REPORT ON EXAMINATION

OF

ADIRONDACK INSURANCE EXCHANGE

AS OF

DECEMBER 31, 2017

DATE OF REPORT	MAY 9, 2019
EXAMINER	LEE R. PROWELL

TABLE OF CONTENTS

ANDREW M. CUOMO
Governor

LINDA A. LACEWELL
Acting Superintendent

May 9, 2019

Honorable Linda A. Lacewell
Acting Superintendent
New York State Department of Financial Services
Albany, New York 12257

Madam:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 31793 dated June 26, 2018**,** attached hereto, I have made an examination into the condition and affairs of Adirondack Insurance Exchange as of December 31, 2017, and submit the following report thereon.

Wherever the designation "the Exchange" appears herein without qualification, it should be understood to indicate Adirondack Insurance Exchange.

Wherever the term "Department" appears herein without qualification, it should be understood to mean the New York State Department of Financial Services.

The examination was conducted at the Exchange's administrative office located at 5630 University Parkway, Winston-Salem, North Carolina 27102.

1. SCOPE OF EXAMINATION

The Department has performed an examination of the Exchange, a single-state insurer. The previous examination was conducted as of December 31, 2013. This examination covered the four-year period from January 1, 2014 through December 31, 2017. Transactions occurring subsequent to this period were reviewed when deemed appropriate by the examiner.

The examination was conducted in conjunction with the State of North Carolina, which was the facilitating state of the National General Holding Group ("NGHG"). Delaware was the lead state of NGHG, as well as its other sub-group, AmTrust Group. The examination was performed concurrently with the examinations of the following insurers:

Direct General Life Insurance Company (SC)
Direct General Insurance Company (TN)
Direct National Insurance Company (AR)
Imperial Fire and Casualty Insurance Company (LA)
Century National Insurance Company (CA)
Integon Casualty Insurance Company (NC)
Integon General Insurance Company (NC)
Integon Indemnity Corporation (NC)
Integon Preferred Insurance Company (NC)
Integon National Insurance Company (NC)
MIC General Insurance Corporation (MI)
Mountain Valley Indemnity Company (NY)
National General Assurance Company (MO)
National General Insurance Company (MO)
National General Insurance Online, Inc. (MO)
National General Premier Insurance Company (CA)
National Health Insurance Company (TX)
New Jersey Skylands Insurance Association (NJ)
New Jersey Skylands Insurance Company (NJ)
New South Insurance Company (NC)
Standard Property & Casualty Insurance Company (LA)

Other states participating in this examination were: Arkansas, California, Illinois, Louisiana, Michigan, Missouri, New Jersey, South Carolina, Tennessee and Texas.

This examination was conducted in accordance with the National Association of Insurance Commissioners ("NAIC") Financial Condition Examiners Handbook ("Handbook"), which requires that we plan and perform the examination to evaluate the financial condition and identify current and prospective risks of the Exchange by obtaining information about the Exchange including corporate governance, identifying and assessing inherent risks within the Exchange, and evaluating system controls and procedures used to mitigate those risks. This examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, and management's compliance with New York laws, statutory accounting principles, and annual statement instructions.

This examination report includes, but is not limited to, the following:

Exchange history
Management and control
Territory and plan of operation
Reinsurance
Holding company description
Financial statement presentation
Loss review and analysis
Summary of recommendations

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

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

2. DESCRIPTION OF EXCHANGE

Adirondack Insurance Exchange was incorporated under the laws of the State of New York on June 30, 2003. It became licensed on May 25, 2006 and commenced business on the same date. The Exchange was organized by White Mountains Insurance Group, Ltd., Bermuda ("White Mountains") with an initial surplus to policyholders of $70,700,000. The initial surplus was provided by Homeland Insurance Company of New York ("HICNY"), a subsidiary of White Mountains, pursuant to a loan agreement conforming to Section 1307 of the New York Insurance Law, which provides that such loan may only be repaid out of free and divisible surplus of such insurer with the approval of the Superintendent.

On July 1, 2010, Tower Group, Inc. ("TGI") acquired the personal lines companies of OneBeacon Insurance Group, a subsidiary of White Mountains, which included the Exchange and its attorney-in-fact, Adirondack AIF, LLC (the "Attorney-in Fact"). In conjunction with the sale, the surplus note issued by HICNY was cancelled, and replacement notes in the aggregate amount of $70,700,000 were issued by the Exchange to various affiliated insurance companies of TGI.

On February 1, 2012, the Exchange purchased Mountain Valley Indemnity Company ("MVIC") from affiliate Preserver Group, Inc. ("PGI") for $19.4 million, which represented MVIC's adjusted statutory surplus as of January 31, 2012.

On September 15, 2014, National General Holding Corp. ("NGHC") acquired the Attorney-in-Fact in a transaction approved by the Department. Pursuant to the transaction, NGHC is currently the ultimate controlling entity of the Attorney-in-Fact.

A. Corporate Governance

The Exchange does not have a board of directors. Pursuant to the Exchange's rules of the Advisory Committee, the original subscribers and the Attorney-in-Fact designated an Advisory Committee, which has ultimate power and responsibility in the management and control of the affairs of the Exchange. The Advisory Committee shall consist of at least nine and no more than 12 persons elected by the subscribers, at least two-thirds of whom are subscribers or officers or directors of subscribers, and not more than one-third of whom may be the Attorney-in-Fact; or an employee, officer, director, or affiliate of the Attorney-in-Fact; or any person having a financial interest in the Attorney-in-Fact.

At December 31, 2017, the Advisory Committee was comprised of the following nine members:

Name and Residence	Principal Business Affiliation
Louis Atti Angola, NY	Vice President and Chairman, The Evans Agency
Brian Connors Williamsville, NY	Vice President, Underwriting, National General Management Corporation
Thomas A. Dickerson, Mattituck, NY	President, Roy H. Reeve Agency, Inc

Name and Residence	Principal Business Affiliation
Deb Franklin Chicago, IL	Senior Vice President, National General Management Corporation
Peter Harris Williamsville, NY	President, The Northwoods Corporation
Andrew McGuire Chicago, IL	President, National General Management Corporation
Todd Rockefeller Rye Brook, NY	Principal, BNC Insurance Agency
Neal L. Sullivan Mahopac, NY	Chief Executive Officer and President, Sullivan Insurance
Steve Zogby New Hartford, NY	Executive Vice President, Scalzo, Zogby & Wittig, Inc.

A review of the minutes of the Advisory Committee's meetings held during the examination period indicated that the annual meetings were generally well attended and each member had an acceptable record of attendance. However, the investment transactions for the years under examination were not approved by the Advisory Committee, as prescribed by the rules of the Advisory Committee.

It is recommended that the Exchange comply with the rules of the Advisory Committee and have all the investment transactions reviewed and approved by the Advisory Committee.

Through an insurance management agreement with the Attorney-in-Fact, daily management of the Exchange is vested in the Attorney-in-Fact. As of December 31, 2017, the principal officers of the Attorney-in-Fact were:

Name	Title
Andrew Vincent McGuire	President
Jeffrey Allen Weissmann	Secretary
Peter Andrew Rendall	Treasurer
Michael Hal Weiner	Chief Financial Officer
Brad Michael Schock	Vice President, Tax

B. Territory and Plan of Operation

As of December 31, 2017, the Exchange was licensed to write business in New York only.

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

Paragraph	Line of Business
4	Fire
5	Miscellaneous property
6	Water damage
7	Burglary and theft
8	Glass
11	Animal
12	Collision
13	Personal injury liability
14	Property damage liability
17	Credit
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine
21	Marine protection and indemnity
22	Residual value
26	Gap

Based upon the lines of business for which the Exchange is licensed and pursuant to the requirements of Articles 13, 41 and 61 of the New York Insurance Law, the Exchange is required to maintain a minimum surplus to policyholders in the amount of $9,900,000.

The following schedule shows the direct and assumed premiums written by the Exchange for the period under examination:

Calendar Year	Direct Premiums	Assumed Premiums	Total Gross Premiums
2014	$167,252,390	$ 1,451,013	$168,703,403
2015	$149,202,719	$ 82,974,672	$232,177,391
2016	$161,187,791	$ 91,186,257	$252,374,048
2017	$187,045,342	$118,665,557	$305,710,899

The major lines of business written by the Exchange are homeowners multi-peril, private passenger auto liability and auto physical damage, which accounted for approximately 43%, 32%, and 17%, respectively, of the 2017 direct written premiums. The Exchange writes business through approximately 817 independent agents located throughout New York State.

Due to the large reinsurance program and pooling agreement (both described in section 2C of this report), the net exposure of the Exchange is significantly different than its direct and assumed exposure.

C. Reinsurance Ceded

Inter-company Pooling Agreement

Effective January 1, 2012, the Exchange entered into an inter-company pooling agreement with its insurance subsidiary, MVIC, to pool the underwriting experience of the two entities. The Exchange is the pool leader. The pooling agreement was approved by the Department on January 9, 2012.

Under the terms of the pooling agreement, all gross premium, losses, insurance expenses and other related underwriting activity of MVIC are ceded to the Exchange. The Exchange then purchases reinsurance on behalf of itself and MVIC. The remaining business is then distributed 90% and 10% between the Exchange and MVIC, respectively.

Ceded Reinsurance Program

The Exchange has structured its ceded reinsurance program as follows:

Type of Treaty	Cession
Combined Property and Casualty:	
Automobile Quota Share	100% quota share, 50% placed. Maximum placement is 75%. The reinsurers' interest and liability is limited to: 1. $5,000,000 any one policy, any one loss occurrence as respect declaratory judgement, expense, extra contractual obligations and loss in excess of policy limits combined in addition to;

Type of Treaty	Cession
	2. $5,000,000 losses arising out of any one loss occurrence as respect automobile liability business; and 3. $5,000,000 losses arising out of any one loss occurrence as respect automobile physical damage (collision only).
Personal Lines Quota Share	100% quota share, 50.5% placed. Maximum placement is 50.5%. The reinsurers' interest and liability is limited to: 1. $5,000,000 any one risk, any one loss occurrence as respects property business. 2. $1,000,000 any one policy, any one loss occurrence as respects casualty section of homeowners multiple peril business. 3. Maximum of $20,000,000 per loss occurrence.
Property:	
Property Per Risk Excess of Loss 2 layers	$4,000,000 excess of $1,000,000 ultimate net loss, any one risk, each loss occurrence. Limited to $16,000,000 per contract year. $5,000,000 excess of $5,000,000 net loss. Limited to $10,000,000 per occurrence, $15,000,00 all occurrence and $10,000,000 all losses or damage directly or indirectly from all terrorism occurrence.
Property Catastrophe Excess of Loss 3 layers	$355,000,000 excess of $20,000,000 ultimate net loss, each loss occurrence.
Casualty:	
Casualty Excess of Loss	$4,000,000 excess of $1,000,000 ultimate net loss, each loss occurrence, maximum of $12,000,000 per occurrence.
Casualty Catastrophe Excess of Loss 2 layers	$45,000,000 excess of $5,000,000 ultimate net loss, each loss occurrence.

Reinsurance agreements with affiliates were reviewed for compliance with Article 15 of the New York Insurance Law. It was noted that all affiliated reinsurance agreements were filed with the Department pursuant to the provisions of Section 1505(d)(2) of the New York Insurance Law.

The majority of the business was ceded to authorized reinsurers. No material change was noted between cessions to authorized and unauthorized companies since the last examination.

Using a materiality threshold of 25% of surplus, or $25 million, it was noted that the Exchange had material amounts of net reinsurance recoverable from Swiss Reinsurance Company of America, an authorized reinsurer, and Third Point Reinsurance (USA) Ltd.s, an unauthorized reinsurer, in the amounts of approximately $56,760,000 and $19,451,000, respectively. The Exchange maintained a letter of credit from Third Point Reinsurance (USA) Ltd. in the amount of $19,815,000 at December 31, 2017.

It is the Exchange's policy to obtain the appropriate collateral for its cessions to unauthorized reinsurers. Letters of credit obtained by the Exchange to take credit for cessions to unauthorized reinsurers were reviewed for compliance with Department Regulation No. 133. No exceptions were noted.

All significant ceded reinsurance agreements in effect as of the examination date were reviewed and found to contain the required clauses, including an insolvency clause meeting the requirements of Section 1308 of the New York Insurance Law.

Examination review found that the Schedule F data reported by the Exchange in its filed annual statement accurately reflected its reinsurance transactions. Additionally, management has represented that all material ceded reinsurance agreements transfer both underwriting and timing risk as set forth in NAIC Practices & Procedures Manual, Statement of Statutory Accounting Principles ("SSAP") No. 62R. Representations were supported by appropriate risk transfer analyses and an attestation from the Exchange's President and Treasurer pursuant to the NAIC annual statement instructions. Additionally, examination review indicated that the Exchange was not a party to any finite reinsurance agreements. All ceded reinsurance agreements were accounted for utilizing reinsurance accounting as set forth in SSAP No. 62R.

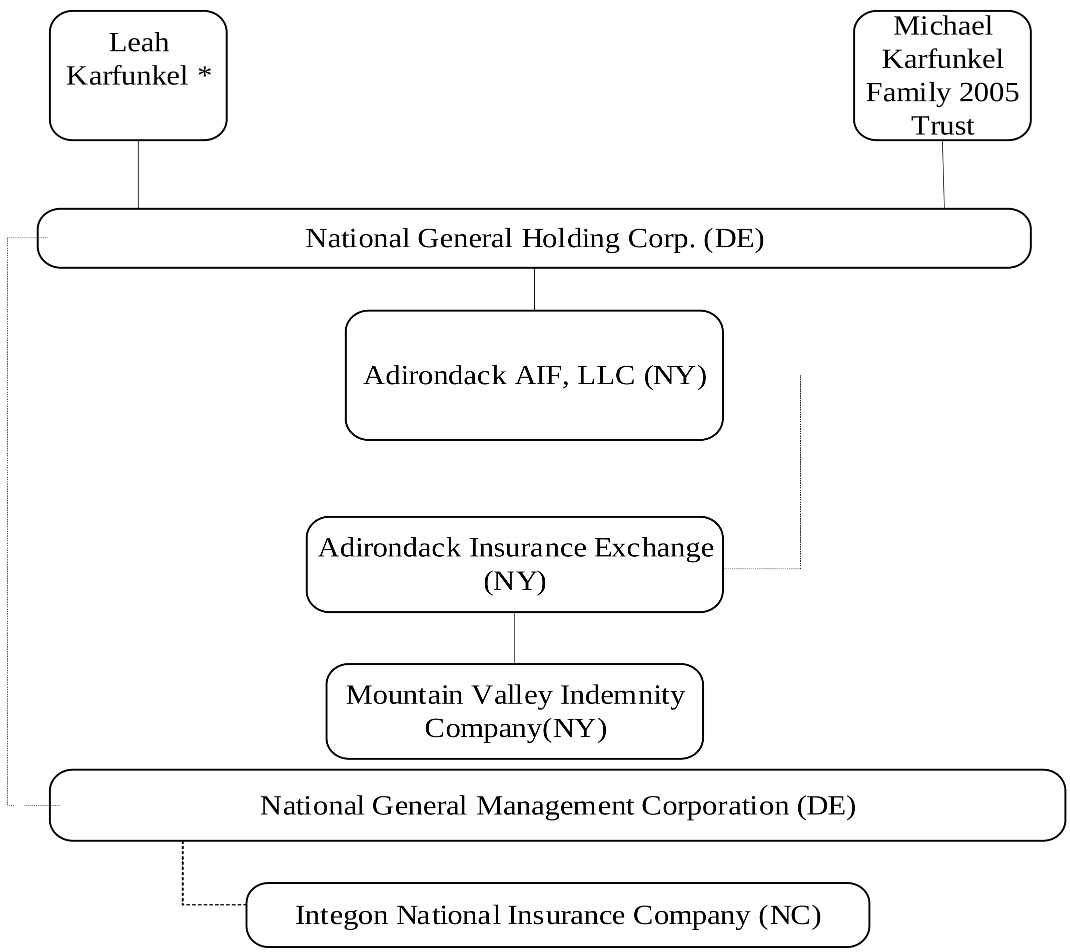
D. Holding Company System

The Exchange is a member-owned insurance association and has no parent. The Exchange is managed by its appointed Attorney-in-Fact. The Attorney-in-Fact is a wholly-owned subsidiary of the National General Holding Corp. ("NGHC"), a Delaware corporation. NGHC is ultimately controlled by Leah Karfunkel. As trustee of Leah Karfunkel 2016-NG GRAT (11.8%) and co-trustee of the Michael Karfunkel Family 2005 trust (30%), Leah Karfunkel directly and indirectly own 41.8% of the NGHC's common stock. No other person or group holds greater than 10% of the common stock of NGHC; however, various entities of AmTrust Financial Services, Inc. ("AFSI") collectively own 1.6% of NGHC's common stock. Leah Karfunkel is one of the controlling parties of AFSI.

Within the holding company system, the Exchange focuses on personal lines property and casualty insurance business. However, to expand its geographic reach, the Exchange purchased MVIC, a personal lines property and casualty insurance company licensed in 26 states.

A review of the holding company registration statements filed with this Department indicated that such filings were complete and were filed in a timely manner pursuant to Article 15 of the New York Insurance Laws and Department Regulation 52.

The following is an abridged chart of the holding company system at December 31, 2017:



*Leah Karfunkel, as trustee of Leah Karfunkel 2016-NG GRAT (11.8%) and co-trustee of the Michael Karfunkel Family 2005 trust (30%) directly and indirectly own 41.8% of the entity's common stock. Leah Karfunkel has all powers of sole trustee with respect to the entity's common stock held by each trust.

Holding Company Agreements

At December 31, 2017, the Exchange was party to the following agreements with other members of its holding company system:

Service and Expense Sharing Agreements between the Exchange and MVIC

Effective January 1, 2012, the Exchange entered a Service and Expense Sharing Agreement with MVIC. According to the agreement, the Exchange agrees to perform or oversee the performance of all functions related to the conduct of property and casualty business on behalf of MVIC including but not limited to:

- Underwriting and marketing
- Policy issuance, billing, and collection
- State filing and regulatory compliance
- Loss prevention, premium audit
- Claims services
- Legal
- Corporate services, accounting, human resources and IT services

Insurance Management Service Agreement

Effective May 5, 2006, the Exchange entered into an Insurance Management Service Agreement with the Attorney-in-Fact. According to the agreement, the Attorney-in-Fact agrees to provide all necessary services for the Exchange in accordance and full compliance with all applicable laws, rules and regulations governing the insurance operation of the Exchange. Under the agreement, the Exchange authorizes payment to the Attorney-in-Fact of an amount equal, on an annual basis, to 14% of gross written premium. The Exchange also authorizes the Attorney-in-Fact to contract on behalf of the Exchange with other persons or entities to provide investment management services. The amount and structure of the investment management fee will be adjusted from time to time so that it bears at all times a reasonable relationship to fees charged for high quality professional investment management services in the competitive market for such investment services.

Tax Allocation Agreement

Effective January 1, 2012, the Exchange entered into a tax allocation agreement with MVIC to jointly file consolidated federal income tax returns in accordance with the relevant Internal Revenue Service regulations. The Exchange did not notify the Department of its intention to enter into a tax allocation agreement with its subsidiary pursuant to Section 1608(e)(4) of the New York Insurance Law.

It is recommended that the Exchange comply with Section 1608(e)(4) of the New York Insurance Law and notify the Department in writing at least 30 days prior to entering into a tax allocation agreement with its subsidiary. A similar recommendation was made in the prior report on examination.

Subsequent to the examination, the Exchange notified the Department of its tax allocation agreement dated October 31, 2018.

Surplus Notes

As indicated in the Description of Exchange, in 2006, the Exchange issued a surplus note in the amount of $70,700,000 to HICNY. On July 1, 2010, in connection with TGI's acquisition of the Attorney-in-Fact and the Exchange, the Exchange cancelled the surplus note with HICNY and issued five new surplus notes, totaling $70,700,000, to affiliated entities, including Tower Insurance Company of New York, CastlePoint Insurance Company, Hermitage Insurance Company, Castlepoint National Insurance Company and CastlePoint Reinsurance Company Ltd. In 2016, the five surplus notes were sold to an affiliate, Integon National Insurance Company ("Integon"). On April 26, 2016, the Department approved the sale of the surplus notes to Integon.

All agreements subject to Article 15 of the New York Insurance Law were filed with this Department.

E. Significant Ratios

The Exchange's operating ratios, computed as of December 31, 2017, fall within the benchmark ranges set forth in the Insurance Regulatory Information System of the NAIC.

Operating Ratios	Result
Net premiums written to surplus as regards policyholders	127%
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	93%
Two-year overall operating	87%

Underwriting Ratios

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

	Amounts	Ratio
Losses and loss adjustment expenses incurred	$286,302,004	67.00%
Other underwriting expenses incurred	144,330,679	33.78
Net underwriting gain (loss)	(3,350,019)	(0.78)
Premiums earned	$427,282,664	100.00%

The Exchange's reported risk-based capital score ("RBC") was 441.1% at December 31, 2017. The RBC is a measure of the minimum amount of capital appropriate for a reporting entity to support its overall business operations in consideration of its size and risk profile. An RBC of 200 or below can result in regulatory action. There were no financial adjustments in this report that impacted the Exchange's RBC score.

F. Accounts and Records

1. Common Stock Reporting

According to the common stock certificate issued by MVIC to the Exchange, the Exchange holds 100% of MVIC's 10,000,000 authorized and issued common shares of stock at $1.00 par value, fully paid and non-assessable as of February 4, 2015. However, during the review of the Exchange's financial statements for the period ended 2015 through 2017, the examiner noted that the Exchange reported 3,000,000 shares of common stock owned on Schedule D, Part 2, Section 2.

It is recommended that the Exchange present its common stock holdings in compliance with the annual statement instructions for Schedule D, Part 2, Section 2.

Subsequent to the examination, on April 24, 2019, management provided a replacement common share certificate issued by MVIC, which stated that MVIC is authorized to issue 10,000,000 common shares at $1.00 par value of which 3,600,000 were issued to the Exchange effective February 4, 2015.

2. Pooling Agreement

As previously described, the Exchange and MVIC are the sole parties to an insurance pooling agreement. Per the terms of the pooling agreement, settlements are to be made within 45 days after the end of each quarter.

The examiner's review of the intercompany pooling accounts and settlements as of September 30, 2017 noted that the Exchange's inter-company balance was settled on December 12, 2018. The time of the settlement did not comply with the requirement of the pooling agreement to settle within 45 days after the end of each quarter.

It is recommended that the Exchange settle the inter-company pooling accounts within 45 days after the end of each quarter, as required by the pooling agreement.

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2017, as reported by the Exchange:

Assets	Assets	Assets Not Admitted	Net Admitted Assets
Bonds	$194,279,862		$194,279,862
Common stocks (stocks)	20,306,252	$1,081,682	19,224,570
Cash, cash equivalents and short-term investments	13,171,740		13,171,740
Investment income due and accrued	1,184,056		1,184,056
Uncollected premiums and agents' balances in the course of collection	3,015,673	977,779	2,037,894
Deferred premiums, agents' balances and installments booked but deferred and not yet due	33,340,400		33,340,400
Accrued retrospective premiums	0		0
Amounts recoverable from reinsurers	33,670,144		33,670,144
Other amounts receivable under reinsurance contracts	26,075,356		26,075,356
Current federal and foreign income tax recoverable and interest thereon	3,230,613		3,230,613
Electronic data processing equipment and software	2,540,567	2,540,567	0
Miscellaneous receivables and prepaids	84,886	42,792	42,094
Total assets	$330,899,549	$4,642,820	$326,256,729

Liabilities, Surplus and Other Funds

Liabilities

Losses and loss adjustment expenses		$ 56,733,302
Reinsurance payable on paid losses and loss adjustment expenses		3,666,829
Commissions payable, contingent commissions and other similar charges		5,603,018
Other expenses (excluding taxes, licenses and fees)		11,846,390
Taxes, licenses and fees (excluding federal and foreign income taxes)		2,648,824
Current federal and foreign income taxes		413,623
Net deferred tax liability		7,610,182
Unearned premiums		70,667,154
Advance premium		1,891,166
Ceded reinsurance premiums payable (net of ceding commissions)		46,588,881
Funds held by company under reinsurance treaties		20,706
Provision for reinsurance		141,000
Payable to parent, subsidiaries and affiliates		16,798,714
Miscellaneous payables		1,026,772
Total liabilities		$225,656,561
Surplus and Other Funds		
Surplus notes	$70,700,000	
Unassigned funds (surplus)	29,900,168	
Surplus as regards policyholders		100,600,168
Total liabilities, surplus and other funds		$326,256,729

Note: The Internal Revenue Service has completed its audits of the Exchange's consolidated Federal Income Tax returns through tax year 2014. 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. The Internal Revenue Service has not audited tax returns covering tax years 2015 through 2017. The examiner is unaware of any potential exposure of the Exchange to any tax assessment and no liability has been established herein relative to such contingency.

B. Statement of Income

The net income for the examination period as reported by the Exchange was $44,607,546 as detailed below:

Underwriting Income		
Premiums earned		$427,282,664
Deductions:		
Losses and loss adjustment expenses incurred	$286,302,004	
Other underwriting expenses incurred	144,330,679	
Total underwriting deductions		430,632,683
Net underwriting gain or (loss)		$ (3,350,019)
Investment Income		
Net investment income earned	$ 25,848,241	
Net realized capital gain	4,689,653	
Net investment gain or (loss)		30,537,894
Other Income		
Net gain or (loss) from agents' or premium balances charged off	(286,660)	
Finance and service charges not included in premiums	1,363,936	
Service fee	3,166,356	
Other income	10,813,340	
Limited assignment distribution fee	44,210	
Membership fee	1,365,142	
Total other income		16,466,324
Net income before federal and foreign income taxes		$ 43,654,199
Federal and foreign income taxes incurred		(953,347)
Net income		$ 44,607,546

C. Capital and Surplus

Surplus as regards policyholders increased $41,028,693 during the four-year examination period January 1, 2014 through December 31, 2017, as reported by the Exchange, detailed as follows:

	Gains in Surplus	Losses in Surplus	
Surplus as regards policyholders as reported by the Exchange as of December 31, 2013			$ 59,571,475
Net income	$44,607,546		
Net unrealized capital gains or (losses)		$ 124,387	
Change in net deferred income tax	8,117,104		
Change in non-admitted assets		1,101,378	
Change in provision for reinsurance		141,000	
Prior year adjustment		8,517,446	
Correct of error SSAP 3	0	1,811,746	
Total gains and losses	$52,724,650	$11,695,957	
Net increase in surplus			41,028,693
Surplus as regards policyholders as reported by the Exchange as of December 31, 2017			$100,600,168

No adjustment was made to surplus as a result of this examination.

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of $56,733,302 is the same as reported by the Exchange as of December 31, 2017. The examination analysis of the loss and loss adjustment expense reserves was conducted in accordance with generally accepted actuarial principles and statutory accounting principles, including the SSAP No. 55. Homeowners multiple peril and private passenger auto liability lines of business made up approximately 35% and 60%, respectively, of the reported reserves as of December 31, 2017.

5. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

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

ITEM		PAGE NO.
A.	Management	
	It was recommended that the Exchange comply with Section 312(b) New York Insurance Law by obtaining and retaining its files signed statement from each member of the board of directors that they have received and read the prior report on examination.	6
	The Exchange has complied with this recommendation.	
B.	Territory and Plan of Operation	
	It was recommended that the Exchange comply with Section 1102(b) of New York State Insurance Laws.	7
	The Exchange has complied with this recommendation.	
C.	Holding Company System	
	It was recommended that the Exchange comply with Section 1608(e)(4) of New York State Insurance Laws and notify the Department within at least 30 days prior to entering into a tax allocation agreement with its' subsidiary.	11
	The Exchange has not complied with this recommendation.	

6. SUMMARY OF COMMENTS AND RECOMMENDATIONS

ITEM		PAGE NO.
A.	Corporate Governance	
	It is recommended that the Exchange comply with the rules of the Advisory Committee and have all the investment transactions reviewed and approved by the Advisory Committee.	4
B.	Holding Company System	
	It is recommended that the Exchange comply with Section 1608(e)(4) of the New York Insurance Law and notify the Department in writing at least 30 days prior to entering into a tax allocation agreement with its subsidiary. A similar recommendation was made in the prior report on examination.	9
C.	Accounts and Records	
i.	It is recommended that the Exchange present its' common stock holdings in compliance with the annual statement instructions for Schedule D, Part 2, Section 2.	13
ii.	It is recommended that the Exchange settle the inter-company pooling accounts within 45 days after the end of each quarter, as required by the pooling agreement.	13

Respectfully submitted,

______________/S/_________________
Lee Prowell
Senior Insurance Examiner

STATE OF NEW YORK)
)ss:
COUNTY OF NEW YORK)

Lee Prowell, being duly sworn, deposes and says that the foregoing report, subscribed by him, is true to the best of his knowledge and belief.

__________/S/_____________
Lee Prowell

Subscribed and sworn to before me

this_________ day of __________________, 2018.

APPOINTMENT NO. 31793

NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

*I, **Maria T. Vullo**, Superintendent of Financial Services of the State of New York, pursuant to the provisions of the Financial Services Law and the Insurance Law, do hereby appoint:*

Lee Prowell

as a proper person to examine the affairs of the

Adirondack Insurance Exchange

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

COMPANY

with such other information as he shall deem requisite.

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

this 26th day of June, 2018

MARIA T. VULLO
Superintendent of Financial Services

By:

Joan Riddell
Deputy Bureau Chief