

REPORT ON EXAMINATION

OF

NEW YORK MARINE AND GENERAL INSURANCE COMPANY

AS OF

DECEMBER 31, 2016

DATE OF REPORT

OCTOBER 10, 2018

EXAMINER

MOSES EGBON, CFE

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NEW YORK STATE
DEPARTMENT *of*
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Maria T. Vullo
Superintendent

October 10, 2018

Honorable Maria T. Vullo
Superintendent
New York State Department of Financial Services
New York, New York 10004

Madam:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 31573 dated March 6, 2017, attached hereto, I have made an examination into the condition and affairs of New York Marine and General Insurance Company as of December 31, 2016, and submit the following report thereon.

Wherever the designation “the Company” appears herein without qualification, it should be understood to indicate New York Marine and General 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 administrative office located at 412 Mt. Kemble Avenue, Suite 300C, Morristown, NJ 07960.

SCOPE OF EXAMINATION

The Department has performed an examination of the Company, a multi-state insurer. The previous examination was conducted as of December 31, 2013. This examination covered the three-year period from January 1, 2014 through December 31, 2016. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

New York is the lead state of the ProSight Specialty Group. The examination was performed concurrently with the examinations of the following insurers: Gotham Insurance Company of New York and Southwest Marine and General Insurance Company. The other state participating in this examination was Arizona.

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 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
- Holding company description
- Reinsurance
- Loss review and analysis
- Financial statement presentation
- Significant subsequent events
- 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

The Company was incorporated as New York Marine Insurance Company on March 22, 1972 under the laws of the State of New York, was licensed on June 13, 1972 and commenced business on July 1, 1972. The current name was adopted on September 12, 1979.

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 seven or more members. The board meets twelve times during each calendar year. At December 31, 2016, the board of directors was comprised of the following twelve members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Anthony Arnold New York, NY	Vice President, Goldman Sachs
Robert Bailey Santa Rosa, CA	Vice President and Chief Underwriting Officer, New York Marine and General Insurance Company ProSight Specialty Insurance Group, Inc.
Joseph Beneducci Morristown, NJ	President and Chief Executive Officer, New York Marine and General Insurance Company ProSight Specialty Insurance Group, Inc.
Steven Carlsen Larchmont, NY	President, Shadowbrook Advising, Inc.
Clement Dwyer Portsmouth, NH	President, URSA Advisors, Inc.
Lawrence Hannon Morristown, NJ	Vice President and Chief Sales and Marketing Officer, New York Marine and General Insurance Company ProSight Specialty Insurance Group, Inc.
Eric Leathers New York, NY	Managing Director, TPG Capital, L.P.
Frank Papalia Morristown, NJ	Secretary and General Counsel, New York Marine and General Insurance Company ProSight Specialty Insurance Group, Inc.

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Anthony Pizel Morristown, NJ	Vice President, Chief Financial Officer and Treasurer, New York Marine and General Insurance Company ProSight Specialty Insurance Group, Inc.
Sumit Rajpal New York, NY	Managing Partner, Goldman Sachs
Bruce Schnitzer New York, NY	Chairman and Managing Director, Wand and Partners, Inc.
MarkWetzel New York, NY	Vice President, Goldman Sachs

As of December 31, 2016, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Joseph Beneducci	President and Chief Executive Officer
Frank Papalia	Secretary and Chief Legal Officer
Anthony Pizel	Treasurer and Chief Financial Officer
Robert Bailey	Vice President and Chief Underwriting Officer
Frank Bosse	Vice President and Chief Human Resources Officer
John J. Fitzgerald	Controller
Lawrence Hannon	Vice President and Chief Operating Officer
Lee Kraemer	Chief Actuarial Officer
Paul Kush	Vice President and Chief Claims Officer
Darryl Siry	Chief Digital Officer

Conflict of Interest Acknowledgements and Disclosures

The Company indicated in the Annual Statement General Interrogatories - Part 1, question 18 that it had established procedures for disclosures to its board of directors or trustees of any material interest or affiliation on the part of any of its officers, directors, trustees or responsible employees who are in conflict or are likely to conflict with the official duties of such person. However, the Company did not maintain records of acknowledgements and disclosures regarding conflicts of interest for three directors in 2015 and for two directors in 2016.

It is recommended that the Company maintain complete records of its acknowledgements and disclosures regarding conflicts of interest and make them available for review in all future examinations.

The Company has indicated that steps have been taken to enhance its internal process regarding code of conduct acknowledgement.

B. Territory and Plan of Operation

As of December 31, 2016, the Company was licensed to write business in all fifty states, Puerto Rico, the U.S. Virgin Islands and the District of Columbia.

As of the examination date, the Company was authorized to transact the kinds of insurance as defined in the following numbered paragraphs of Section 1113(a) of the New York Insurance Law:

<u>Paragraph</u>	<u>Line of Business</u>
3	Accident and health
4	Fire
5	Miscellaneous property
6	Water damage
7	Burglary and theft
8	Glass
9	Boiler and machinery
10	Elevator
11	Animal
12	Collision
13	Personal injury liability
14	Property damage liability
15	Worker's compensation and employee's liability
16	Fidelity and surety
17	Credit
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine (inland only)
21	Marine protection and indemnity
29	Legal services

The Company is also licensed to transact such workers' compensation insurance as may be incident to coverages contemplated under paragraphs 20 and 21 of Section 1113(a) of the New York Insurance Law, including insurances described in the Longshore and Harbor Workers' Compensation Act (Public Law No. 803, 69 Congress as amended; 33 USC Section 901 et seq. as amended). Additionally, the Company is licensed to write Special Risks insurance pursuant to Article 63 of the New York Insurance Law and is authorized, pursuant to Section 4102(c) of the New York Insurance Law, to reinsure risks of every kind or description and insure property or risks of every kind or description located or resident outside of the United States, its territories and possessions.

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 of \$35,000,000.

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>
2014	\$541,947,694	\$65,428,239	\$607,375,933
2015	\$627,810,739	\$73,586,534	\$701,397,273
2016	\$623,353,753	\$68,979,129	\$692,332,882

The Company's direct business is produced through agents that are called program administrators. The Company is the lead member of the New York Marine Group specializes in the underwriting of specialty niche business through exclusive producer networks. Specialty niches include ocean marine, Professional liability, media, casualty, workers' compensation, property and other specialty insurance business.

Assumed reinsurance accounted for approximately 10% of the Company's gross premium written at December 31, 2016. The vast majority of assumptions are related to an internal reinsurance pooling arrangement with the Company's subsidiary property and casualty companies, further described below.

C. Reinsurance Ceded

At December 31, 2016, the Company's reinsurance program consisted of quota share, excess of loss, and intercompany pooling agreements. The reinsurance program was designed to first cede to external reinsurers and an affiliated Syndicate. After these reinsurance cessions, the Company's net retained premiums were then pooled with that of its two subsidiaries.

Intercompany Pooling Agreements

The Company had been a party to an affiliated intercompany pooling agreement, effective January 1, 1987, with its subsidiary, Gotham Insurance Company (“Gotham”). The agreement provided that the Company assume 100% of Gotham’s direct business and retrocede 15% of the New York Marine Pool business to Gotham. Effective January 1, 2007, the Company executed an intercompany reinsurance agreement with Southwest Marine and General Insurance Company (“Southwest”), whereby New York Marine Pool ceded 5% to Southwest.

Effective December 31, 2015, the above referenced agreements were superseded by an amended pooling agreement. The amended pooling agreement added Southwest to the pool effective January 1, 2007. The amended participating percentages were 80% for New York Marine, 15% for Gotham and 5% for Southwest.

The agreements were submitted to the Department pursuant to Section 1505(d)(2) of New York Insurance Law and were non-disapproved.

In 2016, the Company’s cessions to its affiliates of \$227.7 million accounted for 76.2% of the \$298.9 million total ceded premiums and approximately \$71.2 million or 23.8% were ceded to external non-affiliated reinsurers. Affiliated cessions are broken down as follows: approximately \$73.8 million were ceded to Gotham, \$24.5 million to Southwest, and \$129.3 million to ProSight Lloyd’s Syndicate 1110.

Reinsurance Agreement with Affiliated Companies Other than the Pooling Agreement

During the examination period, the Company and ProSight Lloyd’s Syndicate #1110 (“the Syndicate”), an affiliate of the Company, were parties to a 100% quota share reinsurance agreement pertaining to select insurance programs. The agreement provided for ceding commissions of four percent of gross premiums to be paid to the Company. The agreement was submitted to the Department pursuant to Section 1505(d)(3) of the New York Insurance Law and was non-disapproved.

As reported on Schedule F, Part 3 column 15 of the 2016 annual statement, the majority of the Company’s reinsurance was ceded to affiliated entities with recoverables of approximately \$224.9 million due from ProSight Lloyd’s Syndicate #1110, a certified reinsurer, which was subsequently assumed back by the Company, \$136 million due from Gotham Insurance company, an authorized reinsurer, and \$45.5 million from Southwest Marine and General Insurance company, an unauthorized reinsurer. These amounts represented approximately 68 percent of the Company’s 2016 surplus as regards policyholders.

The Company has structured its external ceded reinsurance program as follows:

<u>Type of treaty</u>	<u>Cession</u>
<u>Property:</u>	
Per Risk Excess of loss (3 layers)	
1 st layer – 100% authorized, 100% placed	\$2 million excess of \$3 million each loss, each risk, subject to reinsurer’s maximum liability of \$8 million as respects all losses arising out of any one loss occurrence; with Acts of Terrorism sub limits of \$8 million.
2 nd layer – 95% authorized, 5% unauthorized, 80% placed	\$5 million excess of \$5 million each loss, each risk, subject to reinsurer’s maximum liability of \$15 million as respects all losses arising out of any one loss occurrence; with Acts of Terrorism sub limits of \$15 million.
3 rd layer – 93% authorized, 7% unauthorized, 100% placed	\$15 million excess of \$10 million each loss, each risk, subject to reinsurer’s maximum liability of \$15 million as respects all losses arising out of any one loss occurrence; with Acts of Terrorism sub limits of \$15 million.
<u>Property Catastrophe</u> (4 layers)	
1 st layer – 75% authorized, 25% unauthorized, 100% placed	\$5 million excess of \$5 million, ultimate net loss, any one loss occurrence, subject to maximum liability of \$10 million for all loss occurrences during the term of the contract;
2 nd layer – 67% authorized, 33% unauthorized, 100% placed	\$10 million excess of \$10 million, ultimate net loss, any one loss occurrence, subject to maximum liability of \$20 million for all loss occurrences during the term of the contract;
3 rd layer – 59% authorized, 41% unauthorized, 100% placed	\$30 million excess of \$20 million, ultimate net loss, any one loss occurrence, subject to maximum liability of \$60 million for all loss occurrences during the term of the contract;
4 th layer – 66.5% authorized, 33.5% unauthorized, 100% placed	\$60 million excess of \$50 million, ultimate net loss, any one loss occurrence, subject to maximum liability of \$120 million for all loss occurrences during the term of the contract.
<u>Property Terrorism</u>	
Excess of loss 1 layer – 100% authorized, 100% placed	\$35 million excess of \$5 million, ultimate net loss, each loss occurrence, subject to maximum liability of \$70 million for all loss occurrences.

Casualty:

Excess of Loss

Section A
Supported Umbrella
100% authorized, 77.5%
placed

\$9 million excess of \$1 million umbrella policy limit, ultimate net loss, each loss, each policy.

Section B
Unsupported Umbrella
100% authorized, 77.5%
placed

\$8 million excess of \$2 million umbrella policy limit ultimate net loss, each loss, each policy

Section C
General Liability Umbrella
100% authorized, 77.5%
placed

\$3 million excess of \$2 million GL policy limit, ultimate net loss, each loss, each policy.

Commercial Auto

Excess of Loss,
100% authorized,
100% placed

\$3 million excess of \$2 million ultimate net loss each and every loss occurrence, subject to limit of \$3 million for each loss occurrence and \$18 million for all loss occurrences commencing during the term of this contract.

Film and Entertainment -
Production Portfolio Package

Excess of loss (3 layers)
Section A – Film Production
Policies

1st layer – 77% authorized,
23% unauthorized, 100%
placed

\$5 million excess of \$5 million ultimate net loss for each production, subject to limit of liability of \$25 million for all loss occurrences commencing during the term of this contract under both sections A and B combined.

2nd layer – 77% authorized,
23% unauthorized, 100%
placed

\$10 million excess of \$10 million ultimate net loss for each production. subject to limit of liability of \$40 million for all loss occurrences commencing during the term of this contract under both sections A and B combined.

3rd layer – 77% authorized,
23% unauthorized, 100%
placed

\$30 million excess of \$20 million ultimate net loss for each production, subject to limit of liability of \$90 million for all loss occurrences commencing during the term of this contract.

Section B – Film Completion
Bonds

1st layer – 77% authorized, 23% unauthorized, 100% placed \$5 million excess of \$5 million ultimate net loss for each production. subject to limit of liability of \$25 million for all loss occurrences commencing during the term of this contract under both sections A and B combined.

2nd layer – 77% authorized, 23% unauthorized, 100% placed \$10 million excess of \$10 million ultimate net loss for each production, subject to limit of liability of \$40 million for all loss occurrences commencing during the term of this contract.

3rd layer – 77% authorized, 23% unauthorized, 100% placed \$30 million excess of \$20 million ultimate net loss for each production, subject to limit of liability of \$90 million for all loss occurrences commencing during the term of this contract.

Automatic Facultative

Film Production

Excess of Loss

45.10% authorized, 54.90% unauthorized, 100% placed \$50 million excess of \$50 million ultimate net loss for each production.

Automatic Facultative

Film Completion Bond

Excess of Loss

41.05% authorized, 58.95%, 100% placed \$27.6 million excess of \$50 million ultimate net loss for each production.

Professional Liability

Excess of loss 1 layer

100% authorized, 100% placed \$5 million excess of \$5 million each claim made, each policy, for the ultimate loss, subject to a limit of liability of \$5 million in respect of each claim made, each policy, during the term of this contract claims arising hereunder.

Professional Employment

Organization (PEO)

Workers' Compensation

Quota share, 100% authorized, 30% placed 100% quota share, subject to a limit of liability to the reinsurer of \$2 million each loss occurrence, regardless of the number of policies or insureds involved. For Acts of Terrorism, the reinsurers limit of liability shall not exceed \$10 million in aggregate for the term of this contract.

Professional Employment

Organization (PEO)

Workers' Compensation

100% unauthorized, 20% placed 100% quota share, subject to a limit of liability to the reinsurer of \$1 million each loss occurrence, regardless of the number of policies or insureds involved. For Acts of Terrorism, the

reinsurers limit of liability shall not exceed \$10 million in aggregate for the term of this contract.

Employer Liability

Quota Share

100% authorized, 50%
placed

50% quota share of \$5 million limit, the reinsurer shall assume the amount by which the Company ultimate net loss exceeds the policy retention, but the liability of the reinsurer shall not exceed 50% of the first \$5 million as respects each accident or disease, each policy. Regardless of the number policies involved in an occurrence coverage hereunder shall apply per policy per occurrence.

Workers' Compensation and

Employers' Liability

Excess of loss (2 Layers)

1st layer-100% authorized,
75% placed

\$3 million excess of \$2 million, ultimate net loss for each loss occurrence; The limit of liability of the reinsurer for Acts of Terrorism losses shall be \$3 million in the aggregate for all loss occurrences commencing during the term of the contract. The reinsurer's liability shall not exceed \$12 million in respect of all loss occurrences during the term of this contract.

2nd layer 100% authorized,
100% placed

\$5 million excess of \$5 million ultimate net loss each loss for each loss occurrence; The limit of liability of the reinsurer for Acts of Terrorism losses shall be \$5 million in the aggregate for all loss occurrences commencing during the term of the contract. The reinsurer's liability shall not exceed \$10 million in respect of all loss occurrences during the term of this contract.

Workers' Compensation and

Employers' Liability

Catastrophe

Excess of Loss (2 Layers)

First layer-100% authorized,
100% placed

\$10 million excess of \$10 million ultimate net loss each for loss occurrence; Acts of Terrorism losses shall be \$10 million in the aggregate for all loss occurrences commencing during the term of the contract. The reinsurer's liability shall not exceed \$20 million in respect of all loss occurrences during the term of this contract.

Second layer-100%
authorized, 100% placed

\$10 million excess of \$20 million ultimate net loss each for loss occurrence; Acts of Terrorism losses shall be \$10 million in the aggregate for all loss occurrences commencing during

the term of the contract. The reinsurer's liability shall not exceed \$20 million in respect of all loss occurrences during the term of this contract.

ATA Workers'
Compensation

Quota share, 100%
unauthorized, 100% placed

100% quota share up to a maximum of \$2 million per occurrence for loss, loss adjustment expenses, loss in excess of policy limits and extra contractual obligations

Excess Workers'
Compensation and
Employers' Liability

Excess of loss (4 layers)

1st layer – 100% authorized,
100% placed

\$5 million excess of \$5 million ultimate net loss each occurrence; maximum any one life accruing to the ultimate net loss is \$5 million.

2nd layer – 85.98%
authorized, 14.02%
unauthorized, 100% placed

\$20 million excess of \$10 million ultimate net loss each occurrence; Maximum any one life accruing to the ultimate net loss is \$15 million.

3rd layer – 100% authorized

\$20 million excess of \$30 million ultimate net loss each occurrence; Maximum any one life accruing to the ultimate net loss is \$10 million.

4th layer – 95.64% authorized,
unauthorized 4.36%,
100% placed

\$50 million excess of \$50 million ultimate net loss each occurrence. maximum any one life accruing to the ultimate net loss is \$10 million.

Workers' Compensation
Adverse Development Loss
Cover

Excess of loss -100%
authorized, 100% placed

Section A - Losses occurred on or after 1/1/2011 and on and prior to 12/31/2015, with respect to policies incepting or renewed between 1/1/2011 and 12/31/2015, classified as Primary Workers Compensation business

Section B - Losses occurred on or after 1/1/2007 and on and prior to 12/31/2015, with respect to policies incepting or renewed between 1/1/2007 and 12/31/2015, classified as excess workers' compensation business, and written by Midlands Management Corporation, the reinsurer shall be liable for 100% subject loss, subject to an aggregate limit of Liability for all subject loss of \$100 million in excess of \$315 million.

Marine Whole Account Risk
and Occurrence

(6 layers)

1st layer

73% authorized, 27%
unauthorized, 100% placed

\$2.5 million excess of \$2.5 million ultimate net loss each risk, casualty, disaster, or series of losses arising out of one event;

2nd layer

73% authorized, 27%
unauthorized, 100% placed

\$5 million excess of \$5 million ultimate net loss each risk, casualty, disaster, or series of losses arising out of one event; The Company shall retain the first \$5 million of ultimate net loss otherwise recoverable as an aggregate deductible.

3rd layer

73% authorized, 27%
unauthorized, 100% placed

\$10 million excess of \$10 million ultimate net loss each risk, casualty, disaster, or series of losses arising out of one event;

4th layer

73% authorized, 27%
unauthorized, 100% placed

\$20 million excess of \$20 million ultimate net loss each risk, casualty, disaster, or series of losses arising out of one event;

5th layer

73% authorized, 27%
unauthorized, 100% placed

\$30 million excess of \$40 million ultimate net loss each risk, casualty, disaster, or series of losses arising out of one event;

6th layer – 100% authorized,
100% placed

\$10 million excess of \$70 million ultimate net loss each risk, casualty, disaster, or series of losses arising out of one event. In event of exhaustion of the underlying reinsurance, (top and drop) of \$10 million ultimate net loss each risk, casualty, disaster, or series of losses arising out of one event; excess of \$2.5 million ultimate net loss each risk, casualty, disaster, or series of losses arising out of one event;

Obligatory Energy -Drill Rig
Quota share

39.65% authorized, 60.35%
unauthorized, 84.5% placed

84.5% quota share of net loss on any one risk, unit, interest, or assured subject to:

A) limitation in the Gulf of Mexico of \$5 million net loss all interest combined, each unit for each loss occurrence, or a maximum limit of \$10 million of net loss all interests combined, each unit where coverage for a wind event is excluded. A maximum limit of \$12.5 million of net loss any one wind event and a maximum limit of \$25 million net loss from all wind events during the contract period.

B) World Wide - a maximum limit of \$12.5 million of net loss any one interest for each loss occurrence, or, for all risks situated in the Bay of Campeche, Mexico a maximum limit of

liability of \$7.5 million of net loss all interests combined, each unit of loss occurrence, or a maximum limit of \$37 million of net loss in all from one loss occurrence. Section A and B combined is subject to an annual aggregate limit of \$60 million of net loss for all risks attaching during the contract year.

Fidelity Bond

Quota Share

100% authorized, 50% placed

100% quota share each loss, each bond subject to a \$10 million limit.

U.S Customs and

Miscellaneous Bonds

Quota Share -100% authorized, 60% placed

100% quota share each loss, each bond. Section A is for bonds with limits up to and including \$15 million

Quota Share -100% authorized, 70 % placed

100% quota share each loss, each bond. Section B is for bonds with limits exceeding \$15 million and up to and including \$20 million.

Hartford Steam Boiler

Equipment Breakdown

Quota Share- 100% authorized, 100% placed

100% quota share of the equipment breakdown liability of the Company as respects accidents occurring. The reinsurer's liability shall not exceed \$50 million for any one accident, any one policy.

Hartford Steam Boiler

Multiple line

Quota Share-100% authorized, 100% placed

100% quota share of the Company's liability for losses covered under a Data Compromise Coverage Form ("DC Coverage"), under an Identity Recovery Coverage Form ("IDR Coverage") and under an EPL Coverage Form. The reinsurer's liability for DC Coverage shall not exceed \$1 million annual aggregate per policy for response expenses and \$1 million annual aggregate per policy for Defense and Liability. The Reinsurer liability for IDR Coverage shall not exceed \$15,000 annual aggregate as respects each Identity Recovery Insured. The reinsurer's liability for EPL loss including Defense cost shall not exceed \$1 million each wrongful employment act, subject to the annual aggregate limit in the policy not to exceed \$1 million.

Retroactive Adverse
Development Cover

Excess of loss, 100%
authorized, 100% placed

\$100 million excess of \$315 million in aggregate. The contract has provided coverage for the Company's primary and excess workers' compensation policies written through a managing general agent and for a specific period, as described in Article 1, Section A and B of the agreement. Pursuant to the agreement, the Company will pay a premium of \$52.6 million to the reinsurer. The reinsurance premium less \$5 million shall be held in a trust account.

As of the examination date, losses relating to the contract have not yet reached the Company's retention limit. The agreement was accounted for by the Company as retroactive reinsurance in accordance with SSAP's 62R.

It is the Company's policy to obtain the appropriate collateral for its cessions to unauthorized reinsurers. Letters of credit obtained by the Company to take credit for cessions to unauthorized reinsurers were reviewed for compliance with Regulation 133. No exceptions were noted.

Examination review of the Schedule F data reported by the Company in its filed annual statement revealed that the Company accurately reflected its reinsurance transactions. Additionally, management has represented that all material reinsurance agreements transfer both underwriting and timing risk as set forth in SSAP 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 a party to a finite reinsurance agreement. 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 ProSight Specialty Group. The Company is 100% owned by ProSight Specialty Insurance Group, Inc., a New York corporation, which is owned by ProSight Global Inc., a Delaware corporation. In 2014, ProSight Specialty Insurance Holdings, Inc. merged into its parent, ProSight Global Inc., which is 100% owned by ProSight Global Holdings Limited ("ProSight Global"), a Bermuda corporation, which is owned by the following entities:

1. ProSight Investment LLC (“ProSight Investment”), a Delaware Limited Liability Company held a 43.70% interest in ProSight Global Holdings Limited.
2. ProSight Parallel Investment LLC (“ProSight Parallel Investment”), a Delaware Corporation held a 6.4% percent interest.
3. ProSight TPG, L.P. (“ProSight TPG”), a Delaware Limited Partnership held a 37.241% interest.
4. Four TPG investment vehicles, organized as Limited Partnerships in the Cayman Islands, held an approximately 11% interest.

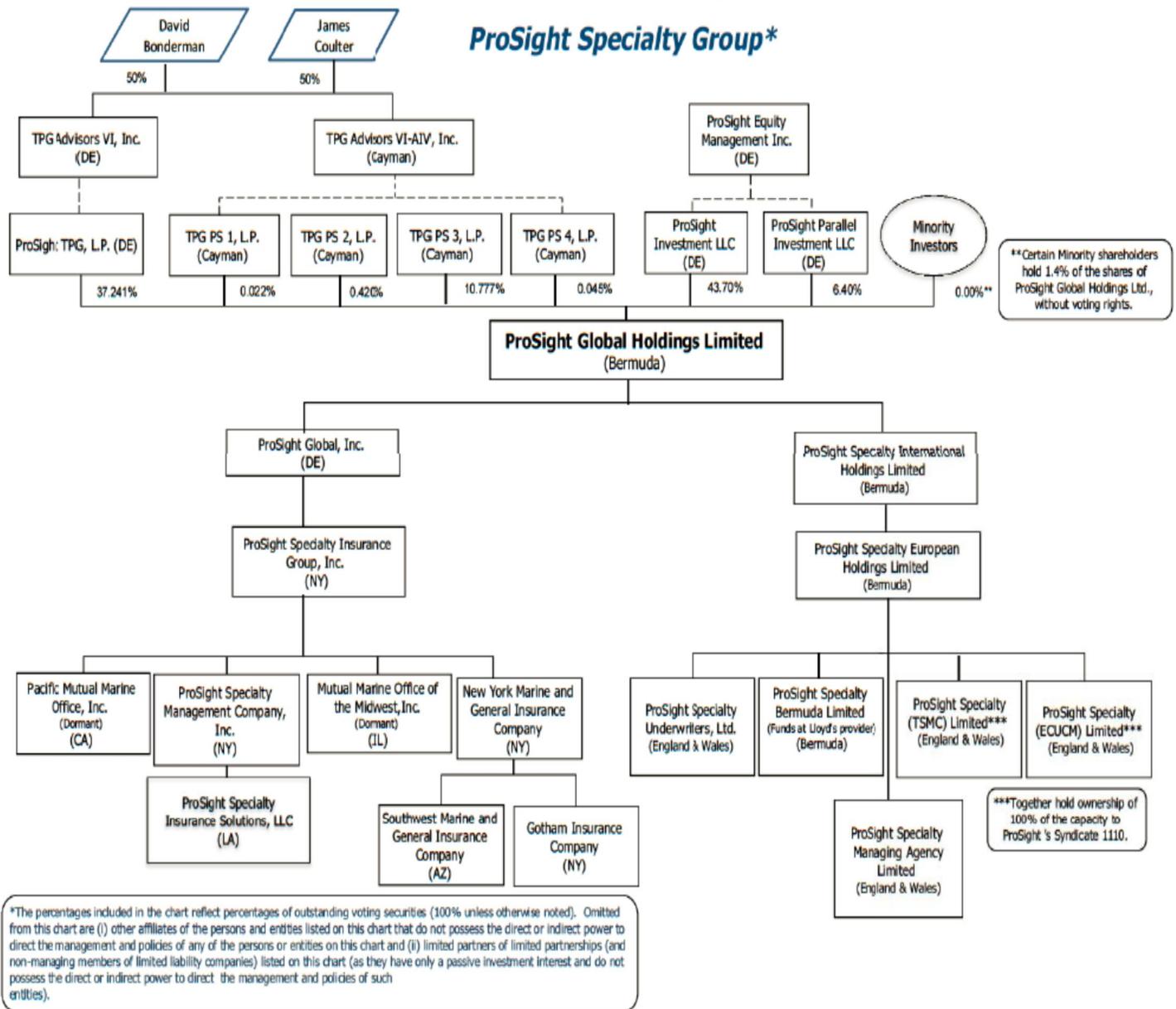
The legal owners of ProSight Investment and ProSight Parallel Investment are various investment vehicles associated with Goldman Sachs, while ProSight TPG and the four TPG investment vehicles are ultimately controlled by two individuals, David Bonderman and James Coulter. The Department has determined that the investment vehicles are passive investors which do not take an active role in the management of ProSight Global; therefore, the investment vehicles are not subject to Section 1505 of the New York Insurance Law.

ProSight Equity Management Inc. is owned by various individuals, none of which has more than a 10 percent stake. The Department has deemed the ultimate controlling persons of the Company to be ProSight Equity Management Inc., David Bonderman and James Coulter. This control is based on ProSight Equity Management Inc.’s approximately 50.1 percent ownership of ProSight Global, Inc. through the investment vehicles and is also based on Mr. Bonderman and Mr. Coulter’s approximately 48% ownership of ProSight Global, Inc. through the TPG Investment Vehicles.

The Company had owned 100% of Southwest Marine and General Insurance Company and 75% of Gotham Insurance Company. The other 25% of Gotham was owned by ProSight Specialty Insurance Group, Inc. Effective June 13, 2014, ProSight Specialty Insurance Group Inc. contributed its 25% stake in Gotham to the Company, which now owns 100% of Gotham’s \$100 par value common stock.

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 a chart of the holding company system at December 31, 2016:



In addition to the intercompany pooling arrangement previously discussed in the Reinsurance section of this report, the Company was party to the following agreements with other members of its holding company system at December 31, 2016:

Service Agreement

Effective January 15, 2011, the Company and ProSight Specialty Management Company, Inc. (“PSMC”) have been parties to a Service Agreement which provides for PSMC to supply all services and facilities necessary for the conduct of the Company’s business. The Company pays PSMC fees equal to the actual costs and expenses incurred by PSMC for rendering such services to the Company, including, without limitation, all reasonable employee benefits and overhead costs and expenses incurred by or on behalf of PSMC. The Company’s expenses incurred for PSMC services were \$34,539,896 in 2014, \$51,536,405 in 2015, and \$55,468,311 in 2016.

Effective November 20, 2014, the service agreement was amended and restated to correct the timing of the payments due to PSMC. The agreement was filed with the Department pursuant to Section 1505 of the New York Insurance Law and was non-disapproved.

Tax Allocation Agreement

Effective April 1, 2013, the Company entered into a tax allocation agreement with members of the ProSight Specialty Group. The agreement was filed with the Department pursuant to Section 1505 of the New York Insurance Law and was non-disapproved. The tax allocation agreement was reviewed for compliance with Department Circular Letter 1979-33. No exceptions were noted.

Amended and Restated Program Management Agreement

Effective April 1, 2015, the Company and its subsidiaries have been a party to a program management agreement with ProSight Specialty Solutions, LLC (“PSSS”), whereby PSSS acts as a program administrator in procuring, underwriting, binding, and servicing policies of insurance. It was submitted to the Department pursuant to Section 1505(d)(3) of the New York Insurance Law and was non-disapproved.

E. Significant Ratios

Two of the Company's operating ratios, computed as of December 31, 2016 based on the results of this examination, were above the benchmark ranges set forth in the Insurance Regulatory Information System of the National Association of Insurance Commissioners.

<u>Operating Ratios</u>	<u>Result</u>
Net premiums written to policyholders' surplus	125%
Adjusted liabilities to liquid assets*	120%
Two-year overall operating*	109%

*The adjusted liabilities to liquid assets ratio was above the usual range of 105% because of the large investment in affiliates. The two-year overall operating ratio was above the usual range of 100%. The two-year operating overall ratio is a measure of the profitability of an insurance company.

Underwriting Ratios

The underwriting ratios presented below are based on the results of this examination, computed on an earned/incurred basis and encompass the three-year period covered by this examination:

	<u>Amounts</u>	<u>Ratios</u>
Losses and loss adjustment expenses incurred	\$ 772,378,515	71.14%
Other underwriting expenses incurred	412,824,733	38.02
Net underwriting loss	<u>(99,440,431)</u>	<u>(9.16)</u>
Premiums earned	<u>\$1,085,762,817</u>	<u>100.00%</u>

F. Accounts and Records

Department Regulation No. 30

The Company did not maintain documentation for the basis of allocating salaries and joint costs among its affiliated entities, pursuant to the Department Regulation No. 30, Part 109.2, Section (b)(1) and (2), which states:

“(b) Allocations other than direct. (1) When a direct allocation is not made, salaries, with certain exceptions hereinafter noted, shall be allocated on whichever of the following bases, or combinations thereof, are appropriate:

Number of items or units time studies
Overhead on other allocations
Premiums
Dollar volume of losses
Other special studies

(2) The effects of the classification to each operating expense classification of all basis of allocation shall be shown on records kept in clear and legible form. Such records shall be readily available for examination.”

The Company had allocated salaries and joint costs using certain percentages that lacked supporting documentation required by Department Regulation No. 30. Therefore, it is recommended that the Company maintain documentation for the basis of allocating salaries and joint costs among affiliates, as required by Department Regulation No. 30, Part 109.2, Section (b)(1) and (2).

The Company has stated that it will maintain documentation of the methods and underlying unit populations applied to each of the expense categories involving salaries and joint costs, and it expects to complete this documentation as part of its 2018 update which will be completed in the third quarter of 2018.

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2016 as reported by the Company:

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds*	\$717,240,866	\$ 0	\$ 717,240,866
Common stocks (stocks)	135,356,811		135,356,811
Cash, cash equivalents and short-term investments	51,705,981		51,705,981
Other invested assets	53,611,536		53,611,536
Receivables for securities	8,309,433		8,309,433
Investment income due and accrued	3,744,637		3,744,637
Uncollected premiums and agents' balances in course of collection	118,645,597	14,542,721	104,102,876
Deferred premiums, agents' balances and installments booked but deferred and not yet due	21,728,489		21,728,489
Amounts recoverable from reinsurers	35,058,675		35,058,675
Current federal and foreign income tax recoverable and interest thereon	27,814,738		27,814,738
Net deferred tax asset	26,654,692	3,918,063	22,736,629
Electronic data processing equipment and software	4,141,783		4,141,783
Furniture and equipment, including health care delivery assets	173,945	173,945	
Receivables from parent, subsidiaries and affiliates	29,340,752		29,340,752
Amount refundable under retroactive contract	49,027,986		49,027,986
Claims cash in transit	14,011,548		14,011,548
Other assets	770,028	770,028	
Prepaid rent	<u>13,329</u>	<u>13,329</u>	<u>0</u>
Total assets	<u>\$1,297,350,826</u>	<u>\$19,418,086</u>	<u>\$1,277,932,740</u>

Liabilities, surplus and other funds

Losses and loss adjustment expenses		\$ 611,052,582
Commissions payable, contingent commissions and other similar charges		3,559,586
Other expenses (excluding taxes, licenses and fees)		4,739,160
Taxes, licenses and fees (excluding federal and foreign income taxes)		205,917
Unearned premiums		162,598,087
Ceded reinsurance premiums payable (net of ceding commissions)		31,533,022
Funds held by company under reinsurance treaties		34,250,759
Provision for reinsurance		11,792,637
Reserves for write-offs of pool members obligations		510,817
Losses Payable		3,424,705
Loss portfolio transfer liability and adjustment of commuted balances		9,871,973
Amount payable under reinsurance contract		<u>49,027,986</u>
Total liabilities		\$ 922,567,231
<u>Surplus and other funds</u>		
Common capital stock	\$ 8,827,889	
Gross paid in and contributed surplus	230,257,540	
Unassigned funds (surplus)	<u>116,280,080</u>	
Surplus as regards policyholders		<u>355,365,509</u>
Total liabilities, surplus and other funds		<u>\$1,277,932,740</u>

*The Company has approximately \$188 million in special deposits reflected on the above balance sheet, not available for the benefit of all policyholders. This amount includes approximately \$130 million specifically collateralizing California workers compensation liabilities.

Note: The Internal Revenue Service has not audited tax returns covering tax years 2014 through 2016. 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 examination period as reported by the Company was \$24,295,555 as detailed below:

Premiums earned		\$1,085,762,817
Deductions:		
Losses and loss adjustment expenses incurred	\$739,427,515	
Other underwriting expenses incurred	<u>412,824,733</u>	
Total underwriting deductions		<u>1,152,252,248</u>
Net underwriting gain or (loss)		\$ (66,489,431)
<u>Investment Income</u>		
Net investment income earned	\$52,501,091	
Net realized capital loss	<u>(2,664,725)</u>	
Net investment gain		49,836,366
<u>Other Income</u>		
Net gain or (loss) from agents' or premium balances charged off	\$ 392,076	
Write-off of poll and member obligations	475,466	
Other expenses	(3,651,056)	
Retroactive contract expense-nonreturnable amount paid at inception	(5,000,000)	
Amount incurred on loss portfolio transfer liability	(7,882,854)	
Miscellaneous income	<u>8,285,505</u>	
Total other income		<u>(7,380,863)</u>
Net income before federal and foreign income taxes		\$ (24,033,928)
Federal and foreign income taxes incurred		<u>261,627</u>
Net income (loss)		<u>\$ (24,295,555)</u>

C. Capital and Surplus

Surplus as regards policyholders increased \$115,262,377 during the three-year examination period January 1, 2014 through December 31, 2016 as reported by the Company, detailed as follows:

Surplus as regards policyholders as reported by the Company as of December 31, 2013			\$240,103,132
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net loss		\$24,295,555	
Change in net unrealized capital gains or (losses)		501,281	
Change in net deferred income tax	\$ 771,754		
Change in non-admitted assets		3,998,632	
Change in provision for reinsurance	9,215,958		
Surplus adjustments paid in	122,080,284		
Prior period adjustment		762,148	
SSAP3 adjustment	15,545,948		
Change in rent receivable	0	2,793,951	
Total gains and losses	<u>\$147,613,944</u>	<u>\$32,351,567</u>	
Net increase in surplus			<u>115,262,377</u>
Surplus as regards policyholders as reported by the Company as of December 31, 2016			<u>\$355,365,509</u>

Common capital stock is \$8,827,889 consisting of 8,827,889 shares of \$1 par value per share common stock. Gross paid in and contributed surplus is \$230,257,540. During the examination period, gross paid in and contributed surplus increased by \$122,080,284, as follows:

<u>Year</u>	<u>Description</u>	<u>Amount</u>
2013	Beginning gross paid in and contributed surplus	\$108,177,256
2014	Surplus contribution	\$95,752,323
2015	Surplus contribution	<u>26,327,961</u>
	Total surplus contributions	<u>122,080,284</u>
2016	Ending gross paid in and contributed surplus	<u>\$230,257,540</u>

D. Analysis of Changes to Income

Net loss for the examination period, as reported by the Company			\$ (24,295,555)
	<u>Income</u>	<u>Income</u>	
	<u>Increase</u>	<u>Decrease</u>	
Change in losses and loss adjustment expenses		\$32,951,000	
Net increase (decrease) in income			<u>(32,951,000)</u>
Net gain (loss) for the examination period, after examination adjustments			<u>\$(57,246,555)</u>

E. Analysis of Changes to Surplus

Surplus as regards policyholders as reported by the Company as of December 31, 2016			\$355,365,509
	<u>Surplus</u>	<u>Surplus</u>	
	<u>Increase</u>	<u>Decrease</u>	
Change in common stock- affiliated investments		\$ 8,223,000	
Change in losses and loss adjustment expenses		<u>32,951,000</u>	
Net increase (decrease) in income			<u>(41,174,000)</u>
Surplus at December 31, 2016, after examination adjustments			<u>\$314,191,509</u>

4. COMMON STOCKS

The examination admitted asset for the captioned item of \$127,133,811 is \$8,223,000 less than \$135,356,811 reported by the Company as of December 31, 2016.

As a result of the examination, the liabilities of the Company's wholly-owned subsidiaries, Gotham Insurance Company and Southwest Marine and General Insurance Company have increased, which decreased the surplus to policyholders of the subsidiaries; thereby the value of the Company's investments in the subsidiaries have also decreased.

5. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of \$644,003,582 is \$32,951,000 more than \$611,052,582 reported by the Company as of December 31, 2016. 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 the NAIC Accounting Practices & Procedures Manual, Statement of Statutory Accounting Principle No. 55.

The reserves for the captioned items are concentrated in commercial auto liability, workers' compensation, and other liability lines of business.

The Department's actuarial indications showed that the Company's net carried loss and loss adjustment expense reserves were deficient by \$32.9 million, representing 9 percent of its December 31, 2016 surplus of \$355.4 million or 5 percent of its December 31, 2016 net carried reserves of \$611 million.

Section 1303 of the New York Insurance Law states:

"Every insurer shall...maintain reserves in an amount estimated in the aggregate to provide for the payment of all losses or claims incurred on or prior to the date of statement, whether reported or unreported, which are unpaid as of such date and for which such insurer may be liable, and also reserves in an amount estimated to provide for the expenses of adjustment or settlement of such losses or claims."

Further, paragraph 10 of SSAP No. 55 states:

"The liability for claim reserves and claim liabilities, unpaid losses, and loss/claim adjustment expenses shall be based upon the estimated ultimate cost of settling the claims (including the effects of inflation and other societal and economic factors), using past experience adjusted for current trends, and any other factors that would modify past experience."

It is recommended that the Company report its loss and loss adjustment expense reserves pursuant to the provisions of Section 1303 of the New York Insurance Law and paragraph 10 of SSAP No. 55.

By virtue of its one- year adverse runoff for accident years 2016 and prior, as reported by the Company in its filed December 31, 2017 annual statement, the Department notes that the Company has recognized \$27.943 million, or approximately 85%, of the Department's projected loss and loss adjustment expense reserve deficiency of \$32.951 million. Therefore, the Company is not required to implement any further changes to their financial statements.

6. SUBSEQUENT EVENTS

In June 2017, the Company's affiliate, ProSight's Syndicate 1110 ("PSS") was sold. This company operated in the United Kingdom. In anticipation of the sale, the Company and its subsidiaries agreed to terminate all quota share reinsurance agreements with PSS. All parties under these agreements then agreed to commute the reinsurance business to the Company for a consideration of \$249,575,256. In addition, PSS and ProSight Specialty Insurance Solutions, LLC, an affiliated agent, also agreed to terminate a Coverholder arrangement for a majority of the business written in the United States on behalf of PSS, which will continue to be written by the Company. The business that the agent has already written for PSS will be ceded through a whole account quota share agreement to the Company. Both parties then further agreed that the Company shall provide an aggregate stop loss reinsurance coverage to indemnify PSS for all losses over certain aggregate amount. These transactions were filed with the Department, pursuant to Section 1505(d) of the New York Insurance Law and were non-disapproved.

7. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

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

<u>ITEM</u>	<u>PAGE NO.</u>
<p>A. <u>Reinsurance</u></p> <p style="margin-left: 40px;">i. It is recommended that the Company comply with Department Regulation 133 and accurately list the correct beneficiaries on their letters of credit.</p> <p style="margin-left: 80px;">The Company has complied with this recommendation.</p> <p style="margin-left: 40px;">ii. It is recommended that the Company account for commuted reinsurance agreements pursuant to the provisions of SSAP 62R.</p> <p style="margin-left: 80px;">The Company has complied with this recommendation.</p>	<p>13</p> <p>13</p>
<p>B. <u>Holding Company</u></p> <p style="margin-left: 40px;">i. It is recommended that the Company comply with all terms of the Amended and Restated Service Agreement.</p>	<p>18</p>

The Company has complied with this recommendation.

- ii. It is recommended that the Company comply with the terms of the affiliated reinsurance agreements and allocate expenses per the terms of these agreements. 19

The Company has complied with this recommendation.

C. Accounts and records

It is recommended that the Company address the reporting issues, related to the preparation of the 2013 annual statement, identified in this examination report. 21

The Company has complied with this recommendation.

It is recommended that the Company put stronger control procedures in place in reference to the reinsurance accounting function 22

The Company has complied with this recommendation.

D. Loss and loss adjustment expenses 26

It is recommended that in accordance with the NAIC Instructions to the Annual Statement, future actuarial reports underlying the Statements of Actuarial Opinion contain both narrative and technical components in sufficient detail and include an exhibit that reconciles and maps the data used to derive the loss development factors or pool data triangles to the Annual Statement Schedule P lines of business.

The Company has complied with this recommendation.

8. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>	<u>PAGE NO.</u>
<p>A. <u>Conflict of Interest Acknowledgements and Disclosures</u></p> <p>It is recommended that the Company maintain complete records of acknowledgements and disclosures regarding its conflicts of interest and make them available for inspection in all future examinations.</p>	<p>4</p>
<p>B. <u>Accounts and Records</u></p> <p>It is recommended that the Company maintain documentation for the basis of allocating salaries and joint costs among affiliates, as required by the Department Regulation No. 30, Part 109.2, Section (b)(2).</p>	<p>20</p>
<p>C. <u>Loss and Loss Adjustment Expenses</u></p> <p>It is recommended that the Company address these reserving deficiencies and report its loss and loss adjustment expense reserves pursuant to the provisions of Section 1303 of the New York Insurance Law and paragraph 10 of SSAP No. 55.</p> <p>By virtue of its one- year adverse runoff for accident years 2016 and prior, as reported by the Company in its filed December 31, 2017 annual statement, the Department notes that the Company has recognized \$27.943 million, or approximately 85%, of the Department’s projected loss and loss adjustment expense reserve deficiency of \$32.951 million. Therefore, the Company is not required to implement any further changes to their financial statements.</p>	<p>26</p>

Respectfully submitted,

Moses Egbon, CFE
Associate Insurance Examiner

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

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

Moses Egbon

Subscribed and sworn to before me

this _____ day of _____, 2018.

APPOINTMENT NO. 31573

NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

I, Maria T. Vullo, Superintendent of Financial Services of the State of New York, pursuant to the provisions of the Financial Services Law and the Insurance Law, do hereby appoint:

Moses Egbon

as a proper person to examine the affairs of the
New York Marine and General 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.

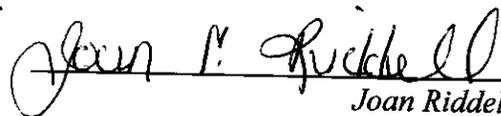
In Witness Whereof, I have hereunto subscribed by name
and affixed the official Seal of the Department
at the City of New York

this 6th day of March, 2017

MARIA T. VULLO
Superintendent of Financial Services



By:


Joan Riddell
Deputy Bureau Chief