REPORT ON EXAMINATION

OF THE

ALLIANCE NATIONAL INSURANCE COMPANY

AS OF

DECEMBER 31, 2011

DATE OF REPORT	APRIL 19, 2013
EXAMINER	LAMIN JAMMEH

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NEW YORK STATE
DEPARTMENT of
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Benjamin M. Lawsky
Superintendent

April 19, 2013

Honorable Benjamin M. Lawsky
Superintendent of Financial Services
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 30742 dated July 15, 2011 attached hereto, I have made an examination into the condition and affairs of Alliance National Insurance Company as of December 31, 2011, and submit the following report thereon.

Wherever the designation "the Company" appears herein without qualification, it should be understood to indicate Alliance National 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 370 Commerce Drive, Suite 101, Fort Washington, PA 19034

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, 2007. This examination covered the four year period from January 1, 2008 through December 31, 2011. 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 did not include a review and evaluation of the Company's own control environment assessment. 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 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.

On April 21, 2006, Alliance Risk Management, LLC (parent company of Alliance Risk Holdings, Inc., which is the parent company of UMICO Holdings, Inc.) acquired 100% control of the Company through a stock purchase of UMICO Holdings, Inc. Concurrent with the acquisition, the Company's name was changed to Alliance National Insurance Company.

Capital paid in is $1,000,000 consisting of 20,000 shares of $50 par value per share common stock. Gross paid in and contributed surplus is $3,182,980. Gross paid in and contributed surplus did not change during the examination period.

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 nineteen members. The board meets at least two times during each calendar year. At December 31, 2011, the board of directors was comprised of the following ten members:

Name and Residence	Principal Business Affiliation
Hugh James Agnew Flourtown, PA	Chief Executive Officer, Alliance National Insurance Company
Linda Sue Agnew Farmingdale, NY	Attorney, Jaspan, Schlesinger, Hoffman, LLP
Eric Kurtis Bossard Lansdale, PA	Production, Alliance National Insurance Company
Randall Edward Dyen Raynham, MA	Retired
John Edward Eagen Philadelphia, PA	Claims Manager, Alliance National Insurance Company
Kevin Joseph Kelly Haverford, PA	Secretary, Alliance National Insurance Company
Mark Daniel Lunney Fort Washington, PA	President, UnionOne Insurance Group
Randall Paul Siko Drexel Hill, PA	Executive Vice President Investments, Alliance National Insurance Company
Mary Beth Torunian Wayne, PA	Underwriting Manager, Alliance National Insurance Company
Michael Richard Yach Havertown, PA	Production, Alliance National insurance Company

The Company is not complying with its by-laws as it does not have the minimum required number of board members. It is recommended that the Company maintain the minimum number of board members required by its by-laws. It is noted that the Company is in the process of amending its by-laws to reduce the minimum required number of directors.

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, 2011, the principal officers of the Company were as follows:

Name	Title
Hugh James Agnew	President, Chief Executive Office and Treasurer
Kevin Joseph Kelly	Secretary and General Counsel
Randall Paul Siko	Executive Vice President and Chief Investment Officer
John Edward Eagen	Vice President Claims
Joseph Patrick Marlowe	Controller
Mary Beth Torunian	Chief Underwriting Officer

B. Territory and Plan of Operation

As of December 31, 2011, 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:

Paragraph	Line of Business
12	Collision
13	Personal injury liability
14	Property damage liability
15	Workers' compensation and employers' liability

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 $1,300,000.

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

Calendar Year	New York State	Total Premiums	Premiums Written in New York State as a percentage of Total Premium
2008	$ 0	$1,889,262	0.00%
2009	$ 3,990	$1,835,288	0.22%
2010	$1,213,849	$ 963,093	126.04%
2011	$3,689,182	$5,284,749	69.81%

The Company began writing high deductible workers' compensation policies exclusively in the states of New York, New Jersey and Pennsylvania during 2006. In 2008, the Company began to

write guaranteed cost policies. The Company's products are offered through Archway Insurance Services, LLC (a related party). The policies are written on a direct bill basis.

C. Reinsurance

The Company’s assumed reinsurance consists only of the Company's participation in National Workers’ Compensation Reinsurance Pool. The Company utilizes reinsurance accounting as defined in Statement of Statutory Accounting Principle ("SSAP") No. 62 for all of its assumed reinsurance business.

The Company has structured its ceded reinsurance program as follows:

Type of Treaty	Cession
Workers’ Compensation Excess of Loss 100% with certified reinsurers rated Secure-3	1st Layer: $4 million excess of $1 million ultimate net loss, each loss occurrence; limit $12 million for all loss occurrences. 2nd Layer: $5 million excess of $5 million ultimate net loss, each loss occurrence; limit $15 million for all loss occurrences. or For policies with a self-insured retention of $1 million or greater: 1st Layer: $4 million excess of underlying retention, each loss occurrence; limit $12 million for all loss occurrences. 2nd Layer: $5 million excess of $4 million plus underlying retention, each loss occurrence; limit $15 million for all loss occurrences.

Pursuant to the provisions of Parts 125.4(e), (f), and (h) of Department Regulation 20, the Company is required to obtain a certain amount of collateral to take full reserve credit for the reinsurance. The Company obtained a letter of credit for its cession to an unauthorized reinsurer, which was reviewed for compliance with Department Regulations 133. No exceptions were noted.

All significant ceded reinsurance agreements in effect as of the examination date were reviewed and found to contain the required clauses, including an insolvency clause meeting the requirements of Section 1308 of the New York Insurance Law.

Additionally, management has represented that all material ceded reinsurance agreements transfer both underwriting and timing risk as set forth in SSAP No. 62. 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 not a party to any finite reinsurance agreements. All ceded reinsurance agreements were accounted for utilizing reinsurance accounting as set forth in SSAP No. 62.

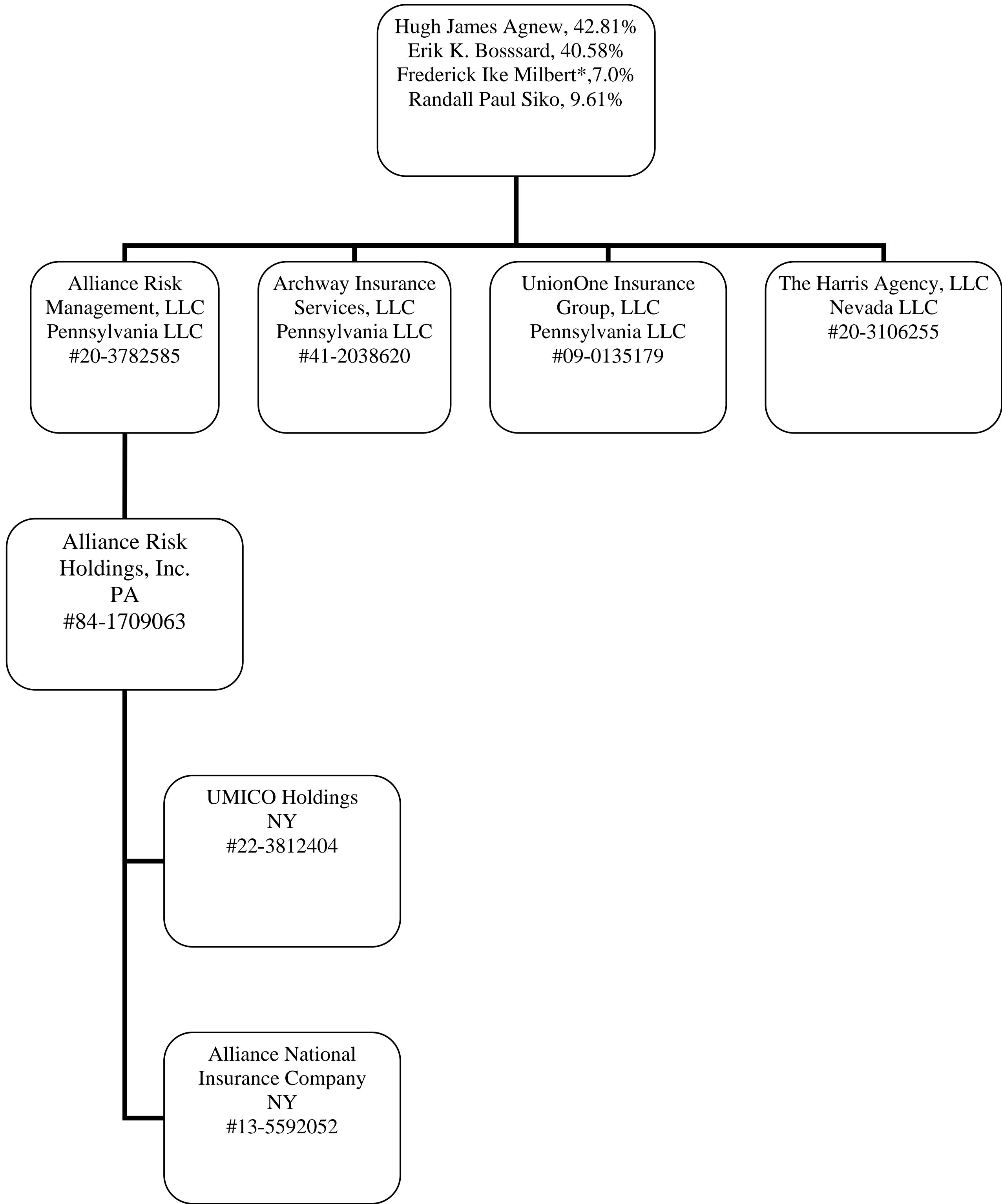
Effective May 31, 2009, the Company commuted a loss portfolio transfer ("LPT") agreement that it had with Cologne Reinsurance Company (Dublin) Ltd. ("Cologne Re"). Pursuant to the LPT agreement, which was effective January 1, 2000, the Company ceded 100% of its outstanding loss and loss adjustment expense reserves for accident years 1999 and prior to Cologne Re. The outstanding liabilities were all workers' compensation business and the run off of the claims was administered by an independent third party administrator, Cambridge Integrated Services. With the commutation, the Company took back $40,842,345 in reserves and received compensation from Cologne Re in the amount of $49,349,341, resulting in a surplus gain of $8,506,996.

D. Holding Company System

The Company is 100% owned by UMICO Holdings, a New York corporation, which is 100% owned by Alliance Risk Holdings, Inc., a Pennsylvania corporation, which is in turn controlled by Alliance Risk Management LLC, a Pennsylvania corporation. Hugh Agnew and Eric Bossard have been deemed the ultimate controlling persons by virtue of their ownership percentages of Alliance Risk Management, LLC.

A review of the Holding Company Registration Statements filed with this Department during the examination period indicated that such statements were filed in a timely manner.

The following is a chart of the holding company system at December 31, 2011:



* Mr. Milbert owns a % of the following: (exclusive of Archway Insurance Services, LLC) UnionOne Insurance Group, LLC; the Harris Agency, LLC; Alliance Risk Management, LLC. He also purports to own a percentage of the Company. That percentage is in dispute by the majority of the members' interest.

At December 31, 2011, the Company was party to the following agreements with other members of its holding company system:

Tax Allocation Agreement

Effective April 1, 2006, the Company is a party to a tax allocation agreement with Alliance Risk Holdings, Inc. ("ARH") and UMICO Holdings Inc. The agreement provides for the calculation of the Company's tax liability on a separate return basis. Settlements under the agreement shall be made within thirty days of filing the applicable estimated or actual consolidated federal corporate tax return except where a refund is due ARH, in which case, it may defer payment to the Company to within thirty days of receipt of such refund.

Management Service Agreement

Effective May 1, 2006, the Company and Archway Insurance Services, LLC ("Archway") entered into a management agreement in which Archway agrees to supervise, direct and implement the production, underwriting, policy issuance, premium collection, accounting, statistical and other work necessary or incidental to the insurance business. Archway also agrees to set up and maintain books and records and handle claims processing. The agreement was filed with this Department pursuant to Section 1505 of the New York Insurance Law.

The Company has been deemed to be a producer-controlled insurer pursuant to the provisions of Department Regulation 52-A, based on the business produced for the Company pursuant to this agreement. The Company has made the required filings pursuant to Part 80-2.2(c) of Department Regulation 52-A.

Expense Sharing Agreement

Effective April 1, 2006, the Company is a party to an expense sharing agreement with Archway and UnionOne Insurance Group, LLC ("UnionOne"). UnionOne is an insurance agency providing commercial and personal lines insurance; group and worksite benefits; individual life, disability and health insurance. The agreement provides that the companies shall share common expenses to include: rent for office space; utilities; information technology, computer, phone and related expenses; accounting and legal services; salaries, employee benefits, payroll; and boards, bureaus and assessments. Effective January 1, 2007, the agreement was amended to include Nevada Investment Partners, LLC and The Harris Agency, LLC. The agreement was filed with this

Department by letter dated June 2, 2008. The Department responded on June 11, 2008 with questions about certain provisions in the agreement, to which the Company never responded.

A review of the management service agreement and the expense sharing agreement indicated that such agreements do not contain language that provide for timely settlement of amounts owed, with a specified due date, as required pursuant to paragraph 2 of SSAP No. 96.

It is recommended that the Company amend its management and expense sharing agreements to provide for the timely settlement of amounts owed, with a specified due date, pursuant to the provisions of SSAP No. 96 and submit the amended agreement to the Department for non-disapproval pursuant to Section 1505(d) of the New York Insurance Law.

Subrogation Fee Agreement

Effective January 1, 2010, the Company is a party to a subrogation collection services agreement with American Subrogation Specialists, LLC ("AS"). The agreement provides that the Company shall refer, on an exclusive basis, all subrogation work to AS for its consideration and to allow AS to make a recommendation as to whether or not there exists viable subrogation potential on a specific claim. It is noted that AS is partly owned by Hugh Agnew; therefore, the agreement should have been filed with this Department pursuant to Section 1505 of the New York Insurance Law. The Company submitted the agreement to the Department on May 1, 2011, sixteen months after the effective date of the agreement. Pursuant to Section 1505(d) of the New York Insurance Law, an insurer may not enter into a transaction with any member of its holding company unless it has notified the superintendent in writing of its intention to enter into any such transaction at least thirty days prior thereto and he has not disapproved it. Additionally, it is noted that the agreement was included as part of the Company's annual holding company registration statement rather than as a separate request for non-disapproval pursuant to Section 1505(d) of the New York Insurance Law.

It is recommended that the Company submit its intercompany agreements, and any amendments thereto, to the Department in a timely manner pursuant to the provisions of Section 1505(d) of the New York Insurance Law.

Sublease Agreements

Effective March 1, 2009, the Company is a party to separate sublease agreements with Archway and UnionOne for their use of office space at the Company's administrative building.

Under a master rent agreement with Endeavor Realty LLC, the Company rents approximately 12,500 square feet in its administrative building at 370 Commerce Drive, Fort Washington, PA. Of this amount, 3,150 square feet is rented to each affiliate. The agreements were filed with this Department pursuant to Section 1505 of the New York Insurance Law.

Innovative Service Agreement

Effective January 1, 2010, the Company is a party to a service and fees agreement with Innovative Employer Solutions ("IES"). The agreement provides for IES to provide loss control and safety and other services on behalf of the Company's clients and customers in consideration for the payment of fees to IES. It is noted that IES is owned by Hugh Agnew; therefore, the agreement should have been filed with this Department pursuant to Section 1505(d) of the New York Insurance Law.

It is recommended that the Company's service and fees agreement with IES be filed with the Department pursuant to Section 1505(d) of the New York Insurance Law.

Optimal Service Agreement

Effective October 1, 2010, the Company is a party to a service and fee agreement with Optimal Employer Solutions ('OES"). The agreement provides for OES to provide automated claim payment services and data processing on behalf of the Company to its insureds, claimants and customers in consideration for the payment of fees to OES. It is noted that OES is owned by Hugh Agnew; therefore, the agreement should have been filed with this Department pursuant to Section 1505 of the New York Insurance Law. The Company submitted the agreement to the Department on May 1, 2011, nineteen months after the effective date of the agreement. Pursuant to Section 1505(d) of the New York Insurance Law, an insurer may not enter into a transaction with any member of its holding company unless it has notified the superintendent in writing of its intention to enter into any such transaction at least thirty days prior thereto and he has not disapproved it. Additionally, it is noted that the agreement was included as part of the Company's annual holding company registration statement rather than as a separate request for non-disapproval pursuant to Section 1505(d) of the New York Insurance Law.

It is recommended that the Company submit its intercompany agreements, and any amendments thereto, to the Department in a timely manner pursuant to the provisions of Section 1505(d) of the New York Insurance Law.

Provider Service Agreement Preferred Network Solutions:

A review revealed that an affiliated entity, Preferred Network Solutions ("PNS"), was rendering recurring consulting services to the Company without a written agreement. It is noted that PNS is owned by Hugh Agnew.

It is recommended that the Company enter into a written agreement that documents the services performed by PNS and submit the agreement to the Department pursuant to Section 1505 of the New York Insurance Law.

As regards the Company's aforementioned agreements that were entered into in contravention of Section 1505 of the Insurance Law, namely the expense sharing agreement, the subrogation collection agreement, the innovative service agreement, the optimal service agreement and the provider service agreement, the Company is directed to review its expenses for all of these agreements and provide a report to this Department of all those expenditures made in violation of statute.

Note 10 of the Notes to Financial Statements (Information Concerning Parent, Subsidiaries, Affiliates and Other Related Parties)

Pursuant to the NAIC Annual Statement Instructions, the Company is required to include in Note 10 of the Notes to Financial Statements, disclosures of all material related party transactions and the nature of the relationship involved.

Note 10 in the 2011 Annual Statement states that "Archway Insurance Services has agreed to act as (exclusive) managing general agent for the Company." It is noted that Archway is a member of the same holding company system as the Company; therefore, it is not considered to be a managing general agent pursuant to Part 33.4(a) of Department Regulation 120. Additionally, Note 10 did not disclose the fact that Archway has been deemed a controlling producer of the Company pursuant to the provisions of Part 80-2.2 of Department Regulation 52-A. It is recommended that the Company properly disclose the nature of the relationship it has with Archway as a controlling producer in Note 10 of its annual statement as required pursuant to the NAIC Annual Statement Instructions.

Additionally, it was noted that Note 10 did not disclose any of the other material related party transactions, including any of the management and service agreements with affiliated parties. It is recommended that the Company disclose all material related party transactions in Note 10 of its annual statement as required pursuant to the NAIC Annual Statement Instructions.

Schedule Y – Information Concerning Activities of Insurer Members of a Holding Company Group

Upon review of the Company's 2011 Annual Statement, it was noted that the Company did not complete Schedule Y Part 1A (Detail of Insurance Holding Company System) or Part 2 (Summary of Insurer's Transactions With Any Affiliates). It is recommended that the Company complete Schedule Y Parts 1A and 2, pursuant to the NAIC Annual Statement Instructions.

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2011, based upon the results of this examination:

Net premiums written to surplus as regards policyholders	95%
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	101%
Premiums in course of collection to surplus as regards policyholders	34%

The liabilities to liquid assets ratio exceeds the benchmark range of 100%. All of the other 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 four-year period covered by this examination:

	Amounts	Ratios
Losses and loss adjustment expenses incurred	$ 8,550,242	133.08%
Other underwriting expenses incurred	8,445,821	131.45
Net underwriting loss	(10,571,137)	(164.53)
Premiums earned	$ 6,424,926	100.00%

The Company's poor underwriting results emanate primarily from high expense costs in relation to its premium writings.

F. Accounts and Records

1. Approval of Investments

A review of the minutes of the board of directors' meeting indicated that the Company's investments were discussed, however, there is no indication that the directors were provided with a listing of the Company's investment transactions for their review and approval. Section 1411(a) of the New York Insurance Law states, in pertinent part:

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

It is recommended that the Company provide the members of the board of directors, or a committee thereof, with a listing of the Company's investment transactions and have the minutes reflect that the members have reviewed and approved the Company's investments pursuant to the provisions of Section 1411(a) of the New York Insurance Law. Additionally, a copy of the listing of the Company's investment transactions should be included as an addendum to the minutes of the meetings.

2. Deductible Receivables

The Company maintains letters of credit from certain high deductible policyholders related to workers' compensation business written during years 1993 through 2000, which secures the payment of the receivables under high deductible policies for the respective insureds.

A review noted that the some of these deductible receivables were over one year old. The insureds were Central Hudson Gas & Electric Company, Long Island Lighting Company, Rochester Gas and Electric Company, and GPU Energy.

It is recommended that the company collect the deductible receivables over one year old, or draw down on the underlying collateral.

3. Collectability of Intercompany Receivables

The Company provides office space, computer consulting, personnel and various other services to Archway and UnionOne and allocates the expenses pursuant to an expense sharing agreement. A review of settlement of intercompany balances indicated that as of December 31, 2011, Archway owed the Company $105,245 and UnionOne owed the Company $248,058 for services rendered. Further, it was noted that Archway has not made any payments to the Company since March 2011 and UnionOne has not made any payments at all since prior to 2011. The Company advised that the intercompany balances have not been settled because Archway and UnionOne do not have sufficient funds to pay the amounts owed to the Company.

The Company has not admitted the intercompany receivable balances; however, by allowing its affiliates to continue to receive services when they are not paying for them is contrary to the

provisions of Section 1505(a) of the New York Insurance Law, which requires that transactions within a holding company system shall be fair and equitable and fees for services shall be reasonable. It is recommended that the Company refrain from providing services to its affiliates without receiving compensation in a timely manner.

4. Loans to Officers

During the examination period, the Company made a loan to an officer of the Company in violation of Section 1411(f) of the New York Insurance Law, which states:

> No insurer doing business in this state shall, except as provided in subsection (h) hereof, make any loan to any of its directors or officers, directly or indirectly, or through its subsidiaries; nor shall any such director or officer accept any such loan directly or indirectly.

It is recommended that the Company refrain from making loans to any of its directors or officers pursuant to Section 1411(f) of the New York Insurance Law. Upon being advised of the violation, the officer repaid the loan in full.

5. General Expenses

Upon review of the Company's expenses, it was noted that adequate supporting documentation describing the nature of and business purpose of the disbursement did not exist in some instances, particularly for payments of expenses charged on corporate credit cards. Section 1217 of the New York Insurance Law states:

> No domestic insurance company shall make any disbursement of one hundred dollars or more unless evidenced by a voucher signed by or on behalf of the payee as compensation for goods or services rendered for the company, and correctly describing the consideration for the payment. If such disbursement be for services and disbursements, such vouchers shall set forth the services rendered and itemize the disbursements; if it is in connection with any matter pending before any legislative or public body or before any government department or officer, the voucher shall correctly describe also the nature of the matter and the company's interest therein. If such a voucher is unobtainable, the disbursement shall be evidenced by a statement of an officer or responsible employee affirmed by him as true under the penalties of perjury, stating the reasons therefor and setting forth the particulars above mentioned.

It is recommended that the Company strengthen its internal controls over expenses by requiring that all expenditures be adequately supported by vouchers that sufficiently identify the services rendered, the nature of the disbursement and the business purpose as it relates to the

Company. Further, it is recommended that all approvals to disburse funds from the insurers be appropriately documented, in writing, by an officer or a responsible employee of the insurer.

6. <u>No Business Continuity or Disaster Recovery Plan</u>

The Company does not have a business continuity/disaster recovery plan. All critical backup media, documentation and other IT resources necessary for IT recovery and continuity plans are not stored offsite in a secure location. The claims data is backed up on the claims software vendor's servers. However, other systems are not backed up.

It is recommended that the company implement defined processes for continuity of business and disaster recovery.

It is also recommended that the Company ensure that all critical backup media, documentation and other IT resources necessary for IT recovery and continuity plans are stored offsite in a secure location.

7. <u>Data Retention Policy</u>

The Company does not have a formal written data retention policy. The Company advised us that its policy is to retain data for seven years; however, that policy has not been formalized. It is recommended that the Company establish a written data retention policy that conforms with Part 243.2(b) of Department Regulation 152.

8. <u>Process Manual</u>

The Company does not maintain formal process manuals to document the procedures for the operations of its key activities. The Company advised that it is a small company and they rely on the experience of its officers and staff to perform the day to day functions. Formal process manuals are essential to ensure that all necessary procedures are performed in the event that a key employee leaves the Company or becomes unable to perform his or her duties for whatever reason.

It is recommended that the Company prepare process manuals to document the operations of its key activities.

9. Compliance With Section 307(b)(1)-CPA Report Filing

Pursuant to Section 307 of the New York Insurance Law, the Company is required to within five months of the end of each calendar year, an annual audited financial statement.

The examiner reviewed the CPA audited financial statements to determine if they were filed in a timely manner. The review noted that the 2009 audited financial statement was filed 24 days late on June 24, 2010. For the 2010 audited financial statement, the Company requested and was granted an extension to file until July 15, 2011; however, it was not filed until 75 days after the granted extension date on September 28, 2011. The Company advised that the 2010 report was late because there were errors in the 2010 claims data and the CPA needed additional time to complete its actuarial analysis as a result.

It is recommended that the CPA reports be filed with the Department in a timely manner pursuant to Section 307(b)(1) of the New York Insurance Law.

10. Claims Data System

The Company implemented a new in-house claims system in 2010. Prior to that time, the Company used a third party administrator to administer its claims. A review of the claims data indicated that the data for the current accident year is complete but Company does not have complete historical data for prior accident years. The Company’s claims manager acknowledged that the claims database is not complete at this time, but it is their intention to have the claims system fully functional by the fourth quarter of 2012.

It is recommended that the Company endeavor to ensure that the claims system is complete and can be reconciled to its Schedule P data.

3. FINANCIAL STATEMENTS

A Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2011 as determined by this examination and as reported by the Company:

Assets	Assets	Assets Not Admitted	Net Admitted Assets
Bonds	$40,617,830	$ 0	$40,617,830
Cash, cash equivalents and short-term investments	3,414,159	0	3,414,159
Investment income due and accrued	352,074	0	352,074
Uncollected premiums and agents' balances in the course of collection	1,641,002	0	1,641,002
Amounts recoverable from reinsurers	67,170	0	67,170
Current federal and foreign income tax recoverable and interest thereon	77,296	0	77,296
Net deferred tax asset	353,659	111,473	242,186
Furniture and equipment, including health care delivery assets	12,103	12,103	0
Receivables from parent, subsidiaries and affiliates	363,097	369,061	(5,964)
Receivables from employees	2,421	2,421	0
Prepaid Expenses	3,358	3,358	0
Funds held by Cambridge Services	4,592	0	4,592
Runoff deductible receivables	3,452,545	0	3,452,545
Totals	$50,361,306	$498,416	$49,862,890

Liabilities, surplus and other funds	Examination	Company	Surplus Increase (Decrease)
Losses and loss adjustment expenses	$37,292,065	$34,850,065	$(2,442,000)
Other expenses (excluding taxes, licenses and fees)	206,145	206,145	0
Taxes, licenses and fees (excluding federal and foreign income taxes)	39,282	39,282	0
Unearned premiums	2,849,594	2,849,594	0
Amounts withheld or retained by company for account of others	5,251,026	5,251,026	0
Total liabilities	$45,638,112	$43,196,112	$(2,442,000)
Common capital stock	$1,000,000	$1,000,000	$0
Gross paid in and contributed surplus	3,182,983	3,182,983	0
Unassigned funds (surplus)	41,795	2,483,795	(2,442,000)
Surplus as regards policyholders	$4,224,779	$6,666,778	$(2,442,000)
Totals	$49,862,890	$49,862,890	

Note: The Internal Revenue Service has not audited the Company's consolidated Federal Income Tax returns through tax year 2011. 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

Surplus as regards policyholders decreased $122,914 during the four-year examination period January 1, 2008 through December 31, 2011, detailed as follows:

Underwriting Income		
Premiums earned		$ 6,424,926
Deductions:		
Losses and loss adjustment expenses incurred	$9,179,242	
Other underwriting expenses incurred	8,445,821	
Total underwriting deductions		17,625,063
Net underwriting gain or (loss)		$(11,200,137)
Investment Income		
Net investment income earned	$3,212,696	
Net realized capital gain	(41,256)	
Net investment gain or (loss)		3,171,440
Other Income		
Net gain or (loss) from agents' or premium balances charged off	$ (184,824)	
Loss portfolio transfer gain	7,882,038	
Risk management fee	34,500	
Other income (expense)	(32,487)	
Total other income		7,699,227
Net income before dividends to policyholders and before federal and foreign income taxes		$ (329,470)
Dividends to policyholders		0
Net income after dividends to policyholders but before federal and foreign income taxes		$ (329,470)
Federal and foreign income taxes incurred		647,269
Net Income		$ (976,739)

	Gains in Surplus	Losses in Surplus	
Surplus as regards policyholders per report on examination as of December 31, 2007			$4,976,703
Net income		$976,739	
Change in net deferred income tax	353,660		
Change in nonadmitted assets		316,313	
Surplus adjustments paid in	3		
Correction of prior year error	187,465	0	
Net increase (decrease) in surplus	$541,128	$1,293,052	(751,924)
Surplus as regards policyholders per report on examination as of December 31, 2011			$4,224,779

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of $37,292,065 is $2,442,000 more than the $34,850,065 reported by the Company in its December 31, 2011 filed annual statement. The examination analysis of the loss and loss adjustment expense reserves was conducted in accordance with generally accepted actuarial principles and was based on statistical information contained in the Company's internal records and in its filed annual statements.

5. SUBSEQUENT EVENTS

A review of the Company's filed 2012 annual statement indicated that the Company's reported surplus was $3,763,607, which is $2,903,607 less than the amount it reported as of December 31, 2011. The decrease in surplus was due mainly to adverse loss and loss adjustment expense development of $2.3 million, approximately half of which was from accident years 2002 and prior, which were previously ceded pursuant to an LPT agreement that was commuted, as more fully explained in Item 2C of this report. Surplus was further adversely affected by high underwriting expenses, which were 57% of premiums earned in 2012. The Company's risk based capital level at December 31, 2012 was 157%, which represents a Company Action Level. As a result, the Department required the Company to submit an RBC Plan pursuant to Section 1324(d) of the New York Insurance Law, which contained proposals of corrective actions which the insurer intends to take and which would be expected to result in the elimination of the company action level event. The Company submitted an RBC Plan and it is currently under review at the Department.

5. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

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

ITEM			PAGE NO.
A.		Management	
	i.	It was recommended that the Company maintain signed conflict of interest statements at its home office for each year subject to examination.	5
		The Company has complied with this recommendation.	
B.		Holding Company System	
	i.	It was recommended that the Company file the information required by Department Regulation 52-A.	9
		The Company has complied with this recommendation.	
	ii.	It was recommended that the commissions paid to Archway comply with the terms of the management agreement. It is also recommended that money due the Company by Archway be remitted pursuant to the terms of the management agreement.	10
		The Company has complied with this recommendation.	
	iii.	It was recommended that in the future, the Company file its intercompany agreements in a timely manner pursuant to the provisions of Department Circular Letter No.33 (1979).	11
		The Company did not enter into any new agreements during the examination period.	
	iv.	It was recommended that the Company refrain from making loans to its parent pursuant to the provisions of Section 1407(a)(4) of the New York Insurance Law.	11
		The Company has complied with this recommendation	
	v.	It was recommended that, in the future the Company refrain from rendering services to an affiliate without notifying the Department as least thirty days prior, pursuant to the provisions of Section 1505(d)(3) of the New York Insurance Law.	11
		The Company has not complied with this recommendation. A similar comment is made in this report.	

ITEM			PAGE NO.
C.		Accounts and Records	
	i.	It was recommended that the Company comply with the requirements of Section 1411(a) of the New York Insurance Law by having all of its investments authorized or approved as indicated in such section. The Company has not complied with this recommendation. A similar comment is made in this report.	13
	ii.	It was recommended that the Company comply with Section 1404(a)(6) of the New York Insurance Law. The Company has complied with this recommendation.	13
	iii.	It was recommended that the Company comply with Section 1409 of the New York Insurance Law. The Company has complied with this recommendation.	13
	iv.	It was recommended that the Company comply with Section 1217 of the New York Insurance Law, henceforth. It was also recommended that the Company strengthen its internal controls over expenses by requiring that all expenditures be adequately supported by vouchers that sufficiently identify the services rendered, the nature of the disbursement and the business purpose as it relates to the insurer(s). Furthermore, it was recommended that all approvals to disburse funds from the insurers be appropriately documented, in writing, by an officer or a responsible employee of the insurer. The Company has not complied with this recommendation. A similar comment is made in this report.	15
	v.	It was recommended that the Company maintain records supporting the allocation of the costs of management fees in accordance with Department Regulation 30, Part 106. The Company has not complied with this recommendation. A similar comment is made in this report.	15
	vi.	It was recommended that the Company obtain the cumulative loss data by accident years to support Schedule P. The Company has not complied with this recommendation. A similar comment is made in this report.	15
	vii.	It was recommended that the Company develop a disaster recovery plan which is based on a business analysis. It should address all significant	15

ITEM PAGE NO.

business activities, including financial functions, telecommunication services, data processing and network services. The plan should also be tested periodically.

The Company has not complied with this recommendation. A similar comment is made in this report.

viii. It was recommended that the Company accurately respond to General Interrogatory #26 in its filed annual statement. It was noted that the Company subsequently executed a custodial agreement with M&T Bank. 16

The Company has complied with this recommendation.

ix. It was recommended that the Company disclose its relationship with its affiliate, Archway Insurance Services, LLC, as a controlling producer in Note 10 of the Notes to the Financial Statements of its Annual Statement. 16

The Company has not complied with this recommendation. A similar comment is made in this report.

x. It was recommended that the Company accurately reflect its organizational chart for Schedule Y Part 1 in compliance with the instructions of the Annual Statement. 16

The Company has complied with this recommendation

xi. It was recommended that the Company accurately report its Schedule Y Part 2 to reflect transactions between itself and Archway in compliance with the instructions of the Annual Statement. 17

The Company has not complied with this recommendation. A similar comment is made in this report.

xii. It was recommended that the Company include the chart specified in the instructions of the Annual Statement for Note 23(F) of the Notes to the Financial Statements. 17

The Company no longer has any retroactive reinsurance.

xiii. It is recommended that the Company file the supplemental exhibit specified in Part 112.6(k) of Department Regulation No. 108 with regards to its loss portfolio transfer with Cologne Re Dublin. 17

The Company no longer has any retroactive reinsurance.

ITEM		PAGE NO.
D.	Cash, cash equivalents and short-term investments It was recommended that the Company ensure that all collateral accounts held by the Company for its insured should be in the name of the Company. The Company has not complied with this recommendation. A similar comment is made in this report.	20

6. SUMMARY OF COMMENTS AND RECOMMENDATIONS

ITEM			PAGE NO.
A		Management It is recommended that the Company maintain the minimum number of board members required by its by-laws. It is noted that the Company is in the process of amending its by-laws to reduce the minimum required number of directors.	4
B.		Holding Company	
	i.	It is recommended that the Company amend its management and expense sharing agreements to provide for the timely settlement of amounts owed, with a specified due date, pursuant to the provisions of SSAP No. 96 and submit the amended agreement to the Department for non-disapproval pursuant to Section 1505(d) of the New York Insurance Law.	10
	ii.	It is recommended that the Company submit its intercompany agreements, and any amendments thereto, to the Department in a timely manner pursuant to the provisions of Section 1505(d) of the New York Insurance Law.	10
	iii.	It is recommended that the Company's service and fees agreement with IES be filed with the Department pursuant to Section 1505(d) of the New York Insurance Law.	11
	iv.	It is recommended that the Company submit its intercompany agreements, and any amendments thereto, to the Department in a timely manner pursuant to the provisions of Section 1505(d) of the New York Insurance Law.	12
	v.	It is recommended that the Company enter into a written agreement that documents the services performed by PNS and submit the agreement to the Department pursuant to Section 1505 of the New York Insurance Law.	12
	vi.	As regards the Company's aforementioned agreements that were entered into in contravention of Section 1505 of the Insurance Law, namely the expense sharing agreement, the subrogation collection agreement, the innovative service agreement, the optimal service agreement and the provider service agreement, the Company is directed to review its expenses for all of these agreements and provide a report to this Department of all those expenditures made in violation of statute.	12
	vii.	It is recommended that the Company properly disclose the nature of the relationship it has with Archway as a controlling producer in Note 10 of its annual statement as required pursuant to the NAIC Annual Statement Instructions.	12

ITEM		PAGE NO.
viii.	It is recommended that the Company disclose all material related party transactions in Note 10 of its annual statement as required pursuant to the NAIC Annual Statement Instructions.	13
ix.	It is recommended that the Company complete Schedule Y Parts 1A and 2, pursuant to the NAIC Annual Statement Instructions.	13
C.	Accounts and Records	
i.	It is recommended that the Company provide the members of the board of directors, or a committee thereof, with a listing of the Company's investment transactions and have the minutes reflect that the members have reviewed and approved the Company's investments pursuant to the provisions of Section 1411(a) of the New York Insurance Law. Additionally, a copy of the listing of the Company's investment transactions should be included as an addendum to the minutes of the meetings.	15
ii.	It is recommended that the company collect the deductible receivables over one year old, or draw down on the underlying collateral.	15
iii.	It is recommended that the Company refrain from providing services to its affiliates without receiving compensation in a timely manner.	16
iv.	It is recommended that the Company refrain from making loans to any of its directors or officers pursuant to Section 1411(f) of the New York Insurance Law.	16
v.	It is recommended that the Company strengthen its internal controls over expenses by requiring that all expenditures be adequately supported by vouchers that sufficiently identify the services rendered, the nature of the disbursement and the business purpose as it relates to the Company. Further, it is recommended that all approvals to disburse funds from the insurers be appropriately documented, in writing, by an officer or a responsible employee of the insurer.	16
vi.	It is recommended that the company implement defined processes for continuity of business and disaster recovery.	17
vii.	It is also recommended that the Company ensure that all critical backup media, documentation and other IT resources necessary for IT recovery and continuity plans are stored offsite in a secure location.	17
viii.	It is recommended that the Company establish a written data retention policy that conforms with Part 243.2(b) of Department Regulation 152.	17
ix.	It is recommended that the Company prepare process manuals to document the operations of its key activities.	17

ITEM			PAGE NO.
	x.	It is recommended that the CPA reports be filed with the Department in a timely manner pursuant to Section 307(b)(1) of the New York Insurance Law.	18
	xi.	It is recommended that the Company endeavor to ensure that the claims system is complete and can be reconciled to its Schedule P data.	18
D.		Subsequent Events The Company's risk based capital level at December 31, 2012 was 157%, which represents a Company Action Level. As a result, the Department required the Company to submit an RBC Plan pursuant to Section 1324(d) of the New York Insurance Law, which contained proposals of corrective actions which the insurer intends to take and which would be expected to result in the elimination of the company action level event. The Company submitted an RBC Plan and it is currently under review at the Department.	21

Respectfully submitted,

____
Lamin Jammeh
Senior Insurance Examiner

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

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

____
Lamin Jammeh

Subscribed and sworn to before me

this_________ day of __________________, 2013.

Appointment No. 30742

STATE OF NEW YORK
INSURANCE DEPARTMENT

I, James J. Wrynn *Superintendent of Insurance of the State of New York, pursuant to the provisions of the Insurance Law, do hereby appoint:*

Lamin Jammeh

as proper person to examine into the affairs of the

ALLIANCE NATIONAL 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 15th *day of* *July, 2011*

JAMES J. WRYNN
Superintendent of Insurance