REPORT ON EXAMINATION

OF

COUNTRY-WIDE INSURANCE COMPANY

AS OF

DECEMBER 31, 2013

DATE OF REPORT	AUGUST 17, 2015
EXAMINER	PATRICK R. WHITE

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August 16, 2019

Honorable Linda A. Lacewell
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 31026 dated January 6, 2014, attached hereto, I have made an examination into the condition and affairs of Country-Wide Insurance Company as of December 31, 2013, and submit the following report thereon.

Wherever the designation "the Company" or "Country-Wide" appears herein without qualification, it should be understood to indicate Country-Wide Insurance Company.

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 Company's home office located at 40 Wall Street, New York, New York 10005.

1. SCOPE OF EXAMINATION

The Department has performed an individual examination of Country-Wide Insurance Company, a single-state insurer. The previous examination was conducted as of September 30, 2008. This examination covered the period from October 31, 2008 through December 31, 2013. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

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 prospective risks of the Company by obtaining information about the insurer including corporate governance, identifying and assessing inherent risks within the Company 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, management's compliance with statutory accounting principles, and the NAIC's annual statement instructions when applicable to domestic state regulations.

All financially significant accounts and activities of the Company were considered in accordance with the risk-focused examination process. The examiner also relied upon audit work performed by the Company's independent public accountants, when appropriate.

This examination report includes a summary of significant findings for the following items as called for in the Handbook:

Significant subsequent events
Company history
Corporate records
Management and control
Fidelity bonds and other insurance
Territory and plan of operation
Growth of Company
Loss experience
Reinsurance
Accounts and records
Statutory deposits
Financial statements
Summary of recommendations

A review was also made to ascertain what action was taken by the Company 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 COMPANY

The Company was incorporated under the laws of the State of New York on December 23, 1963, with paid in capital of $1,324,132, consisting of 264,826.50 shares of $5.00 par value per share of common stock. Gross paid in and contributed surplus was $365,116.

A. Management

Pursuant to the Company's charter and by-laws, management of the Company is vested in a board of directors consisting of not less than 13 nor more than 16 members. The board meets four times during each calendar year. At December 31, 2013, the board of directors was comprised of the following members:

Name and Residence	Principal Business Affiliation
Cynthia Appelblatt New York, New York	Senior Vice President and General Counsel, Country-Wide Insurance Company
William D. Bierman Closter, New Jersey	Attorney, Nowell, Amoroso, Klein and Bierman, P.A.
Alan T. Blutman East Meadow, New York	Attorney, Costello, Shea and Gaffney, LLP
Adam C. Cheven Port Washington, New York	Senior Vice President and Chief Underwriting Officer, Country-Wide Insurance Company
Barbara Cheven Sands Point, New York	Senior Vice President and Attorney of Record, Country-Wide Insurance Company
Zachary M. Cheven Sands Point, New York	Executive Vice President, Country-Wide Insurance Company
Walter J. Convery East Rockaway, New York	Retired

Name and Residence	Principal Business Affiliation
Nicholas Filacouris Dix Hills, New York	Senior Vice President, Chief Operating Officer and Treasurer, Country-Wide Insurance Company
Dorothy E. Goldberg Sands Point, New York	Retired
Heidi D. Jaffe Sands Point, New York	Secretary, Country-Wide Insurance Company
Michael D. Jaffe Sands Point, New York	Chairman, Chief Executive Officer and President, Country-Wide Insurance Company
Dr. Edwin C. Rothstein Jamesburg, New Jersey	President, Liberco Testing Inc.
Giselle T. Weinstein New York, New York	Stanford Weinstein Insurance Agency
Alice J. Zuccaire Great Neck, New York	President and Trustee, The Paul W. Zuccaire Agency

A review of the minutes of the board of directors' meetings held during the examination period indicated that the meetings were generally well attended and each board member had an acceptable record of attendance.

At December 31, 2013, the principal officers of the Company were as follows:

Name	Title
Michael D. Jaffe	President and Chief Executive Officer
Heidi D. Jaffe	Secretary
Nicholas Filacouris	Senior Vice President and Treasurer
Zachary M. Cheven	Executive Vice President
Cynthia Appelblatt	Senior Vice President and General Counsel
Adam C. Cheven	Senior Vice President and Chief Underwriting Officer
Barbara Cheven	Senior Vice President and Attorney of Record
Dominick Vicari	Senior Vice President and Chief Accounting Officer

B. Territory and Plan of Operation

As of December 31, 2013, the Company was licensed to write business in New York only.

As of the examination date, the Company 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
12	Collision
13	Personal injury liability
14	Property damage liability
15	Workers' compensation and employers' liability
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine

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, the Company is required to maintain a minimum surplus to policyholders in the amount of $1,324,132.

The following schedule shows the direct and gross premiums written by the Company for the period under examination:

Calendar Year	Direct Premiums	Total Gross Premiums
2009	$ 91,793,886	$49,650,478
2010	$112,251,302	$60,887,369
2011	$137,107,987	$74,580,093
2012	$139,600,863	$75,893,563
2013	$125,515,442	$75,355,215

The Company primarily writes substandard auto liability and auto physical damage coverage for private passenger automobiles and trucks. The Company's business is concentrated mainly in the five boroughs of New York City and consists mostly of policies written at the minimum liability limits required by New York State.

C. Reinsurance

The Company does not assume any business. The Company has structured its ceded reinsurance program as follows:

Type of Contract	Cession
Property Catastrophe Excess of Loss	95% of $1,500,000 in excess of $500,000 each and every loss occurrence
Casualty Excess of Loss	
Private Passenger Automobile and Commercial Auto Liability	$650,000 in excess of $350,000 each loss occurrence
Quota Share	
Private passenger automobile, commercial auto liability and physical damage; the property catastrophe excess of loss and the casualty excess of loss treaties inure to the benefit of this treaty	40% quota share of net retained liability

It is the Company's policy to obtain the appropriate collateral for its cessions to unauthorized reinsurers. Letters of credit obtained by the Company 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.

Except for the finding noted in the Accounts and Records section of this report, the examination review found that the Schedule F data reported by the Company 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 the NAIC Accounting Practices and Procedures Manual, Statement of Statutory Accounting Principles (“SSAP”) No. 62R. Representations were supported by an attestation from the Company's officers pursuant to the NAIC Annual Statement Instructions. Additionally, examination review indicated that the Company 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.

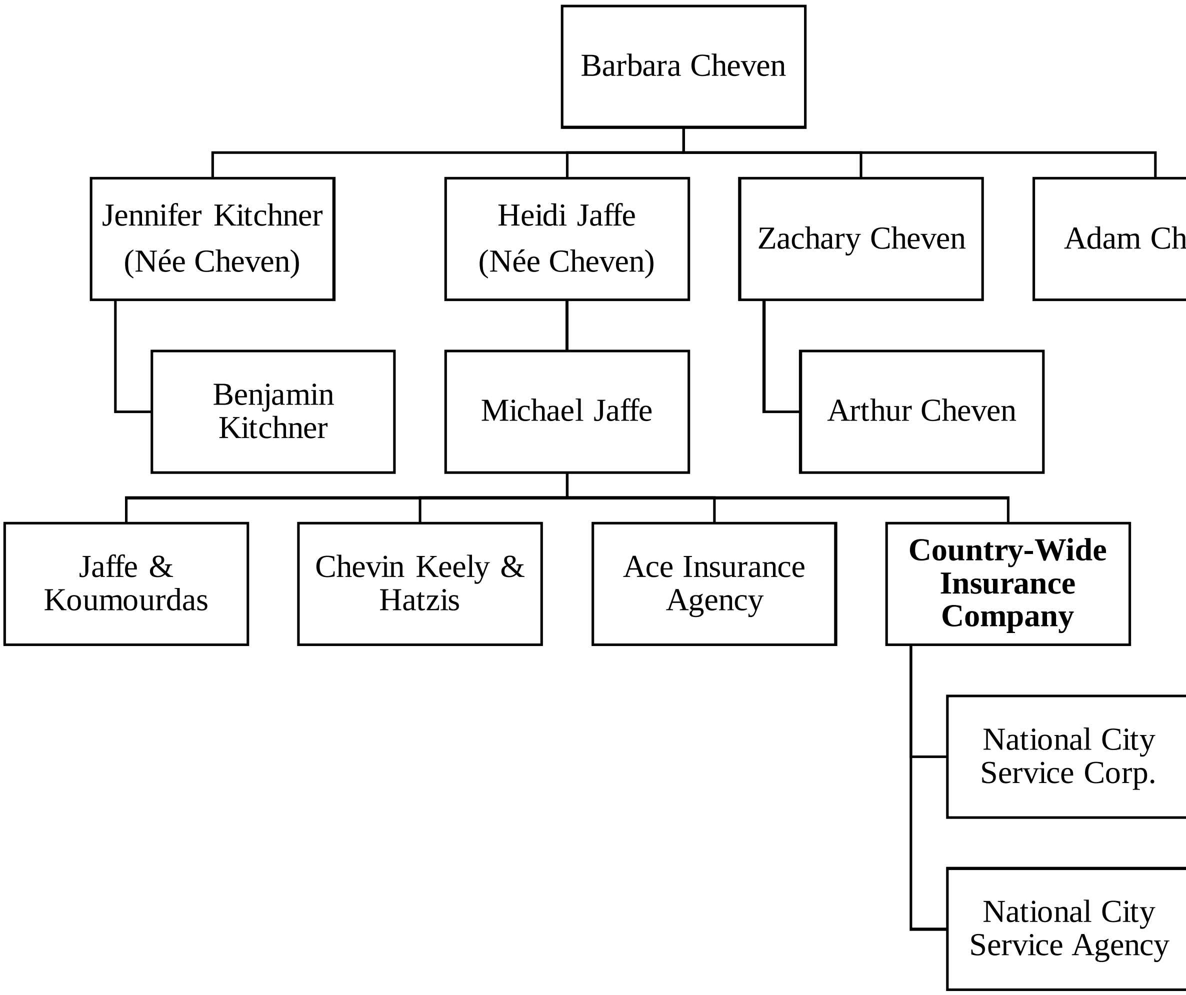
D. Holding Company System

The Company is part of a holding company system as defined by Section 1501(a)(6) of the New York Insurance Law. Ms. Barbara Cheven has been deemed the ultimate controlling person of Country-Wide by reason of her direct ownership of 28.2% of the Company's common stock. Ms. Cheven's indirect stock ownership consists of stock held in the names of various members of her immediate family. The following chart shows the direct and indirect shares controlled by Ms. Barbara Cheven and the relationship of each entity to the ultimate controlling person:

	Shareholder	Number of Shares	Percent of Total	Relationship
A.	Barbara Cheven	74,692.50	28.2%	Ultimate Controlling Person
B.	Heidi Jaffe	20,113.00	7.6%	Daughter of (A)
	joint with Michael Jaffe (F)	787.50	0.1%	Husband of (B)
C.	Jennifer Kitchner	7,143.00	2.7%	Daughter of (A)
D.	Zachary Cheven	6,125.00	2.3%	Son of (A)
	joint with Arthur Cheven	125.00	0.1%	Son of (D)
E.	Adam Cheven	4,274.50	1.6%	Son of (A)
F.	Michael Jaffe	60.00	0.1%	Husband of (B)
G.	Benjamin Kitchner	475.00	0.2%	Son of (C)
	Other Beneficial Owners	151,031.00	57.1%	
	Total Outstanding Shares	264,826.50	100.00%	

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 Law and Department Regulation No. 52.

The following is a chart of the holding company system at December 31, 2013:



The Company is a party to various expense allocation agreements with members of its holding company system. Pursuant to these agreements, the Company provides these entities with the services of its personnel, as well as providing office space, facilities, and equipment. All of these agreements have been submitted to and approved by the Department pursuant to the requirements of Section 1505(d) of the New York Insurance Law. The following chart shows the entities that have service agreements in place as of the examination date and their relationships within the holding company system:

Company	Business	Relation
Jaffe & Koumourdas	Law firm	Michael Jaffe is a partner
National City Service Corp.	Insurance brokerage	Owned by the Company
National City Service Agency	Insurance brokerage	Owned by the Company
Cheven Keely & Hatzis	Law firm	Barbara Cheven is a partner
Ace Insurance Agency	Insurance brokerage	Barbara Cheven and Michael Jaffe each own 50%

Holding Company Agreements

At December 31, 2013, the Company was party to the following agreement with other members of its holding company system:

National City Service Corporation

National City Service Corporation ("NCSC") is a licensed insurance brokerage ad a wholly-owned subsidiary of the Company. Michael Jaffe is Chairman of the Board; Zachary Cheven is President, Treasurer and Director; and Barbara Cheven is Vice President and Director. Effective November 1, 1986, the Company entered into an agreement with NCSC to share and occupy space in its leased premises as may be necessary for the operation of NCSC's business. NCSC has been inactive for the entire period covered by this examination.

National City Service Agency, Inc.

National City Service Agency ("NCSA") is a licensed insurance brokerage and a wholly-owned subsidiary of the Company. Michael Jaffe is Chairman of the Board; Zachary Cheven is President, Treasurer and Director; and Barbara Cheven is Vice President, Director and Secretary. Effective October 1, 1992, the Company entered into an agreement with NCSA where it will permit NCSA to share and occupy space in the Company's leased premises as may be necessary for the operation of NCSA's business. NCSA agrees to pay the Company, and the Company agrees to accept, a sum equal to the costs incurred by the Company on behalf of NCSA. The allocation methodology and resulting amounts were reviewed during the examination and were determined to be in compliance with Department Regulation No. 30.

In 2004, NCSA began operating as a managing general agent ("MGA"), providing underwriting services for business produced by outside brokers and written by outside insurers. The Company's resources are used to carry out the subsidiary's operating function as an MGA and/or third party administrator. NCSA reimburses the Company for a percentage of the underwriting expenses incurred in producing the MGA business. Underwriting expenses are allocated based on direct premium written for a particular calendar year.

Ace Insurance Agency

Ace Insurance Agency ("Ace") is a corporation organized under the laws of the State of New York. Ace is licensed as a property and casualty insurance brokerage firm. It places its automobile, homeowners, and other insurance business among several third party insurers and receives a commission. Effective November 24, 1993, the Company entered into an agreement with Ace whereby the Company permitted Ace to share and occupy space in the Company's leased premises. The agreement also stated that the Company shall provide and make available its facilities and equipment and the services of its personnel, as Ace may require. As per the allocation agreement, Ace does not receive commission on any referrals of insurance business to the Company. Barbara Cheven and Michael Jaffe each have a 50% interest in Ace.

Cheven Keely & Hatzis

Cheven Keely & Hatzis ("CK&H") is a law firm partnership in which Barbara Cheven is a partner. Effective August 1, 2011, the Company entered into an allocation agreement with CK&H in which the Company provides CK&H with the use of office space, equipment, supplies, and the services of the insurer's personnel. CK&H has no employees, and, other than the partners, uses only employees of the Company for both services provided to the Company, and services provided to third parties. The agreement states that the Company will determine the cost of providing such space, equipment, supplies and services, and allocate such costs pursuant to the provisions of Department Regulation No. 30. Expenses that can be allocated directly will be done so; otherwise, the expenses will be allocated on the basis of time usage. CK&H provides legal services to the Company as its attorney of record, representing and defending its insureds in civil litigation suits. CK&H does not receive a fee for the services it renders to the Company when CK&H is using Country-Wide employees or partners. As for services provided to third parties, the agreement stipulates that CK&H shall be compensated directly by the third parties involved, and will reimburse the Company for the use of space, facilities, equipment and personnel.

Jaffe & Koumourdas

Jaffe & Koumourdas ("J&K") is a law firm partnership in which Michael Jaffe is a partner. Effective August 1, 2011, the Company entered into an allocation agreement with J&K. Pursuant to the agreement, the Company provides J&K with the use of office space, equipment, supplies, and the services of the insurer's personnel. J&K has no employees, and other than the partners, uses only employees of the

Company for both services provided to the Company as well as services provided to third parties. The agreement states that the Company will determine the cost of providing such space, equipment, supplies and services, and allocate such costs pursuant to the provisions of Department Regulation No. 30. Expenses that can be allocated directly will be done so; otherwise, allocations will be done on the basis of time usage.

The agreement also provides that J&K will represent the Company in subrogation and collection matters (“recovery representation”). The agreement stipulates that J&K shall not charge the Company for recovery representation performed solely by the Company’s employees (which term includes partners of J&K to the extent that they are also receiving a salary from the Company). As for services provided to third parties, the agreement stipulates that J&K shall be compensated directly by the third parties involved, and will reimburse the Company for the use of space, facilities, equipment and personnel.

Tax Allocation Agreement

The Company has entered into a tax allocation agreement under which it files a consolidated federal income tax return with its wholly-owned subsidiaries, NCSC and NCSA.

E. Significant Ratios

The following ratios have been computed as of December 31, 2013, based upon the results of this examination:

Net premiums written to surplus as regards policyholders	3,682.50%
Liabilities to liquid assets	115.70%
Premiums in course of collection to surplus as regards policyholders	163.60%

All of the above referenced ratios exceed the benchmark ranges set forth in the Insurance Regulatory Information System of the NAIC. This is primarily due to the examination increase of $35 million to the loss and loss adjustment expense liability.

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

Losses and loss adjustment expenses incurred	$330,060,057	97.04%
Other underwriting expenses incurred	53,527,004	15.74
Net underwriting gain	(43,474,526)	(12.78)
Premiums earned	$340,112,535	100.00%

F. Accounts and Records

The accounts and records review included an evaluation of the Company's operational and organizational controls. The areas evaluated included computer systems, accounting systems, and the operational structure. A review of the Company's information system controls was based on the NAIC's Exhibit C - Information Technology Questionnaire.

The results of the review have been provided to the Company and incorporated and relied upon within the examination process, where appropriate.

The examination noted the following accounting and/or disclosure issues:

1. Schedule F - Part 4

It was noted that the Company failed to properly complete Schedule F - Part 4 which reflects the aging of ceded reinsurance as of December 31, 2013.

It is recommended that the Company comply with the NAIC annual statement instructions and properly complete Schedule F - Part 4. There was no financial impact on surplus because the reinsurance recoverable amounts were settled timely.

2. Abandoned Property

It was determined that the Company does not include premium-related credit balances that are older than three years in its abandoned property filings, as required by Section 1316 of the New York Abandoned Property Law. It was determined that there was a total of $119,882 in premium-related credit balances that should have been reported to the New York State Comptroller as abandoned property.

It is recommended that the Company report and remit premium-related credit balances that are over three years old to the New York State Comptroller, as required by Section 1316 of the New York Abandoned Property Law.

3. Premium Debit and Credit Balances

A. The Company failed to separately report an advance premium liability in its 2013 Annual Statement. The examination determined that an advance premium liability in the amount of $956,967 should have been reported. This amount resulted from premiums collected by the Company during 2013 that relate to business with inception dates in 2014. Rather than reporting this liability separately, the Company netted the advance premiums against its premiums receivable balances. This practice is not in accordance with SSAP No. 53, which states, in part:

> "Advance premiums result when the policies have been processed and the premium has been paid prior to the effective date. These advance premiums are reported as a liability in the statutory financial statement and not considered income until due . . ."

It is recommended that the Company report all premiums received in advance as a liability pursuant to SSAP No. 53. This recommendation to the Company was not reflected in the examination balance sheet as the recommended reclassification did not impact surplus and was not considered material.

B. As of December 31, 2013, the Company netted $1,793,123 of premium credit balances against unrelated premium debit balances. The credit balances constitute "Amounts Withheld by Company for the Account of Others". These balances cannot be netted against unrelated receivables per SSAP No. 64, which states, in part:

> "Assets and liabilities shall be offset and reported net only when a valid right of setoff exists…"

It is recommended that the Company cease the practice of netting premium-related credit balances against unrelated premium debit balances. The credit balances should be reported as a liability. This recommendation to the Company was not reflected in the examination balance sheet as the recommended reclassification did not impact surplus and was not considered material.

4. Procedures for the Establishment of Case Reserves

The Company uses a method which the Department refers to as “statistical reserving” for setting its case reserves. This generally involves setting up a pre-established reserve figure, depending on the type of claim, which is not changed until the claim is about to be settled, or a determination is made that the Company has no liability. This methodology tends to distort case reserve development and makes loss reserve forecasting more problematic.

It is recommended that the Company establish a case reserving system where the carried reserves are regularly updated with the most recent information and provide for the ultimate settlement of unpaid claims. A similar recommendation was also made in the previous report on examination.

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2013, as determined by this examination and as reported by the Company:

Assets	Examination	Company	Surplus Increase (Decrease)
Bonds	$141,322,968	$141,322,968	$ 0
Common stocks	2,643,353	2,643,353	0
Cash, cash equivalents and short-term investments	11,879,575	11,879,575	0
Investment income due and accrued	1,699,857	1,699,857	0
Uncollected premiums and agents' balances in the course of collection	3,347,310	3,347,310	0
Deferred premiums, agents' balances and installments booked but deferred and not yet due	31,220,575	31,220,575	0
Amounts recoverable from reinsurers	12,609,831	12,609,831	0
Current federal and foreign income tax recoverable and interest thereon	1,551,710	1,551,710	0
Net deferred tax asset	0	4,664,968	(4,664,968)
Electronic data processing equipment and software	1,095,703	1,095,703	0
Receivables from parent, subsidiaries and affiliates	1,010,961	1,010,961	0
Aggregate write-ins for other than invested assets	4,062,370	4,062,370	0
Total assets	$212,444,213	$217,109,181	$(4,664,968)

Liabilities, Surplus and Other Funds	Examination	Company	Surplus Increase (Decrease)
Liabilities			
Losses and loss adjustment expenses	$146,296,373	$111,296,373	$(35,000,000)
Commissions payable, contingent commissions and other similar charges	4,380,492	4,380,492	
Other expenses (excluding taxes, licenses and fees)	2,109,325	2,109,325	
Taxes, licenses and fees (excluding federal and foreign income taxes)	118,909	118,909	
Unearned premiums	39,509,841	39,509,841	
Stockholders dividends (declared and unpaid)	39,724	39,724	
Ceded reinsurance premium payable (net of ceding commissions)	17,143,426	17,143,426	
Funds held by company under reinsurance treaties	17,742	17,742	
Provision for reinsurance	183,000	183,000	
Drafts outstanding	599,052	599,052	0
Total liabilities	$210,397,884	$175,397,884	$(35,000,000)
Surplus and Other Funds			
Common capital stock	$ 1,324,132	$ 1,324,132	
Gross paid in and contributed surplus	365,116	365,116	
Unassigned funds (surplus)	357,081	40,022,049	$(39,664,968)
Surplus as regards policyholders	2,046,329	41,711,297	$(39,664,968)
Total liabilities, surplus and other funds	$212,444,213	$217,109,181	$(39,664,968)

Note: The Internal Revenue Service has not performed an audit of any year under examination. The examiner is unaware of any potential exposure of the Company to any tax assessment and no liability has been established herein relative to such contingency.

B. Statement of Income

The net income for the examination period was $1,594,561, as detailed below:

Underwriting income		
Premiums earned		$340,112,535
Deductions:		
Losses and loss adjustment expenses incurred	$330,060,057	
Other underwriting expenses incurred	53,527,004	
Total underwriting deductions		383,587,061
Net underwriting gain or (loss)		$ (43,474,526)
Investment income		
Net investment income earned	$ 15,152,321	
Net realized capital gain or (loss)	553,929	
Net investment gain		15,706,250
Other Income		
Net gain or (loss) from agents' or premium balances charged off	$ (6,216,750)	
Finance and service charges not included in premiums	23,136,127	
Aggregate write-ins for miscellaneous income	15,165,965	
Total other income		32,085,342
Net income before federal and foreign income taxes		$ 4,317,066
Federal and foreign income taxes incurred		2,722,505
Net income		$ 1,594,561

C. Capital and Surplus

Surplus as regards policyholders increased $6,376,513 during the examination period of October 1, 2008 through December 31, 2013, as detailed below:

	Gains in Surplus	Losses in Surplus	
Surplus as regards policyholders per report on examination as of September 30, 2008			$(4,330,184)
Net income	$1,594,561		
Change in net unrealized capital gains or (losses)	1,661,490		
Change in non-admitted assets	3,608,013		
Change in provision for reinsurance		$183,000	
Dividends to stockholders	0	304,551	
Total gains and losses	6,864,064	487,551	
Net increase (decrease) in surplus			6,376,513
Surplus as regards policyholders, as reported by the Company as of December 31, 2013			$2,046,329

4. DEFERRED TAX ASSET

The examination non-admitted the entire $4,664,968 reported by the Company for the captioned item. Based on the reserve change and the operating performance of the Company, the examination has determined this to be an asset of doubtful value.

5. LOSS AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned item of $146,296,373 is $35,000,000 more than the $111,296,373 reported by the Company in its filed 2013 Annual Statement. 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 SSAP No. 55.

It is noted that the previous report on examination, as of September 30, 2008, increased the Company's loss and loss adjustment expense reserves by $28,141,000, resulting in an examination report showing the Company to be insolvent. Since that time, there has been a chronic failure to adequately reserve, resulting in continual adverse development and the pushing of loss and loss adjustment expenses into future periods resulting in an inappropriate matching of income and expenses on an annual reporting basis. The following table shows the Company's reported incurred losses and loss adjustment expenses by accident year and the adverse development between the accident year and year-end 2014. These numbers are reported in Schedule P – Part 2 of the 2014 Annual Statement.

Accident Year	Incurred net losses and loss adjustment expenses for accident year as reported at year-end 2014	Insured net losses and loss adjustment expenses as reported at accident year-end	Adverse development through year-end 2014
2009	$40,200,000	$28,549,000	$11,651,000
2010	$49,077,000	$32,651,000	$16,426,000
2011	$55,682,000	$40,437,000	$15,245,000
2012	$61,937,000	$53,288,000	$ 8,649,000

The Company's general practice of understating its reserves is not consistent with the requirements of Section 1303 of the New York Insurance Law and SSAP No. 55, paragraph 10.

Section 1303 of the New York Insurance Law states, in part:

> "Every insurer shall . . . maintain reserves in an amount estimated in the aggregate to provide for the payment of all losses or claims incurred on or prior to the date of statement, whether reported or unreported, which are unpaid as of such date and for which such insurer may be liable, and also reserves in an amount estimated to provide for the expenses of adjustment or settlement of such losses or claims."

Further, SSAP No. 55, paragraph 10 states, in part:

> "The liability for claim reserves and claim liabilities, unpaid losses, and loss/claim adjustment expenses shall be based upon the estimated ultimate cost of settling the claims (including the effects of inflation and other societal and economic factors), using past experience adjusted for current trends, and any other factors that would modify past experience. . ."

It is recommended that the Company address these reserving inadequacies and increase its carried reserves to an appropriate level, pursuant to the provisions of Section 1303 of the New York Insurance Law and SSAP No. 55.

6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination contained 19 recommendations and one comment as follows (page numbers refer to the prior report):

ITEM			PAGE NO.
A.		Insolvency	
		The examination determined that as of September 30, 2008, the Company was insolvent in the amount of $4,330,184 and the required to be maintained surplus of $1,324,132 was impaired in the amount of $5,654,316.	1, 24, 28
		The current examination has determined that the Company is solvent as of December 31, 2013.	
B.		TPA Line of Business	
	i.	It was recommended that the Company report the reimbursements from law firms on the appropriate income statement lines.	7
		The Company has complied with this recommendation.	
	ii.	It was recommended that the Company submit to the Department a supplement to its existing plan for engaging in TPA programs consistent with the standards of Section 1610(b) of the New York Insurance Law.	9
		The Company has complied with this recommendation.	
C.		Law Firms	
	i.	It was recommended that the Company update the allocation agreements with J&K and CK&H.	14
		The Company has complied with this recommendation.	
	ii.	It was recommended that Mr. Jaffe not sign an amended allocation agreement on behalf of the Company.	15
		The Company has complied with this recommendation.	
	iii.	It was recommended that the Company conduct all transactions with affiliates in accordance with Section 1505 (a) of the New York Insurance Law.	16
		The Company has complied with this recommendation.	

iv. It was recommended that the Company no longer pay J&K for subrogation work performed by the Company's own employees. 16

The Company has complied with this recommendation.

v. It was recommended that the Company take the necessary steps to maintain the appropriate documentation supporting the law firm reimbursements in order to be in compliance with Section 1505(b) of the New York Insurance Law. 17

The Company has complied with this recommendation.

D. Accounts and Records

i. It was recommended that the Company comply with SSAP No. 55, paragraph 12 and the Instructions to the Annual Statement when reporting estimated salvage and subrogation recoverables. 20

The Company has complied with this recommendation.

ii. It was recommended that the Company not defer the recognition of paid losses to future periods. 20

The Company has complied with this recommendation.

iii. It was recommended that the Company restate balance sheet items in Schedule F, Part 8 to identify the effects of reinsurance on the balance sheet. 20

The Company has complied with this recommendation.

iv. It was recommended that the Company in the future complete Schedule Y, Part 2 to identify transactions with its affiliates. 21

The Company has complied with this recommendation.

v. It was recommended that the Company only utilize licensed independent adjusters in providing claim servicing services to other insurance companies. 22

The Company has complied with this recommendation.

E. Loss and Loss Adjustment Expenses

i. It was recommended that the Company report bulk settlements not allocated to specific claims as losses paid. 25

The Company has complied with this recommendation.

ii. It was recommended that the Company report anticipated salvage and subrogation on bulk settlements as an offset to losses outstanding. 25

The Company has complied with this recommendation.

iii. It was recommended that the Company establish an appropriate loss adjustment expense reserve for the administration of its TPA business. 26

The Company has complied with this recommendation.

iv. It was recommended that the Company allocate payments to the in-house law firms for loss adjustment services to the accident years that the underlying claims are incurred rather than reporting all payments to the most recent accident year. 26

The Company has complied with this recommendation.

v. It was recommended that the Company cease considering legal expenses for open claims handled by the in-house law firms to be prepaid and set up an adequate loss adjustment expense reserve for the administration of its outstanding claims pursuant to the provisions of Section 1303 of the New York Insurance Law and SSAP No. 55. 26

The Company has complied with this recommendation.

vi. It was recommended that the Company establish a case reserving system where these reserves are regularly updated with the most recent information. 26

The Company has not complied with this recommendation. A similar recommendation is made in this report.

F. <u>Territorial and Take-Out Credits</u>

It was recommended that the Company only admit amounts due for the sale of excess credits when the specific amount of credits to be sold and the actual price is known pursuant to Section 1301(a) of the New York Insurance Law. 28

The Company has complied with this recommendation.

7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

ITEM			PAGE NO.
A.		Accounts and Records	
		Schedule F – Part 4	
	i.	It is recommended that the Company comply with the NAIC Annual Statement Instructions and properly complete Schedule F- Part 4.	12
		Abandoned Property	
	ii.	It is recommended that the Company report and remit premium related credit balances, which are over three years old, to the New York State Comptroller, as required by Section 1316 of the New York Abandoned Property Law.	13
		Premium Debit and Credit Balances	
	iii.	It is recommended that the Company report all premiums received in advance as a liability pursuant to SSAP No. 53.	13
	iv.	It is recommended that the Company cease the practice of netting premium related credit balances against unrelated premium debit balances.	13
		Procedures for the Establishment of Case Reserves	
	v.	It is recommended that the Company establish a case reserving system where the carried reserves are regularly updated with the most recent information and provide for the ultimate settlement of unpaid claims. A similar recommendation was also made in the previous report on examination.	14
B.		Net Deferred Tax Asset	
		The examination non-admitted the Company’s reported net deferred tax asset as the examination has concluded that this is an asset of doubtful value.	19
C.		Loss and Loss Adjustment Expenses	
	i.	The examination increased the Company’s loss and loss adjustment expense liability by $35 million.	19
	ii.	It is recommended that the Company address its reserving inadequacies and increase its carried reserves to an appropriate level, pursuant to the provisions of Section 1303 of the New York Insurance Law and SSAP No. 55.	20

Respectfully submitted,

____________/S/_____________
Patrick R. White, CFE
Examiner in Charge

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

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

_____________/S/___________
Patrick R. White

Subscribed and sworn to before me

this__________ day of ___________________

APPOINTMENT NO. 31026

NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

*I, **BENJAMIN M. LAWSKY**, 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:*

Patrick White

as a proper person to examine the affairs of the

Country-Wide Insurance Company

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 6th day of January, 2014

BENJAMIN M. LAWSKY
Superintendent of Financial Services

By:

Rolf Kaumann
Deputy Chief Examiner

NEW YORK STATE ★ DEPARTMENT OF FINANCIAL SERVICES ★ EXCELSIOR