1998	Total
Remittances to H.O:						
Expenses paid for H.O.	$1,128,403	$982,914	$2,824,971	$5,025,721	$	$9,961,009
Cash payments	5,400,000	5,300,000	3,800,000	3,500,000	164,001,612	182,001,612
Stocks					64,998,388	64,998,388
Bonds *					36,818,670	36,818,670
Maryland Casualty Company					223,273,655	223,273,655
Zurich Towers, Inc.					12,482,182	12,482,182
Zurich Holding Company					15,000,000	15,000,000
Total to H.O.	$6,528,403	$6,282,914	$6,624,971	$8,525,721	$516,574,507	$544,536,516

	1994	1995	1996	1997	1998	Totals
Remittances from H.O:						
Expenses paid by H.O.	$92,282	$70,332	$268,905	$2,338,978	$	$2,770,498
Dividends received	1,350,000	1,350,000	1,350,000	1,350,000		5,400,000
Cash receipts		107,427,007	148,700,000			256,127,007
ARGO Real Estate		25,091,241				25,091,241
ARGO Real Estate adj.		1,592,472				1,592,472
Total from H.O.	$1,442,282	$135,531,052	$150,318,905	$3,688,978		$290,981,218
Net Remittances (to)/from H.O.	$(5,086,121)	$129,248,138	$143,693,934	$(4,836,743)	$(516,574,507)	$(253,555,298)

*Note: The bonds totaling $36,818,670, which were remitted to the Home Office in 1998, were in turn remitted to Zurich Holding Company of America, who used them to capitalize Zurich American Insurance Company.

A. Management

Pursuant to its charter, the corporate powers of the Company shall be exercised by a board of directors consisting of not less than thirteen nor more than twenty-one members, and through such officers, employees and agents as the board shall empower. At December 31, 1998, the board of directors was comprised of the following thirteen members:

Name and Residence	Principal Business Affiliation
Loren J. Alter Winnetka, IL	Executive Vice President and CFO, Zurich American Insurance Company
John J. Amore Staten Island, NY	Executive Vice President, Zurich American Insurance Company
William H. Bolinder Zurich, Switzerland	Group Executive Board member, Zurich Insurance Company (Switzerland)
David A. Bowers Winnetka, IL	Executive Vice President and General Counsel, Zurich American Insurance Company
Michael A. Fortune Barrington, IL	Executive Vice President, Zurich American Insurance Company
H. Donald Hanson Barrington, IL	Executive Vice President and Actuary, Zurich American Insurance Company
Thomas H. Hite Downers Grove, IL	Executive Vice President, Zurich American Insurance Company
Constantine P. Iordanou North Barrington, IL	President and CEO, Zurich American Insurance Company
Thomas G. Kaiser Highland, NJ	Executive Vice President, Zurich American Insurance Company
Michael G. Kerner Golden Bridge, NY	Senior Vice President, Zurich American Insurance Company
David A. Levinson Commack, NY	Vice President, Zurich American Insurance Company
Mark D. Lyons Deer Park, IL	Executive Vice President, Zurich American Insurance Company
Frank A. Patalano	Executive Vice President,

During the examination period, the U.S. Branch of Zurich Insurance Company had an advisory board that met on a quarterly basis. A review of the minutes of the advisory board meetings revealed that the meetings were generally well attended and that each board member had an acceptable record of attendance.

The current board of directors was formed at the time of the incorporation of the Company in June of 1998. Since that time, the board has not physically met but has taken action by unanimous written consent in lieu of regular meetings on a quarterly basis. Article II, Section 5 of the Company's by-laws requires that:

> "Regular meetings of the board of directors shall be held immediately following the annual meeting of the shareholders and as frequently as the dispatch of business shall require and in any event at least four times in each calendar year."

Article X, Section 5 provides that:

> "In lieu of any scheduled meeting of the board of directors or any committee thereof, any action required or permitted to be taken by the board of directors or any committee thereof, may be taken without a meeting if all members of the board, or of such committee, consent in writing to the adoption of a resolution authorizing the action."

Board meetings permit directors to make informed decisions about matters affecting the public interest based upon deliberations and an exchange of information and ideas at such meetings. It is the Department's position that the use of unanimous written consent in lieu of a regular meeting should be permitted only in very limited situations and must be based upon a showing of definite necessity. Any language in the Company's by-laws regarding the use of such written consent should contain specific language of limitation. It is recommended that the Company hold regular meetings of its board of directors and amend its by-laws to restrict the use of unanimous written consent in lieu of regular meetings to emergency situations only.

A review of the minutes of the board of directors' meetings and of the unanimous written consents in lieu of board meetings indicated that the board was not apprised of the actions of the executive committee. Article III, Section 3 of the Company's by-laws states, in part, "all actions of the Committee shall be reported to the board of directors at its next meeting succeeding the date of such action." It is recommended that the actions of the executive committee be reported to the board of directors at its next meeting.

A review of the minutes of the board of directors does not indicate that the board approved the investment transactions made by the Company. Section 1411(a) of the New York Insurance Law states: "No domestic insurer shall make any loan or investment, except as provided in subsection (h) hereof, unless authorized or approved by its board of directors or a committee thereof responsible for supervising or making such investment or loan. The committee's minutes shall be recorded and a report submitted to the board of directors at its next meeting." It is recommended that the board of directors approve all investment transactions made by the Company and that the minutes include a listing of the transactions so approved.

As of December 31, 1998 the principal officers of the Company were as follows:

Name	Title
Constantine Philippos Iordanou	President and Chief Executive Officer
Loren Jay Alter	Executive Vice President
John James Amore	Executive Vice President
David Alan Bowers	Executive Vice President and General Counsel
John Donald Cole	Executive Vice President
Michael Anthony Fortune	Executive Vice President
Donna Lynn Galer	Executive Vice President
Howard Donald Hanson	Executive Vice President
Thomas Harry Hite	Executive Vice President
Thomas Griffeth Kaiser	Executive Vice President
Mark Donald Lyons	Executive Vice President
Michael David Markman	Executive Vice President

Frank Anthony Patalano	Executive Vice President
Thomas Joseph Santorelli	Executive Vice President
Susan Kott Harold	Corporate Secretary

B. Territory and Plan of Operation

At December 31, 1998, the Company was licensed to transact business in all 50 states, the District of Columbia, Puerto Rico and the U.S. Virgin Islands. The Company was also certified by the United States Department of the Treasury as an acceptable surety and/or reinsurer on Federal bonds with an underwriting limit of $72,150,000.

At December 31, 1998, the Company was licensed to transact the kinds of insurance as set forth in the following numbered paragraphs of Section 1113(a) of the New York Insurance Law:

Paragraph	Lines of Business
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
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
26	Gap
27	Prize indemnification
28	Service contract reimbursement insurance

Provision is also made for insurances described in the Longshoremen's and Harbor Workers' Compensation Act, and the kinds of insurance and reinsurance defined in Section 4102(c) of the New York Insurance Law.

Effective January 1, 1999, the Company was licensed in this State to write Special Risk Insurance pursuant to Article 63 of the New York Insurance Law. Effective November 1, 1999, the Company amended its license to include "Legal services insurance" as defined in Paragraph 29 of Section 1113(a) 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, Zurich American Insurance Company is required to maintain a minimum surplus to policyholders in the amount of $35,000,000.

In 1998, approximately 45% of the Zurich American Insurance Group's direct written premiums were produced by approximately 3,800 independent agencies; approximately 51% of the direct written premiums were produced by 422 brokerage firms; and the remaining 4% of the direct written premiums were produced by 10 managing general agents.

The following schedule shows the direct premiums written by the Company in total and in New York State for the period covered by this examination:

	Direct Premiums Written		
Year	Total	New York	Percent
1994	$875,836,589	$127,076,607	14.51%
1995	$1,704,427,283	$212,925,578	12.49%
1996	$1,639,152,180	$186,876,117	11.40%

1997	$1,444,288,661	$194,644,108	13.48%
1998	$1,151,556,669	$176,377,307	15.32%

C. Reinsurance

i. Intercompany Pooling Agreement

Effective January 1, 1993, the Company participates in an Intercompany Pooling Agreement with four affiliated companies: American Guarantee and Liability Insurance Company ("AG"), American Zurich Insurance Company ("AZ"), Zurich American Insurance Company of Illinois ("ZAI"), and Steadfast Insurance Company ("Steadfast"). Pursuant to this agreement, all underwriting income and losses (after application of ceded reinsurance), as well as all underwriting assets, liabilities and expenses are distributed to the pooled companies as follows:

Participant	Percentage
ZAIC	85%
AG	10%
AZ	2%
ZAI	1%
Steadfast	2%
Total	100%

The Intercompany Pooling Agreement was amended effective January 1, 1999. Pursuant to the amended agreement, ZAIC is responsible for 100% of all underwriting income and losses (net of applicable reinsurance) as well as all underwriting assets, liabilities and expenses. Additionally, the agreement was amended to include the following thirteen companies:

American Guarantee and Liability Insurance Company (NY);
American Zurich Insurance Company (IL);
Zurich American Insurance Company of Illinois (IL);
Steadfast Insurance Company (DE);
Maryland Casualty Company (MD);

Northern Insurance Company of New York (NY);
Assurance Company of America (NY);
Maryland Insurance Company (TX);
National Standard Insurance Company (TX);
Valiant Insurance Company (IA);
Maine Bonding and Casualty Company (ME);
Fidelity and Deposit Insurance Company of Maryland (MD); and
Colonial American Insurance Company (MD)

Concurrent with the adoption of the amended intercompany pooling agreement, Zurich American Insurance Company became the owner of 100% of the outstanding shares of Maryland Casualty Company when Zurich Insurance Company contributed its 15.8% ownership and Zurich Holding Company of America contributed its 84.2% ownership. In 1999, the subsidiary companies transferred the majority of their assets not needed for statutory requirements to Zurich American Insurance Company in the form of dividends to reflect ZAIC's assumption of 100% of the pool.

ii. <u>Assumed Reinsurance</u>

The majority of the Company's assumed business is generated through its participation in the pooling agreement. The Company also participates in various underwriting pools and associations.

iii. <u>Ceded Reinsurance</u>

The Schedule F data as contained in the Company's annual statements filed for the years within the examination period was found to accurately reflect its reinsurance transactions.

All ceded reinsurance contracts effected during the examination period were reviewed and found to contain the required standard clauses including insolvency clauses meeting the requirements of Section 1308 of the New York Insurance Law.

Prior to cessions to the intercompany pooling agreement described above, the Company reduces its exposure to excessive loss through facultative and treaty reinsurance. The Company has the following ceded reinsurance program covering all programs as of December 31, 1998:

Type of Contract	Cession
Corporate Program (covering all business units):	
Property:	
Property catastrophe excess of loss Five layers	95% of $525 million excess of $75 million ultimate net loss, each occurrence.
Casualty:	
Workers' Compensation excess of loss 95% Authorized 5% Unauthorized	$6 million excess of $5 million, ultimate net loss, each occurrence. (Note: applies prior to Casualty Catastrophe cover regarding workers' compensation losses.)
Workers' Compensation excess of loss Five layers	$235 million excess of $15 million, ultimate net loss, each occurrence.
Casualty Catastrophe excess of loss (including workers' compensation and ocean marine) Two layers	$45 million excess of $5 million, ultimate net loss, any one event.
Multi-line property and casualty:	
Whole Account quota share (all policies except those written by the International Division) 100% Authorized	5.75% quota share on all policies.
Whole Account stop loss 100% Unauthorized	Ultimate net loss greater than 79.7% of the base net earned premium income for the calendar year, limit 6% of the net earned premium income.

The whole account quota share treaty was ceded to Zurich Reinsurance (North America), Inc. and was in effect from July 1, 1995 through December 31, 1998. The purpose of the treaty was to provide the

Zurich pool with additional cover after the acquisition of the Home Insurance book of business. The quota share percentage was originally 11.5% and was reduced to 5.75% effective January 1, 1998. The agreement was submitted to and approved by this Department.

Effective January 1, 1994 through December 31, 1998, the Company entered into the whole account stop loss agreement with an unauthorized unaffiliated Swiss reinsurer. Pursuant to the terms of this agreement, the reinsurer provided reinsurance to the Company for losses and loss adjustment expenses above a designated loss ratio (referred to as the "attachment point"). The reinsurer agreed to pay up to 6% of net earned premium income above the attachment point, which was set each year at 3.5% above the Company's estimated loss ratio for each year. For this reinsurance cover, the Company paid reinsurance premiums equal to 1% of its gross net earned premium for each year. Losses and loss adjustment expenses are recoverable only when the amount paid exceeds the attachment point. As of December 31, 1999, the premiums and losses ceded under this treaty were as follows (000's omitted):

	1994	1995	1996	1997	1998
Gross net earned premium	$924,548	$1,134,236	$1,523,520	$1,562,246	$1,115,087
Attachment point percent	81.3%	78.5%	78.6%	78.8%	79.7%
Maximum loss ratio percent	87.3%	84.5%	84.6%	84.8%	85.7%
Attachment point amount	$751,658	$890,375	$1,197,487	$1,231,050	$888,724
Losses and LAE incurred	$732,875	$827,326	$1,196,125	$1,227,710	$959,280
Ceded losses at 12/31/99					$66,905
Loss and LAE ratio	79.3%	72.9%	78.5%	78.6%	86.0%
Maximum recoverable	$55,473	$68,054	$91,411	$93,735	$66,905
Reinsurance premium	$9,245	$11,342	$15,235	$15,622	$11,151

Effective January 1, 1999, the Company entered into a new whole account stop loss agreement with an unauthorized, unaffiliated reinsurer. The agreement provides reinsurance coverage to the Company in an amount up to 17% of the Company's net earned premium income above a loss ratio of 68%. The attachment point is set at 7.5% below the Company's estimated loss ratio of 75.5% for the year. The cost of this coverage is 5.5275% of the Company's subject gross net earned premiums. Of that amount, 20.4% is remitted to the reinsurer and 79.6% is withheld and placed in a segregated "Trust Fund" in the name of the Company.

The Schedule F data contained in the Company's filed 1999 annual statement indicates ceded premiums of $136.7 million and ceded losses recoverable of $330.9 million for this treaty. It was noted that the Company did not have the executed copy of this contract readily available for examination review, nor did the Company have the requisite underwriting file readily available.

It is recommended that in the future the Company endeavor to maintain all reinsurance contracts and related underwriting files readily available for examination review.

The Company writes its business through four strategic business units: Zurich American International Accounts, Diversified Products, Specialties, and Construction. Each business unit has its own reinsurance program as follows:

Type of Contract	Cession
Zurich American International Accounts:	
Casualty Per risk quota share 100% Authorized	A. (General Liability, Commercial Auto Liability, Technology errors and omissions, Employers Liability) 86.67% of up to $30 million, ultimate net loss, per risk + plus proportionate share of loss adjustment expenses. B. (Commercial Umbrella, Excess Liability) 86.67% of up to $30 million, ultimate net loss, per risk.
General Liability, Automobile Liability and	90% of the difference between $1 million and

Workers' Compensation and/or Employers Liability Quota Share 94.44% Authorized 5.56% Unauthorized	the greater of $250,000 or any self insured retention/deductible and/or retrospectively rated loss limitation, each loss under each policy, each insured.
Corporate Solutions Quota Share (business written by the Zurich Corporate Solutions sub-division and classified as Multi-Line Property and Casualty Liability) 100% Authorized	90.9% of $55 million.

Type of Contract	Cession
Workers' Compensation Excess of Loss 95% Authorized 5% Unauthorized	$4 million excess of $1 million, each occurrence, limit $5 million per person.
<u>Diversified Products Division:</u> <u>Property:</u> Underlying per risk excess of loss 100% Authorized	$9.5 million excess of $500,000, ultimate net loss, each risk, each occurrence. Limit $38 million any one occurrence, maximum recovery of $150 million for the term of this contract. Aggregate deductible of $40 million.
Excess of loss Three layers	$115 million excess of $10 million, ultimate net loss, each risk, each occurrence.
<u>Property Catastrophe</u> International Property 1st excess of loss Two layers	95% of $50 million excess of $25 million, ultimate net loss, each occurrence.
Property Facultative excess of loss (Highly Protected Risks Profit Center) Three layers 100% Authorized	$25 million excess of $75 million, ultimate net loss, any one risk (flood and earthquake). $225 million excess of $75 million ultimate net loss, any one risk (all perils except flood and earthquake).
Jewelers Block quota share 100% Authorized	75% of up to $5 million, any one location, any one account. For property situated at trade shows, 100% of up to $15 million, any one location, any one account. Limit $30 million any one occurrence.
<u>Engineered Lines and Technical Risk Profit Centers:</u> Technical Risk variable quota share (Diversified Products and Construction) 97.32% Authorized	Boiler and machinery: 40% of $100 million. Construction: 65% of $100 million. Energy Property: 65% of $100 million.

2.68% Unauthorized	Engineered Lines – Utilities: 65% of $100 million.
Energy sub-division: Property: Global Energy quota share 100% Unauthorized	95% of $125 million, each loss, each risk.
Umbrella and Excess Liability: Energy Casualty quota share 94.23% Authorized 5.77% Unauthorized	86.67% of up to $30 million ultimate net loss per risk, each occurrence.

Type of Contract	Cession
Ocean Marine business: Ocean Marine quota share 100% Authorized	40% of up to $25 million, any one policy.
Marine per risk excess of loss 94.17% Authorized 5.83% Unauthorized	$10 million excess of $5 million, each and every risk, each and every loss occurrence.
Marine General –catastrophe Three layers	a. $19.5 million excess of $500,000, each loss ($4 million excess of $1 million for named hurricanes). b. $250,000 excess of $250,000, each loss. Limit $1 million during the contract period. Aggregate deductible of $1 million.
Group Accident: A&H per person excess of loss 67.26% Authorized 32.74% Unauthorized	$2.8 million excess of $200,000, any one person or policy. $4.7 million excess of $300,000, any one person, if an insured is covered under multiple policies.
Personal Accident quota share 76.72% Authorized 23.28% Unauthorized	Known Concentrations: 85% for risks up to $2 million, any one accident or conveyance; 100% for risks exceeding $2 million up to $30 million. Personal Accident: 100% of original limits, limit $1 million per person, $20 million per accident; aircrew limit $200,000 per person, $3 million per aircraft. Occupational Accident: 100% of up to $1 million per person (AD&D); $1,000 per week (Accidental Disability); $1 million per person (Accident Medical). $2 million per person, combined single limit basis.
Personal Accident Cat excess of loss Five layers	$110 million excess of $300,000, ultimate net loss, each accident.

Obligatory Medical Excess quota share 66.78% Authorized 33.22% Unauthorized	a. Aggregate Stop Loss: 90% of risks up to $2 million, any one policy, excess of 120% of the expected claims cost. b. Individual Stop Loss: 90% of risks up to $2 million, any one person, any one policy, excess of $15,000 any one person. c. Gap: 90% of such benefits up to $2 million, maximum individual limit.

<u>Type of Contract</u>	<u>Cession</u>
Human Organ and Tissue Transplant quota share 93.33% Authorized 6.67% Unauthorized	75% of up to $2 million per person, per transplant. Limit $2 million lifetime maximum benefit.
Specific and Aggregate Group Medical quota share 94.44% Authorized 5.56% Unauthorized	Specific Coverage: 85% of up to $1 million, per person lifetime, less specific retention. Aggregate Coverage: 85% of up to $1 million, per original policy per annum.
Specific and Aggregate Group Medical Excess quota share 100% Authorized	Specific Coverage: 100% of $4 million excess of $1 million, per person lifetime. Aggregate Coverage: 100% of $1 million excess of $1 million, excess of 120% of expected claims cost.
Multi-Product Occupational Accident quota share 100% Authorized	85% of $1 million per person, any one policy.
Short-term Disability quota share 100% Authorized	25% of up to $1,250 per week.
<u>Specialties Division:</u> <u>Customer Group:</u>	
Home Warranty quota share 100% Authorized	60% of up to $2 million any one structure. (Builders Default and Defined Structural Element Failure)
Non-Medical Professional Liability variable quota share 88.63% Authorized 11.37% Unauthorized	<u>A. Non-medical Professional:</u> 50% for per risk limit of $0 to $2 million. 60% per risk limit of $2 million to $10 million. 70% per risk limit of $10 million to $15 million. 80% per risk limit of $15 million to $25 million. 85% per risk limit of $25 million to $30 million. <u>B. Architects and Engineers:</u>

	0% for per risk limit of $0 to $2 million. 60% per risk limit of $2 million to $10 million. 70% per risk limit of $10 million to $15 million. 80% per risk limit of $15 million to $25 million. 85% per risk limit of $25 million to $30 million.
Railroad Liability quota share 100% Authorized	80% for per risk limit of $0 to $25 million. 85% per risk limit of $25 million to $30 million.

Type of Contract	Cession
Product Group:	
Environmental primary quota share 93.75% Authorized 6.25% Unauthorized	80% of up to $2 million ultimate net loss, each risk.
Environmental excess of loss Two layers	95% of $48 million excess of $2 million ultimate net loss, each risk.
Excess and Umbrella Casualty excess of loss 93.75% Authorized 6.25% Unauthorized	A. 80% of $4 million excess of $1 million each loss, each claim and/or occurrence. B. 87.5% of $25 million excess of $5 million each loss, each claim and/or occurrence.
Directors and Officers excess of loss 93% Authorized 7% Unauthorized	A. 75% of $9 million excess of $1 million each claim and 25% of the 1st $1 million. (Policies in excess of primary policies written by other carriers) 50% of $10 million, each claim made and in the aggregate, each policy. Minimum attachment of $1 million.
Directors and Officers Liability quota share 100% Authorized	A. (Directors and Officers, Fiduciary Liability, Kidnap and Ransom, Crime Coverages) 25% of policy limits up to $5 million. For policies with limits greater than $5 million, the Company will retain $5 million and cede the surplus liability. Maximum cession of $25 million. B. (General Partnership Liability, Real Estate Errors and Omissions, Human Resources Professional Liability) 60% of policy limits up to $10 million. For policies with limits greater than $10 million, the Company will retain $5 million and cede the surplus liability. Maximum cession of $25 million.

Special Surety quota share 94% Authorized 6% Unauthorized	80% of $15 million, each contract bond. 80% of $25 million, each non-contract bond or fidelity bond or policy. For non-contract bonds or fidelity bonds with limits greater than $25 million, the Company will retain $5 million and cede the surplus liability up to a maximum of $25 million.
Political Risk quota share 100% Authorized	90% of up to $50 million any one policy, any one interest.

Type of Contract	Cession
Special Casualty excess of loss 95% Authorized 5% Unauthorized	$4.5 million excess of $500,000 each coverage, each insured.
Special Casualty aggregate stop loss 100% Authorized	90% of up to 25% of the ultimate net loss ratio in excess of a 75% ultimate net loss ratio. Limit $18.5 million or 25% of the subject net written premium, whichever is less.
Employment Practices Liability quota share 100% Unauthorized	For policies that attach greater than $1 million but less than $5 million; 50% of the portion less than $5 million and 33.34% of the portion greater than $5 million up to a maximum of $25 million.
Healthcare Group:	
Healthcare Professional primary quota share 84.62% Authorized 15.38% Unauthorized	32.5% of $1 million each claim or occurrence.
Healthcare Professional 1st excess of loss 88.89% Authorized 11.11% Unauthorized	45% of $5 million excess of self-insured retention each claim or occurrence.
Healthcare Professional 2nd excess of loss 94.74% Authorized 5.26% Unauthorized	95% of $25 million excess of $5 million excess of self-insured retention each claim or occurrence.
Provider excess quota share 100% Authorized	Specific and Aggregate Stop Loss Policies 100% of the gross liability for: a) HMO/Hospital Services – limit $2 million per person, per annum.

	b) Professional Services – limit $250,000 per person, per annum. c) Aggregate Excess – limit $5 million per insured.
<u>All Groups:</u> Toprisk Casualty excess of loss 95% Authorized 5% Unauthorized	$20 million excess of $30 million, ultimate net loss, per risk.
<u>Type of Contract</u>	<u>Cession</u>
<u>Construction Division</u> <u>Property:</u> Technical risk variable quota share 97.32% Authorized 2.68% Unauthorized	65% of $100 million (see Diversified Products)
Per risk excess of loss 89.5% Authorized 10.5% Unauthorized	$15 million excess of $10 million (see Diversified Products Division).
Corporate Umbrella excess of loss 90.52% Authorized 9.48% Unauthorized	$50 million excess of $25 million (see Diversified Products Division).
<u>Casualty:</u> Blanket excess of loss 94.74% Authorized 5.26% Unauthorized	95% of $22.5 million excess of $2.5 million, ultimate net loss, each loss occurrence.
Semi-automatic excess of loss 94.74% Authorized 5.26% Unauthorized	95% of $25 million excess of $25 million, ultimate net loss, each loss occurrence.

Since the prior examination, the Company's retention on its property per risk treaties decreased from $3.5 million to $500,000, and its cover increased from $41.5 million to $99.5 million. The percentage of cessions to authorized insurers has increased compared with the prior examination.

The Company’s retention on its property catastrophe treaties increased from $15 million to $75 million, and its cover increased from $72 million to $525 million. The percentage of cessions to authorized insurers has remained consistent during the examination period.

The Company’s retention on its casualty per risk treaties increased from $2.5 million to $5 million, and its cover increased from $17.5 million to $245 million. The percentage of cessions to authorized insurers has increased compared with the prior examination.

iv. <u>All Lines Open Reinsurance Agreement (ALORA)</u>

The Zurich American Insurance Group provides insurance to companies that operate internationally through two units, the Global Unit and the Reverse Flow Unit.

The Global Unit provides insurance to U.S. companies with worldwide exposures through international affiliates of branches of Zurich Insurance Company. Business produced by the Global Unit is assumed by American Guarantee and Liability Insurance Company on a facultative basis, either proportionally or non-proportionally (although generally a 90% quota share of the primary layer), through the ALORA treaty. For property business related to the captive insurance program, the reinsurer is Zurich Global, Ltd., an offshore affiliate of the Zurich Group.

The Reverse Flow Unit provides insurance to foreign companies with U.S. subsidiaries through any of the participants in the intercompany pooling agreement. Business produced by the Reverse Flow Unit is ceded to Zurich Insurance (Bermuda), a Bermuda affiliate, on a facultative basis, either proportionally or non-proportionally (although generally a 90% quota share of the primary layer), through the Reverse ALORA treaty.

Written premiums assumed under the ALORA treaty during 1998 totaled $54,624,000. Written premiums ceded under the Reverse ALORA treaty during 1998 totaled $149,501,000 (combined for all pooled companies). The ALORA agreements were filed with and approved by this Department.

D. Holding Company System

The Company is a wholly-owned subsdiary of Zurich Holding Company of America, a Delaware Holding Company, which is in turn wholly-owned by Zurich Insurance Company (Switzerland). Zurich Insurance Company (Switzerland) is 99.09% owned by Zurich Financial Services, a Swiss holding company, which was formed in September 1998 concurrent with the merger between the financial services business of B.A.T. Industries and Zurich Insurance Company and its subsidiaries.

Zurich Financial Services is owned by two companies; Zurich Allied A.G., a publicly traded Swiss holding company, which owns 57%, and Allied Zurich p.l.c., a publicly traded U.K. holding company, which owns 43%. Zurich Allied A.G. was created as a new holding company for the Zurich Group; it contributed the Zurich Group to the new Group in exchange for 57% of the shares of Zurich Financial Services. Allied Zurich p.l.c. was formed through the de-merger of B.A.T. Industries; it contributed B.A.T. Industries financial services' business to the new Group in exchange for 43% of the shares of Zurich Financial Services.

It is noted that effective January 1, 1999, Zurich American Insurance Company became the owner of 100% of the outstanding shares of Maryland Casualty Company when Zurich Insurance Company contributed its 15.8% ownership and Zurich Holding Company of America contributed its 84.2%

ownership. The transfer of ownership was made concurrent with the adoption of the amended intercompany pooling agreement, which is more fully discussed in Section 2c of this report.

The Zurich Financial Services Group is comprised of seven sub-groups, as follows:

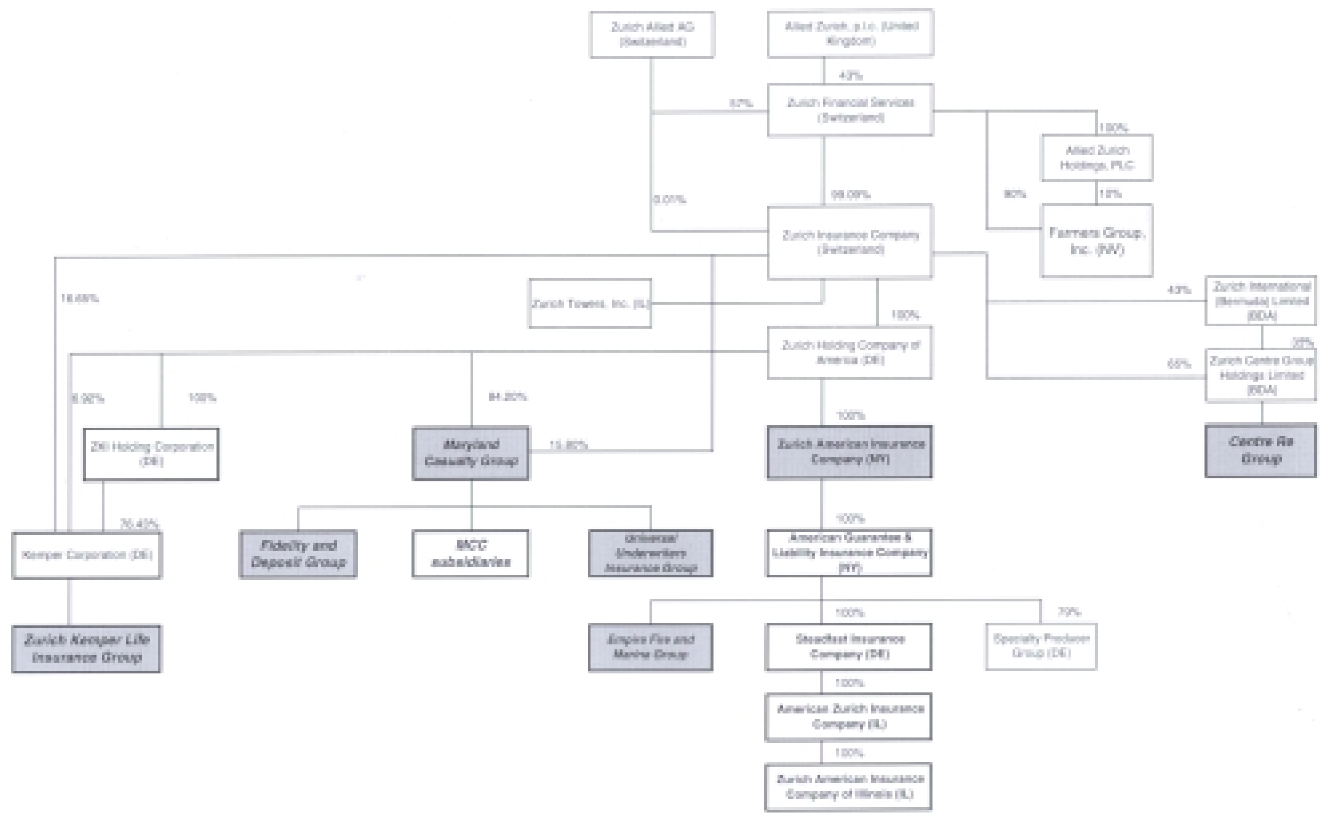
1. Zurich American Insurance Group
2. Empire Fire and Marine Insurance Group
3. Maryland Insurance Group
4. Fidelity and Deposit Group
5. Universal Underwriters Insurance Group
6. Zurich Kemper Life Insurance Group
7. Centre Reinsurance Holdings (Delaware) Limited

The following charts depict the chain of ownership of the U.S. affiliates in the Zurich Financial Services Group at December 31, 1998. The first page represents an abbreviated chart of the entire holding company system, with each of the seven sub-groups comprising the holding company summarized in one square (highlighted in gray). The subsequent seven pages represent expanded holding company charts for each of the highlighted sub-groups.

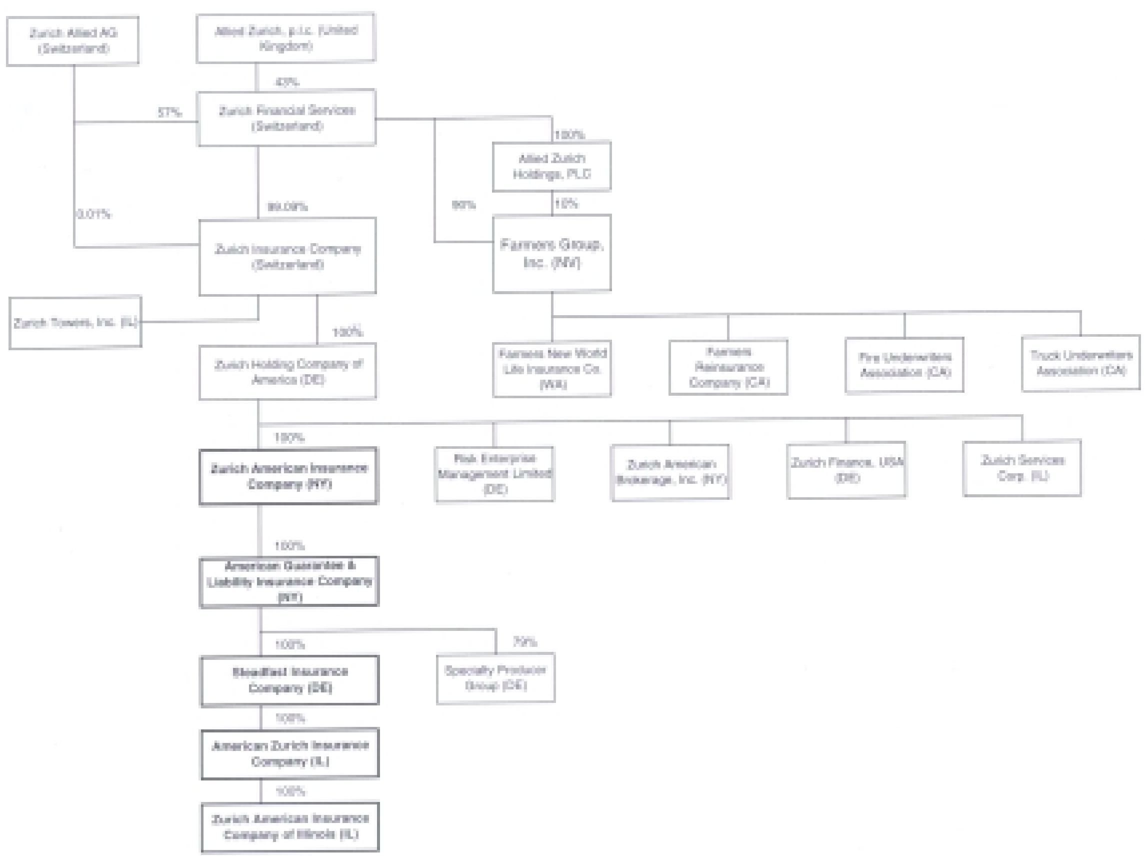
Zurich Financial Services Group

Abbreviated Holding Company Chart

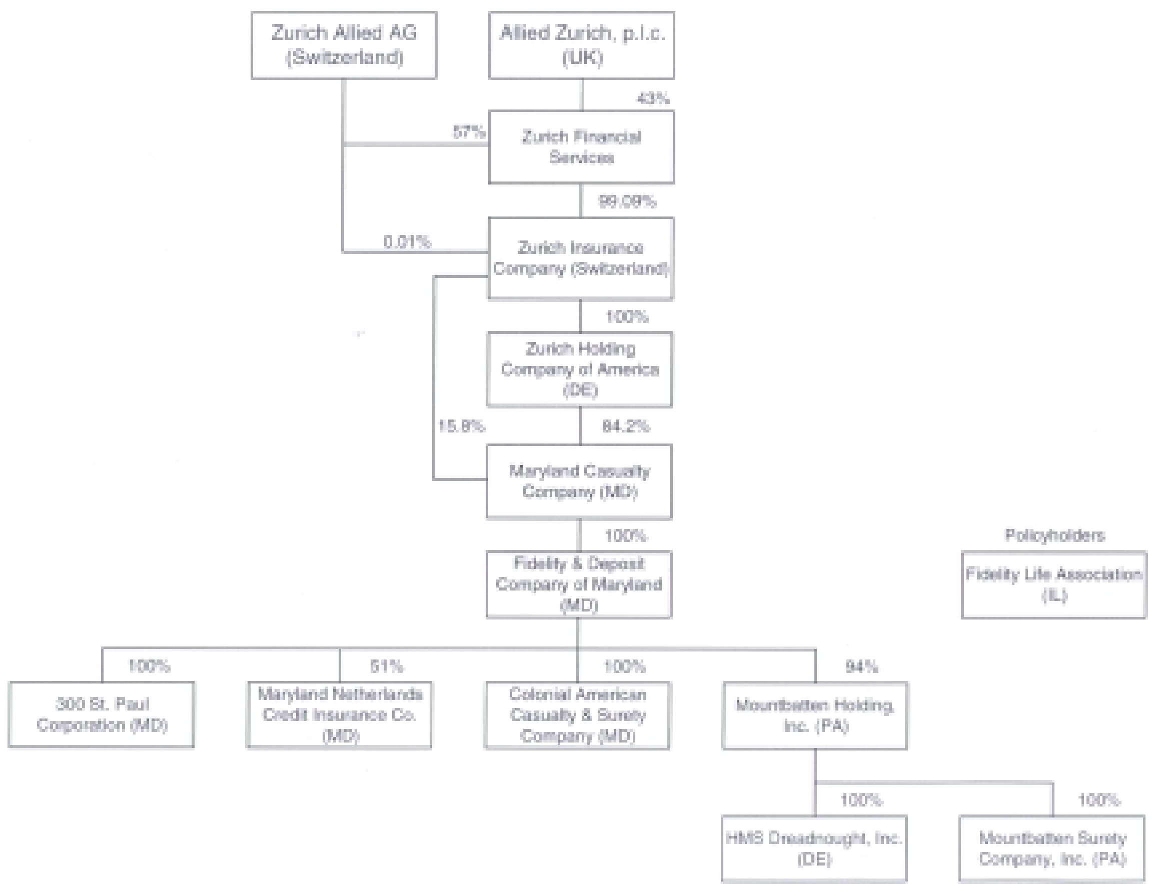
As of December 31, 1998



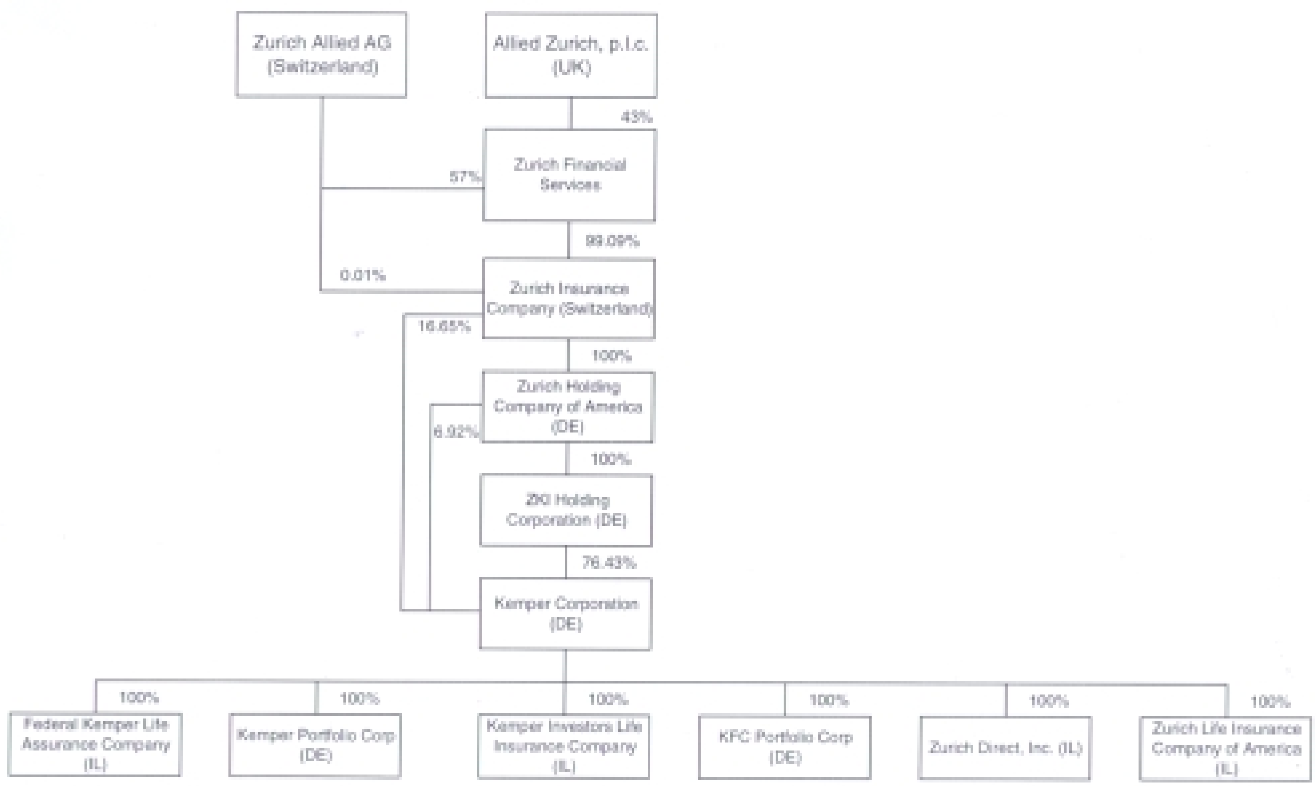
Zurich-American Insurance Group



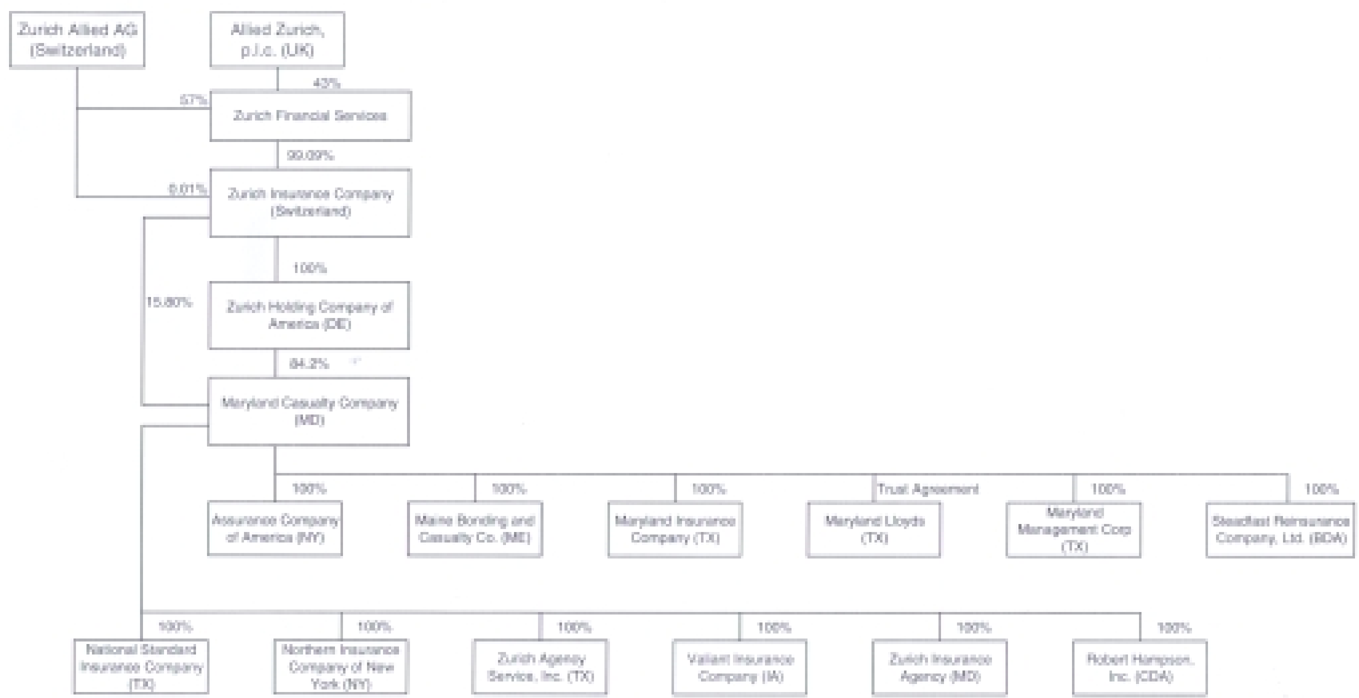
Fidelity and Deposit Group



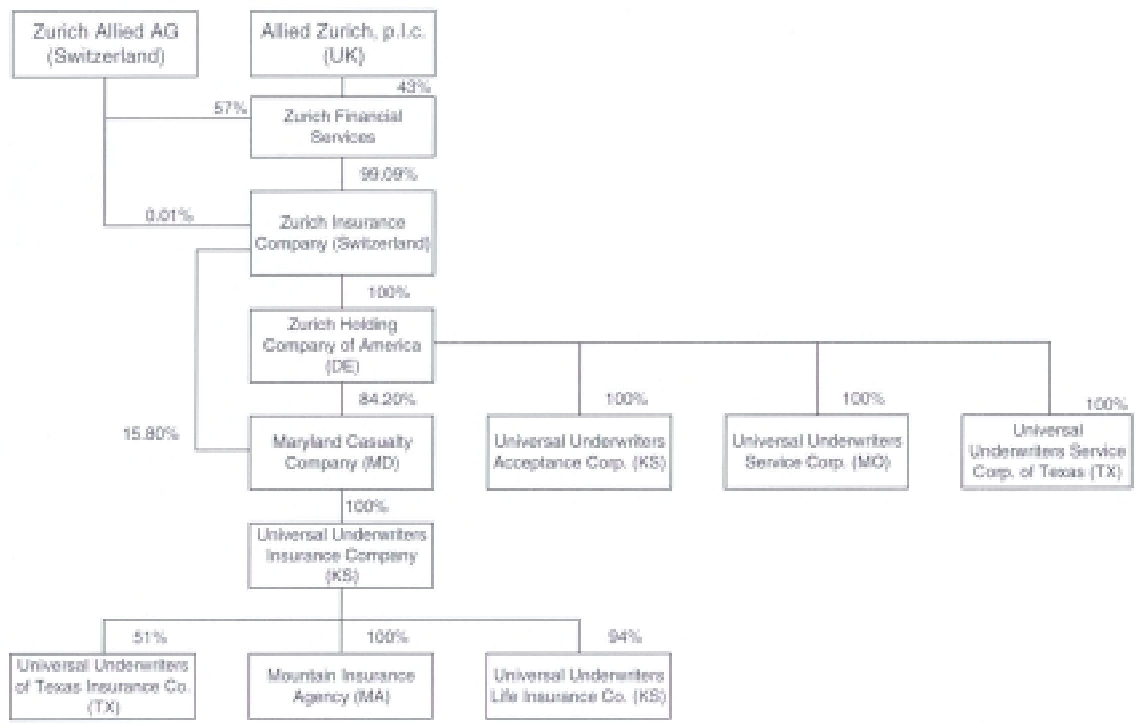
Zurich Kemper Life Insurance Group



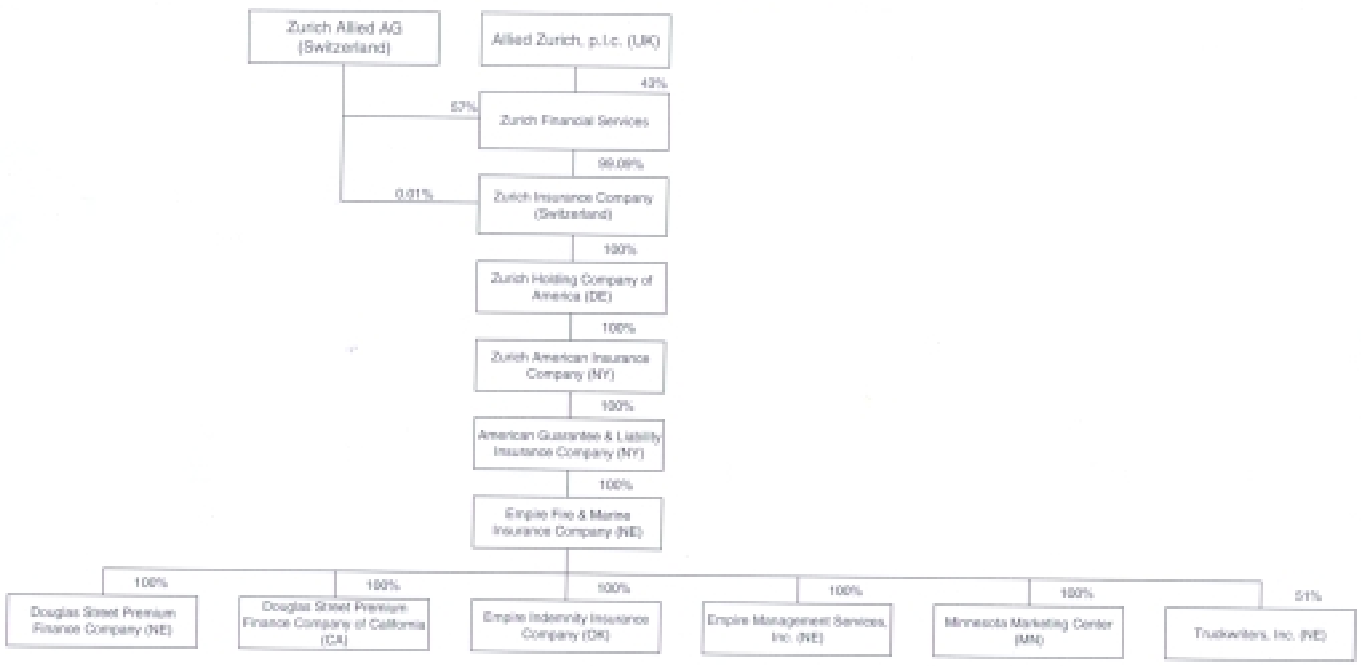
Maryland Insurance Group



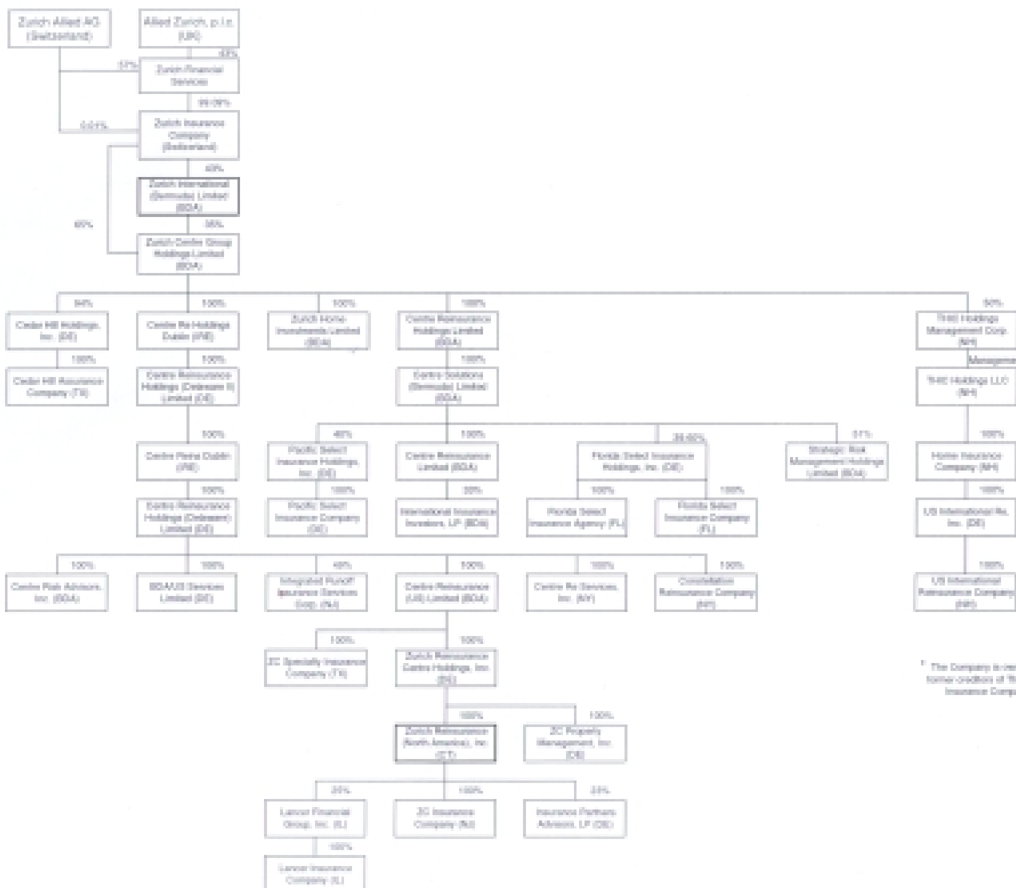
Universal Underwriters Insurance Group



Empire Fire & Marine Insurance Group



Centre Reinsurance Holdings (Delaware) Limited



* The Company is owned by the former creditors of The Home Insurance Company.

At December 31, 1998, the Company was party to the following intercompany agreement with several of its affiliates:

Apportionment of Expense Agreement

Effective January 1, 1982, ZHCA provides some or all of the business operations of its subsidiaries through the organization and staff of Zurich American Insurance Company in the following areas: investments, planning, auditing, management, taxes, actuarial, budgeting, legal, claims, loss control, accounting, data processing, underwriting, personnel, administration, and other functions. At December 31, 1998, the affiliated parties to this agreement were as follows:

American Guarantee and Liability Insurance Company
Zurich American Insurance Company of Illinois
American Zurich Insurance Company
Steadfast Insurance Company
Atlas General Agency, Inc.
Empire Fire and Marine Insurance Company
Universal Underwriters, Inc.
Maryland Casualty Company
Zurich-American Brokerage
Zurich Global, Ltd.
Vistar Risk Management Services
F&D Holding Corporation
Zurich Direct, Inc.
Zurich Life Insurance Company of America

Expenses are apportioned to each of the companies as follows:

- Federal Income Taxes: Apportioned pursuant to the Tax Sharing Agreement

- Investment Expenses: Each company will pay those investment expenses directly identifiable to its portfolio. Indirect expenses will be allocated based on a study of weighted investment transactions or other generally accepted cost allocation methods.

- Operating Expenses: Each company will pay its own directly identifiable operating expenses.

- Other Claim or Operating Expenses: Will be allocated in accordance with generally accepted practices of cost allocation.

- Expenses other than investment expenses and state income taxes of American Guarantee and Liability Insurance Company, Zurich American Insurance Company of Illinois, American Zurich Insurance Company, and Steadfast Insurance Company will be apportioned according to the Intercompany Pooling Agreement.

This agreement was submitted to and approved by this Department.

Tax Sharing Agreement

Effective January 1, 1981, Zurich Holding Company of America, Inc. ("ZHCA") files consolidated Federal income tax returns with certain affiliates. The Company became a party to this agreement in 1999, upon the domestication of the US Branch. Prior to that time, the US Branch filed its own separate Federal income tax return with the Internal Revenue Service.

Pursuant to the terms of this agreement, each company pays a proportionate share of the consolidated tax liability based on the percentage of each company's taxable income to the total taxable income of the group, not to exceed the total tax liability of such member computed on a separate return basis. This agreement was submitted to and approved by this Department.

Reinsurance Ceded to Affiliates

The following is a list of reinsurance agreements in effect at December 31, 1998, in which an affiliated company participated 10% or more.

Corporate Program:

1. Property Catastrophe excess of loss – 5th layer ($200 million excess of $400 million), effective January 1, 1998: Zurich Reinsurance (North America), Inc. ("ZRNA") participates 40%.

2. Property Catastrophe Gap excess of loss – (4 layers, $325 million excess of $75 million), effective January 1, 1998: ZRNA participates 15%. This treaty was submitted to and approved by this Department.

3. Casualty Catastrophe excess of loss – 1st layer ($5 million excess of $5 million), effective January 1, 1997 to January 1, 2000: Zurich International (Bermuda) ("ZIB") participates 15%.

Diversified Products:

4. Umbrella Property Per Risk excess of loss ($50 million excess of $25 million), effective July 1, 1998: ZRNA participates 10%.

5. Global Property excess of loss ($50 million excess of $75 million), effective July 1, 1998: ceded 100% to ZRNA.

6. International Property Catastrophe 2nd excess of loss ($25 million excess of $50 million), effective July 1, 1998: ZRNA participates 10%.

7. Jewelers Block quota share (75% of $5 million), effective January 1, 1998: ZRNA participates 25%.

8. Global Energy quota share (95% of $125 million), effective April 1, 1996: ceded 100% to ZIB.

9. Ocean Marine quota share (40% of $25 million), effective July 1, 1998: ZRNA participates 25%.

Specialties Division:

10. Railroad Liability quota share (80% of up to $25 million, 85% of $25 million to $30 million), effective October 1, 1998: ZRNA participates 23.53%.

11. Environmental 1st excess of loss (95% of $8 million excess of $2 million), effective April 1, 1998: ZRNA participates 10%.

12. Environmental 2nd excess of loss (90% of $40 million excess of $10 million), effective April 1, 1998: ZRNA participates 10%.

13. Directors and Officers Liability quota share (25% up to $5 million + 100% over $5 million to $30 million), effective November 1, 1998: ZRNA participates 14.6%

14. Political Risk quota share (90% of $50 million), effective December 15, 1997: ZRNA participates 15%.

15. Healthcare Professional primary quota share (32.5% of $1 million), effective July 1, 1998: ZIB participates 15.38% (5% of 32.5%)

16. Healthcare Professional 1st excess of loss (45% of $5 million excess of primary), effective July 1, 1998: ZIB participates 11.11% (5% of 45%).

17. Provider Excess quota share, effective January 1, 1998: 100% ceded to ZRNA.

Other than as noted, the above agreements were not submitted to this Department prior to their implementation. Pursuant to Section 1505(d)(2) of the New York Insurance Law, a domestic controlled insurer may not enter into any reinsurance treaties or agreements with any person in its holding company system "unless the insurer has notified the superintendent in writing of its intention to enter into any such transaction at least thirty days prior thereto, or such shorter period as he may permit, and he has not disapproved it within such period." Further, Part 80-1.5(a) of New York Regulation 52 states that "notices of proposed transactions pursuant to Section 1505(d) of the New York Insurance Law shall be accompanied by descriptions of the essential features of such transactions, which are reasonably adequate to permit proper evaluation thereof by the superintendent." Based on discussions between the Company and this Department in 1996, this Department and the Branch agreed that reinsurance agreements where the affiliate is not the lead reinsurer and where the affiliate participates less than 10% did not have to be submitted prior to implementation. The Company did not adhere to this agreement.

In order to comply with Section 1505(d)(2) of the New York Insurance Law and Part 80-1.5 of Department Regulation 52, it is recommended that the Company file with this Department the applicable cover notes for any reinsurance agreement where a related party's participation is 10% or more. Such filing is to be made within thirty days after the agreement's effective date. The complete related party reinsurance contract should be forwarded to this Department within thirty days of ratification, however, the filing should be no later than nine months after the effective date of the agreement.

Additionally, the Company is reminded that while related party facultative agreements need not be individually submitted for each risk, the Company is required to file the master facultative reinsurance agreement thirty days prior to entering into such an arrangement. Further, the Company should submit a list of all facultative reinsurance slips entered into with related parties pursuant to the master facultative reinsurance agreement with its annual holding company filing statement.

Prior to January 1, 1998, the Company utilized Alplina Insurance Company (Switzerland) ("Alpina") and Turegum Insurance Company (Switzerland) ("Turegum"), for the majority of its cessions

to affiliates. Effective January 1, 1998, the Company executed a transfer and assumption agreement whereby all of the reinsurance obligations previously ceded to Alpina and Turegum were transferred to, and assumed by, Zurich International (Bermuda) Ltd. The transfer and assumption agreement was submitted to and approved by this Department.

E. Accounts and Records

i. Record Retention

It was noted during the examination that the Company's documentation to support the amounts reported as losses and loss adjustment expenses paid were maintained at claim level, but not check level detail.

While summary reports may support the dollar amounts reported in the annual statement, they do not reflect all information contained in the original record, as required by Part 243.2(b)(8) of New York Regulation 152, which states, in part:

> (b) Except as otherwise required by law or regulation, an insurer shall maintain:
>
> (8) **Any other record** for six calendar years from its creation or until after the filing of the report on examination or the conclusion of an investigation in which the record was subject to review. (Emphasis added)

Part 243.3(a)(1) of Regulation 152 states that "Records and indices of records required to be maintained under this part may be maintained in any durable medium".

It is recommended that the Company maintain periodic back-ups at check level detail, in magnetic form, of all information contained in its database, in unadulterated form, to support the amounts reported in its annual and quarterly statements, pursuant to Part 243 of New York Regulation 152.

ii. Booked as Billed Premiums

The Company records premium on certain policies using a booked as billed ("BAB") accounting method. Policies subject to this method are all auditable premiums that are billed on an installment basis including:

Lines of Business	Exposure Base
Workers' Compensation	Payroll
General Liability	Sales (Generally)
Commercial Auto (Liability and Physical Damage)	Inventory of covered vehicles, including make of, use of, and location of vehicles (Generally)
Commercial Multiple Peril	Sales (Generally)
Inland Marine	Property/Inventory values (Generally); Cargo Carrier – truck receipts
Other Property including Personal Auto	Property/Inventory values (Generally)

Policies with a fixed premium, regardless of whether or not they are billed on an installment basis, are not subject to BAB adjustment. Additionally, if the estimated annual premium on an auditable policy is paid in advance, the premium is not subject to BAB adjustment.

The Company records an estimate of the annual premium at the inception of the policy. At year-end the Company makes a BAB adjustment to the applicable policies which is limited to the lesser of the unearned or the unbilled premium. The BAB adjustment has no effect on the earned premiums reported by the Company and the adjustment will never exceed the unearned premium on any policy.

This accounting method appears to be allowed for workers' compensation policies pursuant to paragraph 4 of SSAP 53 of the Accounting Practices and Procedures Manual of the National Association of Insurance Commissioners which states: "For workers' compensation contracts, which have a premium

that may periodically vary based upon changes in the activities of the insured, written premiums may be recorded on an installment basis to match the billing to the policyholder. Under this type of arrangement, the premium is determined and billed according to the frequency stated in the contract, and written premium is recorded on the basis of that frequency." This SSAP does not make provision for this method of accounting for any lines of business other than workers' compensation.

At December 31, 1998, the total BAB adjustment to the consolidated group net of all reinsurance was $209,110,023.24. The Company provided an allocation by line of business of the BAB adjustment net of reinsurance (other than the whole account quota share treaty), which totaled $222,263,134 as follows:

	Amount
Workers Compensation	$ 92,372,983
General Liability	104,857,314
Commercial Auto Liability	17,789,223
Commercial Auto Physical Damage	3,783,333
Boiler and Machinery	147,656
Fidelity	60,376
Glass	97
Burglary and Theft	27,918
Fire	48,984
Commercial Multiple Peril	2,756,598
Earthquake	26,849
Inland Marine	282,333
Group Accident and Health	109,471
Total	$222,263,134

Had the Company reported only the workers' compensation premiums on a booked as billed basis, it would have resulted in a net liability of approximately $10,818,969 for the consolidated group, as follows:

Item	Net asset/(liability)
Direct premiums written	$155,600,975
Ceded premiums written	(33,397,477)
Direct unearned premiums	(155,600,975)

Item	Net asset/(liability)
Ceded unearned premiums	33,397,477
Direct commissions	(13,304,717)
Ceded commissions	6,854,527
Premium taxes	(4,368,780)
Net liability due to BAB premiums	$(10,818,969)

No examination change is reflected in the balance sheet of this report on examination for this item due to immateriality, however, it is recommended that the Company report only applicable workers' compensation premiums on a booked as billed basis pursuant to SSAP 53 of the Accounting Practices and Procedures Manual of the National Association of Insurance Commissioners.

iii. Letters of Credit with Multiple Applicants

The Company is the beneficiary of two letters of credit totaling $455,950,000 that list multiple foreign affiliated reinsurers as applicants. These letters of credit were used to reduce the Company's liability for unauthorized reinsurance. The cessions to these foreign affiliated reinsurers represent the Company's "global" business, which consists of European insureds with operations in the U.S. The Company underwrites the U.S. coverage and then cedes up to 90% to an unauthorized affiliate from the country of origin of the insured.

The Company stated that Zurich Insurance Company, Switzerland (ZIC) determines the amount of credit needed for these affiliated reinsurers and has each reinsurer pay their portion of the total letter of credit. The Company indicated the reasons for using one letter of credit for all foreign affiliates rather than one for each are operating efficiency and cost savings. There is nothing in the letter of credit to indicate the amount of credit allocated to each of the reinsurers.

The Department will allow letters of credit with multiple applicants as long as the applicants are affiliates of the Company. It is recommended that the Company prepare schedules showing the allocation of the amount of the letters of credit to each of the applicants, which should be updated quarterly. The schedules should be available for examination review.

F. Significant Operating Ratios

The following ratios have been computed as of December 31, 1998, based upon the results of this examinations:

Net premiums written in 1998 to Surplus as regards policyholders	0.67 :1
Liabilities to liquid assets	102.37%
Agents' balances to Surplus as regards policyholders	28.19%

All of the above ratios fall within the benchmark ranges set forth in 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 five-year period covered by this examination:

	Amounts	Ratios
Losses incurred	$ 3,630,967,023	65.60%
Loss adjustment expenses incurred	1,274,234,070	23.02
Other underwriting expenses incurred	1,520,311,302	27.47
Underwriting gain/(loss)	(890,513,248)	(16.09)
Premiums earned	$ 5,534,999,147	100.00%

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities, and surplus as regards policyholders as determined by this examination as of December 31, 1998. It is the same as that reported by the Company:

Assets	Ledger Assets	Non-Ledger Assets	Not-Admitted Assets	Admitted Assets
Bonds	$3,091,450,594	$	$	$3,091,450,594
Preferred stocks	943,250	263,800		1,207,050
Common stocks	919,146,499	325,488,530		1,244,635,029
Cash and short-term investments	399,268,749			399,268,749
Other invested assets	32,632,124			32,632,124
Receivable for securities	15,607,995			15,607,995
Premiums and agents' balances in course of collection	173,289,760		40,405,207	132,884,553
Premiums, agents' balances and installments booked but deferred and not yet due	60,881,898			60,881,898
Accrued retrospective premiums	101,591,197	92,254,848	14,366,523	179,479,522
Bills receivable taken for premiums	109,803		9,474	100,329
Reinsurance recoverable on loss and loss adjustment expense payments	189,748,629			189,748,629
Electronic data processing equipment	18,899,622			18,899,622
Fed Inc Tax recover and int thereon		19,065,190		19,065,190
Guaranty fund receivable or on deposit	1,656,552			1,656,552
Interest, dividends and real estate income due and accrued		42,911,358		42,911,358
Receivable from parent, subsidiaries and affiliates	60,707,046		1,115,718	59,591,328
Equities and deposits in pools & associations	35,261,807	12,274,438		47,536,245
Other assets nonadmitted	34,220,572		34,220,572	
Aggregate write-ins for other than invested assets	226,568,873		5,244,694	221,324,179
Total Assets	$5,361,984,970	$ 492,258,164	$ 95,362,188	$5,758,880,946

Liabilities, surplus and other funds

Losses and loss adjustment expenses	$3,154,375,890
Reinsurance payable on paid loss and loss adjustment expenses	13,416,306
Contingent commissions	5,478,033
Other expenses	74,724,500
Taxes, licenses and fees	16,461,827
Unearned premiums	523,275,250
Dividends declared and unpaid	3,055,986
Funds held by companies under reinsurance treaties	188,620,581
Amounts withheld for account of others	59,686,034
Provision for reinsurance	53,971,340
Net adj due to foreign exchange rates	1,144,746
Drafts outstanding	112,862
Aggregate write-ins for liabilities	17,248,348
Total Liabilities	$ 4,111,571,703
Surplus	
Aggregate write-ins for special surplus	$ 2,628,428
Capital stock	5,000,000
Surplus notes*	100,000,000
Gross paid in and contributed surplus	501,310,851
Unassigned funds	1,038,369,964
Surplus as regards policyholders	$ 1,647,309,243
Total liabilities, surplus and other funds	$ 5,758,880,946

Note:

* No liability appears in the balance sheet for a loan in the amount of $100,000,000. This loan was granted pursuant to Section 1307 of the New York Insurance Law. As provided in Section 1307, repayment of principal and interest shall only be made out of free and divisible surplus, subject to the prior approval of the Superintendent of Insurance of the State of New York.

The Internal Revenue Service has completed its audits of the Company's consolidated federal income tax returns through tax year 1993. All material adjustments, if any, made subsequent to the date of examination and arising from said audits are reflected in the financial statements included in this report. Audits covering tax years 1994 through 1996 are currently under examination. Audits covering tax years 1997 through 1998 have yet to commence. The Internal Revenue Service sent notices of proposed adjustments for tax years 1991, 1992 and 1993 totaling approximately $3 million, which the Company is protesting. No contingent tax liability has been established herein, due to the immateriality of the proposed adjustments.

B. Underwriting and Investment Exhibits

Surplus as regards policyholders increased $1,003,674,538 during the period from January 1, 1994 through December 31, 1998, detailed as follows:

Statement of Income

Underwriting Income		
Premiums earned		$ 5,534,999,146
Deductions:		
Losses and loss expenses incurred	$ 4,905,201,095	
Other underwriting expenses incurred	1,520,311,301	
Total underwriting deduction		6,425,512,396
Net underwriting gain or (loss)		$ (890,513,250)
Investment Income		
Net investment income earned	$ 1,062,445,399	
Net realized capital gains or (losses)	493,577,612	
Net investment gain or (loss)		1,556,023,011
Other Income		
Net gain or (loss) from agents' premium balances charged off	$ (9,991,013)	
Finance and service charges	1,053,421	
Aggregate write-ins for miscellaneous income	(4,028,129)	
Total other income		$ (12,965,721)
Net income before dividends to policyholders and Fed & foreign Income Taxes		$ 652,544,040
Dividends to policyholders		26,979,087
Net income before federal income taxes		$625,564,953
Federal income taxes		99,931,752
Net income		$ 525,633,201

<u>Capital and Surplus Accounts</u>

	Gains in Surplus	Losses in Surplus	
Surplus as regards policyholders, per report on examination as of December 31, 1993			$ 643,634,705
Net income (loss)	$525,633,201		
Net unrealized capital gains	262,543,065		
Change in not admitted assets		44,179,393	
Change in provision for reinsurance		31,574,597	
Change in foreign exchange adjustment		304,887	
Change in surplus notes		62,500,00	
Capital paid in	5,000,000		
Surplus paid in	501,310,851		
Net remittances to/from HO		253,555,299	
Aggregate write in for gains/losses surplus	101,301,597		
Total gains and losses	$1,395,788,714	$392,114,176	
Net increase in surplus as regards policyholders			1,003,674,538
Surplus as regards policyholders, per report on examination As of December 31, 1998			$1,647,309,243

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liabilities for losses and loss adjustment expenses of $2,338,451,679 and $815,924,211, respectively are the same amounts reported by the Company in its filed annual statement as of December 31, 1998.

The captioned liabilities were calculated in accordance with generally accepted actuarial principles and practices and was based upon statistical information reflected in the Company's internal records reconciled to the data contained in the Company's 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 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 more precise scope of a market conduct examination, which is the responsibility of the Property Bureau's Market Conduct Unit of this Department.

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

1. Sales
2. Underwriting
3. Rating
4. Advertising

No problem areas were encountered.

6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

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

ITEM	PAGE NO.
1. Intercompany pooling agreement	
It was recommended that management adhere to its commitment made to this Department relative to Steadfast Insurance Company operating as an excess lines carrier in this State.	10
The Company was subsequently released from this commitment by this Department.	
2. Schedule Y	
It was recommended that the Company include worldwide subsidiaries of Zurich Insurance Company, Switzerland in future filed organization charts.	25-26
This Department agreed that a listing of worldwide affiliates need only be furnished on an annual basis with the Company's holding company filing. The Company has complied with this recommendation.	
3. Expense Sharing Agreement	
It was recommended that the Company submit to the Superintendent any amendments to its expense sharing agreement in compliance with the provisions of Section 1505(d)(3) of the New York Insurance Law.	27
The Company has complied with this recommendation.	
4. Reinsurance Agreements with Affiliates	
It was recommended that the Company notify the Superintendent in writing at least thirty days prior to entering into any reinsurance agreements with an affiliate pursuant to Section 1505(d)(2) of the New York Insurance Law and Part 80-1.5 of New York Regulation 52.	29
The Company has not complied with this recommendation; a similar recommendation is contained herein.	

ITEM		PAGE NO.
5.	Credit Agreement	
	It was commented that the Company appeared to have violated Section 1505(d)(1) of the New York Insurance Law by making an indirect loan to ZHCA, enabling ZHCA to obtain a reduced rate of interest for its borrowing.	
	The Company no longer holds the commercial paper used to fund the commercial paper loans of Zurich Holding Company of America. Therefore, this comment is no longer applicable.	

6. SUMMARY OF COMMENTS AND RECOMMENDATIONS

ITEM			PAGE NO.
A.	Management		
	i.	Board of Directors' Meetings	
		It is recommended that the Company hold regular meetings of its board of directors and amend its by-laws to restrict the use of unanimous written consent in lieu of regular meetings to emergency situations only.	6
	ii.	Actions of the Executive Committee	
		It is recommended that the actions of the executive committee be reported to the board of directors at its next meeting, pursuant to Article III Section 3 of the Company's by-laws.	7
	iii.	Approval of Investments	
		It is recommended that the board of directors approve all investment transactions made by the Company and that the minutes include a listing of the transactions so approved, pursuant to Section 1411(a) of the New York Insurance Law.	7

ITEM			PAGE NO.
B.	Reinsurance		
	i.	It is recommended that the Company maintain all reinsurance contracts and related underwriting files readily available for examination review.	14
	ii.	It is recommended that the Company file with this Department the applicable cover notes for any reinsurance agreement where a related party's participation is 10% or more. Such filing is to be made within thirty days after the agreement's effective date. The complete related party reinsurance contract should be forwarded to this Department within thirty days of ratification, however, the filing should be no later than nine months after the effective date of the agreement.	35
	iii.	The Company is required to file the master facultative reinsurance agreement thirty days prior to entering into such an arrangement. Further, the Company should submit a list of all facultative reinsurance slips entered into with related parties pursuant to the master facultative reinsurance agreement with its annual holding company filing statement.	35
C.	Accounts and Records		
	i.	Record Retention	
		It is recommended that the Company maintain periodic back-ups at check level detail, in magnetic form, of all information contained in its database, in unadulterated form, to support the amounts reported in its annual and quarterly statements, pursuant to Part 243 of New York Regulation 152.	36
	ii.	Booked as Billed Premiums	
		It is recommended that the Company report only applicable workers' compensation premiums on a booked as billed basis, pursuant to SSAP 53 of the Accounting Practices and Procedures Manual of the National Association of Insurance Commissioners.	38
	iii.	Letter of Credits with Multiple Applicants	

It is recommended that the Company prepare schedules showing the allocation of the amount of the letters of credit of each applicant. The schedules should be updated quarterly and be available for examination review. 39

Respectfully submitted

/S/
James Masterson, CFE
Principle Insurance Examiner

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

JAMES MASTERSON, 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 Masterson

Subscribed and sworn to before me

this _____ day of _________ 2001.

Appointment No 21444

STATE OF NEW YORK
INSURANCE DEPARTMENT

I, NEIL D. LEVIN *, Superintendent of Insurance of the State of New York, pursuant to the provisions of the Insurance Law, do hereby appoint:*

James Masterson

as proper person to examine into the affairs of the

Zurich American 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 29th *day of* July, 1999

NEIL D. LEVIN
Superintendent of Insurance