

REPORT ON EXAMINATION

OF

EXCISE BOND UNDERWRITERS

AS OF

NOVEMBER 30, 2014

DATE OF REPORT

JANUARY 20, 2016

EXAMINER

VERONICA DUNCAN BLACK

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NEW YORK STATE  
DEPARTMENT *of*  
FINANCIAL SERVICES

Andrew M. Cuomo  
Governor

Maria T. Vullo  
Superintendent

January 20, 2016

Honorable Maria T. Vullo  
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 31377 dated August 17, 2015, attached hereto, I have made an examination into the condition and affairs of Excise Bond Underwriters as of November 30, 2014, and submit the following report thereon.

Wherever the designation “the Association” appears herein without qualification, it should be understood to indicate Excise Bond Underwriters.

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 Department located at One State Street, New York, New York 10004.

## 1. SCOPE OF EXAMINATION

The Department has performed a single state examination of the Company. The previous examination was conducted as of November 30, 2009. This examination covered the five-year period from December 1, 2009 through November 30, 2014. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

The examination comprised a complete verification of assets and liabilities as of November 30, 2014. The examination included a review of corporate governance, management, income, disbursement and company records as deemed necessary to accomplish the analysis and/or verification of the Association's audited financial statement. This examination also utilized worked performed by the Association's independent certified public accountant to the appropriate extent.

This examination report includes a summary of significant findings for the following items as called for in the National Association of Insurance Commissioners' Handbook:

- History of Association
- Management
- Accounts and records
- Territory and plan of operation
- Financial statements
- Summary of recommendations

A review was also made to ascertain what action was taken by the Association 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 that are deemed to require explanation or description.

## 2. DESCRIPTION OF COMPANY

Excise Bond Underwriters was organized in 1933 as an unincorporated association pursuant to New York State Regulations for the purpose of issuing or reinsuring bonds required by the New York State Liquor Authority for the manufacture, transportation, and sale of alcoholic beverages.

In June 1978, the Association became a subscribing member of Affiliated Reinsurance Association (“AreA”), a non-profit, non-incorporated organization established for the purpose of administrating all matters involving its memberships and/or affiliates. On November 29, 1977, the Association adopted a Governing Document, whereby AreA would performed managerial, staff services and related activities necessary for the operations of all its members including but not limited to: employment of all personnel, payment of general expenses, leasing of office facilities and equipment, participation in contractual arrangement and custodianship of necessary files and records. However, specific policy determination and operations, as provided in the agreement subscribed to by each member, are excluded from these functions. The Governing Document was amended on November 13, 1985 and November 26, 2001.

As of November 30, 2014, the remaining members to AreA were Excise Bond Underwriters and Railroad Insurance Underwriters.

### A. Management

The Association operates under the provisions of an Amended Excise Reinsurance Agreement dated May 1, 1968. The reinsurance agreement provides that the members to the agreement must elect or appoint an executive committee. The functions of the executive committee are analogous to the board directors of a corporation. The executive committee’s members are selected by members of the reinsurance pool to serve for a term of three years. The committee is authorized to engage a manager, attorney or such other employees as necessary to carry out the purpose of the agreement. The executive committee is required to meet twice a year. A review of the minutes shows that the executive committee’s meetings held during the examination period were well attended.

At November 30, 2014, the only member to the executive committee was Great American Insurance Company.

As of November 30, 2014, the officers of the Association were as follows:

<u>Name</u>	<u>Title</u>
John L. Comeau	President
Efthymia Tsoukalas	Vice President
Xhuhere Mehovic	Treasurer

B. Territory and Plan of Operation

The Excise Bond Underwriters was created for the sole purpose of issuing or reinsuring bonds required by the New York State Liquor Authority. The Association utilizes the services of independent agents, brokers, and attorneys to acquire and/or solicit business throughout the state of New York. Business is generated by the issuance of bonds for permits and beer or liquor licenses. The New York State Liquor Authority is responsible for determining the penal amount of a bond based upon the class of business and the type of license. The Association is, however, responsible for establishing the premium associated with a bond. Accordingly, all premiums or rates for the bonds are subject to the approval of the Department.

The following schedule shows the premiums written by the Association in the state of New York for the period under examination:

<u>Calendar Year</u>	<u>Premiums Written</u>
2010	\$555,701
2011	494,462
2012	784,003
2013	617,053
2014	405,868

C. Amended Excise Reinsurance Agreement of May 1, 1968

The Association operates under the provisions of an Amended Excise Reinsurance

Agreement dated May 1, 1968. The agreement allows the Association to reinsure its members for all excise bonds issued and/or required by the State of New York in connection with the manufacture or sale of alcoholic beverages. For a portion of the examination period, the reinsurance pool was comprised of two members – Great American Insurance Company and Hannover Insurance Company. However, in 2012, Hannover Insurance gave notice of its intention to withdraw from the reinsurance pool pursuant to Section 18, of the Amended Excise Reinsurance Agreement.

As of November 30, 2014, Great American Insurance Company was the only member of the reinsurance pool with 100% membership.

D. Significant Operating Ratios

The following ratios have been computed as of November 30, 2014, based upon the results of this examination:

Net premiums written in 2014 to surplus as regard policyholders	62.12%
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	60.27%
Premiums in course of collection to surplus as regards policyholders	7.25%

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:

	<u>Amounts</u>	<u>Ratios</u>
Losses and loss adjustment expenses incurred	\$ 301,962	9.79%
Other underwriting expenses incurred	2,697,315	87.42%
Net underwriting loss	<u>86,361</u>	<u>2.80%</u>
Premiums earned	<u>\$3,085,638</u>	<u>100.00%</u>

E. Accounts and Records

The Association is not an insurance company; therefore, it is not required to prepare an annual statement on an NAIC association blank. The Association is subject to the provisions of Section 2317(c) of the New York Insurance Law, which provides that every group, association or other organization of insures which engages in joint underwriting or joint reinsurance “shall be subject to examination by the superintendent as often as he may deem it expedient.” In order for the Department to monitor the operations of the Association, and lieu of more frequent Department examination, the Association has agreed to provide a copy of its audited financial statement to the Department on an annual basis.

The Association has provided its audited financial statements to the Department for the period under examination.



### 3. FINANCIAL STATEMENTS

#### A Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of November 30, 2014 as reported by the Association:

##### Assets

Investments	\$1,268,203
Cash and cash equivalents	113,664
Investment income receivable	2,093
Premiums in course of collections, net of commission	47,340
Advances to affiliates (AreA)	<u>55,000</u>
Total admitted assets	<u>\$1,486,300</u>

##### Liabilities and Member's Equity

##### Liabilities

Losses	\$ 10,501
Loss adjustment expenses	28,370
Unearned premium	747,425
State and local taxes	2,155
Other expenses	<u>44,534</u>
Total Liabilities	\$ 832,985
Member's Equity	<u>653,315</u>
Total Liabilities and Member's Equity	<u>\$1,486,300</u>

Note: Excise Bond Underwriters is not-for-profit association. It is not required to file federal income tax returns.

## B. Statement of Income

Net income for the five-year examination period, December 1, 2009 through November 30, 2014, was \$326,702 detailed as follows:

Underwriting Income

Premiums earned		\$ 3,085,638
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## Deductions:

Losses and loss adjustment expenses incurred	\$ 301,962	
Other underwriting expenses incurred	<u>2,697,315</u>	

Total underwriting deductions		<u>2,999,277</u>
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Net underwriting gain or (loss)		86,361
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Investment Income

Net realized capital gain	\$ <u>126,532</u>	
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Net investment gain or (loss)		126,532
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Other Income

Counter service charges	\$ 4,850	
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Agents balances – charge off	(17)	
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Member withdrawal settlement	<u>108,976</u>	
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Total other income		<u>113,809</u>
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Net Income		\$ <u>326,702</u>
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C. Members' Equity

Member's equity increased \$317,081 during the five-year examination period December 1, 2009 through November 30, 2014, detailed as follows:

Members' equity per report on examination as of November 30, 2009			\$336,234
	<u>Gains in</u> <u>Member's</u> <u>Equity</u>	<u>Losses in</u> <u>Member's</u> <u>Equity</u>	
Net income	\$326,702		
Change in non-admitted assets		\$ 1,012	
Distribution retained	21,391		
Distribution to member companies		30,000	
Total gains and losses	<u>\$348,093</u>	<u>\$31,012</u>	
Net increase (decrease) in Members' equity			<u>317,081</u>
Members' equity per report on examination as of November 30, 2014			<u>\$653,315</u>

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

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

<u>ITEM</u>		<u>PAGE NO.</u>
A.	Accounts and Records It was recommended that the Association provide a copy of its audited financial statements to the Department on an annual basis.	5
	The Association has complied with this recommendation.	

5. **SUMMARY OF COMMENTS AND RECOMMENDATIONS**

This report contains no comments or recommendations.

Respectfully submitted,

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Veronica Duncan Black  
Senior Insurance Examiner

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

Veronica Duncan Black, being duly sworn, deposes and says that the foregoing report, subscribed by her, is true to the best of her knowledge and belief.

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Veronica Duncan Black

Subscribed and sworn to before me

this \_\_\_\_\_ day of \_\_\_\_\_, 2017.

*APPOINTMENT NO. 31377*

*NEW YORK STATE*

***DEPARTMENT OF FINANCIAL SERVICES***

*I, ANTHONY ALBANESE, Acting 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:*

***Veronica DuncanBlack***

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

***Excise Bond Underwriters***

*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 17th day of August, 2015*

***ANTHONY ALBANESE***  
*Acting Superintendent of Financial Services*

By:



*Rolf Kaumann  
Deputy Chief Examiner*

