

REPORT ON EXAMINATION

OF

STRATHMORE INSURANCE COMPANY

AS OF

DECEMBER 31, 2018

DATE OF REPORT

DECEMBER 9, 2019

EXAMINER

M. IRENE TRAN, CFE

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Department of Financial Services

ANDREW M. CUOMO
Governor

LINDA A. LACEWELL
Superintendent

December 9, 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 31852 dated December 27, 2018, attached hereto, I have made an examination into the condition and affairs of Strathmore Insurance Company as of December 31, 2018, and submit the following report thereon.

Wherever the designation “the Company” appears herein without qualification, it should be understood to indicate Strathmore 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 200 Madison Avenue, New York, NY 10016.

1. SCOPE OF EXAMINATION

The Department has performed an examination of the Strathmore Insurance Company, a multi-state insurer. The previous examination was conducted as of December 31, 2013. This examination covered the five-year period from January 1, 2014 through December 31, 2018. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

New York was the lead state of the Greater New York Group (“the Group”). The examination was performed concurrently with the examinations of the following insurers: Greater New York Mutual Insurance Company (“GNY”), Insurance Company of Greater New York (“INSCO”), and GNY Custom Insurance Company (“Custom”). The Company, GNY, and INSCO are domiciled in New York. Custom is domiciled in Arizona. Arizona participated in this examination.

This examination was conducted in accordance with the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners Handbook, which requires that we plan and perform the examination to evaluate the financial condition and identify current and prospective risks of the Company by obtaining information about the Company 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 New York laws, statutory accounting principles, and annual statement instructions.

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

- Company history
- Management and control
- Territory and plan of operation
- Reinsurance
- Affiliated group description
- Financial statement presentation
- Loss review and analysis
- Significant subsequent events
- Summary of recommendations

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

Strathmore Insurance Company was formed under the laws of the State of New York on November 17, 1998. It became licensed on March 7, 2000 and commenced business on March 22, 2000.

The Company is a wholly-owned subsidiary of GNY. Strathmore pools its premiums, losses and expenses under a reinsurance pooling agreement with its parent, GNY, and affiliates, INSCO and Custom (refer to section 2C of this report for further detail).

A. Corporate Governance

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 seven nor more than thirteen members. The board meets four times during each calendar year. At December 31, 2018, the board of directors was comprised of the following twelve members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Joan Louise Cadd Sarasota, FL	Chartered Professional Accountant, Self-employed
Donald Thomas DeCarlo Douglaston, NY	Attorney, Self-employed
Elizabeth Heck New York, NY	President and Chief Executive Officer, Greater New York Mutual Insurance Company
Warren William Heck New York, NY	Chairman of the Board, Greater New York Mutual Insurance Company
Carol Trencher Ivanick New York, NY	Partner of Counsel, Schulte Roth & Zabel
Charles Frederick Jacey Belle Meade, NJ	Retired
Robert Peter Lewis Santa Fe, NM	Retired
Lance Malcolm Liebman New York, NY	Dean and Professor, Columbia University Law School

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Henry George Miller Bronxville, NY	Senior Partner, Clark, Gagliardi & Miller LLP
Paul Segal New York, NY	Retired
Thomas Whitney Synnott III Brooklyn, NY	Economist, Garrison, Bradford & Associates
James Joseph Wrynn New York, NY	Consultant/Attorney, FTI Consulting, Inc.

As of December 31, 2018, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Elizabeth Heck	President & Chief Executive Officer
Thomas Donald Hughes	Executive Vice President & General Counsel, Secretary
Christopher Thomas McNulty	Executive Vice President, Chief Financial Officer & Treasurer
Gerard Lawrence Ragusa	Executive Vice President
Lucas James Sheldon	Senior Vice President & Chief Underwriting Officer
Margaret Grealis Klein	Vice President
Michael James Meyer	Vice President
Nancy Pearlstein	Vice President
Kathleen Anne Zarzycki	Vice President

B. Territory and Plan of Operation

As of December 31, 2018, the Company was licensed to write business in 15 states and the District of Columbia.

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:

<u>Paragraph</u>	<u>Line of Business</u>
3	Accident & health
4	Fire
5	Miscellaneous property

<u>Paragraph</u>	<u>Line of Business</u>
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

The Company is also licensed to do within this state the business of special risk insurance pursuant to Article 63 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, the Company is required to maintain a minimum surplus to policyholders in the amount of \$4,400,000. However, pursuant to Section 6302(c) of the New York Insurance Law, in order to be licensed to write special risks, the Company is required to maintain surplus as regards policyholders of at least 200% of its authorized control level risk-based capital; therefore, the Company was required to maintain a minimum surplus to policyholders in the amount of \$6,814,014 as of December 31, 2018.

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

<u>Calendar Year</u>	<u>Direct Premiums</u>	<u>Assumed Premiums</u>	<u>Total Gross Premiums</u>
2014	\$48,809,042	\$12,685,274	\$61,494,316
2015	\$47,849,025	\$13,620,246	\$61,469,271
2016	\$51,017,361	\$14,333,007	\$65,350,368
2017	\$60,345,667	\$15,857,584	\$76,203,251
2018	\$76,863,142	\$18,104,154	\$94,967,296

The Company is a direct writer of commercial multiple peril insurance. This line of business represents approximately 90.6% of its total direct business written. Workers' compensation business

represents approximately 8.6% of its total direct business written. A majority of the Company's direct business is written in New York (54.4%), New Jersey (13.3%), Massachusetts (12.3%), and Connecticut (8.1%). Most of its business originates through independent brokers. The Company maintains branch offices in Glastonbury, CT; East Brunswick, NJ; Quincy, MA; and Hunt Valley, MD. Each office, including the New York home office, handles the underwriting function for a specific territory.

Due to the pooling agreement described below, the net exposure of the Company is significantly different than its direct and assumed exposures.

C. Reinsurance Ceded

Inter-company pooling agreement

The Company participates in a pooling agreement with its affiliated insurers, wherein GNY is the lead company. This agreement has been in place since January 1968 and was amended on various occasions outside of the examination period. The four insurance companies comprising the Group pool business with participating percentages as follows:

<u>Pool Participant</u>	<u>Pooling Percentage</u>
GNY	84%
INSCO	10%
The Company	5%
Custom	1%

All business is assumed by GNY and then reinsured externally before being ceded back to affiliates based on their percentage participation. This agreement and all amendments were filed with and non-disapproved by the Department.

Ceded Reinsurance Program

The Company is a named party in the Group's external reinsurance program. The Group has structured its ceded reinsurance program as follows:

Property Lines

<u>Type of Treaty</u>	<u>Cession</u>
<u>Property</u>	
Excess of Loss – four layers Boiler and Machinery Quota Share	\$149,000,000 in excess of \$1,000,000 per risk. 100% cession.
<u>Catastrophe</u>	
Excess of Loss – four layers: Layers 1 through 3 (95% placed)	\$225,000,000 in excess of \$15,000,000 per occurrence.
Layer 4 (85% placed)	\$160,000,000 in excess of \$240,000,000.
<u>Terrorism</u>	
Excess of Loss – three layers	\$854,277,777 in excess of \$20,000,000, with 18% participation in losses in excess of \$874,277,777 and the remaining covered by TRIA.
<u>Liability</u>	
Casualty Excess of Loss – three layers	\$49,000,000 in excess of \$1,000,000.
Fidelity, Surety and Crime Quota Share	80% cession.
Umbrella Quota Share	
Part 1	95% for policies not exceeding \$1,000,000
Part 2	For policies in excess of \$1,000,000 but not exceeding \$25,000,000, 95% for the first \$1,000,000 and 100% in excess of \$1,000,000.

It is the Group's policy to obtain the appropriate collateral for its cessions to unauthorized reinsurers.

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.

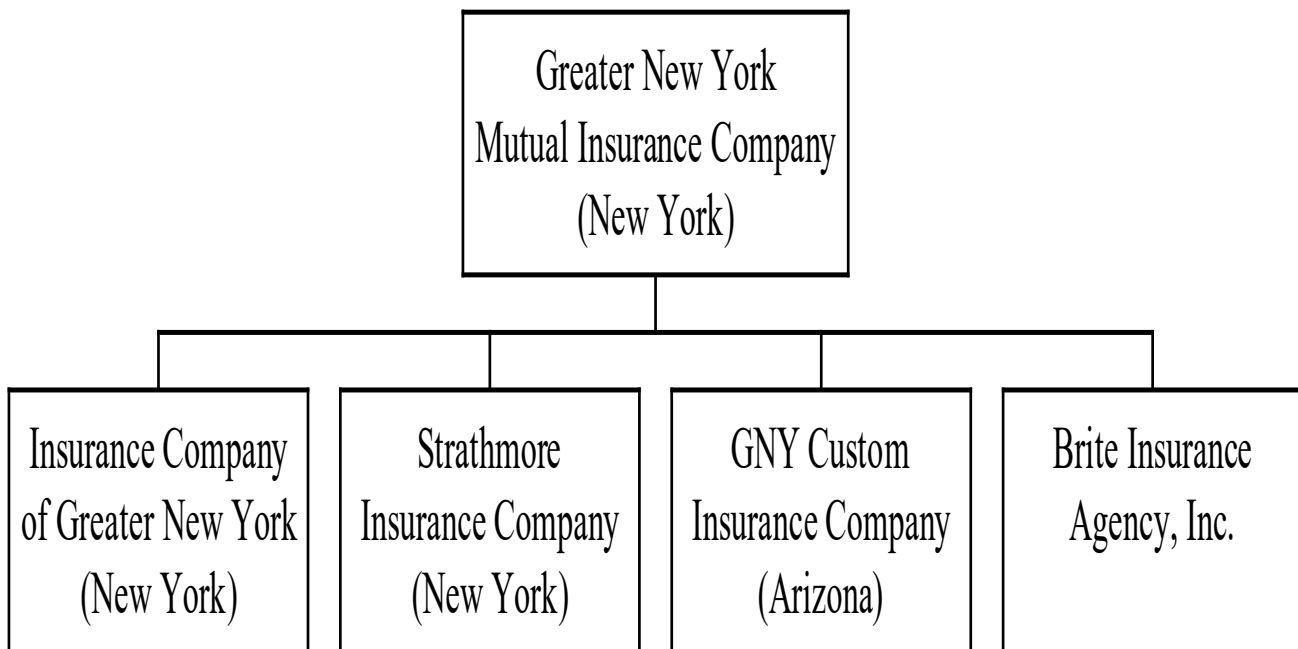
Examination review found that the Schedule F data reported by the Company in its filed annual statement accurately reflected its reinsurance transactions. Additionally, management has represented that all material ceded reinsurance agreements transfer both underwriting and timing risk as set forth in the NAIC Accounting Practices and Procedures Manual, Statement of Statutory Accounting Principles ("SSAP") No. 62R and an attestation from the Company's Chief Executive Officer and Chief Financial Officer 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. Affiliated Group

The Company is a member of the Greater New York Group. It is wholly-owned by GNY, a New York domiciled mutual insurer. The Group primarily operates as a direct niche writer of commercial multiple peril business. The Company, along with INSCO, provide the Group pricing flexibility in the states where they are licensed. Custom issues excess and surplus coverages for specialized multiple peril risks. GNY also wholly-owns an insurance agency, Brite Insurance Agency, Inc., which is incorporated in New York.

The following is an unabridged chart of the affiliated group at December 31, 2018:



At December 31, 2018, the Company was party to the following agreements with its affiliates:

Investment Expense Cost Sharing Agreement

Effective February 1, 2015, the Company entered into an investment expense cost sharing agreement with GNY, INSCO and Custom. The agreement provides for a method of allocating investment expenses amongst the affiliates. The expenses that are to be allocated are primarily related to cost associated with the GNY's management and administration of its subsidiaries' investment portfolios. Each insurer is 100% liable for expenses charged by external investment managers and custodial banks that are specifically related to its own investment portfolio. The agreement has been filed with and non-disapproved by the Department.

The Company participates in a tax allocation agreement with its parent and affiliates, effective 15, 2001. Pursuant to the provisions of Department Circular Letter No. 33 (1979), this agreement was filed with the Department.

E. Significant Ratios

The Company's operating ratios, computed as of December 31, 2018, fall within the benchmark ranges set forth in the Insurance Regulatory Information System of the NAIC.

<u>Operating Ratios</u>	<u>Result</u>
Net premiums written to policyholders' surplus	65%
Adjusted liabilities to liquid assets	56%
Two-year overall operating	88%

Underwriting Ratios

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

	<u>Amount</u>	<u>Ratio</u>
Losses and loss adjustment expenses incurred	\$47,598,858	67%
Other underwriting expenses incurred	22,608,352	32
Net underwriting gain	<u>883,043</u>	<u>1</u>
Premiums earned	<u>\$71,090,253</u>	<u>100%</u>

The Company's reported risk-based capital ("RBC") ratio was 750.4% at December 31, 2018. 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 Company's RBC score.

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2018, as reported by the Company:

<u>Assets</u>	<u>Assets</u>	Assets Not <u>Admitted</u>	Net Admitted <u>Assets</u>
Bonds	\$54,808,390	\$ 0	\$54,808,390
Cash, cash equivalents and short-term investments	150,919	0	150,919
Investment income due and accrued	306,372	0	306,372
Uncollected premiums and agents' balances in the course of collection	2,349,173	144,533	2,204,640
Deferred premiums, agents' balances and installments booked but deferred and not yet due	3,719,640	45,639	3,674,001
Amounts recoverable from reinsurers	172,536	0	172,536
Net deferred tax asset	824,638	0	824,638
Receivables from parents, subsidiaries and affiliates	<u>444,399</u>	<u>0</u>	<u>444,399</u>
Total assets	<u>\$62,776,067</u>	<u>\$190,172</u>	<u>\$62,585,895</u>

Liabilities, Surplus and Other FundsLiabilities

Losses and loss adjustment expenses	\$23,029,957
Commissions payable, contingent commissions and other similar charges	140,716
Other expenses (excluding taxes, licenses and fees)	394,837
Taxes, licenses and fees (excluding federal and foreign income taxes)	42,075
Current federal and foreign income taxes	85,865
Unearned premiums	10,706,706
Dividends declared and unpaid-Policyholders	40,922
Ceded reinsurance premiums payable (net of ceding commissions)	<u>338,469</u>
 Total liabilities	 \$34,779,547

Surplus and Other Funds

Common capital stock	\$ 5,000,000
Gross paid in and contributed surplus	6,000,000
Unassigned funds (surplus)	<u>16,806,348</u>
 Surplus as regards policyholders	 <u>27,806,348</u>
 Total liabilities, surplus and other funds	 <u>\$62,585,895</u>

Note: The Internal Revenue Service has completed its audits of the Company's consolidated federal income tax returns through tax year 2011. The Internal Revenue Service has not audited any tax returns of the examination period. 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 as reported by the Company was \$5,165,725, as detailed below:

Underwriting Income

Premiums earned		\$71,090,253
Deductions:		
Losses and loss adjustment expenses incurred	\$47,598,858	
Other underwriting expenses incurred	<u>22,608,352</u>	
Total underwriting deductions		<u>70,207,210</u>
Net underwriting gain		\$ 883,043

Investment Income

Net investment income earned	\$5,766,440	
Net realized capital gain	<u>49,429</u>	
Net investment gain or (loss)		5,815,869

Other Income

Net gain or (loss) from agents' or premium balances charged off	\$ (7,119)	
Finance and service charges not included in premiums	47,370	
Interest on funds	31,066	
Miscellaneous (expense) income	<u>137,062</u>	
Total other income		\$ <u>208,379</u>
Net income before dividends to policyholders and before federal and foreign income taxes		\$ 6,907,291
Dividends to policyholders		<u>87,446</u>
Net income after dividends to policyholders but before federal and foreign income taxes		\$ 6,819,845
Federal and foreign income taxes incurred		<u>1,654,120</u>
Net income		\$ <u>5,165,725</u>

C. Capital and Surplus

Surplus as regards policyholders increased \$4,843,086 during the five-year examination period January 1, 2014 through December 31, 2018, as reported by the Company, detailed as follows:

Surplus as regards policyholders, as reported by the Company as of December 31, 2013			\$22,963,262
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income	\$5,165,725		
Change in net deferred income tax		\$547,934	
Change in nonadmitted assets	<u>225,295</u>	<u>0</u>	
Total gains and losses	\$5,391,020	\$547,934	
Net increase in surplus			<u>4,843,086</u>
Surplus as regards policyholders, as reported by the Company as of December 31, 2018			<u>\$27,806,348</u>

No adjustments were made to surplus as a result of this examination.

Capital paid in is \$5,000,000 consisting of 50,000 shares of \$100 par value per share common stock. Gross paid in and contributed surplus is \$6,000,000. Gross paid in and contributed surplus and capital paid in did not change during the examination period.

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of \$23,029,957 is the same as reported by the Company as of December 31, 2018. 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.

5. SUBSEQUENT EVENTS

Effective January 1, 2020, the Group amended its pooling agreement. Per the amended agreement, the pooling participation percentages for the Company, INSCO, and Custom have been reduced to zero. The parent company, GNY, will retain 100% (instead of 84%) of business written. The pooling agreement is subject to renewal every four years, with the initial four-year period expiring on the close of business December 31, 2023.

6. **COMPLIANCE WITH PRIOR REPORT ON EXAMINATION**

The prior report on examination contained no comments or recommendations.

7. **SUMMARY OF COMMENTS AND RECOMMENDATIONS**

There are no comments or recommendations in this report on examination.

Respectfully submitted,

_____/S/_____
My-Nghi Irene Tran, CFE
Senior Insurance Examiner

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

My-Nghi Irene Tran, being duly sworn, deposes and says that the foregoing report, subscribed by her, is true to the best of her knowledge and belief.

_____/S/_____
My-Nghi Irene Tran

Subscribed and sworn to before me

this _____ day of _____, 2020.

APPOINTMENT NO. 31852

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:

MyNghi Irene Tran

as a proper person to examine the affairs of the

Strathmore Insurance Company

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

COMPANY

with such other information as she 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 27th day of December, 2018

MARIA T. VULLO
Superintendent of Financial Services



By:

Joan P. Riddell

*Joan Riddell
Deputy Bureau Chief*