

REPORT ON EXAMINATION

OF THE

SELECTIVE INSURANCE COMPANY OF NEW YORK

AS OF

DECEMBER 31, 2002

DATE OF REPORT

FEBRUARY 27, 2004

EXAMINER

JAMES MURPHY

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STATE OF NEW YORK  
INSURANCE DEPARTMENT  
25 BEAVER STREET  
NEW YORK, NEW YORK 10004

February 27, 2004

Honorable Gregory V. Serio  
Superintendent of Insurance  
Albany, New York 12257

Sir:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 22082 dated July 15, 2003 attached hereto, I have made an examination into the condition and affairs of the Selective Insurance Company of New York as of December 31, 2002, and submit the following report thereon.

The examination was conducted at the Company's administrative offices located at 40 Wantage Avenue, Branchville, NJ 07890.

Wherever the designations "the Company" or "Selective" appear herein without qualification, they should be understood to indicate the Selective Insurance Company of New York.

Wherever the term "Group" appears herein without qualification, it should be understood to indicate the Selective Insurance Group, Inc.

Wherever the term "Department" appears herein without qualification, it should be understood to mean the New York Insurance Department.

## 1. SCOPE OF EXAMINATION

The previous examination was conducted as of December 31, 1997. This examination covered the five-year period from January 1, 1998 through December 31, 2002. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

The examination comprised a complete verification of assets and liabilities as of December 31, 2002. The examination included a review of income, disbursements and company records deemed necessary to accomplish such analysis or verification and utilized, to the extent considered appropriate, work performed by the Company's independent public accountants. A review or audit was also made of the following items as called for in the Examiners Handbook of the National Association of Insurance Commissioners:

- History of Company
- Management and control
- Corporate records
- Fidelity bond and other insurance
- Territory and plan of operation
- Growth of Company
- Business in force by states
- Loss experience
- Reinsurance
- Accounts and records
- Financial statements

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, which involve departures from laws, regulations or rules, or which are deemed to require explanation or description.

A concurrent examination was made of the Selective Insurance Company of America, Selective Way Insurance Company, Selective Insurance Company of the Southeast and Selective Insurance Company of South Carolina, affiliates of the Company, by their respective state insurance departments. The systems and practices of conducting business are integrated and all companies operate under common management.

The state of domicile of each affiliate is as follows:

Selective Insurance Company of America	New Jersey
Selective Way Insurance Company	New Jersey
Selective Insurance Company of the Southeast	North Carolina
Selective Insurance Company of South Carolina	South Carolina

## **2. DESCRIPTION OF COMPANY**

The Company was incorporated April 30, 1914, under the laws of the State of New York as the Exchange Mutual Indemnity Insurance Company' and commenced business on July 1, 1914. It was organized for the purpose of transacting the business of workers' compensation and employers' liability insurance. On May 28, 1956, the Company changed its name to "Exchange Mutual Insurance Company" and later added additional property and casualty underwriting powers to its charter.

The Company merged with Saratoga Mutual Insurance Company of Round Lake, New York in 1984. In 1985, the Company amended its articles of incorporation, pursuant to Section 7307 of the New

York Insurance Law to become a stock company. The Company's name was changed to Exchange Insurance Company.

On September 17, 1990, the Company borrowed \$7,000,000 from its parent, Niagara Exchange Corporation ("Niagara") under the provisions of Section 1307 of the New York Insurance Law. Principal amount of \$4,000,000, as well as interest therein, had been repaid during the examination with the Superintendent's approval. As of the examination date, the remaining principal outstanding is \$3,000,000.

On August 27, 1992, Selective Insurance Group, Inc. acquired the Company's parent. On September 1, 1992, the Company entered into a reinsurance pooling agreement with Selective Insurance Company of America and its affiliates. See Item 2C of this report for details of the pooling agreement.

On June 19, 1997, the Company was granted permission by the New York Insurance Department to change its name to Selective Insurance Company of New York.

Capital paid in is \$3,575,156 consisting of 357,515.6 shares of \$10 par value per share common stock. Gross paid in and contributed surplus is \$19,763,401. Gross paid in and contributed surplus increased by \$9,311,270 during the examination period, as follows:

<u>Year</u>	<u>Description</u>	<u>Amount</u>
1998	Beginning gross paid in and contributed surplus	\$10,452,131
1998	Redemption of class A consumer secures	\$ (1,188,730)
2002	Surplus contribution	<u>10,500,000</u>
	Total Surplus Contributions	<u>9,311,270</u>
2002	Ending gross paid in and contributed surplus	<u>\$19,763,401</u>

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 members. At December 31, 2002, the board of directors was comprised of the following thirteen members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Paul D. Bauer Buffalo, NY	Retired
William S. Becker Shohola, PA	Senior Vice President and Chief Commercial Lines Underwriting Officer, Selective Insurance Company of America
Richard W. Berstein Lafayette, NJ	Executive Vice President and General Counsel, Selective Insurance Company of America
James A. Caragher Lafayette, NJ	Senior Vice President, Regional Field Operations Selective Insurance Company of America
Richard F. Connell Sparta, NJ	Executive Vice President and Chief Information Officer, Selective Insurance Company of America
Sharon R. Cooper Sparta, NJ	Senior Vice President and Director of Corporate Communications, Selective Insurance Company of America
Kerry A. Guthrie Ogdensburg, NJ	Senior Vice President and Chief Investment Officer, Selective Insurance Company of America
Thomas J. Kelly East Amherst, NY	Attorney, Brown and Kelly
Gregory J. Massey Warwick, NY	Vice President, Selective Insurance Company of America
James McLain Fogelsville, PA	Senior Vice President, and Director of Corporate Claims Selective Insurance Company of America
Gregory E. Murphy Sparta, NJ	Chairman, President and Chief Executive Officer, Selective Insurance Company of America

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Jamie Ochiltree III Sparta, NJ	Executive Vice President, Insurance Operations Selective Insurance Company of America
Dale A. Thatcher Sparta, NJ	Executive Vice President, Chief Financial Officer and Treasurer, Selective Insurance Company of America

The board of directors met four times annually during the examination period. 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 has an acceptable record of attendance.

As of December 31, 2002, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Thomas J. Kelly	Chairman of the Board
Gregory J. Massey	President
Gregory E. Murphy	Executive Vice President
Dale A. Thatcher	Vice President, Treasurer and Chief Financial Officer,
Robert J. Schwarz	Assistant Vice President and Controller
Kerry A. Guthrie	Vice President and Senior Investment Officer
Richard F. Connell	Executive Vice President and Chief Information Officer
Dixie J. Coffman	Corporate Secretary

B. Territory and Plan of Operation

As of December 31, 2002, the Company was licensed to write business in the following states:

Arizona, Colorado, Idaho, Maine, Massachusetts, Michigan, New Jersey, New Mexico, New York, Pennsylvania, South Carolina, Utah and Vermont.

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 & health
4	Fire
5	Miscellaneous property damage
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
17	Credit
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine
21	Marine protection and indemnity
30	Substantially similar kind

The Company was also licensed as of December 31, 2002, 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 insurance described in the Longshoremen's and Harbor Workers' Compensation Act (Public Law No. 803, 69 Cong. As amended; 33 USC Section 901 et seq. as amended).

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 \$4,400,000.

Direct premium income of the Company is produced by an agency force consisting of approximately 850 agents.

The majority of the Company's direct premium writings consist of the following lines of business: private passenger auto liability (17.47%), auto physical damage (14.76%), other liability–occurrence (14.43%), allied lines (14.01%), commercial auto liability (10.51%) and homeowners multi-peril (8.78%).

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

DIRECT PREMIUMS WRITTEN

<u>Calendar Year</u>	<u>New York State</u>	<u>Total United States</u>	<u>Premiums Written in New York State as a Percentage of United States Premium</u>
1998	\$19,762,222	\$19,941,862	99.10%
1999	\$18,883,695	\$19,165,321	98.53%
2000	\$23,274,530	\$23,624,339	98.52%
2001	\$26,511,007	\$26,954,888	98.35%
2002	\$26,186,675	\$26,797,030	97.72%

C. Reinsurance

Since 1992, the Company has participated in an inter-company reinsurance pooling agreement with its affiliates Selective Way Insurance Company, Selective Insurance Company of the Southeast, Selective Insurance Company of South Carolina and Selective Insurance Company of America. Under the terms of the agreement, each affiliate cedes 100% of net premiums to Selective Insurance Company of America ("SICA"). SICA then retrocedes the premiums to each pool member based on the members fixed participation percentage. All losses and other underwriting and administrative expenses, less salvage and subrogation recoveries and less all losses and expenses recovered and recoverable under reinsurance ceded other than specifically under this agreement, are prorated among each pool member on the basis of their respective percentages.

The pool participation percentage of each company is as follows:

Selective Insurance Company of America	55.5%
Selective Way Insurance Company	21.5%
Selective Insurance Company of South Carolina	9.0%
Selective Insurance Company of the Southeast	7.0%
Selective Insurance Company of New York	7.0%

### Assumed

During the examination period, the Company assumed a small amount of reinsurance from its participation in the New York Special Risk Distribution Program.

### Ceded

In 2002, the Company ceded approximately 20% of its direct business to non-affiliates. The remainder of its direct writings were ceded to its affiliates according to the terms and conditions of the above referenced inter-company reinsurance pooling agreement.

As of December 31, 2002 the pool had the following ceded reinsurance coverage in effect:

<u>Type of Contract</u>	<u>Coverage and Limits</u>
<u>Casualty Excess of loss</u>	
Six layers Mostly authorized	\$48,000,000 excess of \$2,000,000 1 <sup>st</sup> layer is ceded 75%; next 5 layers are ceded 100%
<u>Property Excess of Loss</u>	
Three layers Mostly authorized	\$18,000,000 excess of \$2,000,000
<u>Property Catastrophe Excess of Loss</u>	
Five layers Mostly authorized	\$150,000,000 x/s \$15,000,000. 1 <sup>st</sup> three layers are ceded 95%. 4 <sup>th</sup> and 5 <sup>th</sup> layers are ceded 83.5%.

Type of ContractCoverage and LimitsNew Jersey Homeowners' Quota Share

100% authorized

75% with a limit of \$75,000,000 each occurrence.

Commercial Umbrella Liability Excess of LossOne layer  
100% authorized

\$15,000,000 in excess of \$10,000,000.

Equipment Breakdown

100 % authorized

Covers 100% of equipment breakdown with a limit of \$25,000,000 for any one accident.

Surety Quota Share100% authorized  
\$750,000 at which time losses move to the excess layer.

17.5 % quota share until the Company's share reaches

Surety Excess of LossTwo layers  
100% authorizedContract Surety \$7,750,000 x/s \$750,000  
each and every principal, each and every loss.Commercial Surety \$4,750,000 x/s \$750,000  
each and every principal, each and every loss.Fidelity \$4,750,000 x/s \$750,000  
each and every principal, each and every loss.Professional Liability Excess of LossTwo layers  
100% authorized1<sup>st</sup> layer \$750,000 x/s \$250,000 each claim or occurrence  
2<sup>nd</sup> layer 75% of \$1,000,000 each claim or occurrence.

The Company has a 25% participation in the second excess layer.

Property Facultative Binding Agreement

The property program includes an automatic facultative binding agreement with coverage of \$25,000,000 in excess of \$15,000,000.

The Schedule F data as contained in the Company's filed annual statement did not accurately reflect its reinsurance transactions. The Company does not report any amount in Schedule F-Part 1 for reinsurance payable on paid losses nor any amount in Schedule F- Part 3 for reinsurance recoverables on paid losses and loss adjustment expenses resulting from pool business. It was found that the account "Reinsurance recoverable on paid losses" was not reported in Schedule F but instead as a Receivable/Payable to parent or affiliates. The Company is "netting" pool related reinsurance transactions which does not comply with NAIC Accounting Practices and Procedures SSAP Nos. 62, 63 and 64. These reclassifications were not made for examination purposes because there is no effect on surplus.

It is recommended that all reinsurance transactions be properly recorded in the annual statement.

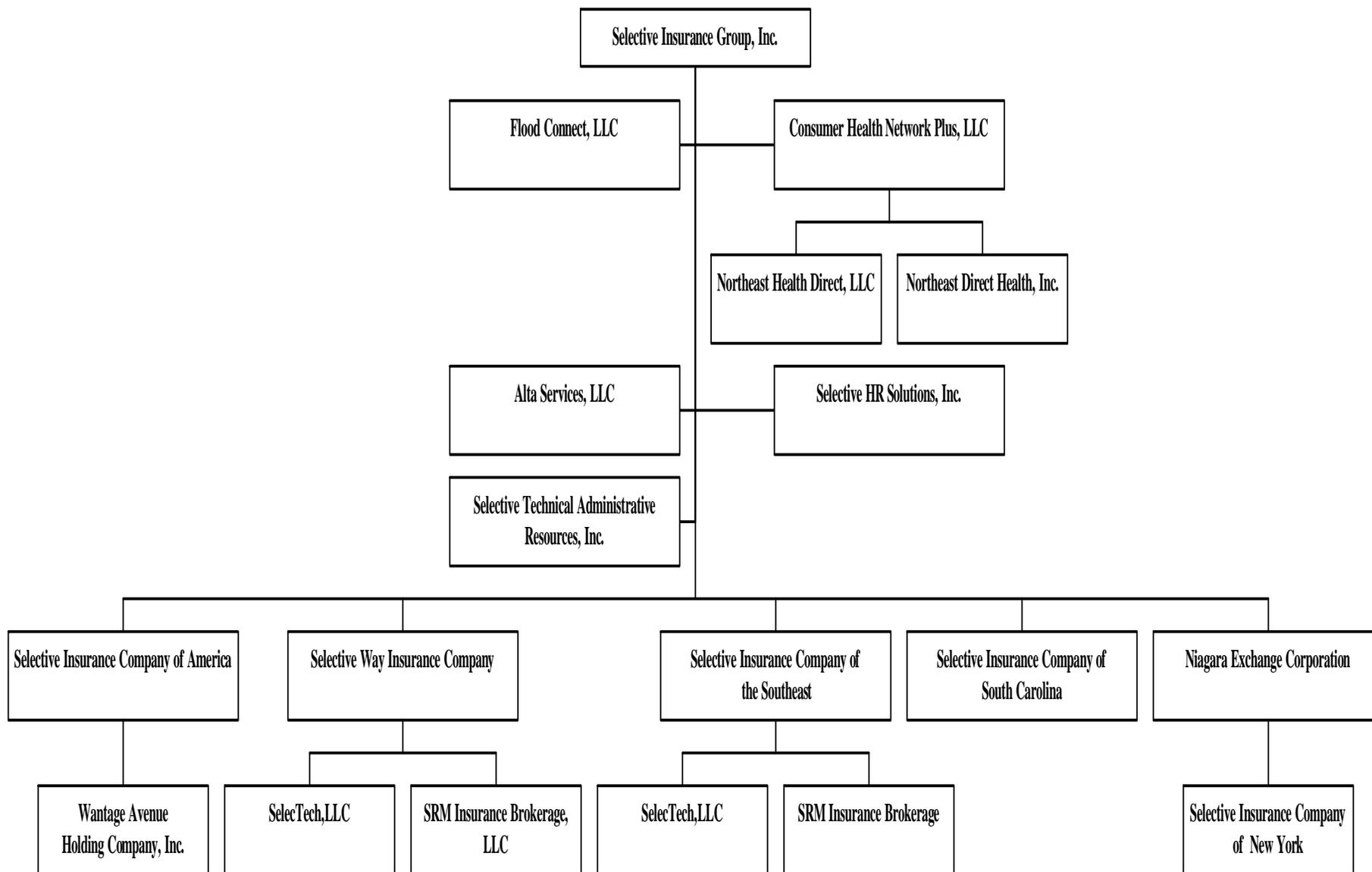
The examiner reviewed all ceded reinsurance contracts in effect at December 31, 2002. The contracts all contained the required standard clauses including insolvency clauses meeting the requirements of Section 1308 of the New York Insurance Law.

#### Unauthorized Reinsurance

The letters of credit obtained by the Company in order to take credit for cessions made to unauthorized reinsurers was reviewed for compliance with Department Regulation 133. No exceptions were noted.

#### D. Holding Company System

Selective Insurance Group, Inc., the ultimate holding company, owns 100% of the shares of Niagara Exchange Corporation, which owns 100% of the outstanding shares of the common stock of Selective Insurance Company of New York. The following is a chart of the holding company system:



\* Selectech, LLC and SRM Brokerage, LLC are owned by Selective Way Insurance Company and Selective Insurance Company of the Southeast, 75% and 25%, respectively

A review of the holding company registration statements filed with this Department indicated that such filings were filed in a timely manner pursuant to Article 15 of the New York Insurance Law and Department Regulation 52. However, the filings were incomplete, as described below.

Pursuant to the provisions of the inter-company reinsurance pooling agreement, the participants settle their accounts quarterly. A review of the third quarter 2002 settlements that the Company loaned \$850,000 to Selective Way Insurance Company. This loan represented 2.7% of the Company's surplus at December 31, 2001. In addition, during the review of the fourth quarter 2002 settlements it was determined that the Company loaned \$3,027,000 to Selective Insurance Company of South Carolina. This loan represented 9.7% of the Company's surplus at December 31, 2001.

Section 1505 of the New York Insurance Law provides as follows:

“(c) The superintendent's prior approval shall be required for the following transactions between a domestic controlled insurer and any person in its holding company system: sales, purchases, exchanges, loans or extensions of credit, or investments, involving five percent or more of the insurer's admitted assets as last year-end.

(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 such shorter period as he may permit, and he has not disapproved it within such period:

(1) sales, purchases, exchanges, loans or extensions of credit, or investments, involving more than one-half of one percent but less than five percent of the insurer's admitted assets at last year-end;”

The loans described above exceed the statutory thresholds set forth in Sections 1505(c) and (d) of the New York Insurance Law. It appears that the Company violated the cited provisions of statute by failing to obtain the necessary prior regulatory approval for the loan of \$3,027,000 and failing to provide the necessary notification for the loan of \$850,000.

Additionally, the transactions were not disclosed by the Company in its holding company registration statement.

At December 31, 2002, the Company was party to the following agreements with other members of its holding company system:

(1) Tax Allocation Agreement

The Company participates in a tax allocation agreement with members of its holding company system. A formal agreement was executed and submitted to the Department, pursuant to the Department's Circular Letter No. 33 (1979), describing the manner in which the federal income tax for all entities is allocated to each entity. The agreement was effective July 1, 1995 and was amended numerous times to add various participants.

(2) Investment Services Agreement

The Company entered into an investment services agreement with Selective Insurance Company of America ("SICA") effective January 1, 1993 and amended August 1, 1993. Pursuant to the terms of the agreement, SICA provides various services relative to the management of the Company's investment portfolio.

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

E. Abandoned Property Law

Section 1316 of the New York State Abandoned Property Law provides that amounts payable to a resident of this state from a policy of insurance, if unclaimed for three years, shall be deemed to be abandoned property. Such abandoned property shall be reported to the comptroller on or before the first day of April each year. Such filing is required of all insurers regardless of whether or not they have any abandoned property to report.

The Company's abandoned property reports for the period of this examination were all filed on a timely basis pursuant to the provisions of Section 1316 of the New York State Abandoned Property Law.

F. Significant Operating Ratios

The following ratios have been computed as of December 31, 2002, based upon the results of this examination:

Net premiums written to surplus as regards to policyholders	1.83 to 1
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	80%
Premiums in course of collection to surplus as regards policyholders	19%

All of the above ratios fall within the benchmark ranges set forth in the Insurance Regulatory Information System of the National Association of Insurance Commissioners.

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	\$217,740,486	73.52%
Other underwriting expenses incurred	94,983,102	32.07
Net underwriting loss	(7,253,172)	(5.83)
Aggregate write-ins for underwriting deductions	<u>678,288</u>	<u>.23</u>
Premiums earned	<u>\$296,148,704</u>	<u>100.00%</u>

### 3. FINANCIAL STATEMENTS

#### A Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as determined by this examination as of December 31, 2002 and as reported by the Company:

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$122,254,153		\$122,254,153
Preferred stocks	6,202,310		6,202,310
Common stocks	9,488,905		9,488,905
Cash and short-term investments	784,139		784,139
Receivable for securities	792		792
Premiums and agents' balances in course of collection	8,009,709	241,499	7,768,210
Premiums, agents' balances and installments booked but deferred and not yet due	19,255,375	629,459	18,625,916
Accrued retrospective premiums	178,612	17,861	160,751
Reinsurance recoverable on loss and loss adjustment expense payments	(149)	0	(149)
Federal and foreign income taxes recoverable	3,787,163	534,182	3,252,981
Interest, dividends and real estate income due and accrued	1,858,341	0	1,858,341
Receivable from parent, subsidiaries and affiliates	867,435	0	867,435
Equities and deposits in pools and associations	500,155	0	500,155
Aggregate write-ins for other than invested assets	<u>665,979</u>	<u>211,945</u>	<u>454,034</u>
Total assets	<u>\$173,852,919</u>	<u>\$1,634,946</u>	<u>\$172,217,973</u>

Liabilities

Losses		\$ 75,050,510
Loss adjustment expenses		12,069,733
Commissions payable, contingent commissions and other similar charges		2,628,163
Other expenses (excluding taxes, licenses and fees)		1,667,456
Taxes, licenses and fees (excluding federal and foreign income taxes)		1,177,902
Unearned premiums		35,771,564
Advance premium		113,942
Policyholders (dividends declared and unpaid)		289,084
Ceded reinsurance premiums payable (net of ceding commissions)		789,446
Amounts withheld or retained by company for account of others		236,532
Provision for reinsurance		278,046
Aggregate write-ins for liabilities		<u>1,007,277</u>
		\$131,079,655
Total liabilities		
Common capital stock	\$3,575,156	
Surplus notes	3,000,000	
Gross paid in and contributed surplus	19,763,401	
Unassigned funds (surplus)	<u>14,799,761</u>	
Surplus as regards policyholders		<u>41,138,318</u>
Total liabilities, surplus and other funds		<u>\$172,217,973</u>

NOTE: The Internal Revenue Service has completed its audits of the Company's (consolidated) federal income tax returns through tax year 1998. 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 Internal Revenue Service has not yet begun to audit tax returns covering tax years 1999 through 2002. 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. Underwriting and Investment Exhibit

Surplus as regards policyholders increased \$10,934,315 during the five-year examination period

January 1, 1998 through December 31, 2002, detailed as follows:

Underwriting Income

Premiums earned		\$296,148,704
Deductions:		
Losses incurred	\$188,134,071	
Loss adjustment expenses incurred	29,606,415	
Other underwriting expenses incurred	94,983,102	
Aggregate write-ins for underwriting deductions	<u>678,288</u>	
Total underwriting deductions		<u>313,401,876</u>
Net underwriting gain or (loss)		\$(17,253,172)

Investment Income

Net investment income earned	\$31,224,817	
Net realized capital gain	<u>590,270</u>	
Net investment gain or (loss)		31,815,087

Other Income

Net gain or (loss) from agents' or premium balances charged off	\$ (1,161,001)	
Finance and service charges not included in premiums	1,016,001	
Aggregate write-ins for miscellaneous income	<u>97,916</u>	
Total other income		<u>(47,084)</u>
Net income before dividends to policyholders and before federal and foreign income taxes		\$14,514,831
Dividends to policyholders		<u>2,346,708</u>
Net income after dividends to policyholders but before federal and foreign income taxes		\$12,168,123
Federal and foreign income taxes incurred		<u>2,087,582</u>
Net Income		<u>\$10,080,541</u>

C. Capital and Surplus Account

Surplus as regards policyholders per report on  
examination as of December 31, 1997 \$30,204,003

	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income	\$10,080,540		
Net unrealized capital gains or (losses)		\$1,954,070	
Change in net unrealized foreign exchange capital gain (loss)		219,256	
Change in net deferred income tax	1,155,477		
Change in non-admitted assets	606,515		
Change in provision for reinsurance	476,026		
Change in surplus notes		4,000,000	
Cumulative effect of changes in accounting principles	3,353,826		
Capital changes transferred to surplus		1,188,740	
Surplus adjustments paid in	10,500,000		
Dividends to stockholders		7,851,915	
Aggregate write-ins for gains and losses in surplus	<u>                    </u>	<u>24,088</u>	
Total gains or losses	<u>\$26,172,384</u>	<u>\$15,238,069</u>	
Net increase (decrease) in surplus			<u>10,934,315</u>
Surplus as regards policyholders per report on examination as of December 31, 2002			<u>\$41,138,318</u>

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

The examination liability for the captioned items of \$87,120,243 is the same as the amount reported by the Company as of December 31, 2002. The examination analysis was conducted in accordance with generally accepted actuarial principles and practices and was based on statistical information contained in the Company's internal records and in its filed annual statements.

#### **5. MARKET CONDUCT ACTIVITIES**

In the course of this examination, a review was made of the manner in which the Company conducts its business and fulfills its contractual obligations to policyholders and claimants. The review was general in nature and is not to be construed to encompass the more precise scope of a market conduct investigation, which is the responsibility of the Market Conduct Unit of the Property Bureau of this Department.

The general review was directed at practices of the Company in the following areas:

- A. Sales and advertising
- B. Underwriting
- C. Rating
- D. Claims and complaint handling

No problem areas were encountered.

## 6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination contained the following recommendations (page numbers refer to the prior report):

<u>ITEM</u>	<u>PAGE NO.</u>
<p>A. <u>Reinsurance</u></p> <p>It is recommended that all information regarding the Schedule F schedules be properly entered in the annual statement.</p> <p>The Company has not complied with this recommendation and a similar comment is contained in this report.</p>	<p>10</p>
<p>B. <u>Accounts and Records</u></p> <p>i. It is recommended that the Company replace all documents that are currently in effect to reflect the Company's name change from Exchange Insurance Company to Selective Insurance Company of New York.</p> <p>The Company has complied with this recommendation.</p>	<p>13</p>
<p>ii. It is recommended that the Company formulate a disaster recovery plan and take the appropriate measures to see that such a plan remain current and updated.</p> <p>The Company has complied with this recommendation.</p>	<p>13</p>
<p>iii. It is again recommended that the Company comply with the NAIC instructions to the annual statement and reflect its true cash position.</p> <p>The Company has complied with this recommendation.</p>	<p>13</p>

**7. SUMMARY OF COMMENTS AND RECOMMENDATIONS**

<u>ITEM</u>		<u>PAGE NO.</u>
A.	<u>Reinsurance</u>	
	It is again recommended that all information regarding Schedule F be properly entered in the annual statement.	12
B.	<u>Holding Company</u>	
	The Company is in violation of Section 1505 (d)(1) of the New York Insurance Law for failing to notify the Superintendent of its intention to loan funds to members of its holding company system.	13



Respectfully submitted,

---

James Murphy  
Associate Insurance Examiner

STATE OF NEW YORK     )  
                                  )SS:  
                                  )  
COUNTY OF NEW YORK    )

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

---

James Murphy

Subscribed and sworn to before me  
this \_\_\_\_\_ day of \_\_\_\_\_, 2004.

*Appointment No. 22082*

**STATE OF NEW YORK  
INSURANCE DEPARTMENT**

*I, GREGORY V. SERIO, Superintendent of Insurance of the State of New York,  
pursuant to the provisions of the Insurance Law, do hereby appoint:*

**James Murphy**

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

**SELECTIVE INSURANCE COMPANY OF NEW YORK**

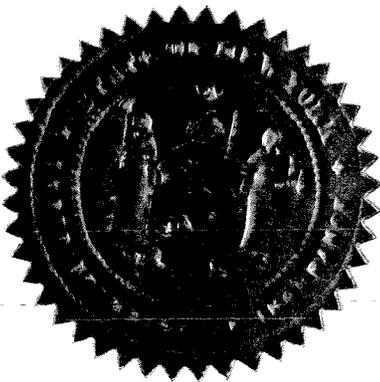
*and to make a report to me in writing of the condition of the said*

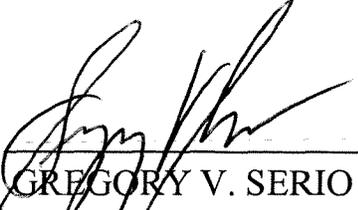
**Company**

*with such other information as he shall deem requisite.*

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

*this 15th day of July, 2003*



  
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GREGORY V. SERIO  
*Superintendent of Insurance*