

REPORT ON EXAMINATION

OF

KENSINGTON INSURANCE COMPANY

AS OF

DECEMBER 31, 2013

DATE OF REPORT

June 25, 2015

EXAMINER

DILBRINA BELGRAVE

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NEW YORK STATE  
DEPARTMENT *of*  
FINANCIAL SERVICES

Andrew M. Cuomo  
Governor

Shirin Emami  
Acting Superintendent

June 25, 2015

Honorable Shirin Emami  
Acting Superintendent 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 31175 dated April 2, 2014, attached hereto, I have made an examination into the condition and affairs of Kensington Insurance Company as of December 31, 2013, and submit the following report thereon.

Wherever the designation “the Company” appears herein without qualification, it should be understood to indicate Kensington 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 office located at 6 West 18<sup>th</sup> Street, 11<sup>th</sup> Floor, New York, NY 10011.

## 1. SCOPE OF EXAMINATION

The Department has performed an examination of the Company, a single-state insurer. The previous examination was conducted as of December 31, 2008. This examination covered the 5-year period from January 1, 2009 through December 31, 2013. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

This examination was conducted in accordance with the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners Handbook (“Handbook”), which requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the 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 Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

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

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

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

A review was also made to ascertain what action was taken by the Company with regard to comments and recommendations contained in the prior report on examination.

This report on examination is confined to financial statements and comments on those matters that involve departures from laws, regulations or rules, or that are deemed to require explanation or description.

## **2. DESCRIPTION OF COMPANY**

Kensington Insurance Company was incorporated under the laws of the State of New York on December 23, 2003. It commenced business on April 8, 2005 as a commercial property and casualty insurer.

Capital paid-in of \$1,000,000 consists of 800,000 shares of \$1.25 par value per share common stock. Gross paid-in and contributed surplus increased by \$6,150,000 during the examination period, as follows:

<u>Year</u>	<u>Description</u>	<u>Contribution</u>	<u>Balance</u>
2009	Beginning gross paid in and contributed surplus		\$7,000,000
2009	Surplus contribution	600,000	
2010	Surplus contribution	1,700,000	
2011	Surplus contribution	1,350,000	
2012	Surplus contribution	500,000	
2013	Surplus contribution	<u>2,000,000</u>	
	Total surplus contributions		<u>6,150,000</u>
2013	Ending gross paid in and contributed surplus		<u>\$13,150,000</u>

As illustrated above, the Company received a surplus contribution from its parent for each year covered by this examination without Department notification or approval.

Section 1505(c) of the New York Insurance Law (“the Law”) requires the Superintendent’s prior approval for contributions, involving an amount equal to or greater than five percent of the Company’s admitted assets, from any person in the insurer’s holding company system. Similarly, Section 1505(d)(1)(C) of the Law requires that an insurer notify the superintendent in writing at least thirty days prior to receiving any contribution, equal to or in excess of the lesser of three percent of the insurer’s admitted assets or twenty-five percent of surplus to policyholders, from any person in its holding company system.

It is recommended that the Company obtain prior approval from the Department before entering into any transaction with a member of its holding company system which is equal or greater than five percent of its admitted assets at last year-end, pursuant to Section 1505(c) of the New York Insurance Law.

It is recommended that the Company notify the Department at least thirty days prior to its intent to entering into any transaction with a member of its holding company system which exceeds the lessor of three percent of its admitted assets or twenty-five percent of its surplus at last year-end, and the Department has not disapproved pursuant to Section 1505(d)(1)(C) of the New York Insurance Law.

A. Management

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

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Peter Cappello Toms River, NJ	Vice President /Director of Insurance Services Kearny Federal Savings Bank Central Jersey Bank Division
Ching Tai Chiang Holmdel, NJ	Shareholder, KP &C Holding Company
Danny Chiang Marlboro, NJ	Dentist and Member Pediatric Dental Alliance, LLC
George Chiang New York, NY	Vice President, Pacific Concord Investment Corporation Vice President, Kensington Insurance Company
Wen-Hui Chiang Holmdel, NJ	Chairman of the Board and Chief Executive Officer Kensington Insurance Company Shareholder, KP&C Holding Company
Matthew Green Takoma Park, MD	UX Designer and Consultant, Matthew Green Design LLC

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
I-Cheng Steve Hsu Holmdel, NJ	Consultant Telecommunication, Self Employed
John Izdebski Jackson, NJ	Principal, Brouwer & Izdebski, a retail insurance brokerage firm in New Jersey
Richard Lai Bronx, NY	Associate Professor, St. John's University
Chuck Kuan Lin Brunswick, NJ	Shareholder, KP&C Holding Company
Tien Wang Lin Holmdel, NJ	Shareholder, KP&C Holding Company
Chiu-Shia Lin Wang Holmdel, NJ	Shareholder, KP&C Holding Company
John E Scanlan Blackwood, NJ	President, Kensington Insurance Company
Brian B Smith Middletown, NJ	Secretary, Kensington Insurance Company

A review of the minutes of the board of directors' meetings held during the examination period indicated that the meetings were generally well attended and each board member had an acceptable record of attendance. However, the minutes of the meetings did not indicate that the investments made by the Company were approved by the board of directors.

Section 1411(a) of the New York Insurance Law states:

“No domestic insurer shall make any loan or investment...unless authorized or approved by its board of directors or a committee thereof responsible for supervising or making such investment or loan. The committee's minutes shall be recorded and a report submitted to the board of directors at its next meeting.”

It is recommended that the Company comply with the provisions of Section 1411(a) of the New York Insurance Law and have its board of directors approve all investments and include such approvals in the minutes of the board of directors meetings.

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

<u>Name</u>	<u>Title</u>
Wen-Hui Chiang	Chairman and Chief Executive Officer
John Scanlan	President
Charles Shen	Chief Financial Officer and Treasurer
Brian Smith	Secretary

i. Conflict of Interest

A review was made of the Company's conflict of interest policy and its procedures for disclosing any potentially material conflicts on the part of its directors, officers or key employees to its board of directors. While the Company has a conflict of interest policy, it does not have a mechanism requiring its directors, officers or key employees to complete an annual conflict of interest questionnaire.

It is recommended that the Company institute a policy requiring all directors, officers and key employees to complete annual conflict of interest questionnaires and submit the completed questionnaires to the Company's board of directors for review.

ii. Fidelity Bond Coverage

The Company did not maintain the minimum amount of fidelity insurance coverage recommended by the NAIC Financial Condition Examiners' Handbook. It is recommended that the company obtain fidelity bond coverage commensurate with its exposure.

B. Territory and Plan of Operation

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

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
12	Collision
13	Personal injury liability
14	Property damage liability
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine

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 and 41 of the New York Insurance Law, the Company is required to maintain a minimum surplus to policyholders in the amount of \$1,600,000.

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

<u>Calendar Year</u>	<u>Direct Written Premiums</u>
2009	\$8,565,944
2010	\$7,047,755
2011	\$8,383,801
2012	\$9,367,213
2013	\$13,939,708

The company offers property and casualty insurance products to owner and non-owner occupied one to four family dwelling owners. The Company primarily writes in the five boroughs of New York City and Long Island. The Company markets its insurance products exclusively through New Horizon Agency Group ("NHAG"), an affiliated insurance agency currently licensed to operate in New York and New Jersey. NHAG provides the underwriting, marketing, policy issuance and administrative functions for the Company.

In addition, the Company offers mechanical breakdown of household equipment powered by electric or any other type of fuel and repair or replacement coverage for any service line running underground to a home. This business is 100% ceded under a quota share agreement as noted in Item 2C of this report. It appears this coverage requires the Company to be licensed under Section 1113(a)(9) of the Law. Upon review of the Company's certificate of authority, it was noted that the Company is not licensed to write boiler and machinery insurance pursuant to Section 1113(a)(9)(E) of the Insurance Law.

Section 1113(a)(9) state in part:

(9) " Boiler and machinery insurance," means insurance against loss of or damage to any property of the insured, resulting from explosion of or injury to:

(E) any apparatus generating, transmitting or using electricity;

It is recommended that the Company amend its license to include boiler and machinery insurance pursuant to Section 1113(a)(9) of the New York Insurance Law.

C. Reinsurance

The Company does not assume any business. It has structured its ceded reinsurance program so that in most circumstances its maximum net exposure per property risk and per casualty occurrence is \$250,000. The Company's program is designed to limit its net catastrophe exposure to \$500,000 per occurrence. The Company's reinsurance program for 2013 is structured as follows:

<u>Type of Coverage</u>	<u>Cession</u>
<u>Property excess of loss</u> 3 layers	\$1,750,000 in excess of \$250,000 per risk \$2,500,000 limit per occurrence \$3,500,000 limit all occurrence
<u>Casualty excess of loss</u> 2 layers	\$750,000 in excess of \$250,000 each occurrence
<u>Catastrophe excess of loss</u> 4 layers	\$21,500,000 in excess of \$500,000 per loss occurrence
<u>Equipment Breakdown</u> <u>Quota Share</u>	100% of the Company's equipment breakdown liability \$50,000 limit per risk and per policy

All 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 Law.

It is the Company's policy to obtain the appropriate collateral for its cessions to unauthorized reinsurers. Letters of credit ("LOC") obtained by the Company to take credit for cessions to unauthorized reinsurers were reviewed for compliance with Department Regulation 133. During that review, it was noted that two LOC's did not contain the required wording pursuant to Part 79.2(b) and (c) of Department Regulation 133. Part 79.2 of Department Regulation 133 states in part:

For a letter of credit to be acceptable, it must:

(b) be clean and unconditional;

(c) be issued, presentable and payable at an office of the qualified bank in the United States;

It is recommended that the Company amend its letters of credit to comply with the provisions prescribed in Department Regulation 133.

Management has represented that all material ceded reinsurance agreements transfer risk as set forth in the NAIC Accounting Practices and Procedures Manual, Statements of Statutory Accounting Principles (“SSAP”) No. 62R. Representations were supported by an attestation from the Company's chief executive officer pursuant to the NAIC Annual Statement Instructions. Additionally, the 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 paragraphs 18 through 27 of SSAP No. 62R with the exception of the following.

Upon review of reinsurance recoverable on paid loss and loss adjustment expense, it was noted that a portion of the Company's recoverable reported on page 2 of its annual statement represents amounts of loss adjustment expense paid by the Company for which the Company has not met its retention subject to the terms of its reinsurance agreement.

Paragraph 18 of SSAP No. 62R states in part:

Reinsurance assets meet the definition of assets as defined by SSAP No. 4—Assets and Non-admitted Assets and are admitted to the extent they conform to the requirements of this statement.

Paragraph 2 of SSAP No. 4 states in part:

An asset has three essential characteristics: (c) the transaction or other event giving rise to the entity's right to or control of the benefit has already occurred.

It is recommended that the Company report reinsurance recoverable only on paid loss and loss adjustment expense which are binding on the reinsurer subject to the terms of its agreement pursuant to Paragraph 2 of SSAP No. 4.

D. Holding Company System

The Company is a wholly-owned subsidiary of KP&C Holding Company, Inc. (“KP&C”), a Delaware corporation, which is ultimately controlled by Wen-Hui Chiang. Mr. Chiang and his family own the largest number of shares of KP&C, holding approximately 35% of the outstanding shares. KP&C also owns New Horizon Agency Group, Inc. (“NHAG”) which provides the underwriting, marketing, policy issuance and administrative functions for the Company.

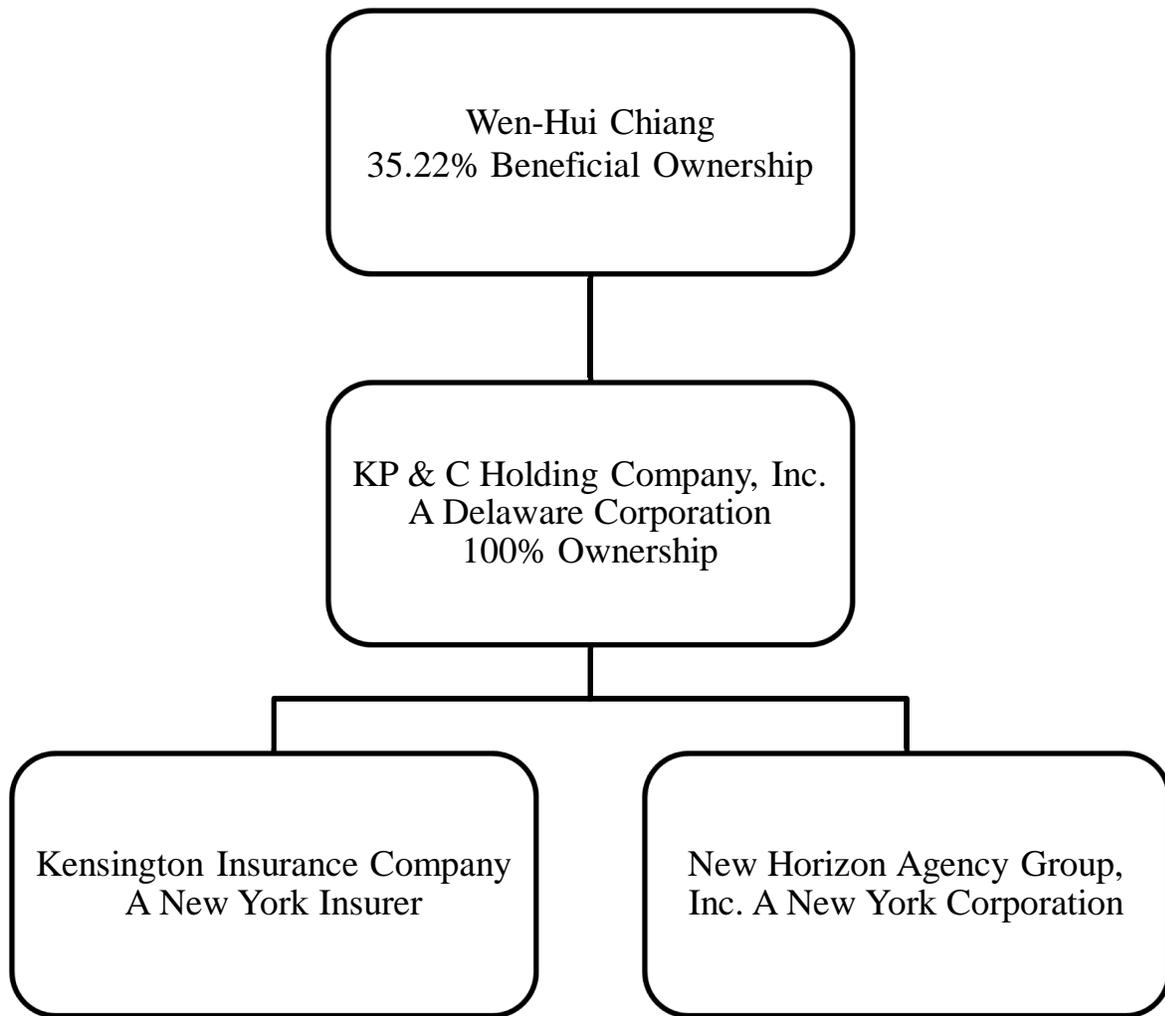
A review of the Holding Company Registration Statements filed with this Department indicated that the 2010 and 2011 filings were complete and filed in a timely manner. The registration statements for years 2009, 2012 and 2013 were not filed in the time frame prescribed in Department Regulation 52. Pursuant to Part 80-1.4 of Department Regulation 52, all controlled insurers are required to file an annual holding company registration statement (Form HC1) within 120 days following the end of its ultimate holding company's fiscal year.

It is recommended that the Company file its annual holding company registration statements in a timely manner pursuant to the provisions of Part 80-1.4 of Department Regulation 52.

It was further noted that the Company did not comply with Part 80-2.2 of Department Regulation 52-A, which requires that it provide an annual report on its controlling producer on or before April 1.

It is recommended that the Company comply with Part 80-2.2 of Department Regulation 52-A by filing a report each year with the Department as required of its controlling producer, NHAG.

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



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

Agency Agreement

Effective April 15, 2005, Kensington Insurance Company was a party to an agency agreement with its affiliate New Horizon Agency Group, Inc. Pursuant to the agreement, NHAG provides underwriting, marketing, policy issuance, administration and claim functions to the Company. This agreement was filed with the Department pursuant to Section 1505 of the New York Insurance Law.

Space Licensing Agreement

Effective May 21, 2012, the Company was a party to a renewed and modified space allocation agreement with, NHAG. Pursuant to this agreement, the Company shares space leased by NHAG from a limited liability company named, 6-8 West 18th Street, LLC (“Landlord”). The Landlord is owned by an affiliate of one of the stockholders of the Company. Pursuant to the space allocation agreement, NHAG grants the Company use of the premises for which it is currently paying 20% of the rent due under the lease. The term shall commence on the date of the agreement and expire on May 31, 2017. The agreement was not submitted to the Department for non-disapproval at least 30 days prior to implementation pursuant to the provisions of Section 1505(d) of the New York Insurance Law.

It is recommended that the Company file its Renewal and Modification Space License Agreement with the Department for non-disapproval, pursuant to Section 1505(d)(3) of the New York Insurance Law.

Expense Sharing Arrangement

A review of Company records revealed that it had entered into an informal expense sharing arrangement with NHAG. Under this arrangement the Company and NHAG share common general operational expenses under the same percentage as the space licensing agreement noted above.

Section 1505(d) states:

(d) 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, or such shorter period as the superintendent may permit, and the superintendent has not disapproved it within such period:

(3) rendering of services on a regular or systematic basis;

It is recommended that the Company enter into a written expense allocation agreement with New Horizon Agency Group, Inc. and file such agreement with the Department for non-disapproval pursuant to Section 1505(d)(3) of the New York Insurance Law.

#### E. Significant Operating Ratios

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

Net premiums written to surplus as regards policyholders	496%
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	102%
Premiums in course of collection to surplus as regards policyholders	39%

The net premium written to surplus and the liabilities to liquid assets ratios fall outside the benchmark ranges set forth in the Insurance Regulatory Information System of the National Association of Insurance Commissioners. Due to the examination adjustments, the net premiums written to surplus as regards policyholders and the liabilities to liquid asset ratios fall outside their respective benchmark ranges of 300% and 100%.

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	\$20,406,679	70.82%
Other underwriting expenses incurred	16,745,315	58.11
Net underwriting loss	<u>(8,335,224)</u>	<u>(28.93)</u>
Premiums earned	<u>\$28,816,770</u>	<u>100.00%</u>

F. Accounts and Records

i. Custodian Agreement

The Company has a custodial agreement in place with Signature Bank. Upon review of this agreement, it was noted that the agreement did not contain the following protective covenants set forth in Section 1(III)(F)(2) of the 2013 NAIC Financial Condition Examiners Handbook:

2c. 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.

2e. 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.

2f. 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.

2g. 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.

2h. 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.

2i. 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.

It is recommended that the Company amend its custodian agreement to incorporate all of the protective covenants included in the NAIC Financial Condition Examiners Handbook. A similar recommendation was made in the prior report on examination.

ii. Annual Statement Preparation

Upon review of the Company's annual statement general interrogatories, it was noted that the Company didn't include the name and address of its current custodian in the annual statement. In addition, the Company neglected to report its state deposit in Schedule E Part 3 pursuant to the annual statement instructions.

It is recommended that the Company exercise due care when preparing its annual statement.

iii. Concentration of Cash

The Company's 2013 Schedule E-part 1 indicated that the Company deposited \$1,935,383 in Signature Bank, which represents 12.9% of its admitted assets of \$15,048,259. Section 1409(a) of the New York Insurance Law states, in part:

“No domestic insurer shall have more than ten percent of its admitted assets as shown by its last statement on file with the superintendent invested in, or loaned upon, the securities (including for this purpose certificates of deposit, partnership interests and other equity interests) of any one institution.”

It is recommended that the Company limit its investments in any one institution to no more than 10% of its admitted assets pursuant to the provisions of Section 1409(a) of the New York Insurance Law.

iv. Department Regulation 30

Upon review of the organization chart, it was noted that the Company shares employees with NHAG. According to the Company, general expenses are allocated 20% NHAG and 80% KIC based on the percentages of its Space Lease Agreement as previously mentioned in Item 2D of this report. Based on the Company's response to expense allocation questions, in 2013, NHAG paid \$116,080 of \$130,165 or 89% of employees' salaries for work performed on the Company's behalf and was compensated by the Company with a 3% higher market service

commission pursuant to its Agency Agreement noted in Item 2D of the Report. As a result, it appears that the Company is not complying with Part 105.23(a)(1) of Department Regulation No.30 which states in part:

“Whenever personnel or facilities are used in common by two or more companies, or whenever the personnel or facilities of one company are used in the activities of two or more companies, the expenses involved shall be apportioned in accordance with Part 106 relating to Joint Expenses, and such apportioned expenses shall be allocated by each company to the same operating expense classifications as if the expenses had been borne wholly.”

It is recommended that the Company allocate joint expenses in compliance with Department Regulation No. 30.

v. Required Forms

New York Regulations 21 and 96 require all insurers to maintain in their files, before a claim may be paid, the information contained in Part 1 of Form NYFC-1 for every fire claim made on a policy. In addition, for all claims which in the estimate of the insurer shall exceed \$10,000, Part 2 of Form NYFC-1 must also be completed and maintained in the insurer's files. Upon review of a sample of claim files, it was noted that a few of the files were missing Part 2 of Form NYFC-1.

It is recommended that the Company comply with Regulations 21 and 96 and obtain all required forms prior to making claim payments.

G. Risk Management and Internal Controls

Information Technology Findings

Upon examination of the Company's Information Technology systems the following was noted:

- The Company has no formal disaster recovery or business continuity plan;
- The Company has no formal data retention policy; and
- The company has not established an information technology security policy.

It is recommended that the Company establish written policies and procedures addressing disaster recovery, business continuity, data retention and security.

#### H. Subsequent Events

As illustrated in Section 2 of this report, the Company received a surplus contribution without Department notification and approval. It was further noted that the Company received a \$2,475,000 surplus contribution in 2014.

On June 25, 2015, the Company submitted a Corrective Action Plan Outline to the Department. The Plan noted rating discrepancies in the Policy Administration System utilized by the Company. These discrepancies resulted in premium reporting issues in policy years 2010, 2011 and 2012 in the amount of \$809,415.

### 3. FINANCIAL STATEMENTS

#### A. Balance Sheet

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

<u>Assets</u>	<u>Examination</u>	<u>Company</u>	Surplus Increase <u>(Decrease)</u>
Bonds	\$4,610,111	\$4,610,111	0
Cash, cash equivalents and short-term investments	8,161,980	8,161,980	0
Investment income due and accrued	21,563	21,563	0
Uncollected premiums and agents' balances in the course of collection	778,595	778,595	0
Amounts recoverable from reinsurers	1,444,885	1,444,885	0
Guaranty funds receivable or on deposit	4,000	4,000	0
Electronic data processing equipment and software	12,303	12,303	0
Aggregate write-ins for other than invested assets	<u>14,822</u>	<u>14,822</u>	<u>0</u>
Total assets	<u>\$15,048,259</u>	<u>\$15,048,259</u>	
			Surplus Increase
<u>Liabilities</u>	<u>Examination</u>	<u>Company</u>	<u>(Decrease)</u>
Losses and loss adjustment expenses	\$6,787,053	\$5,777,053	(\$1,010,000)
Commissions payable, contingent commissions and other similar charges	22,537	22,537	0
Other expenses (excluding taxes, licenses and fees)	142,471	142,471	0
Taxes, licenses and fees (excluding federal and foreign income taxes)	6,102	6,102	0
Unearned premiums	5,170,966	5,170,966	0
Ceded reinsurance premiums payable (net of ceding commissions)	114,356	114,356	0
Provision for reinsurance	1,039	1,039	0
Overcharged Premiums	<u>809,415</u>	<u>0</u>	<u>(809,415)</u>
Total liabilities	<u>\$13,053,939</u>	<u>\$11,234,524</u>	<u>\$(1,819,415)</u>
			Surplus Increase
<u>Surplus and Other Funds</u>	<u>Examination</u>	<u>Company</u>	<u>(Decrease)</u>
Common capital stock	\$1,000,000	\$1,000,000	0
Gross paid in and contributed surplus	13,150,000	13,150,000	0
Unassigned funds (surplus)	<u>(12,155,680)</u>	<u>(10,336,265)</u>	<u>(1,819,415)</u>
Surplus as regards policyholders	<u>1,994,320</u>	<u>3,813,735</u>	<u>(1,819,415)</u>
Total liabilities, surplus and other funds	<u>\$15,048,259</u>	<u>\$15,048,259</u>	

Note: The Internal Revenue Service has completed its audits of the Company's Federal Income Tax returns through tax years 2010. All material adjustments, if any, made subsequent to the date of examination and arising from said audits, are reflected in the financial statements included in this report. 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 loss, for the five-year examination period, was \$7,817,397 as detailed below:

Underwriting Income

Premiums earned		\$28,816,770
Deductions:		
Losses and loss adjustment expenses incurred	\$20,406,679	
Other underwriting expenses incurred	<u>16,745,315</u>	
Total underwriting deductions		<u>37,151,994</u>
Net underwriting gain or (loss)		(\$8,335,224)

Investment Income

Net investment income earned	\$ 555,117	
Net realized capital gain	<u>508</u>	
Net investment gain or (loss)		\$555,625

Other Income

Net gain or (loss) from agents' or premium balances charged off	\$ (38,759)	
Aggregate write-ins for miscellaneous income	<u>961</u>	
Total other income		<u>(\$37,798)</u>
Net Income		<u>(\$7,817,397)</u>

C. Capital and Surplus Account

Surplus as regards policyholders decreased \$1,779,916 during the five-year examination period January 1, 2009 through December 31, 2013, detailed as follows:

Surplus as regards policyholders per report on examination as of December 31, 2008			\$3,774,236
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income		\$7,817,397	
Change in net deferred income tax	\$2,273,203		
Change in non-admitted assets		2,565,328	
Change in provision for reinsurance	179,606		
Surplus adjustments paid in	<u>6,150,000</u>	_____	
Net increase (decrease) in surplus	<u>\$8,602,809</u>	<u>\$10,382,725</u>	<u>\$(1,779,916)</u>
Surplus as regards policyholders per report on examination as of December 31, 2013			<u>\$1,994,320</u>

#### **4. LOSSES AND LOSS ADJUSTMENT EXPENSES**

The examination liability for the captioned items of \$6,787,053 is \$1,010,000 more than the \$5,777,053 reported by the Company in its December 31, 2013, filed annual statement. The examination change is due to the reserve deficiency noted in the Company's 2014 quarterly statements.

The examination analysis of the loss and loss adjustment expense reserves was conducted in accordance with generally accepted actuarial principles and was based on statistical information contained in the Company's internal records and in its filed annual statements.

It is recommended that any future Actuarial Reports underlying the Statement of Actuarial Opinion contain both narrative and technical components in their entirety, and should provide sufficient details to clearly explain recommendations and conclusions, as well as their significance. The technical component should be consistent and provide sufficient documentation and disclosure for another actuary practicing in the same field to evaluate the work. This technical component must clearly trace and document the flow of the analysis from the basic data to the conclusions. The Actuarial Report should be in compliance with the NAIC Annual Statement Instructions and consistent with the appropriate Actuarial Standards of Practice ("ASOPs") including, but not limited to, ASOPs 23, 36, 41 and 43, as promulgated by the Actuarial Standards Board, and Statements of Principals adopted by the Casualty Actuarial Society.

#### **5. OVERCHARGED PREMIUMS**

The Company did not report a liability under the caption as of the examination date. This examination has established the captioned liability in the amount of \$809,415. The liability was established due to rating system errors experienced by the Company for policy years covered under this examination.

It is noted that the Company submitted a corrective active plan, regarding this issue, to the Department on June 25, 2015.

## 6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination contained 15 recommendations as follows (page numbers refer to the prior report):

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>General Interrogatories</u>	
It is recommended that the Company respond to all of the questions in the annual statement's general interrogatories.	7
The Company has complied with this recommendation.	
B. <u>Holding Company</u>	
i. It is recommended that the Company update Schedule Y in future annual statements.	8
The Company has complied with this recommendation.	
ii. The Company violated Section 1505(d) of the New York Insurance Law when it failed to submit the amendment to the agency agreement to the Department for non-disapproval at least 30 days prior to implementation.	9
The Company has not complied with this recommendation. A similar comment is made in this report.	
C. <u>Accounts and Records</u>	
i. It is recommended that the Company amend the custodian agreement to incorporate all of the protective covenants included in the NAIC Financial Condition Examiners Handbook.	11
The Company has not complied with this recommendation. A similar comment is made in this report.	
ii. It is recommended that the Company include in all future contracts written to engage CPA firm, the provisions required by Department Regulation 118.	12

<u>ITEM</u>	<u>PAGE NO.</u>
The Company has complied with this recommendation.	
iii. It is recommended that the Company comply with SSAP 70 and properly allocate its general expenses to Loss adjustment expenses, other underwriting expenses, and Investment expenses.	13
The Company has complied with this recommendation.	
iv. It is recommended that the Company properly allocate expenses in accordance with the annual statement instructions.	13
The Company has complied with this recommendation.	
v. It is recommended that the Company allocate the fees paid to NHAG as required by the annual statement instructions.	14
The Company has complied with this recommendation.	
vi. It is recommended that the Company properly classify all assets and liabilities in accordance with the annual statement instructions.	14
The Company has complied with this recommendation.	
vii. It is recommended that the Company allocate adjusting and other payments to the appropriate accident year.	14
The Company has complied with this recommendation.	
viii. It is recommended that the Company distribute annual conflict of interest disclosure statements and questionnaires to all directors, officers, trustees, and designated responsible employees.	15
The Company has not complied with this recommendation. A similar comment is made in this report.	
ix.. It is recommended that the Company exercise greater care in the preparation of its Annual Statement.	15
The Company has not complied with this recommendation. A similar comment is made in this report.	
x. It is recommended that the Company limit its investments in any one institution to no more than 10% of its admitted assets pursuant to the provisions of Section 1409(a) of the New York Insurance Law.	15
The Company has not complied with this recommendation. A similar comment is made in this report.	

ITEMPAGE NO.

- xi. It is recommended that the Company include the requirements of Section 3426 of the New York Insurance law in its written cancellation procedures. 17

This recommendation is no longer applicable.

- D.. It is recommended that the Company non-admit deferred tax assets that do not meet the criteria set by Section 1301(a)(16) of the New York Insurance Law. 20

The Company has complied with this recommendation.

<u>ITEM</u>	<u>7. SUMMARY OF COMMENTS AND RECOMMENDATIONS</u>	<u>PAGE NO.</u>
A.	<u>Description of the Company</u>	
	i. It is recommended that the Company obtain prior approval from the Department before entering into any transaction with a member of its holding company system which is equal to or greater than 5% of its admitted assets at last year-end, pursuant to Section 1505(c) of the New York Insurance Law.	4
	ii. It is recommended that the Company notify the Department at least thirty days prior to entering into any transaction with a member of its holding company system which exceeds the lessor of 3% of its admitted assets or 25% of its surplus as stipulated in 1505(d)(1)(C) of the New York Insurance Law.	4
B.	<u>Management</u>	
	i. It is recommended that the Company comply with the provisions of Section 1411(a) of the New York Insurance Law and have its board of directors approve all investments and include such approvals in the minutes of the board of directors meetings.	5
	ii. It is recommended that the Company require all officers, directors and key employees to complete conflict of interest questionnaires on an annual basis and submit such completed questionnaires to the Company's board of directors for review.	6
	iii. It is recommended that the company obtain fidelity bond coverage commensurate with its exposure.	6
C.	<u>Territory and Plan of Operation</u>	
	It is recommended that the Company amend its license to include boiler and machinery insurance pursuant to Section 1113(a)(9) of the New York Insurance Law.	7
D.	<u>Reinsurance</u>	
	i. It is recommended that the Company amend its letters of credit to comply with the provisions prescribed in Department Regulation 133.	8
	ii. It is recommended that the Company report reinsurance recoverable only on paid loss and loss adjustment expense which are binding on the reinsurer subject to the terms of its agreement pursuant to Paragraph 2 of SSAP No. 4.	9

<u>ITEM</u>	<u>PAGE NO.</u>
E. <u>Holding Company System</u>	
i. It is recommended that the Company file its annual holding company registration statements in a timely manner pursuant to the provisions of Part 80-1.4 of Department Regulation 52.	10
ii. It is recommended that the Company comply with Part 80-2.2 of Department Regulation 52-A by filing a report each year with the Department as required of its controlling producer, NHAG.	10
iii. It is recommended that the Company file its Renewal and Modification Space License Agreement with the Department for non-disapproval pursuant to Section 1505(d)(3) of the New York Insurance Law.	12
iv. It is recommended that the Company enter into a written expense allocation agreement with New Horizon Agency Group, Inc. and file such agreement with the Department for non-disapproval pursuant to Section 1505(d)(3) of the New York Insurance Law.	13
F. <u>Accounts and Records</u>	
i. It is recommended that the Company amend its custodian agreement to incorporate all of the protective covenants included in the NAIC Financial Condition Examiners Handbook.	15
ii. It is recommended that the Company exercise due care when preparing its annual statement.	15
iii. It is recommended that the Company limit its investments in any one institution to no more than 10% of its admitted assets pursuant to the provisions of Section 1409(a) of the New York Insurance Law.	15
iv. It is recommended that the Company allocate joint expenses in compliance with Department Regulation No. 30.	16
v. It is recommended that the Company comply with Regulations 21 and 96 and obtain all required forms prior to making claim payments.	16
G. <u>Risk Management and Internal Controls</u>	
It is recommended that the Company establish written policies and procedures addressing disaster recovery, business continuity, data retention and security.	16

ITEMPAGE NO.H. Loss and Loss Adjustment Expense

It is recommended that any future Actuarial Reports underlying the Statement of Actuarial Opinion contain both narrative and technical components in their entirety, and should provide sufficient details to clearly explain recommendations and conclusions, as well as their significance.

21

Respectfully submitted,

\_\_\_\_\_/s/  
Dilbrina Belgrave, AFE  
Senior Insurance Examiner

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

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

\_\_\_\_\_/s/  
Dilbrina Belgrave

Subscribed and sworn to before me

this \_\_\_\_\_ day of \_\_\_\_\_, 2015.

APPOINTMENT NO. 31175

**NEW YORK STATE**

**DEPARTMENT OF FINANCIAL SERVICES**

I, **BENJAMIN M. LAWSKY**, Superintendent of Financial Services of the State of New York, pursuant to the provisions of the Financial Services Law and the Insurance Law, do hereby appoint:

***Dilbrina Belgrave***

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

***Kensington 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 2nd day of April, 2014*

**BENJAMIN M. LAWSKY**  
*Superintendent of Financial Services*



By:

*Rolf Kaumann*  
Deputy Chief Examiner