

REPORT ON EXAMINATION

OF THE

UMI INSURANCE COMPANY

AS OF

DECEMBER 31, 2003

DATE OF REPORT

JULY 14, 2004

EXAMINER

DEBORAH SEXTON

TABLE OF CONTENTS

<u>ITEM NO.</u>	<u>PAGE NO.</u>
1. Scope of examination	2
2. Description of Company	3
A. Management	3
B. Territory and plan of operation	5
C. Reinsurance	6
D. Holding company system	7
E. Abandoned Property Law	8
F. Significant operating ratios	8
G. Accounts and records	9
3. Financial statements	10
A. Balance Sheet	10
B. Underwriting and Investment Exhibit	12
4. Losses and loss adjustment expenses	14
5. Market conduct activities	14
6. Compliance with prior report on examination	15
7. Summary of comments and recommendations	15



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

July 14, 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 22096 dated October 6, 2003 attached hereto, I have made an examination into the condition and affairs of UMI Insurance Company as of December 31, 2003, and submit the following report thereon.

The examination was conducted at the Company's administrative offices located at 4 Gatehall Drive, Parsippany, New Jersey 07054.

Wherever the designations "the Company" or "UMI" appear herein without qualification, they should be understood to indicate UMI Insurance Company. Wherever the designations "the parent company" or "UMICO" appear herein without qualification, they should be understood to indicate UMICO Holding Company.

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 March 31, 1999. This examination covered the three year and nine month period from April 1, 1999 through December 31, 2003. 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, 2003. 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 certified 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.

2. DESCRIPTION OF COMPANY

UMI Insurance Company was originally incorporated under the laws of the State of New York in 1914, under the name of Utilities Mutual Insurance Company. It became licensed on July 1, 1914 and commenced business on the same day. The Company converted from a mutual insurer to a stock property/casualty insurer pursuant to the provisions of Section 7307 of the New York Insurance Law on May 23, 2001, and changed its name to UMI Insurance Company.

Capital paid in at the time of conversion was \$5,000,000 consisting of 100,000 shares of common stock at \$50 par value per share. Gross paid in and contributed surplus was \$400,000, resulting from the dissolution of the special reserve fund that the Company had held pursuant to a statutory requirement for mutual insurers. On December 31, 2002, the Company returned \$4,000,000 of common capital stock as a stock dividend to UMICO, its parent company. This distribution was approved by the Department. As of the examination date, capital paid in consisted of 20,000 shares of common stock at \$50 par value per share. Gross paid in and contributed surplus was \$400,000.

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 or more than nineteen members. The board met five times during each calendar year. At December 31, 2003, the board of directors was comprised of the following thirteen members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Lincoln Edwards Bleveans Pawling, NY	Vice President Business Development, Central Hudson Gas & Electric
Paulette Renona Chatman Flanders, NJ	Assistant Comptroller, First Energy Corporation
John Gregory Cochrane Hingham, MA	Senior Vice President, Chief Financial Officer and Treasurer, National Grid USA
Katherine Warther Dindo Akron, OH	Vice President and Chief Risk Management Officer , First Energy Corporation
William Frederick Edwards Syracuse, NY	President, Niagara Mohawk Power Company
John Gourlay Graham Basking Ridge, NJ	President & Treasurer, UMI Insurance Company
Terrance Gordon Howson Madison, NJ	Vice President, Investor Relations, First Energy Corporation
James Edward Koes Camillus, NY	Manager, Risk Management and Insurance, Niagara Mohawk Power Corporation
Robert Kump Ithaca, NY	Vice President, Treasurer and Secretary, Energy East
John Edward Mack III Poughkeepsie, NY	Retired
John Christopher Norman Portland, ME	Manager Investments & Claims, Energy East
Joseph Edward Spencer Akron, OH	Director of Risk Management, First Energy Corporation
Steven William Tasker Tully, NY	Senior Vice President, Niagara Mohawk Power Corporation

A review of the minutes of the board of directors' meetings held during the examination period indicated that the meetings were generally well attended and each board member had an acceptable record of attendance.

As of December 31, 2003, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
John Gourlay Graham	President and Treasurer
Terrance Gordon Howson	Secretary

B. Territory and Plan of Operation

As of December 31, 2003, the Company was licensed to write business in New York, New Jersey and Pennsylvania.

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>
12	Collision
13	Personal injury liability
14	Property damage liability
15	Workers' compensation and employers' liability

The following schedule shows the direct premiums written by the Company during the examination period, the direct premiums written in New York State and the percentage that the New York premiums bear to the countrywide premiums:

<u>Calendar Year</u>	<u>New York State</u>	<u>Total United States Premiums Written</u>	<u>Percentage of Premiums Written in New York</u>
1999	\$ 3,024,245	\$4,228,669	71.5%
2000	\$ 4,409,586	\$5,918,902	74.5%
2001	\$ (13,377)	\$ 106,163	(12.6)%
2002	\$ 0	\$ (208,699)	---
2003	\$ 0	\$ (54,619)	---

Based on the lines of business for which the Company is licensed and the Company's current capital structure, and pursuant to the requirements of Articles 13 and 41 of the New York Insurance Law, the Company is required to maintain a minimum surplus to policyholders in the amount of \$1,600,000. The Company has not written any new business since 2000.

C. Reinsurance

Ceded

The Company entered into an excess of loss reinsurance agreement effective January 1, 2000 with Continental Casualty Company. Losses in excess of \$1,000,000 per occurrence are ceded.

Effective January 2, 2000, the Company entered into a loss portfolio transfer agreement with Cologne Reinsurance Company (Dublin) Ltd., transferring 100% of its liabilities for workers' compensation business incurred prior to the date of the agreement. The Company transferred \$67,334,000 in liabilities for a consideration of \$65,958,000. The Company has accounted for this transaction properly pursuant to the provisions of Department Regulation 108.

In addition, the Company entered into a master reinsurance assumption agreement with Cologne Re and an insurance commitment agreement with Cologne Re and its affiliate, Genesis Insurance Company. Under these arrangements, the Company transferred 100% of the premiums written and losses and expenses incurred for the year 2000.

Assumed

The Company does not assume any reinsurance business. However, the Company involuntarily assumes a share of the National Workers' Compensation Reinsurance Pool business.

The Schedule F data as contained in the Company's filed annual statement was found to accurately reflect its reinsurance transactions.

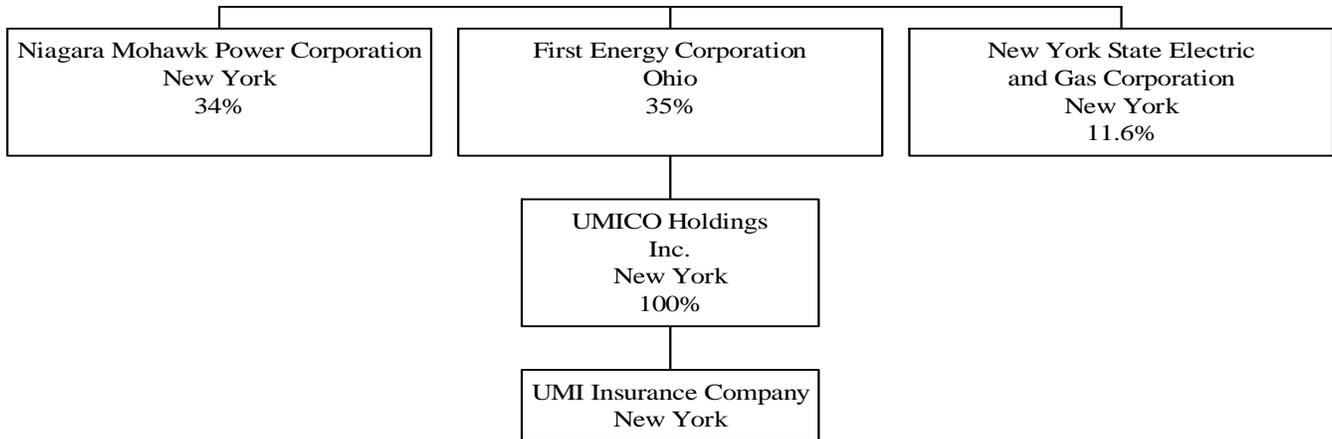
Unauthorized Reinsurance

The trust agreement and letter of credit obtained by the Company in order to take credit for cessions made to Cologne Reinsurance Company (Dublin) Ltd. were reviewed for compliance with Department Regulations 114 and 133, respectively. No exceptions were noted.

D. Holding Company System

The Company is a wholly-owned subsidiary of UMICO Holdings Inc., a New York corporation. UMICO Holdings is owned by various New York utility companies. First Energy Corporation, Niagara Mohawk Power Corporation and New York State Electric and Gas Corporation own over 80% of the holding company. A review of the holding company registration statements filed with this Department indicated that such filings were complete and 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, 2003:



E. Abandoned Property Law

Section 1316 of the New York 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 Abandoned Property Law.

F. Significant Operating Ratios

The following ratios have been computed as of December 31, 2003, based upon the results of this examination:

Net premiums written 2003 to surplus as regards policyholders	0.0 to 1
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	0.23%
Premiums in course of collection to surplus as regards policyholders	0.03%

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 three year and nine month period covered by this examination:

	<u>Amounts</u>	<u>Ratios</u>
Losses incurred	\$12,173,550	380.6%
Loss expenses incurred	(309,064)	(9.7)
Other underwriting expenses incurred	9,675,360	302.5
<u>Net underwriting gain (loss)</u>	<u>(18,341,439)</u>	<u>(573.5)</u>
Premiums earned	\$ <u>3,198,407</u>	<u>100.00%</u>

G. Accounts and Records

Several contracts and documents that were reviewed as part of this examination were listed under the Company's prior name of Utilities Mutual Insurance Company. It is recommended that the Company have all contracts, letterheads and documents reflect the name of UMI Insurance Company.

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, 2003 and as reported by the Company:

<u>Assets</u>	<u>Ledger Assets</u>	<u>Assets Not Admitted</u>	<u>Admitted Assets</u>
		\$	
Bonds	\$ 276,589		\$ 276,589
Cash	6,822		6,822
Short-term investments	3,703,262		3,703,262
Investment income due and accrued	1,648		1,648
Uncollected premiums and agents' balances in course of collection	1,004		1,004
Other Assets (non-admitted)	109,393	109,393	
Receivable under high deductible policies	<u>346,707</u>	<u> </u>	<u>346,707</u>
Total assets	<u>\$ 4,445,425</u>	<u>\$ 109,393</u>	<u>\$ 4,336,032</u>

Liabilities

Losses and loss adjustment expenses		\$53,800,720
Other expenses		266,311
Taxes, licenses and fees		298,435
Ceded reinsurance premiums payable		346,708
Loss portfolio transfer		<u>(53,800,720)</u>

Total liabilities		\$ 911,454
-------------------	--	------------

Surplus and Other Funds

Special surplus for retroactive reinsurance	\$8,525,834	
Common capital stock	1,000,000	
Gross paid in and contributed surplus	400,000	
Unassigned funds	<u>(6,501,256)</u>	

Surplus as regards policyholders		<u>3,424,578</u>
----------------------------------	--	------------------

Total liabilities, surplus and other funds		<u>\$4,336,032</u>
--	--	--------------------

B. Underwriting and Investment Exhibit

Surplus as regards policyholders decreased \$29,425,229 during the three years and nine months examination period April 1, 2000 through December 31, 2003, detailed as follows:

Statement of Income

Underwriting income

Premiums earned		\$ 3,198,407
Deductions:		
Losses and loss adjustment expenses incurred	\$ 11,864,486	
Other underwriting expenses incurred	<u>9,675,360</u>	
Total deductions		<u>21,539,846</u>
Net operating loss		\$ (18,341,439)

Investment Income

Net investment income earned	\$ 9,660,428	
Net realized gains	<u>3,854,727</u>	
Net investment gain		13,515,155

Other Income

Aggregate write-ins for miscellaneous income	<u>\$8,931,036</u>	
Total other income		<u>8,931,036</u>

Net income before dividends to policyholders and before federal and foreign income taxes		\$ 4,104,752
Dividends to policyholders		<u>15,000,000</u>
Net income after dividends to policyholders and before federal and foreign income taxes		\$(10,895,248)
Federal and foreign income taxes		<u>(2,719,961)</u>
Net income		<u>\$(8,175,287)</u>

Capital and Surplus Account

Surplus to policyholders per report on examination as of March 31, 1999			\$ 32,849,807
	<u>Gains in</u> <u>Surplus</u>	<u>Losses in</u> <u>Surplus</u>	
Net income		\$ 8,175,287	
Change in net unrealized capital gains or (losses)		5,830,097	
Change in not admitted assets	\$ 307,402		
Capital changes transferred from surplus	5,000,000		
Surplus adjustments transferred to capital		5,000,000	
Dividends to stockholders		16,000,000	
Change in provision for reinsurance	4,272,753		
Aggregate write-ins for gains and losses in surplus		<u>4,000,000</u>	
Total gains and losses	<u>\$9,580,155</u>	<u>\$39,005,384</u>	
Net decrease in surplus as regards policyholders			<u>29,425,229</u>
Surplus as regards policyholders, per report on examination as of December 31, 2003			<u>\$ 3,424,578</u>

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of \$ 53,800,720 is the same as reported by the Company as of December 31, 2003. 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 regarding the manner in which the Company conducts its business practices 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 areas relating to claims and complaint handling. No problem areas were encountered in this review.

6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

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

<u>ITEM</u>	<u>PAGE NO.</u>
<p>A <u>EDP Equipment</u></p> <p>It was recommended that the Company comply with Section 1301(a)(18) of the New York Insurance Law by properly classifying and reporting as electronic data processing equipment only items deemed to be part of the Company's operating and accounting system and related components.</p> <p>The Company has complied with this recommendation.</p>	<p>10-11</p>
<p>B <u>Annual Assessments and Surcharges Applicable to Workers' Compensation Policies</u></p> <p>A review of the surcharge account disclosed that the Company was not reporting the surcharges as premiums written in its filed annual and quarterly statements as outlined in Circular Letter No. 5 (1994).</p> <p>The Company has complied with this recommendation.</p>	<p>11</p>

7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>	<u>PAGE NO.</u>
<p>A <u>Accounts and Records</u></p> <p>Several contracts and important documents that were reviewed as part of this examination were still listed under the Company's prior name of Utilities Mutual Insurance Company. It is recommended that the Company have all contracts, letterheads and documents used in the normal course of business reflect the name of UMI Insurance Company.</p>	<p>9</p>

Appointment No 22096

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:

Deborah Sexton ...

as proper person to examine into the affairs of the

UMI INSURANCE COMPANY

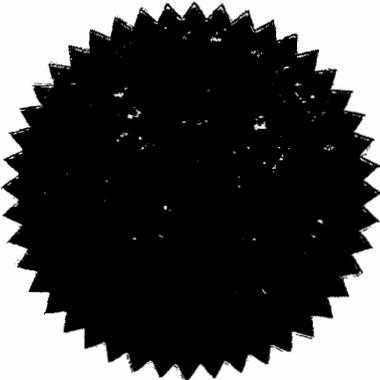
and to make a report to me in writing of the condition of the said

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 6th day of October, 2003





GREGORY V. SERIO
Superintendent of Insurance