

REPORT ON EXAMINATION

OF

INTERBORO INSURANCE COMPANY

AS OF

DECEMBER 31, 2019

DATE OF REPORT

MARCH 2, 2021

EXAMINER

LEE PROWELL

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## Department of Financial Services

**ANDREW M. CUOMO**  
Governor

**LINDA A. LACEWELL**  
Superintendent

March 2, 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 32045 dated February, 27, 2020, attached hereto, I have made an examination into the condition and affairs of Interboro Insurance Company 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 Interboro 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 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 Interboro Insurance Company, 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 Florida, which was the lead state of the United Insurance Holdings Group. The examination was performed concurrently with the examinations of the following Florida insurers: Journey Insurance Company (“JIC”), American Coastal Insurance Company (“ACIC”) and United Property and Casualty Insurance Company (“UPCIC”).

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
- 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 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

Interboro Insurance Company was incorporated under the laws of the State of New York on March 7, 1914, as the Brewers Mutual Indemnity Insurance Company. It became licensed on March 7, 1914 and commenced business on July 1, 1914. On December 24, 1918, the Company changed its name to Interboro Mutual Indemnity Insurance Company. In 1949, the Company amended its license to write multiple lines of insurance.

Due to financial difficulties and deterioration of surplus, the Company was placed into rehabilitation by an order of the Supreme Court of the State of New York, signed April 5, 2004. The Superintendent of the Department was appointed as rehabilitator of the Company. On December 22, 2006, the rehabilitator filed a petition with the County Clerk of Nassau County to request a court order for the conversion of the Company from a mutual insurer to a stock insurer. Effective February 1, 2007, the conversion of the Company was authorized and approved by the Court in Nassau County. The Company's charter was amended and restated for the issuance of common capital stock and the conversion to a stock insurer.

On November 6, 2006, Interboro LLC, a Delaware limited liability company, purchased the Company. On February 9, 2007, the Company emerged from rehabilitation as a stock insurance company and adopted its current title.

On April 29, 2016, the Company was acquired by United Insurance Holdings Corp. As part of the sale, a reinsurance agreement was executed whereby all of the Company's auto business was assumed by a former affiliate, Maidstone Insurance Company ("Maidstone"), and all of the homeowners business of Maidstone was assumed by the Company. There were also agreements executed whereby all of Maidstone's homeowners business would be renewed into the Company and all of the Company's auto business would be renewed into Maidstone.

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

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Gregory Crosswell Branch Ocala, Florida	Chairman and President, Branch Properties, Inc.
Kern Michael Davis St. Petersburg, Florida	Medical Director, St. Anthony's Hospital Laboratory
John Leslie Forney Tampa, Florida	President, United Insurance Holdings Corporation
William Hall Hood III Tarpon Springs, Florida	Chief Executive Officer and Chairman, Special Data Processing Corporation
Sherrill Wayne Hudson Coral Gables, Florida	Chairman of the Board, TECO Energy, Inc.
Alec L. Poitevint II Bainbridge, Georgia	Chairman and President, Southeastern Minerals, Inc.
Peter Neil Resnick Jericho, New York	President of Insurance, Interboro Insurance Company
Kent Guy Whittemore St. Petersburg, Florida	Attorney, The Whittemore Law Group, P.A.

The by-laws require that regular meetings of the board be held in the state of New York once within each calendar quarter. It was noted that a total of five board meetings were held during the five-year examination period. It appears that the Company lacks board oversight based on the numbers of board meetings held during the examination period.

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

<u>Name</u>	<u>Title</u>
John Leslie Forney	Chief Executive Officer & President
Brad Stewart Kalter	General Counsel & Chief Legal Officer/Secretary
Bennett Bradford Martz	Chief Financial Officer
Deepak Menon	Chief Revenue Officer

It was noted that the Company did not comply with its by-laws as follows:

1. Annual meetings of the board were not held on the date prescribed by the by-laws.
2. Regular meetings of the board were not held in the state of New York
3. Regular meetings of the board were not held once within each calendar quarter.

4. The board did not establish an Executive Committee.
5. The Audit Committee and the Nominating and Compensation Committee each had three members which did not comply with the by-laws requirement that these committees have at least four members.

It is recommended that the Company comply with its by-laws.

Section 312(b) of the New York Insurance Law states, in part:

“A copy of the report shall be furnished by such insurer . . . to each member of its board of directors and each such member shall sign a statement which shall be retained in the insurer’s files confirming that such member has received and read such report. . .”

It was noted that a director did not provide a signed statement stating that he read the prior report on examination pursuant to Section 312 of the New York Insurance Law. It is recommended that the Company furnish a copy of the report on examination to each member of its board of directors and have each such member sign a statement which shall be retained in the insurer's files, confirming that such member has received and read such report in compliance with Section 312(b) of the New York Insurance Law.

#### B. Territory and Plan of Operation

As of December 31, 2019, the Company was licensed to write business in Alabama, Louisiana, New York, South Carolina 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(i)	Accident & health
4	Fire
5	Miscellaneous property
6	Water damage
7	Burglary and theft
8	Glass
10	Elevator
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 (inland only)

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 \$1,150,000.

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	\$62,831,801		\$62,831,801
2016	\$44,592,699		\$44,592,699
2017	\$33,942,664		\$33,942,664
2018	\$29,618,468	\$ 18,567,971	\$48,186,439
2019	\$26,154,832	\$(18,567,971)	\$ 7,586,861

During the examination period, the Company mainly wrote homeowners multiple peril business. In 2019, direct written premiums derived from New York State.

Section 1505(d) of the New York Insurance Law states, in part:

“The following transactions between a domestic controlled insurer and any person in its holding company system may not be entered into unless the insurer has notified the superintendent in writing of its intention to enter into any such transaction at least thirty days prior thereto, or with regard to reinsurance treaties or agreements at least forty-five days prior thereto. . .and the superintendent has not disapproved it. . .

(2) reinsurance treaties or agreements . . .

(4) any material transaction, specified by regulation, that the superintendent determines may adversely affect the interests of the insurer's policyholders or shareholders . . .”

Effective December 31, 2018, the Company was party to an 80% quota share reinsurance agreement with its affiliate, UPCIC, whereby the Company assumed 80% of UPCIC's New York and South Carolina premiums. This agreement was entered into without prior notification and non-disapproval, as required by Section 1505(d)(2) of the New York Insurance Law.

It is recommended that the Company comply with Section 1505(d)(2) of the New York Insurance Law and not enter into a reinsurance agreement with an affiliate without obtaining non-disapproval from the Department. As of May 31, 2019, the agreement was canceled, which resulted in a refund of amounts paid to UPCIC for premiums assumed, as listed in the table above.

C. Reinsurance Ceded

The Company, along with other members of the United Insurance Holdings Group, have structured its ceded reinsurance program as follows:

<u>Type of Treaty</u>	<u>Cession</u>
<u>Excess of Loss per Risk</u>	\$2,500,000 in excess of \$1,500,000 net loss, each risk.  Per occurrence limits of \$5,000,000 on all net loss on all risks in one occurrence and \$7,500,000 on all net loss on all risks in all occurrences during each agreement year.
<u>Aggregate Excess of Loss</u>	Ultimate net loss in excess of 5.75% of Company's earned premiums calculated cumulatively through the end of the calendar quarter under consideration. Limited to \$30,000,000 for loss occurrences commencing during the term of the contract.
<u>Property Catastrophe Excess of Loss for Named Storm or Earthquake</u> (6 layers)	\$1,239,000,000 ultimate net loss in excess of \$26,000,000 each loss occurrence, limited to \$1,239,000,000 aggregate for loss occurrences commencing during the contract.
<u>Property Catastrophe Excess of Loss, All Other Perils (Excluding Hurricane and Earthquake)</u> (3 layers)	\$85,000,000 ultimate net loss in excess of \$15,000,000 each loss occurrence, limited to \$100,000,000 aggregate for loss occurrences commencing during the contract.

For the Aggregate Excess of Loss contract and the Property Catastrophe Excess of Loss, All Other Perils contract, the allocation of premium and loss recoveries amongst the cedants is governed by a retention allocation agreement (refer to Section 2D of this report for further description).

It is the Company'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. Representations were supported by appropriate risk transfer analyses 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.

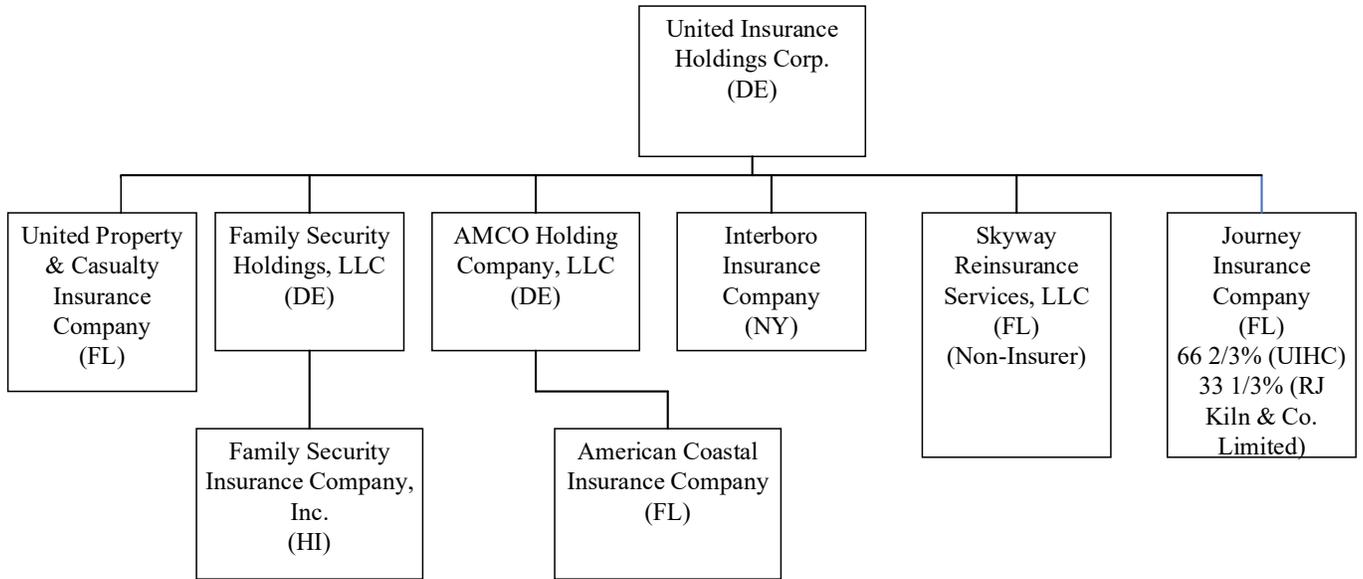
D. Holding Company System

The Company is a member of the United Insurance Holdings Group. The Company is 100% owned by United Insurance Holdings Corp. (“UIHC”), a publicly-held Delaware holding company. Mr. Robert Daniel Peed has controlling interest of UIHC, as defined by Section 1501 of the New York Insurance Law. As of December 31, 2019, Mr. Peed held a 4.5% direct interest in UIHC and an 8.1% indirect interest by having the power to vote the shares held of record by Mrs. Leah Anneberg Peed. Additionally, Peed FLP1, Ltd. LLP, of which Mr. Peed is the sole limited partner, held a 27.6% interest in UIHC.

UIHC is a holding company primarily engaged in the residential personal and commercial property and casualty insurance business in the United States. Its largest insurance subsidiary is UPCIC. Business is also written through American Coastal Insurance Company, Family Security Insurance Company, Inc., Interboro Insurance Company, and Journey Insurance Company.

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 an abridged chart of the holding company system at December 31, 2019:



## Holding Company Agreements

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

### Tax Allocation Agreement

Effective July 1, 2012, a tax allocation agreement was executed between UIHC and its subsidiaries. This agreement was amended on April 28, 2016, to include the Company as party to the agreement. The Company, along with its parent and affiliates, files a consolidated federal income tax return. Pursuant to the agreement, the income taxes were allocated to each subsidiary in proportion to the amount of taxable income that each subsidiary contributed to the consolidated tax return.

### Retention Allocation Agreements

Effective January 1, 2019, the Company and certain affiliates (collectively, “cedant”) entered into a retention allocation agreement. Under the agreement, each cedant involved in a loss occurrence subject to a specified reinsurance contract shall be allocated a share of the total losses recovered under such reinsurance contract equal to the cedant’s loss recovery share. The reinsurance premium paid under each excess layer of the reinsurance contract is allocated to each cedant based upon its percentage of the modeled expected loss for such excess layer. This allocation agreement is in effect until January 1, 2020.

The Company was also a party to two previous retention allocation agreements with its affiliates. The period for the first agreement was June 1, 2017 to May 31, 2018 and included affiliates UPCIC, ACIC, and Family Security Insurance Company, Inc. The period for the second agreement was June 1, 2018 through May 31, 2019 and additionally included Blueline Cayman Holdings. These agreements were entered into without the approval of the Department, as required by Section 1505 of the New York Insurance Law. The Department became aware of these agreements in April 2019. The 2017 retention agreement was reflected on Schedule F, Part 1 of that year’s annual statement which indicated approximately \$6.4 million in assumed losses excluding IBNR with no compensating premium. Note 10B of the 2017 Annual Statement indicated that the Company assumed \$8,885,439 in catastrophe losses in connection with the first retention agreement. In 2018, there was no reflection of the retention allocation agreement in Schedule F, Part 1. Note 10B of the 2018 Annual Statement indicated that the Company assumed \$3,463,822 in catastrophe losses in connection with the second retention allocation agreement.

The Department rejected these agreements as they attempted to assign losses to a Company based on its surplus position rather than risks assumed. These agreements were not viewed as fair and equitable as the Company assumed losses without obtaining corresponding premium income. The Department requested that the Company cancel these agreements and reverse the catastrophe losses previously assumed by the Company pursuant to the agreements. The reversal was accomplished through prior period adjustments to the 2019 surplus.

None of the intercompany retention allocation agreements were filed with this Department pursuant to Section 1505(d)(4) of the New York Insurance Law.

It is recommended that the Company file intercompany agreements pursuant to Section 1505(d)(4) of the New York Insurance Law.

#### Unauthorized Dividend Payment

On March 22, 2017, the United Insurance Holdings Group, in connection with the acquisition of the Company, submitted a commitment letter stating that the Company would not pay a dividend for a period of two years from the date of consummation of the acquisition without approval of the Department. The acquisition took effect in April 2017. However, during 2018, the Company paid a dividend to its parent in the amount of \$1,764,329 without the prior approval of the Department and in violation of the Company's commitment letter to the Department. The Department pointed this out and the funds were returned to the Company in June 2019.

It is recommended that the Company honor all commitments to the Department going forward.

#### E. Significant Ratios

Except for the two-year overall operating ratio, the Company's operating ratios, computed as of December 31, 2019 based on annual statement data, 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	7%
Adjusted liabilities to liquid assets	53%
Two-year overall operating	108%

The Company's two-year overall operating ratio of 108% is in excess of the NAIC's benchmark of 100%. The unusual score is based on the decrease in written premium from 2018 to 2019. The reduction in written premium resulted from the cancellation of an 80% assumed premium quota share reinsurance agreement with affiliate, UPCIC. As previously noted, the treaty, under which unearned premiums were assumed by the Company at year end 2018, was reversed in the 2019 annual statement. The implementation of the retention allocation agreement, described in Section 2D of this report, also adversely affected the ratio as it added \$3,463,822 in loss and loss adjustment expenses incurred in 2018. As noted, the retention allocation agreement was reversed in 2019 directly through surplus.

### Underwriting Ratios

The underwriting ratios presented below are on an earned/incurred basis and encompass the five-year period covered by this examination and reflect the adjustments noted in section 3D of this report:

	<u>Amount</u>	<u>Ratio</u>
Losses and loss adjustment expenses incurred	\$ 96,825,068	54.47%
Other underwriting expenses incurred	62,594,736	35.21
Net underwriting gain (loss)	<u>18,341,928</u>	<u>10.32</u>
Premiums earned	<u>\$177,761,732</u>	<u>100.00%</u>

The Company's reported risk-based capital ("RBC") score was 805.7% at December 31, 2019. The RBC score 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 score of 200% or below can result in regulatory action.

### F. Accounts and Records

#### i. Investment Management Agreement

During the examination period, the Company represented in its filed annual statements that Asset Allocation and Management, an unaffiliated entity, acts as its' investment manager; however, the Company was unable to provide a written agreement with Asset Allocation and Management.

It is recommended that the Company prepare and maintain a written investment management agreement with its investment manager or third party acting on behalf of the Company as investment

manager. Subsequent to the examination, the investment management agreement in place with UPCIC and Asset Allocation and Management was amended to include the Company.

ii. Custodian Agreement

The Company identified Bank of America Merrill Lynch as custodian with which the Company has an agreement that complies with the NAIC Financial Condition Examiners Handbook. The examiner's review indicated that the custodian agreement with Bank of America Merrill Lynch does not include the minimum safeguards required by the NAIC Financial Condition Examiners Handbook ("Handbook"). The Handbook states the following:

"1. An insurance company may, by written agreement, provide for the custody of its securities with a custodian. If permitted by the state of domicile, the custodian must either be a broker/dealer that is registered with and subject to jurisdiction of the Securities and Exchange Commission, maintains membership in the Securities Investor Protection Corporation, and has a tangible net worth equal to or greater than \$250,000,000; or a national bank, federal home loan bank, or trust company which is adequately capitalized and qualified to accept securities as determined by the standards adopted by the U.S. banking regulators and regulated by state banking laws or a member of the Federal Reserve system. Custodial agreements shall be authorized by a resolution on behalf of the board of directors or an authorized committee of the insurance company. The agreement should state that certificated securities of the insurance company shall be held separate from all other securities. Those securities held indirectly by a custodian or in a clearing corporation shall be separately identified on the custodian's official records as being owned by the insurance company. Registered custodial securities shall be registered in the name of the company, in the name of a nominee of the company, in the name of the custodian or its nominee, or clearing corporation or its nominee. The securities, other than those held to meet deposit requirements, shall be held subject to the instructions of the insurance company, and shall be withdrawable upon the demand of the insurance company. Confirmation of all transfers should be provided to the insurance company in hardcopy or in electronic format.

2. Custodial or safekeeping agreements with an agent, or clearing corporation meeting the requirements herein should contain satisfactory safeguards and controls, including but not limited to the provisions provided below.

For the purpose of this guidance, an agent is a national bank, federal home loan bank, trust company or broker/dealer with an account in a clearing corporation, or a member of the Federal Reserve System. A clearing corporation is a corporation as defined in Article 8 of the Uniform Commercial Code that is organized for the purpose of effecting transactions in securities by computerized book-entry, including the Treasury/Reserve Automated Debt Entry Securities System (TRADES) and Treasury Direct book entry securities systems, except those securities issued under the laws of a foreign country.

- a. The custodian is obligated to indemnify the insurance company for any insurance company's loss of securities in the custodian's custody, except that, unless domiciliary state law, regulation or administrative action otherwise require a stricter standard (Section 2.b. sets forth an example of such a stricter standard), the custodian shall not be so obligated to the extent that such loss was caused by other than the negligence or dishonesty of the custodian;
- b. If domiciliary state law, regulation or administrative action requires a stricter standard of liability for custodians of insurance company securities than that set forth in Section 2.a., then such stricter standard shall apply. An example of a stricter standard that may be used is that the custodian is obligated to indemnify the insurance company for any loss of securities of the insurance company in the custodian's custody occasioned by the negligence or dishonesty of the custodian's officers or employees, or burglary, robbery, holdup, theft, or mysterious disappearance, including loss by damage or destruction;
- c. In the event of a loss of the securities for which the custodian is obligated to indemnify the insurance company, the securities shall be promptly replaced or the value of the securities and the value of any loss of rights or privileges resulting from said loss of securities shall be promptly replaced;
- d. The custodian shall not be liable for any failure to take any action required to be taken hereunder in the event and to the extent that the taking of such action is prevented or delayed by war (whether declared or not and including existing wars), revolution, insurrection, riot, civil commotion, act of God, accident, fire, explosions, stoppage of labor, strikes or other differences with employees, laws, regulations, orders or other acts of any governmental authority, or any other cause whatever beyond its reasonable control;
- e. In the event that the custodian gains entry in a clearing corporation through an agent, there should be a written agreement between the custodian and the agent that the agent shall be subjected to the same liability for loss of securities as the custodian. If the agent is governed by laws that differ from the regulation of the custodian, the Commissioner of Insurance of the state of domicile may accept a standard of liability applicable to the agent that is different from the standard liability;
- f. If the custodial agreement has been terminated or if 100% of the account assets in any one custody account have been withdrawn, the custodian shall provide written notification, within three business days of termination or withdrawal, to the insurer's domiciliary commissioner;
- g. During regular business hours, and upon reasonable notice, an officer or employee of the insurance company, an independent accountant selected by the insurance company and a representative of an appropriate regulatory body shall be entitled to examine, on the premises of the custodian, its records relating to securities, if the custodian is given written instructions to that effect from an authorized officer of the insurance company;
- h. The custodian and its agents, upon reasonable request, shall be required to send all reports which they receive from a clearing corporation, which the clearing corporation permits to be redistributed including reports prepared by the custodian's outside auditors, to the insurance company on their respective systems of internal control;

- i. To the extent that certain information maintained by the custodian is relied upon by the insurance company in preparation of its annual statement and supporting schedules, the custodian agrees to maintain records sufficient to determine and verify such information;
- j. The custodian shall provide, upon written request from a regulator or an authorized officer of the insurance company, the appropriate affidavits, with respect to the insurance company's securities held by the custodian;
- k. The custodian shall secure and maintain insurance protection in an adequate amount; and
- l. The foreign bank acting as a custodian, or a U.S. custodian's foreign agent, or a foreign clearing corporation is only holding foreign securities or securities required by the foreign country in order for the insurer to do business in that country. A U.S. custodian must hold all other securities."

It is recommended that the Company obtain an agreement for its custodial account that includes the minimum safeguards required by the NAIC Financial Condition Examiners Handbook.

iii. Department Regulation No. 118 Compliance

Section 89.8 of Department Regulation No. 118 states, in part:

"Every Company required to furnish an annual audited financial report shall require the CPA to report, in writing, to the superintendent, the board of directors and the company's audit committee within five business days of any determination by the CPA that the company has materially misstated its financial condition as reported to the superintendent as of the balance sheet date currently under audit or that the company does not meet the minimum capital or surplus requirement of the insurance law as of that date . . ."

The Company was unable to demonstrate compliance with Section 89.8 of Department Regulation No. 118 neither within the engagement letter nor the qualification letter governing the December 31, 2019 audit of the Company, or otherwise. It is recommended that the Company include language in its CPA engagement letter which would demonstrate compliance with Section 89.8 of Department Regulation No. 118.

Subsequent to the examination, the Company demonstrated compliance with Section 89.8 of Department Regulation No. 118. The CPA engagement letter for the year ending December 31, 2020 was amended to include language that is compliant with Department Regulation No. 118. Additionally, the CPA engagement letter for the year ending December 31, 2021 includes language that is compliant with Department Regulation No. 118.

### 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:

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$46,042,639	\$ 0	\$46,042,639
Cash, cash equivalents and short-term investments	32,757,426	0	32,757,426
Investment income due and accrued	372,194	0	372,194
Uncollected premiums and agents' balances in the course of collection	110,571	12,263	98,308
Deferred premiums, agents' balances and installments booked but deferred and not yet due	623,966	0	623,966
Amounts recoverable from reinsurers	37,864	0	37,864
Net deferred tax asset	613,624	0	613,624
Right-of-use asset - operating	70,254	0	70,254
Other assets	<u>51,755</u>	<u>0</u>	<u>51,755</u>
Total Assets	<u>\$80,680,293</u>	<u>\$12,263</u>	<u>\$80,668,030</u>

Liabilities, Surplus and Other Funds

Losses and loss adjustment expenses		\$12,280,465
Commissions payable, contingent commissions and other similar charges		463,211
Other expenses (excluding taxes, licenses and fees)		65,144
Taxes, licenses and fees (excluding federal and foreign income taxes)		292,327
Current federal and foreign income taxes		2,668,362
Unearned premiums		11,654,276
Advance premium		272,347
Ceded reinsurance premiums payable (net of ceding commissions)		1,424,054
Provision for reinsurance		1,000
Payable to parent, subsidiaries and affiliates		12,606,552
Escheat		424,636
Lease liability		52,372
Claims check suspense		<u>23,964</u>
 Total liabilities		 \$42,228,710
 <u>Surplus and Other Funds</u>		
Common capital stock	\$ 3,000,000	
Gross paid in and contributed surplus	12,000,000	
Unassigned funds (surplus)	<u>23,439,320</u>	
 Surplus as regards policyholders		 <u>38,439,320</u>
 Total liabilities, surplus and other funds		 <u>\$80,668,030</u>

Note: The federal income tax return for tax year 2016 is currently under audit by the Internal Revenue Service. 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 \$15,798,638, as detailed below:

### Underwriting Income

Premiums earned		\$177,761,732
Deductions:		
Losses and loss adjustment expenses incurred	\$109,174,328	
Other underwriting expenses incurred	62,644,801	
Takeout fee income	(28,615)	
Excess credit income	<u>(21,450)</u>	
Total underwriting deductions		<u>171,769,064</u>
Net underwriting gain or (loss)		\$ 5,992,668

### Investment Income

Net investment income earned	\$ 9,202,047	
Net realized capital gain	<u>853,567</u>	
Net investment gain or (loss)		10,055,614

### Other Income

Net gain or (loss) from agents' or premium balances charged off	\$(454,092)	
Finance and service charges not included in premiums	912,592	
Miscellaneous income	36,360	
Excess credit income	120,000	
New York property insurance and relationship dividend	<u>55,187</u>	
Total other income		<u>670,047</u>
Net income before federal and foreign income taxes		\$16,718,329
Federal and foreign income taxes incurred		<u>919,691</u>
Net income		<u>\$15,798,638</u>

C. Capital and Surplus

Surplus as regards policyholders increased \$5,833,441 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			\$32,605,879
	<u>Gains in</u>	<u>Losses in</u>	
	<u>Surplus</u>	<u>Surplus</u>	
Net income	\$15,798,638		
Net unrealized capital gains or losses		\$ 1,727,165	
Change in net deferred income tax		4,965,962	
Change in nonadmitted assets	2,186,813		
Change in provision for reinsurance	92,734		
Dividends to stockholders		15,022,015	
Prior period adjustment - reversal of 2017 retention allocation agreement	8,885,438		
Tax effect of reversal of 2017 retention allocation Agreement		2,132,505	
Prior period adjustment - reversal of 2018 retention allocation agreement	3,463,822		
Tax effect of reversal of 2018 allocation retention Agreement		831,317	
Change in pension liability		71,863	
Adjustment to surplus - accounting changes and correction of errors based on 2014 audited statutory statements	<u>156,823</u>	<u>0</u>	
Total gains and losses	\$30,584,268	\$24,750,827	
Net increase (decrease) in surplus			<u>5,833,441</u>
Surplus as regards policyholders as reported by the Company as of December 31, 2019			<u>\$38,439,320</u>

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

Capital paid in is \$3,000,000 consisting of 100 shares of \$30,000 par value per share common stock. Gross paid in and contributed surplus totaled \$12,000,000.

D. Analysis of Changes to Income

Net income for the examination period, as reported by the Company			\$15,798,638
	<u>Income Increase</u>	<u>Income Decrease</u>	
Prior period adjustment - reversal of 2017 retention allocation agreement	\$8,885,438		
Tax effect of reversal of 2017 retention allocation agreement		\$2,132,505	
Prior period adjustment - reversal of 2018 retention allocation agreement	3,463,822		
Tax effect of reversal of 2018 allocation retention agreement	<u>0</u>	<u>831,317</u>	
Total increases and decreases	\$12,349,260	\$2,963,822	
Net increase (decrease) in income			<u>9,385,438</u>
Net income (loss) for the examination period, after examination adjustments			<u>\$25,184,076</u>

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of \$12,280,465 is the same as reported by the Company as of December 31, 2019. 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 and 2021, 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.

On January 5, 2021, the Department approved a reinsurance agreement between the Company and its affiliate, UPCIC, whereby the Company would assume 100% of UPCIC's New York homeowner's business net of external reinsurance. The effective date of the agreement was December 31, 2020, and the agreement provided that the Company would assume the applicable unearned premiums as of that date. The agreement expires December 31, 2023. The Company's 2020 Annual Statement indicated that \$11,938,247 in premiums were assumed per this reinsurance agreement. UPCIC's 2020 Annual Statement indicated that it wrote approximately \$42 million in direct premiums in New York.

## 6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination contained three recommendations as follows:

<u>ITEM</u>	<u>PAGE NO.</u>
<p>A.     <u>Management</u>  It was recommended that the Company maintain minutes of its scheduled Committee meetings as required by Article IV of its Amended and Restated By-Laws.</p> <p style="padding-left: 40px;">The Company has complied with this recommendation.</p>	<p>5</p>
<p>B.     <u>Accounts and Records</u></p> <p style="padding-left: 20px;">i    <u>Classification of Loss Adjustment Expenses</u>  It was recommended that the Company properly classify salaries paid to claims department employees as A&amp;O expenses, in accordance with SSAP No. 55.</p> <p style="padding-left: 40px;">On April 29, 2016, the Company was acquired by United Insurance Holdings Corp. The Company no longer has claims department employees. External adjuster fees are appropriately classified as A&amp;O expenses.</p> <p style="padding-left: 20px;">ii   <u>Reclassification between Income and Surplus Accounts</u>  It was recommended that the Company be guided by SSAP No. 102 and ensure that accrued pension costs are properly reported in all its future annual statements filed with the Department.</p> <p style="padding-left: 40px;">After being acquired by United Insurance Holdings Corp., the Company no longer maintains a pension plan.</p>	<p>12</p> <p>12</p>

## 7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>	<u>PAGE NO.</u>
<p>A. <u>Corporate Governance</u></p>	
<p style="padding-left: 20px;">i. It is recommended that the Company comply with its by-laws.</p>	5
<p style="padding-left: 20px;">ii. It is recommended that the Company furnish a copy of the report on examination to each member of its board of directors and have each such member sign a statement which shall be retained in the insurer's files, confirming that such member has received and read such report in compliance with Section 312(b) of the New York Insurance Law.</p>	5
<p>B. <u>Territory and Plan of Operations</u></p>	
<p style="padding-left: 20px;">It is recommended that the Company comply with Section 1505(d)(2) of the New York Insurance Law and not enter into reinsurance agreements with affiliates without obtaining non-disapproval from the Department.</p>	7
<p>C. <u>Holding Company System</u></p>	
<p style="padding-left: 20px;">i. It is recommended that the Company file intercompany agreements pursuant to Section 1505(d)(4) of the New York Insurance Law.</p>	11
<p style="padding-left: 20px;">ii. It is recommended that the Company honor all commitments to the Department going forward.</p>	11
<p>D. <u>Accounts and Records</u></p>	
<p style="padding-left: 20px;">i. It is recommended that the Company prepare and maintain a written investment management agreement with its investment manager or third party acting on behalf of the Company as investment manager.</p> <p style="padding-left: 40px;">Subsequent to the examination, the investment management agreement in place with UPCIC and Asset Allocation and Management was amended to include the Company.</p>	13
<p style="padding-left: 20px;">ii. It is recommended that the Company obtain an agreement for its custodial account that includes the minimum safeguards required by the NAIC Financial Condition Examiners Handbook.</p>	15
<p style="padding-left: 20px;">iii. It is recommended that the Company include language in its CPA engagement letter which would demonstrate compliance with Section 89.8 of Department Regulation No. 118.</p> <p style="padding-left: 40px;">Subsequent to the examination, the Company demonstrated compliance with Section 89.8 of Department Regulation No. 118.</p>	15

Respectfully submitted,

\_\_\_\_\_/S/\_\_\_\_\_  
Lee Prowell,  
Senior Insurance Examiner

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

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

\_\_\_\_\_/S/\_\_\_\_\_  
Lee Prowell

Subscribed and sworn to before me

this \_\_\_\_\_ day of \_\_\_\_\_, 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:*

***Lee Prowell***

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

***Interboro 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 27th day of February, 2020*

*LINDA A. LACEWELL  
Superintendent of Financial Services*

*By:*

*Joan L. Riddell*

*Joan Riddell  
Deputy Bureau Chief*

