

REPORT ON EXAMINATION

OF

SENECA INSURANCE COMPANY, INC.

AS OF

DECEMBER 31, 2019

DATE OF REPORT

MAY 26, 2021

EXAMINER

LAMIN JAMMEH

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Department of Financial Services

ANDREW M. CUOMO
Governor

LINDA A. LACEWELL
Superintendent

May 26, 2021

Honorable Linda A. Laceywell
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 32099 dated June 17, 2020, attached hereto, I have made an examination into the condition and affairs of Seneca Insurance Company, Inc. as of December 31, 2019, and submit the following report thereon.

Wherever the designation “the Company” appears herein without qualification, it should be understood to indicate Seneca Insurance Company, Inc.

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 remotely due to the Governor’s Executive Order of New York State on PAUSE regarding the COVID-19 pandemic.

1. SCOPE OF EXAMINATION

The Department has performed an examination of Seneca Insurance Company Inc., a multi-state insurer. The previous examination was conducted as of December 31, 2014. This examination covered the five-year period from January 1, 2015 through December 31, 2019. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

The examination was conducted in conjunction with the state of Delaware, which was the lead state of the Fairfax Group of regulated U.S. property and casualty insurance companies (Fairfax U.S. Group). The examination was performed concurrently with the examinations of the following insurers:

Crum & Forster Subgroup (Crum Group):

<u>Company Name</u>	<u>NAIC Number</u>	<u>State of Domicile</u>
United States Fire Insurance Company	21113	DE
Crum & Forster Specialty Insurance Company	44520	DE
The North River Insurance Company	21105	NJ
First Mercury Insurance Company	10657	DE
Crum & Foster Indemnity Company	31348	DE
Seneca Insurance Company, Inc.	10936	NY
Seneca Specialty Insurance Company	10729	DE
Crum & Forster Insurance Company	42471	NJ
American Underwriters Insurance Company	10251	AK
MTAW Insurance Company	16498	DE

Hudson Subgroup – 100% owned by Odyssey Re Subgroup below:

<u>Company Name</u>	<u>NAIC Number</u>	<u>State of Domicile</u>
Hudson Insurance Company	25054	DE
Hudson Excess Insurance Company	14484	DE
Hudson Specialty Insurance Company	37079	NY

Odyssey Re Subgroup:

<u>Company Name</u>	<u>NAIC Number</u>	<u>State of Domicile</u>
Greystone Insurance Company	10019	CT
Odyssey Reinsurance Company	23680	CT

Zenith Subgroup:

<u>Company Name</u>	<u>NAIC Number</u>	<u>State of Domicile</u>
Zenith Insurance Company	13269	CA
ZNAT Insurance Company	30120	CA

Allied World Subgroup ¹:

<u>Company Name</u>	<u>NAIC Number</u>	<u>State of Domicile</u>
Allied World National Assurance Company	10690	NH
Allied World Assurance Company US Inc.	19489	DE
Allied World Surplus Lines Insurance Company	24319	AK
Allied World Specialty Insurance Company	16624	DE
Allied World Insurance Company	22730	NH
Vantapro Specialty Insurance Company	44768	AK
Vault Reciprocal Exchange FL NY	16186	FL
Vault E&S Insurance Company	16237	AK

Riverstone Subgroup ²:

<u>Company Name</u>	<u>NAIC Number</u>	<u>State of Domicile</u>
Commonwealth Insurance Company of America	10220	DE
TIG Insurance Company	25534	CA

Other states participating in this examination were Arkansas, California, Connecticut, Florida, Illinois, New Hampshire, and New Jersey.

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

¹ Fairfax Financial Holdings Limited and Allied World Assurance Company Holdings, Ltd recently announced, in a November 12, 2020 press release, that they have, through their subsidiaries, entered into an agreement to sell their majority interest in Vault Holdings Inc. The transaction closed on March 1, 2021.

² TIG Insurance Company sold Commonwealth Insurance Company of America to Brit Insurance USA Holdings Inc. (affiliate), effective April 30, 2018.

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
- Holding company description
- Financial statement presentation
- Loss review and analysis
- Significant subsequent events
- Summary of recommendations

A review was also made to ascertain what action was taken by the Company with regard to the recommendation 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 on March 29, 1978, under the laws of New York as Eagle Star Insurance Company of America. It was formed to serve as the corporate vehicle in the domestication of the United States Branch of the Eagle Star Insurance Company, Ltd., London, England, which entered the United States through the State of New York in 1916. The Company was licensed, and the domestication became effective as of July 1, 1978. The present name was adopted on April 8, 1987.

In October 1993, a new holding company, Sen-Tech International Holdings, Inc. ("Sen-Tech") was formed. In April 2000, Sen-Tech entered into a merger agreement to be acquired by Crum and Forster Holdings Inc., which is a subsidiary of Fairfax Financial Holdings Limited, a Canadian based publicly held holding company. The transaction was completed in August 2000, with the acquirer being The North River Insurance Company, which is a wholly owned subsidiary of Crum and Forster Holdings Corp.

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 members. The board meets four times during each calendar year. At December 31, 2019, the board of directors was comprised of the following seven members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Marc J. Adee Morristown, NJ	President and Chief Executive Officer, The North River Insurance Company
Nicole E. Bennett-Smith Morristown, NJ	Senior Vice President and Chief of Staff, United States Fire Insurance Company
Jessica M. Frankovich Chicago, IL	Senior Vice President, Seneca Insurance Company, Inc.
Keith McCarthy New York, NY	Executive Vice President and Chief Underwriting Officer, Seneca Insurance Company, Inc.
Arleen A. Paladino Morristown, NJ	Treasurer, Seneca Insurance Company, Inc.
Anthony R. Slimowicz Morristown, NJ	Executive Vice President and Chief Operating Officer, The North River Insurance Company
Marc T.A. Wolin New York, NY	President and Chief Executive Officer, Seneca Insurance Company, Inc.

As of December 31, 2019, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Marc J. Adee	Chairman of the Board
Marc T.A. Wolin	President and Chief Executive Officer
Keith McCarthy	Executive Vice President and Chief Underwriting Officer
Robert S. Bennett	Senior Vice President
Michael P.K. Ziemer	Senior Vice President
Arleen A. Paladino	Treasurer
James V. Kraus	Assistant Vice President and Secretary
Yun T. Yap	Vice President and Controller

B. Territory and Plan of Operation

As of December 31, 2019, the Company was licensed to write business in all 50 states, as well as the District of Columbia and Puerto Rico.

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>
4	Fire
5	Miscellaneous property
6	Water damage
7	Burglary and theft
8	Glass
9	Boiler and machinery
10	Elevator
12	Collision
13	Personal injury liability
14	Property damage liability
15	Workers' compensation and employers' liability
16	Fidelity and surety
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine
21	Marine protection and indemnity

The Company is also licensed to write special risk insurance pursuant to Section 6302 of the New York Insurance Law.

Based on 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, 41 and 63 of the New York Insurance Law, the Company is required to maintain a minimum surplus to policyholders in the amount of \$3,700,000.

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>
2015	\$179,247,710	\$111,652,418	\$290,900,128
2016	\$184,789,644	\$ 98,414,559	\$283,204,203
2017	\$182,773,627	\$ 68,777,637	\$251,551,264
2018	\$199,679,761	\$ 65,126,949	\$264,806,710
2019	\$221,346,129	\$ 71,291,445	\$292,637,574

The Company writes risks, which are classified as “main street” and “specialty lines”. Main street risks are classified as commercial multiple peril, inland marine, fire, and other liability occurrence. Specialty lines include bail bonds, custom property, and excess and surplus lines of insurance that is written through its wholly owned subsidiary, Seneca Specialty Insurance Company (“SSIC”). In 2019, approximately 42.5% of direct written premiums were derived from New York.

Assumed reinsurance accounted for 24.36% of the Company’s gross premium written at December 31, 2019. The Company’s assumed business is derived from business assumed from its subsidiary, SSIC, pursuant to the terms of a 100% quota share treaty agreement with SSIC. During the examination period, SSIC’s business was predominately comprised of monoline custom property business, and binding authority business generated by excess and surplus lines wholesalers offering package and monoline casualty insurance. In 2017, the binding authority business was transferred to an affiliate.

C. Reinsurance Ceded

The Company had only one ceded reinsurance agreement contract in place at December 31, 2019. The Company entered into a 100% quota share and loss portfolio agreement with its affiliate United States Fire Insurance Company (“US Fire”), effective April 1, 2013. The agreement superseded and replaced any and all prior reinsurance agreements in existence between the parties as of the effective date. It is noted that US Fire was examined concurrently with the Company and there were no examination changes that were made to US Fire’s balance sheet or income statement.

As part of the agreement, the Company assigned all of its rights, title and interest in its existing reinsurance agreements to US Fire. The Company’s non-affiliated reinsurance coverage inures to the benefit of US Fire, and US Fire assumes the counter-party credit risk involved with the ceded reinsurance contracts.

The counter-party credit risk is mitigated by the collateral provided by a trust account established by US Fire for the benefit of the Company. This collateral is required, pursuant to the 100% quota share agreement between the Company and US Fire. The agreement requires US Fire to establish a trust account for the benefit of the Company into which US Fire will deposit funds if the unsecured recoverables to surplus ratio exceeds 150%. The trust is required to maintain a minimum balance of \$125,000,000.

Effective June 1, 2016, the Department approved an amendment to the reinsurance agreement which decreases the trust requirement by increasing the ratio of unsecured reinsurance recoverables to the Company's surplus from 150% to 250% with no minimum balance requirement.

Effective June 1, 2019, the Department non-disapproved an amendment to the reinsurance agreement which removed the requirement for US Fire to hold money in trust for benefit of the Company and replaced it with a premium funds held provision pursuant to which the Company shall withhold premium funds from the reinsurer. The amount of the premium funds withheld at December 31, 2019 was \$18,902,403.

This reinsurance agreement was 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. The ceded reinsurance agreement was accounted for utilizing reinsurance accounting as set forth in SSAP No. 62R.

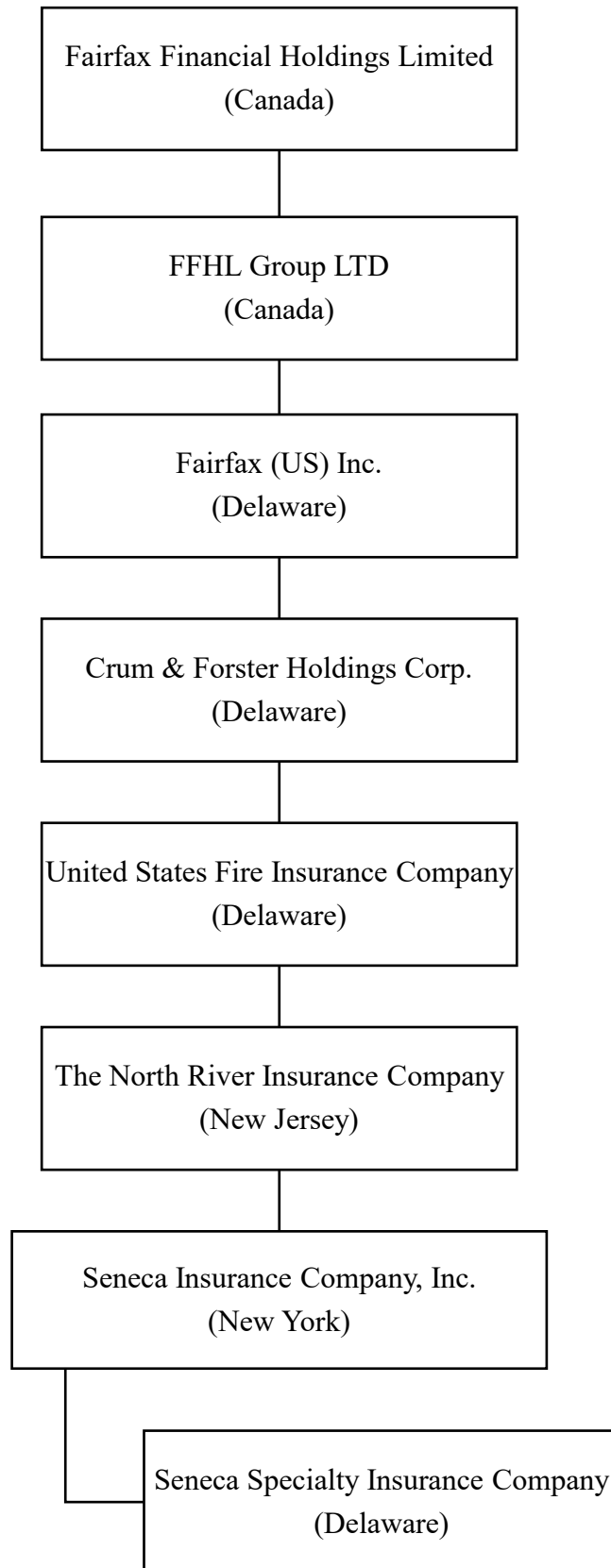
D. Holding Company System

The Company is a member of Fairfax Financial Holdings, Limited ("FFHL"), a publicly-held Canadian holding company which owns a substantial number of insurance enterprises. The Company is a wholly owned subsidiary of The North River Insurance Company ("North River"), a New Jersey corporation. North River is a wholly owned subsidiary of US Fire, which in turn is a wholly owned subsidiary of Crum & Forster Holdings Corp. ("C&F"), which in turn is a wholly owned subsidiary of Fairfax (US) Inc., and ultimately controlled by FFHL.

The Company wholly owns SSIC, a Delaware domiciled insurer. SSIC conducts business as a non-admitted excess and surplus lines carrier in all 50 states and the District of Columbia.

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 52.

The following is abridged chart of the holding company system at December 31, 2019:



At December 31, 2019, the Company was party to the following agreements with other members of its holding company system:

Administrative Services Agreement

Effective August 31, 2000, the Company entered into an administrative services agreement with US Fire. Pursuant to the terms of the agreement each party agreed to provide certain underwriting, claims, policy administration and general services for each other.

Tax Allocation Agreement

Pursuant to the terms of this agreement, the Company files a consolidated federal income tax return with its parent company, Fairfax (US) Inc. The agreement became effective January 3, 2000.

Investment Management Agreement

Effective October 1, 2002, the Company entered into an investment management agreement with Hamblin Watsa Investment Counsel Ltd. (“Hamblin Watsa”) and Fairfax Financial Holdings Limited (“Fairfax Financial”). Pursuant to this agreement, Hamblin Watsa performs all functions relative to the agreement of the Company’s investment portfolio, and Fairfax Financial provides investment administration services to the Company. The agreement was amended on January 1, 2005.

Underwriting and Claims Administrative Services Agreement

Effective January 1, 2008, the Company entered into an underwriting and claims administrative services agreement with SSIC. Pursuant to this agreement, the Company acts as the manager on behalf of SSIC to perform all functions related to underwriting, claims service and office operations.

Master Administrative Services Agreement

Effective November 1, 2014, the Company entered into a master administrative services agreement among various U.S. operating subsidiaries of FFHL. Each party to the agreement may provide certain administrative services to any other party. Each party provides quarterly detailed statements to each company to which it provided services during the quarter. Effective August 1, 2018, this agreement was amended to add the Allied World subgroup.

The above agreements were filed with the Department pursuant to Section 1505 of the New York Insurance Law.

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2019, as reported by the Company:

Assets

	<u>Assets</u>	<u>Nonadmitted</u> <u>Assets</u>	<u>Net Admitted</u> <u>Assets</u>
Bonds	\$ 45,973,676	\$ 0	\$ 45,973,676
Common stocks (stocks)	53,966,223	0	53,966,223
Cash, cash equivalents and short-term Investments	36,246,826	0	36,246,826
Investment income due and accrued	317,043	0	317,043
Uncollected premiums and agents' balances in the course of collection	6,334,002	478,190	5,855,812
Deferred premiums, agents' balances and installments booked but deferred and not yet due	36,973,650	0	36,973,650
Amounts recoverable from reinsurers	44,492,668	0	44,492,668
Current federal and foreign income tax recoverable and interest thereon	641,290	0	641,290
Net deferred tax asset	1,375,830	0	1,375,830
Electronic data processing equipment and Software	8,867,144	8,687,411	179,733
Furniture and equipment, including health care delivery assets	766,791	766,791	0
Receivables from parent, subsidiaries and Affiliates	596,083	0	596,083
Equities and deposits in pools and associations	835,764	0	835,764
Miscellaneous receivables	844	0	844
Other assets nonadmitted	<u>791,270</u>	<u>791,270</u>	<u>0</u>
Total assets	<u>\$238,179,104</u>	<u>\$10,723,662</u>	<u>\$227,455,442</u>

Liabilities, surplus and other fundsLiabilities

Losses and loss adjustment expenses	\$ 0
Commissions payable, contingent commissions and other similar charges	1,239,014
Other expenses (excluding taxes, licenses and fees)	279,080
Taxes, licenses and fees (excluding federal and foreign income taxes)	693,300
Ceded reinsurance premiums payable (net of ceding commissions)	53,761,356
Funds held by company under reinsurance treaties	18,902,403
Amounts withheld or retained by company for account of others	5,191,163
Miscellaneous payables	<u>159,339</u>
Total liabilities	\$ 80,225,655

Surplus and other funds

Common capital stock	\$ 4,800,000
Gross paid in and contributed surplus	26,275,566
Unassigned funds (surplus)	<u>116,154,221</u>
Surplus as regards policyholders	<u>147,229,787</u>
Total liabilities, surplus and other funds	<u>\$227,455,442</u>

Note: The Internal Revenue Service has completed its audit of the Company's consolidated federal income tax returns through tax year 2018. No adjustments were made subsequent to the date of examination and arising from said audits in the financial statements included in this report. An audit covering tax year 2019 is currently 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 as reported by the Company was \$2,445,219 as detailed below:

Underwriting Income

Premiums earned	\$	0
Net underwriting gain or (loss)		0

Investment Income

Net investment income earned	\$9,913,636	
Net realized capital gain	<u>(6,812,165)</u>	
Net investment gain or (loss)		\$3,101,471
Federal and foreign income taxes incurred		<u>656,252</u>
Net income		<u>\$2,445,219</u>

C. Capital and Surplus

Surplus as regards policyholders increased \$13,082,990 during the five-year examination period January 1, 2015 through December 31, 2019, as reported by the Company, detailed as follows:

Surplus as regards policyholders as reported by the Company as of December 31, 2014			\$134,146,796
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income	\$ 2,445,219		
Net unrealized capital gains or (losses)	4,877,488		
Change in net deferred income tax	13,406,030		
Dividends to stockholders		\$2,600,000	
Change in nonadmitted assets	<u>0</u>	<u>5,045,747</u>	
Total gains and losses	<u>\$20,728,737</u>	<u>\$7,645,747</u>	
Net increase (decrease) in surplus			<u>13,082,990</u>
Surplus as regards policyholders as reported by the Company as of December 31, 2019			<u>\$147,229,786</u>

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

Capital paid in is \$4,800,000 consisting of 24,000 shares of \$200 par value per share common stock. Gross paid in and contributed surplus is \$26,275,566. Gross paid in and contributed surplus did not change during the examination period.

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of \$0 is the same as reported by the Company as of December 31, 2019. This \$0 liability is reflective of the 100% quota share agreement with US Fire (refer to section 2C for further description). 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

On March 11, 2020, the World Health Organization declared an outbreak of a novel coronavirus (“COVID-19”) pandemic. The COVID-19 pandemic has continued to develop throughout 2020, with significant uncertainty remaining regarding the full effect of COVID-19 on the U.S. and global insurance and reinsurance industry. At the time of releasing this report, the examination’s review noted that there has not been a significant impact to the Company. The Department has been in communication with the Company regarding the impact of COVID-19 on its business operations and financial position. The Department continues to closely monitor the impact of the pandemic on the Company and will take necessary action if a solvency concern arises.

6. 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. <u>Loss and Loss Adjustment Expenses</u>	16
It was recommended that the Company include details of the unallocated loss adjustment expenses (ULAE) analysis in future actuarial reports.	

The Company has complied with this recommendation.

7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

This report on examination does not contain any comments or recommendations.

Respectfully submitted,

_____/S/_____
Lamin Jammeh
Financial Service Examiner 2

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

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

_____/S/_____
Lamin Jammeh

Subscribed and sworn to before me

this _____ day of _____, 2021.

NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

I, Linda A. Lacewell, 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:

Lamin Jammeh

as a proper person to examine the affairs of the

Seneca 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 17th day of June, 2020

*LINDA A. LACEWELL
Superintendent of Financial Services*

By:

Joan L. Riddell

*Joan Riddell
Deputy Bureau Chief*

