# REPORT ON EXAMINATION

OF THE

AMERICAN PET INSURANCE COMPANY

AS OF

DECEMBER 31, 2014

| | |
|---|---|
| DATE OF REPORT | APRIL 28, 2016 |
| EXAMINER | ADEBOLA AWOFESO |

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April 28, 2016

Honorable Maria T. Vullo
Superintendent
New York State Department of Financial Services
Albany, New York 12257

Madam:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 31350 dated May 7, 2015, attached hereto, I have made an examination into the condition and affairs of American Pet Insurance Company as of December 31, 2014, and submit the following report thereon.

Wherever the designation "the Company" or "APIC" appears herein without qualification, it should be understood to indicate American Pet Insurance Company.

Wherever the designation "TMUI" appears herein without qualification, it should be understood to indicate Trupanion Managers USA, Inc.

Wherever the term "Department" appears herein without qualification, it should be understood to mean the New York State Department of Financial Services.

The examination was conducted at the Company's administrative office located at 5245 Shilshole Avenue NW, Seattle, Washington 98107.

## 1. SCOPE OF EXAMINATION

The Department has performed an individual examination of the Company, a multi-state insurer. The previous examination was conducted as of December 31, 2011. This examination covered the three year period from January 1, 2012 through December 31, 2014. 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. This examination also included a review and evaluation of the Company's own control environment assessment and an evaluation based upon the Company's Sarbanes Oxley documentation and testing. 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
Pensions, stock ownership and insurance plans
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

The Company was incorporated under the laws of the state of New York on December 7, 2000 as the Nipponkoa Insurance Company of America.

On April, 25, 2007, Trupanion, Inc., a Delaware company, purchased the Company for $13,200,000, which represented the Company's surplus plus $3,000,000. On May 29, 2007 the name of the Company was changed to American Pet Insurance Company.

The Company began writing pet health insurance in January 2008 under the brand name Trupanion and managed by its affiliate TMUI, an Arizona corporation.

Capital paid in is $4,800,000 consisting of 1,600 shares of $3,000 par value per share common stock. Gross paid in and contributed surplus is $14,380.538. Gross paid in and contributed surplus increased by $8,910,000 during the examination period, as follows:

| Date | Description | | Amount |
|---|---|---|---|
| 2011 | Beginning gross paid in and contributed surplus | | $ 5,470,538 |
| 2013 | Surplus Contribution | $3,500,000 | |
| 2014 | Surplus Contribution | 5,410,000 | |
| | Total Surplus Contributions | | 8,910,000 |
| 12/31/2014 | Ending balance | | $14,380,538 |

As shown above, the Company received capital contributions of $3,500,000 and $5,410,000 in 2013 and 2014, respectively, from its parent Trupanion, Inc. However, these transactions were not submitted to the Department prior to enactment. Pursuant to Section 1505(d)(1) of the New York Insurance Law, the Company is required to notify the Superintendent in writing of its intention to enter into such transaction at least 30 days prior to the effective date of the transaction.

It is recommended that the Company comply with the notification requirements set forth in Section 1505(d)(1) of the New York Insurance Law.

In addition, $500,000 of the 2013 contribution was not received by APIC until the second quarter of 2014 and therefore, should have been reported as non-admitted asset as of December 31, 2013. It is recommended that the Company report capital contributions in the statement corresponding to the period in which the capital contributions are actually received.

## 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 four times during each calendar year. At December 31, 2014, the board of directors was comprised of the following fourteen members:

| Name and Residence | Principal Business Affiliation |
|---|---|
| Michael O. Banks<br>Seattle, WA | Chief Financial Officer,<br>Trupanion, Inc. and American Pet Insurance Company |
| Peter R. Beaumont<br>New Vernon, NJ | Owner and Managing Partner,<br>Yorkshire Management LLC |
| Louis P. Chames, Jr.<br>Bonney Lake, WA | Associate Vice President, Regulatory Operations,<br>Trupanion Manager USA, Inc. |
| Paul E. Dassenko<br>Sharon, CT | Principal/Sole Shareholder,<br>Azure Advisors, Inc. |
| Timothy J. Graff<br>Seattle, WA | President,<br>American Pet Insurance Company. |
| John H. Kramer<br>Vero Beach, FL | Director,<br>American Pet Insurance Company |
| Daniel G. Levitan<br>Seattle, WA | Co-Founder/Managing Member,<br>Maveron LLC |
| Murray B. Low<br>Stanford, CT | Director,<br>Lang Entrepreneurship Center, Columbia University |

| Name and Residence | Principal Business Affiliation |
|---|---|
| Michael J. Lucciola<br>Chatham, NJ | Chief Executive Officer,<br>QVE.LLC d/b/a Get VEQ.com |
| Darryl G. A. Rawlings<br>Seattle, WA | Chief Executive Officer,<br>Trupanion, Inc., and American Pet Insurance Company |
| Howard E. Rubin<br>Glen Ridge, NJ | Consultant,<br>Trupanion, Inc. |
| Morton E. Spitzer<br>Boca Raton, FL | Retired |
| James K. Steen<br>Old Greenwich, CT | Retired/ Sole Practitioner,<br>Corporate Consultant, Insurance |
| Jennifer F. Steindler<br>Southfields, NY | Vice President-Legal Affairs,<br>Hugo Boss USA. |

A review of the minutes of the board of directors' meetings held during the examination period indicated that the meetings were generally well attended with the exception of Peter Beaumont and Daniel Levitan each of whom attended less than 20% of the meetings for which they were eligible to attend.

Members of the board have a fiduciary responsibility and must evince an ongoing interest in the affairs of the insurer. It is essential that board members attend meetings consistently and set forth their views on relevant matters so that the board may reach appropriate decisions. Individuals who fail to attend at least one-half of the regular meetings do not fulfill such criteria. It is recommended that board members who are unable or unwilling to attend meetings consistently should resign or be replaced.

Article II Section 4 of the Company's By Laws states:

> "Regular meetings of the Board of Directors shall be held immediately following the annual meeting of shareholders…but no less than four regularly scheduled quarterly Board meetings shall be held in each calendar year."

A review of the minutes of the board of directors' meetings held during the examination period indicated that the board of directors' met only three times in 2012. It is recommended that the Company comply with its By Laws by conducting regular meetings of the board of directors at least once in each quarter of the year.

As of December 31, 2014, the principal officers of the Company were as follows:

| Name | Title |
|---|---|
| Darryl G. A. Rawlings | Chief Executive Officer |
| Timothy J. Graff | President |
| Michael O. Banks | Chief Financial Officer |
| Louis P. Chames Jr. | Secretary |

B. Territory and Plan of Operation

As of December 31, 2014, the Company was licensed to write business in all fifty states, the District of Columbia and Commonwealth of Puerto Rico.

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

| Paragraph | Line of Business |
|---|---|
| 3 | Accident & 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 | Workers' compensation and employers' liability |
| 16 | Fidelity and surety |
| 19 | Motor vehicle and aircraft physical damage |
| 20 | Marine and inland marine |
| 21 | Marine protection and indemnity |

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 $4,000,000.

The following schedule shows the direct premiums written by the Company both in total and in New York for the period under examination:

DIRECT WRITTEN PREMIUMS

| Calendar Year | New York State | Total Premiums | Premiums Written in New York State as a Percentage of Total Premium |
|---|---|---|---|
| 2012 | $ 5,809,183 | $ 37,095,183 | 15.66% |
| 2013 | $ 9,301,282 | $ 63,511,768 | 14.64% |
| 2014 | $ 12,271,538 | $ 86,819,716 | 14.13% |

The Company operates as a monoline pet insurer that provides health and accident insurance for dogs and cats both in USA and Canada. APIC is managed by its affiliate/MGA Trupanion Managers USA, Inc. (d/b/a Trupanion), an Arizona corporation.

C. Reinsurance

The Company does not cede any reinsurance.

Assumed reinsurance accounted for 7.76% of the Company's gross premiums written in 2014. The Company's assumed reinsurance program consists of a fronting arrangement with Omega General Insurance Company ("Omega"), a Canadian insurer, whereby Omega writes pet insurance in Canada pursuant to an agency agreement with Trupanion Brokers Canada Inc. and cedes 100% of this business to the Company pursuant to a stop loss reinsurance agreement. This agreement no longer in effect as of December 31, 2014.

The Company utilizes reinsurance accounting as defined in Statement of Statutory Accounting Principle ("SSAP") No. 62 for its assumed reinsurance business.

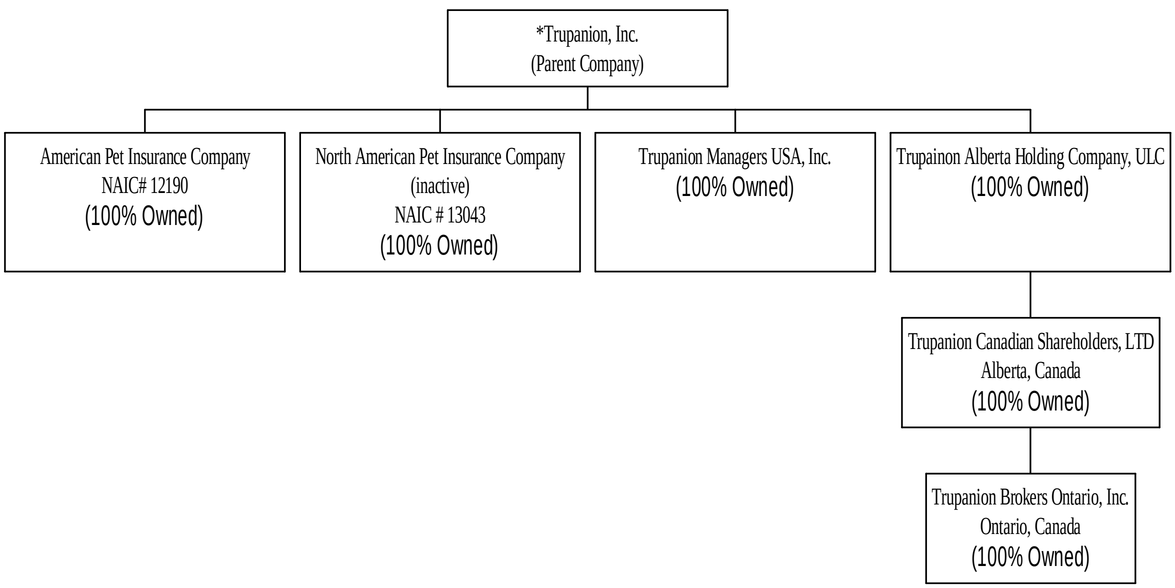
Examination review found that the Schedule F data reported by the Company in its filed annual statement accurately reflected its reinsurance transactions.

D. Holding Company System

The Company is 100% owned by Trupanion, Inc., a Delaware corporation publicly traded on the New York Stock Exchange.

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, 2014:




*The following investors own more than 5% of the outstanding shares of Trupanion, Inc.:

Entities affiliated with Maveron (23.3%)

Entities affiliated with Highland Consumer Fund (9.9%)

RenaissanceRe Ventures Ltd. (9.8%)

Entities affiliated with Deerfield (9.5%)

Darryl Rawlings, CEO/Founder of Trupanion, Inc., (8.7%)

Wasatch Advisors, Inc., (5.5%)

At December 31, 2014, the Company was party to the following agreements with other members of its holding company system:

Administrative Services and Property Agreement

Effective May 16, 2007, and as amended July 15, 2008, the Company and Trupanion Managers USA, Inc. ("TMUI") entered into an Administrative Services and Property Agreement. Pursuant to the terms of the agreement, TMUI will perform various services for the Company including claims payment and adjustment, underwriting, sales and marketing, facility sharing, accounting and finance, insurance coverage and administration. The charge for such services and facilities shall be at cost and shall include all direct and directly allocable expenses reasonably and equitably determined to be attributable to the Company, plus a reasonable charge for direct overhead.

The amendment noted above was not filed with the Department. It is recommended that Company file all future affiliated agreements with the Department prior to implementation in accordance with Section 1505(d) of New York Insurance Law.

General Agency Agreement

Effective May 16, 2007, and as amended May 25, 2007, January 1, 2010 and May 1, 2011, the Company and Trupanion Managers USA, Inc. ("TMUI") entered into a General Agency Agreement. Pursuant to the terms of the agreement, the Company appoints TMUI as its managing general agent for the purpose of producing and handling the policies of the Company. The Company grants authority to TMUI to solicit, accept and receive applications for such classes of coverage that the Company has authority to write; to secure, at its own expense, reasonable underwriting information through reporting agencies, or other appropriate sources, relating to each risk insured; to issue, renew and countersign policies, certificates, endorsement and binders and to collect and receive premiums thereon. The Company further authorizes TMUI to perform all acts and duties under policies of insurance issued by the Company including, properly sending and/or receiving reports and notices and remitting and/or receiving monies due from or to the Company and adjusting and paying losses or other claims.

Examination review indicates that the amendments noted above which were made for the purpose of increasing the compensation/fees to be paid for services provided, were not filed with the Department. It is recommended that Company file all future affiliated agreements with the Department prior to implementation in accordance with Section 1505(d) of New York Insurance Law.

Federal Income Tax Allocation Agreement

Effective May 16, 2007, the Company entered into a Tax Allocation Agreement with its immediate parent, Trupanion, Inc., and other members of the holding company system, including Trupanion Managers USA, Inc. and Trupanion Brokers, Ltd. Pursuant to the terms of the agreement, for each consolidated return year, the consolidated tax liability of the group shall be allocated among the members who agree to pay an amount equal to the separate tax liability for each member. The separate return tax liability of each member shall not exceed the amount each member would have paid if it had filed on a separate return basis.

The agreement was filed with the Department pursuant to Section 1505(d) of the New York Insurance Law.

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2014, based upon the results of this examination:

| | |
|---|---|
| Net premiums written to policyholders' surplus | 398%* |
| Liabilities to liquid assets (cash and invested assets less investments in affiliates) | 36% |
| Premiums in course of collection to surplus as regards policyholders | 4% |

The above ratio denoted with an asterisk falls outside the benchmark range set forth in the Insurance Regulatory Information System of the National Association of Insurance Commissioners ("NAIC"). It is noted that the Company's net premiums written to policyholders' surplus ratio is more than the benchmark ratio of 300%, an indication that the Company is writing significantly more business than its surplus can support. Additionally, the Company's net premiums written to policyholders' surplus ratios for 2012 and 2013 were 359% and 426%, respectively. However, the Department is not concerned with the results of this ratio due the nature of the company's business.

To maintain a risk-based capital ratio of at least 210%, the Company received $1 million capital contribution from its parent Trupanion Inc. in 2015.

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

| | Amounts | Ratios |
|---|---|---|
| Losses and loss adjustment expenses incurred | $134,671,572 | 67.75% |
| Other underwriting expenses incurred | 56,807,794 | 28.58 |
| Net underwriting gain | 7,300,427 | 3.67 |
| Premiums earned | $198,779,793 | 100.00% |

F. Accounts and Records

During the course of this examination, it was noted that the Company's treatment of certain items was not in accordance with generally accepted statutory accounting principles and Department guidelines. Descriptions of such items follow:

i. Conflict of Interest Policy and Statements

During the review of the Company's corporate governance, it was noted that the Company does not maintain signed copies of board of directors, officers and key employees' conflict of interest statements.

It is recommended that the Company have each member of the board of directors, all officers and all key employees sign a conflict of interest statement annually.

ii. Underwriting and Investment Exhibit

Pursuant to the NAIC Annual Statement Instructions and SSAP No. 70:

"A company that pays any affiliated entity (including a managing general agent) for the management, administration, or service of all or part of its business or operations shall allocate these costs to the appropriate expense classification items (salaries, rent, postage, etc.) as if these costs had been borne directly by the company. Management, administration, or similar fees should not be reported as a one-line expense…"

"A company that pays any non-affiliated entity (including a managing general agent) for the management, administration, or service of all or part of its business or operations shall allocate these costs to the appropriate expense classification item…"

The Company reported in its filed annual statement, affiliated and non-affiliated expenses as a one line expense.

It is recommended that Company comply with the NAIC Annual Statement Instructions and SSAP No. 70 by reporting its affiliated and non-affiliated expenses in the annual statement Underwriting & Investment Exhibit, Part 3 as if the costs had been borne directly by the Company and allocate such expenses to the appropriate annual statement lines and not report them as a one line expense.

iii. Department Regulation No. 30

Department Regulation No. 30 sets forth the rules and methods governing the allocation of expenses among the major expense groups (loss adjustment, other underwriting and investment), as well as, amongst companies within the same holding company system. This regulation also requires insurers to maintain detailed worksheets on file, supporting the method used in allocating expenses to the various expense groups and joint expenses amongst companies.

The Company's General Agency Agreement and Administrative Services and Property Agreement states that a fee shall be payable for services rendered in connection with policies managed by the MGA on behalf of the Company at cost in compliance with Department Regulation No. 30. These agreements also require that an annual cost analysis worksheet be provided to the Company by the MGA detailing the actual cost of services rendered and facilities made available to the Company; and such information shall be used to develop the basis for the distribution of expenses which more currently reflect the actual costs incurred by the MGA on behalf of the Company.

The Company could not provide the examination team for review a detailed expense allocation worksheet nor a cost analysis worksheet as required by Department Regulation No. 30 and by the Company's own agreements.

It is recommended that Company establish and maintain an expense cost allocation worksheet that details expense allocation in compliance with Department Regulation No. 30.

It is also recommended that the Company obtain an annual cost analysis worksheet from the MGA as required by its agreements.

iv. Policy Cancellation

New York Insurance Law section 3425(c)(2)(A) states:

> "After a covered policy has been in effect for sixty days, or upon the effective date if the policy is a renewal, no notice of cancellation shall be issued to become effective unless required pursuant to a program approved by the superintendent as necessary because a continuation of the present premium volume would be hazardous to the interests of policyholders of the insurer, its creditors or the public, or unless it is based on one or more of the following:"
>
> "With respect to personal lines insurance policies:"
>
> "Nonpayment of premium, provided, however, that a notice of cancellation on this ground shall inform the insured of the amount due".

Examination review indicated that the Company's cancellation notices did not inform the insured of the amount due.

It is recommended that the Company comply with the notification requirements set forth in Section 3425(c)(2)(A) of the New York Insurance Law.

v. Premium Collection

The Company's Services Agreement in place with managing general agent "TMUI" stipulates that "All premiums on polices issued hereunder shall be collected within seventy-five (75) days of the effective date of the policy or the General Agent shall cancel such policy".

Examination review indicates that premiums are not being collected on a timely basis by MGAs and the amount subsequently paid for some policies is significantly less than the initial amount billed.

It is recommended that the Company establish an appropriate system to track billed and unbilled premium balances and follow up regularly to ensure premiums are being collected as required in the general agency agreement with its MGA.

G. Risk Management and Internal Controls

A risk focused assessment and review of the Company's information technology ("IT") general controls was performed in accordance with NAIC requirements as outlined in the Financial Condition Examiners Handbook.

Based on the review, the Company does not have formal IT policies that are sufficient for IT governance, IT procurement, security awareness, risk assessments, vendor management, service management, data retention, data classification and project management. The absence of such policies indicates that the Company's controls in the areas of IT governance, security, operations and alignment with business needs are inadequate.

It is recommended that the Company strengthen its controls in these areas by establishing formal IT policies.

Furthermore, IT examiners' review revealed that the Company's business continuity/disaster recovery plan in effect was developed without a business impact analysis. In addition, the plan has never been fully tested. Testing the plan will help determine if the lack of a business impact analysis resulted in plan deficiencies and if continuity and recovery are achievable in an acceptable amount of time.

It is recommended that the Business Continuity/Disaster Recovery plan be fully tested.

## 3. FINANCIAL STATEMENTS

A Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2014 as reported by the Company:

| Assets | Assets | Assets Not Admitted | Net Admitted Assets |
|---|---|---|---|
| Bonds | $ 1,000,000 | $ | $ 1,000,000 |
| Common Stocks | 250,000 | | 250,000 |
| Cash, cash equivalents and short-term investments | 22,114,218 | | 22,114,218 |
| Investment income due and accrued | 20,499 | | 20,499 |
| Uncollected premiums and agents' balances in the course of collection | 843,763 | 6,233 | 837,530 |
| Deferred premiums, agents' balances and installments booked but deferred and not yet due | 6,763,179 | | 6,763,179 |
| Other amounts receivable under reinsurance contracts | 447,944 | | 447,944 |
| Net deferred tax asset | 1,033,209 | 79,188 | 954,021 |
| Receivable from parent, subsidiaries and affiliates | 6,529,622 | | 6,529,622 |
| Prepaid expenses | 35,900 | 35,900 | 0 |
| Leasehold improvements | 73 | 73 | 0 |
| Total assets | $39,038,407 | $121,394 | $38,917,013 |

Liabilities, Surplus and Other Funds

| | | |
|---|---|---|
| **Liabilities** | | |
| Losses and loss adjustment expenses | | $ 4,167,572 |
| Commissions payable, contingent commissions and other similar charges | | 792,132 |
| Other expenses (excluding taxes, licenses and fees) | | 723,110 |
| Taxes, licenses and fees (excluding federal and foreign income taxes) | | 770,765 |
| Unearned premiums | | 8,415,706 |
| Payable to parent, subsidiaries and affiliates | | 386,539 |
| Total liabilities | | $15,255,824 |
| | | |
| **Surplus and Other Funds** | | |
| Common capital stock | $4,800,000 | |
| Gross paid in and contributed surplus | 14,380,538 | |
| Unassigned funds (surplus) | 4,480,651 | |
| Surplus as regards policyholders | | 23,661,189 |
| | | |
| Total liabilities, surplus and other funds | | $38,917,013 |

Note: The Internal Revenue Service has not yet begun to audit tax returns covering tax years 2012 through 2014. The examiner is unaware of any potential exposure of the Company to any tax assessment and no liability has been established herein relative to such contingency.

B. Statement of Income

The net income for the three-year examination period was $3,382,696 as detailed below:

| | | |
|---|---|---|
| Underwriting Income | | |
| Premiums earned | | $198,779,793 |
| Deductions: | | |
| Losses and loss adjustment expenses incurred | $134,671,572 | |
| Other underwriting expenses incurred | 56,807,794 | |
| Total underwriting deductions | | 191,479,366 |
| Net underwriting gain | | $ 7,300,427 |
| Investment Income | | |
| Net investment income earned | $ 156,433 | |
| Net investment gain | | 156,433 |
| Other Income | | |
| Net loss from agents' or premium balances charged off | $ (953,184) | |
| Total other income | | (953,184) |
| Net income before federal and foreign income taxes | | $ 6,503,676 |
| Federal and foreign income taxes incurred | | 3,120,980 |
| Net income | | $ 3,382,696 |

C. Capital and Surplus Account

Surplus as regards policyholders increased $13,470,881 during the three-year examination period January 1, 2012 through December 31, 2014, detailed as follows:

| | Gains in Surplus | Losses in Surplus | |
|---|---|---|---|
| Surplus as regards policyholders per report on examination as of December 31, 2011 | | | $10,190,308 |
| Net income | $3,382,696 | | |
| Change in net deferred income taxes | 930,606 | | |
| Change in non-admitted assets | 907,322 | | |
| Change in provision for reinsurance | | $659,743 | |
| Surplus adjustments paid in | 8,910,000 | | |
| Total gains and losses | $14,130,624 | $659,743 | |
| Net increase (decrease) in surplus | | | 13,470,881 |
| Surplus as regards policyholders per report on examination as of December 31, 2014 | | | $23,661,189 |

## 4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of $4,167,572 is the same as reported by the Company as of December 31, 2014. The examination analysis of the loss and loss adjustment expense reserves was conducted in accordance with generally accepted actuarial principles and statutory accounting principles, including SSAP No. 55.

## 5. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

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

| ITEM | | PAGE NO. |
|---|---|---|
| A | Accounts and Records | |
| | Fidelity Bond<br>It is recommended that the Company obtain a fidelity bond in an amount as required by the guidelines set forth in the NAIC Financial Condition Examiners Handbook. | 10 |
| | The Company has complied with this recommendation. | |
| | Conflict of Interest Policy<br>It is recommended that the Company adopt a conflict of interest policy, which is approved by the board of directors, and have each member of the board of directors, all officers and all key employees sign a conflict of interest statement annually. | 10 |
| | The Company has not complied with this recommendation. A similar comment is made in this report. | |
| B | Information Technology | |
| | Disaster Recovery Plan<br>It is recommended that the Company adopt a formalized disaster recovery plan and test such plan on a regular basis. | 10 |
| | The Company has not complied with this recommendation. A similar comment is made in this report. | |

## 6. SUMMARY OF COMMENTS AND RECOMMENDATIONS

| ITEM | | PAGE NO. |
|---|---|---|
| A. | Capital Contribution<br>It is recommended that the Company comply with the notification requirements set forth in Section 1505(d)(1) of the New York Insurance Law. | 4 |
| | It is also recommended that the Company report capital contributions in the statement corresponding to the period in which the capital contributions are received. | |
| B. | Management | |
| i | Board of Directors' Attendance | |
| | It is recommended that board members who are unable or unwilling to attend meetings consistently should resign or be replaced. | 5 |
| ii | Board of Directors' Meetings | |
| | It is recommended that the Company comply with its by-laws by conducting regular meetings of the board of directors at least once in each quarter of the year. | 5 |
| C. | Holding Company | |
| | Affiliated Agreements<br>It is recommended that Company file all future affiliated agreements with the Department prior to implementation in accordance with Section 1505(d) of New York Insurance Law. | 9 |
| D | Accounts and Records | |
| i. | Conflict of Interest Policy and Statements | |
| | It is recommended that the Company have each member of the board of directors, all officers and all key employees sign a conflict of interest statement annually. | 11 |

ii. Underwriting and Investment Exhibit 12

It is recommended that Company comply with the NAIC Annual Statement Instructions and SSAP No. 70 by reporting its affiliated and non-affiliated expenses in the annual statement Underwriting & Investment Exhibit, Part 3 as if the costs had been borne directly by the Company and allocate such expenses to the appropriate annual statement lines and not report them as a one line expense.

iii. Department Regulation No.30 12

It is recommended that Company establish and maintain an expense cost allocation worksheet that details expense allocation in compliance with Department Regulation No. 30. 12

It is also recommended that the Company obtain an annual cost analysis worksheet from the MGA as required by its agreements.

iv. Policy Cancellation

It is recommended that the Company comply with the notification requirements set forth in Section 3425(c)(2)(A) of the New York Insurance Law. 13

v. Premium Collection

It is recommended that the Company establish an appropriate system to track billed and unbilled premium balances and follow up regularly to ensure premiums are being collected as required in the general agency agreement with its MGAs. 13

E. Risk Management and Internal Controls 14

It is recommended that the Company strengthen its controls in the areas of IT governance, IT procurement, security awareness, risk assessments, vendor management, service management, data retention, data classification and project management by establishing formal IT policies.

It is recommended that the Business Continuity/Disaster Recovery plan be fully tested.

Respectfully submitted,

/s/
Adebola Awofeso,
Senior Insurance Examiner

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

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

/s/
Adebola Awofeso

Subscribed and sworn to before me

this_________ day of __________________, 2016.

*APPOINTMENT NO. 31350*

*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:*

***Adebola Awofeso***

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

***American Pet 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 7th day of May, 2015*

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

*By:*

*Rolf Kaumann*
*Deputy Chief Examiner*