

REPORT ON EXAMINATION

OF THE

NEW YORK MARINE AND GENERAL INSURANCE COMPANY

AS OF

DECEMBER 31, 2013

DATE OF REPORT

MARCH 20, 2015

EXAMINER

SHEIK H. MOHAMED

## TABLE OF CONTENTS

<u>ITEM NO.</u>		<u>PAGE NO.</u>
1	Scope of Examination	2
2.	Description of Company	3
	A. Management	4
	B. Territory and plan of operation	5
	C. Reinsurance	7
	D. Holding company system	14
	E. Significant operating ratios	19
	F. Accounts and records	20
3.	Financial Statements	22
	A. Balance sheet	22
	B. Statement of income	24
	C. Capital and surplus statement	25
4.	Losses and loss adjustment expenses	26
5.	Compliance with prior report on examination	27
6.	Summary of comments and recommendations	28



NEW YORK STATE  
DEPARTMENT *of*  
FINANCIAL SERVICES

Andrew M. Cuomo  
Governor

Benjamin M. Lawskey  
Superintendent

March 20, 2015

Honorable Benjamin M. Lawskey  
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 31126 dated March 5, 2014, attached hereto, I have made an examination into the condition and affairs of New York Marine and General Insurance Company as of December 31, 2013, and submit the following report thereon.

Wherever the designation “the Company” appears herein without qualification, it should be understood to indicate New York Marine and General Insurance Company.

Wherever the designation “Gotham” appears herein without qualification, it should be understood to indicate Gotham Insurance Company.

Wherever the designation “SWM” appears herein without qualification, it should be understood to indicate Southwest Marine and General Insurance Company.

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

The examination was conducted at the Company’s administrative office located at 412 Mt. Kemble Avenue, Suite 300C, Morristown, NJ 07960.

## 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, 2010. This examination covered the three year period from January 1, 2011 through December 31, 2013. 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. 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.

The Company was examined concurrently with its subsidiary, Gotham Insurance Company (“Gotham”). A separate report thereon has been rendered.

## **2. DESCRIPTION OF COMPANY**

The Company was incorporated as New York Marine Insurance Company March 22, 1972 under the laws of New York and began business on July 1<sup>st</sup> of that year. The present corporate title, New York Marine and General Insurance Company, was adopted on September 12, 1979.

Common capital stock is \$8,827,889 consisting of 8,827,889 shares of \$1 par value per share common stock. Gross paid in and contributed surplus is \$108,177,256. On September 30, 2011, the Company received a surplus contribution from ProSight Specialty Insurance Group, Inc. in the form of an investment in a limited partnership with a book value of \$22,358,341. Gross paid in and contributed surplus increased during the examination period, as follows:

<u>Year</u>	<u>Description</u>	<u>Amount</u>
2010	Beginning gross paid in and contributed surplus	\$ 85,818,915
2011	Surplus contribution	<u>22,358,341</u>
2013	Ending gross paid in and contributed surplus	<u>\$108,177,256</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 nineteen members. The board meets at least quarterly during each calendar year. At December 31, 2013, the board of directors was comprised of the following thirteen members:

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

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

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, 2013, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Joseph Beneducci	President and Chief Executive Officer
Frank Papalia	Secretary and General Counsel
Anthony Pizsel	Treasurer and Chief Financial Officer
Robert Bailey	Vice President and Chief Underwriting Officer
Frank Bosse	Vice President and Chief Human Resources Officer
Lawrence Hannon	Vice President and Chief Sales and Marketing Officer
Paul Kush	Vice President and Chief Claims Officer
Mark Popolano	VP and Chief Information Technology Officer

B. Territory and Plan of Operation

As of December 31, 2013, the Company was licensed to write business in all fifty states, the U.S. Virgin Islands and the District of Columbia.

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

<u>Paragraph</u>	<u>Line of Business</u>
3	Accident & 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	Worker's compensation and employer's liability
16	Fidelity and surety
17	Credit
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine
21	Marine protection and indemnity
29	Legal services

The Company was also licensed to write Special Risks insurance pursuant to Article 63 of the New York Insurance Law and is authorized, pursuant to Section 4102(c)(i) and (ii) of the New York Insurance Law, to reinsure risks of every kind or description and insure property or risks of every kind or description located or resided outside of the United States, its territories and possessions.

The Company is also empowered 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, including insurances described in the Longshoremen's and Harbor Workers' Compensation Act (Public Law No. 803, 69 Congress as amended; 33 USC Section 901 et seq. as amended).

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

<u>Calendar Year</u>	<u>New York State</u>	<u>Total Premiums</u>	<u>Premiums Written in New York State as a percentage of Total Premiums</u>
2011	\$28,959,674	\$160,656,701	18.03%
2012	\$50,066,688	\$282,139,669	17.75%
2013	\$61,824,348	\$402,793,266	15.35%



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 \$35,000,000.

The Company's business is managed by ProSight Specialty Management Company, Inc. ("PSMC"). PSMC has a distribution model under which they partner exclusively with a select number of agents. The Company's major lines of business are Ocean Marine (14.84%), Other Liability (17.68%), Commercial Auto (24.54%), Workers' Compensation (15.68%) and Excess Workers' Compensation (18.17%). These are written through approximately 45 programs. Each program is tailored to a specific market, such as intermodal trucking or film producers and may incorporate multiple lines of business. They do business with approximately 40 distributors in their non-Ocean Marine programs. The Company does business with approximately 100 agencies with respect to its Ocean Marine program.

### C. Reinsurance

Assumed reinsurance accounted for 13.7% of the Company's gross premium written at December 31, 2013. During the period covered by this examination, the Company's assumed reinsurance business fluctuated from year to year. The Company's assumed reinsurance program consists mainly of property, casualty and multi-line reinsurance assumed on a quota share and excess of loss basis, pursuant to the terms of treaty agreements with both authorized and unauthorized cedants. Additionally, the Company's participation in various mandated pools is reflected in its assumed reinsurance activity. The Company utilizes reinsurance accounting as defined in Statement of Statutory Accounting Principle ("SSAP") No. 62R for all of its assumed reinsurance business.

Under an affiliated reinsurance agreement with Gotham, effective since January 1, 1987, the Company assumes 100% of Gotham's direct business then cedes 15% of its net retained business back to Gotham. Under an affiliated reinsurance agreement with Southwest Marine and General Insurance Company ("SWM"), effective since January 1, 1987, the Company cedes 5% of its net retained business to SWM. These agreements were submitted to the Department pursuant to Section 1505(d)(3) of New York Insurance Law and were non-disapproved. During 2013, cessions to Gotham and SWM accounted for approximately 62.9% of the Company's total ceded premiums.

The following is a description of the Company's ceded reinsurance program in effect at December 31, 2013:

<u>Type of treaty</u>	<u>Cession</u>
<b><u>Property:</u></b>	
Excess of loss (3 layers)	
1 <sup>st</sup> layer – 100% authorized, 90% placed	\$4 million excess of \$1 million each loss, each risk, subject to reinsurer's maximum liability of \$12 million as respects all losses arising out of any one loss occurrence; with Acts of Terrorism sublimits of \$8 million.
2 <sup>nd</sup> layer – 100% authorized, 90% placed	\$5 million excess of \$5 million each loss, each risk, subject to reinsurer's maximum liability of \$15 million as respects all losses arising out of any one loss occurrence; with Acts of Terrorism sublimits of \$10 million.
3 <sup>rd</sup> layer – 100% authorized, 90% placed	\$15 million excess of \$10 million each loss, each risk, subject to reinsurer's maximum liability of \$30 million as respects all losses arising out of any one loss occurrence; with Acts of Terrorism sublimits of \$15 million.
Property Catastrophe (4 layers)	
1 <sup>st</sup> layer – 95% authorized, 100% placed	\$5 million excess of \$5 million, ultimate net loss, any one loss occurrence, subject to maximum liability of \$10 million for all loss occurrences during the term of the contract;
2 <sup>nd</sup> layer – 95% authorized, 100% placed	\$10 million excess of \$10 million, ultimate net loss, any one loss occurrence, subject to maximum liability of \$20 million for all loss occurrences during the term of the contract;
3 <sup>rd</sup> layer – 88% authorized, 100% placed	\$30 million excess of \$20 million, ultimate net loss, any one loss occurrence, subject to maximum liability of \$60 million for all loss occurrences during the term of the contract;
4 <sup>th</sup> layer – 100% authorized, 100% placed	\$40 million excess of \$50 million, ultimate net loss, any one loss occurrence, subject to maximum liability of \$80 million for all loss occurrences during the term of the contract.

**Terrorism**

## Quota Excess of loss

1 layer – 100% authorized,  
100% placed

\$35 million excess of \$5 million, ultimate net loss,  
each loss occurrence, subject to maximum liability of  
\$70 million for all loss occurrences.

**Casualty:**

## Quota Share

Primary – 60% authorized,  
65% placed

100% quota share of up to \$4 million excess of \$1  
million.

Supported Umbrella – 60%  
authorized, 65% placed

100% quota share of up to \$10 million total umbrella  
policy limit.

Unsupported Umbrella –  
60% authorized, 65% placed

100% quota share of a \$9 million excess of \$1  
million umbrella policy limit.

## Excess of Loss

100% authorized, 100%  
placed

\$4 million excess of \$1 million ultimate net loss each  
and every loss occurrence.

**Film and Entertainment**

## Excess of loss (3 layers)

Section A – Film Production  
Policies

1<sup>st</sup> layer – 100% authorized,  
100% placed

\$5 million excess of \$5 million ultimate net loss for  
each production.

2<sup>nd</sup> layer – 100% authorized,  
100% placed

\$10 million excess of \$10 million ultimate net loss  
for each production.

3<sup>rd</sup> layer – 100% authorized,  
100% placed

\$30 million excess of \$20 million ultimate net loss  
for each production.

## Section B – Film Completion

## Bonds

1st layer – 100% authorized,  
100% placed

\$5 million excess of \$5 million ultimate net loss for  
each production.

2nd layer – 100% authorized,  
100% placed

\$10 million excess of \$10 million ultimate net loss  
for each production.

3rd layer – 100% authorized,  
100% placed

\$30 million excess of \$20 million ultimate net loss  
for each production.

**Automatic Facultative - Film**

100% authorized, 100%  
placed

\$50 million excess of \$50 million ultimate net loss  
for each production.

**Professional Liability**

Excess of loss (2 layers)

1<sup>st</sup> layer – 47% authorized,  
55% placed  
2<sup>nd</sup> layer – 93% authorized,  
100% placed

\$4 million excess of \$1 million ultimate net loss in  
respect of each claim made, each policy;  
\$5 million excess of \$5 million ultimate net loss in  
respect of each claim made, each policy.

**Miscellaneous Professional Liability**

Excess of loss (2 layers)

1<sup>st</sup> layer – 100% authorized,  
50% placed  
2<sup>nd</sup> layer – 100% authorized,  
67% placed

\$1 million excess of \$1 million ultimate net loss each  
occurrence;  
\$3 million excess of \$2 million ultimate net loss each  
occurrence.

**Workers' Compensation and Employers' Liability**

Excess of loss (2 layers)

1<sup>st</sup> layer – 70% authorized,  
75% placed  
2<sup>nd</sup> layer – 90% authorized,  
100% placed

\$4 million excess of \$1 million ultimate net loss each  
occurrence;  
\$5 million excess of \$5 million ultimate net loss each  
occurrence.

**Workers' Compensation and Employers' Liability Catastrophe**

Excess of loss (2 layers)

1<sup>st</sup> layer – 90% authorized,  
100% placed  
2<sup>nd</sup> layer – 80% authorized,  
100% placed

\$10 million excess of \$10 million ultimate net loss  
each occurrence;  
\$10 million excess of \$20 million ultimate net loss  
each occurrence.

**Excess Workers'  
Compensation and  
Employers' Liability**

Excess of loss (4 layers)

1 <sup>st</sup> layer – 80% authorized, 100% placed	\$5 million excess of \$5 million ultimate net loss each occurrence;
2 <sup>nd</sup> layer – 77.19% authorized, 100% placed	\$20 million excess of \$10 million ultimate net loss each occurrence;
3 <sup>rd</sup> layer – 100% authorized	\$20 million excess of \$30 million ultimate net loss each occurrence;
4 <sup>th</sup> layer – 94.26% authorized, 100% placed	\$50 million excess of \$50 million ultimate net loss each occurrence.

**Marine**

Excess of loss  
Cargo Reporting

1 layer – 100% authorized	\$27.5 million excess of \$2.5 million each loss, each risk subject to the following California Earthquake occurrence aggregate limit: Zone A1, A2, and A3 - \$25 million; and Zone B2, B2, and B3 - \$50 million.
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Reporting Cargo War

1 layer – 100% authorized	\$25 million excess of \$5 million ultimate net loss each vessel, each loss.
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Marine Whole Account Risk  
and Occurrence (6 layers)

1 <sup>st</sup> layer – 79% authorized, 100% placed	\$2.5 million excess of \$2.5 million ultimate net loss each risk, casualty, disaster, or series of losses arising out of one event;
2 <sup>nd</sup> layer – 79% authorized, 100% placed	\$5 million excess of \$5 million ultimate net loss each risk, casualty, disaster, or series of losses arising out of one event;
3 <sup>rd</sup> layer – 79% authorized, 100% placed	\$10 million excess of \$10 million ultimate net loss each risk, casualty, disaster, or series of losses arising out of one event;
4 <sup>th</sup> layer – 79% authorized, 100% placed	\$20 million excess of \$20 million ultimate net loss each risk, casualty, disaster, or series of losses arising out of one event;
5 <sup>th</sup> layer – 79% authorized, 100% placed	\$30 million excess of \$40 million ultimate net loss each risk, casualty, disaster, or series of losses arising out of one event;
6 <sup>th</sup> layer – 100% authorized, 100% placed	\$20 million excess of \$70 million ultimate net loss each risk, casualty, disaster, or series of losses arising out of one event.

## Quota Share

## Obligatory Energy

52.5% authorized, 80%  
placed

80% quota share of net loss on any one risk, unit,  
interest, or assured subject to limitation in the Gulf of  
Mexico and World Wide.

## Surplus

## Marine War

100% authorized

\$20 million surplus \$2 million each vessel, each  
interest, each risk or policy.

**Fidelity Bond**

## Quota Share

100% authorized, 45%  
placed

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

**Elder Care Professional  
and General Liability**

## Quota Share

100% authorized, 50%  
placed

100% quota share each coverage, each policy, each  
loss occurrence, each claim made subject to a limit of  
liability of \$1 million.

Reinsurance agreements with affiliates were reviewed for compliance with Article 15 of the New York Insurance Law. It was noted that all affiliated reinsurance agreements were filed with the Department pursuant to the provisions of Section 1505(d)(2) of the New York Insurance Law.

It is the Company's policy to obtain the appropriate collateral for its cessions to unauthorized reinsurers. Letters of credit and trust accounts obtained by the Company to allow them to take credit for cessions to unauthorized reinsurers were reviewed for compliance with Department Regulations 133 and 114, respectively. It was noted that the Company incorrectly listed ProSight Specialty Management Company LLC as the beneficiary on the letters of credit. Department Regulation 133 states in part:

"Beneficiary means the insurer in favor of which the letter of credit or its confirmation is established and shall include any successor by operation of law of any named beneficiary including, without limitation, any liquidator, rehabilitator, receiver or conservator."

It is recommended that the Company comply with Department Regulation 133 and accurately list the correct beneficiaries on their letters of credit. It is noted that the Company has acknowledged this recommendation, and has corrected the names of several beneficiaries. The Company has indicated that it is in the midst of a project to correct the remainder of the beneficiary names.

All 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.

Examination review of the Schedule F data reported by the Company in its filed annual statement revealed that the Company did not accurately reflect its reinsurance transactions with respect to commutations of ceded reinsurance agreements. In prior years, the Company commuted various ceded reinsurance agreements. The Company's method of accounting for the commuted treaties has been to show the reinsurance recoverable balances as if the treaties were still in effect and report a funds held liability for the cash received from the reinsurers for the commuted losses. As losses are paid that would have been covered by the commuted treaties, the Company makes an entry to credit the reinsurance recoverable and debit the funds held liability. For treaties where the funds held is less than the total reinsurance recoverable amount, the Company reports a liability under the caption "Provision for reinsurance" for the difference. As of the examination date, the Company reported total recoverable balances (including IBNR and ULAE) on commuted treaties in the amount of \$10.4 million; funds held in the amount \$7.8 million and a provision for reinsurance in the amount of \$5.2 million.

The accounting treatment used by the Company to account for commuted reinsurance agreements does not comply with the provisions of paragraph 73 of SSAP 62R, which states:

"In commutation agreements, an agreed amount determined by the parties is paid by the reinsurer to the ceding entity. The ceding entity immediately eliminates the reinsurance recoverable recorded against the ultimate loss reserve and records the cash received as a negative paid loss. Any net gain or loss shall be reported in underwriting income in the statement of income".

It does not appear that the Company's accounting had a material effect on its surplus position; therefore, no change has been made to the financial statements in this report. However, it is recommended that the Company account for commuted reinsurance agreements pursuant to the provisions of SSAP 62R.

Representations were supported by appropriate risk transfer analyses and an attestation from the Company's Chief Executive Officer and Chief Financial Officer pursuant to the NAIC Annual Statement

Instructions. Additionally, examination review indicated that the Company was not a party to any finite reinsurance agreements. All ceded reinsurance agreements were accounted for utilizing reinsurance accounting as set forth in SSAP No. 62R.

During the period covered by this examination, the Company commuted one reinsurance agreement where it was a ceding reinsurer.

D. Holding Company System

The Company is a member of the ProSight Specialty Group. The Company is 100% owned by ProSight Specialty Insurance Group, Inc. (“ProSight Insurance Group”), a New York corporation, which is in turn owned by ProSight Specialty Insurance Holdings Inc. which is in turn owned by ProSight Global Inc. ProSight Specialty Insurance Holdings Inc. and ProSight Global Inc. are both Delaware based holding companies. ProSight Global Inc. is 100% owned by ProSight Global Holdings Limited (“ProSight Global”), a Bermuda corporation. The key owners of ProSight Global are:

1. ProSight Investment LLC (“ProSight Investment”), A Delaware Limited Liability Company held a 43.70% interest in ProSight Global.
2. ProSight Parallel Investment LLC (“ProSight Parallel Investment), a Delaware Corporation held a 6.4% interest.
3. ProSight TPG, L.P. (ProSight TPG), a Delaware Limited Partnership held a 37.05% interest.
4. Four TPG investment vehicles, organized as Limited Partnerships in the Cayman Islands, held an approximate 11% interest.

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

ProSight Equity Management is owned by various individuals, none of which has more than a 10 percent stake. The Department has deemed the ultimate controlling persons of the Company to be



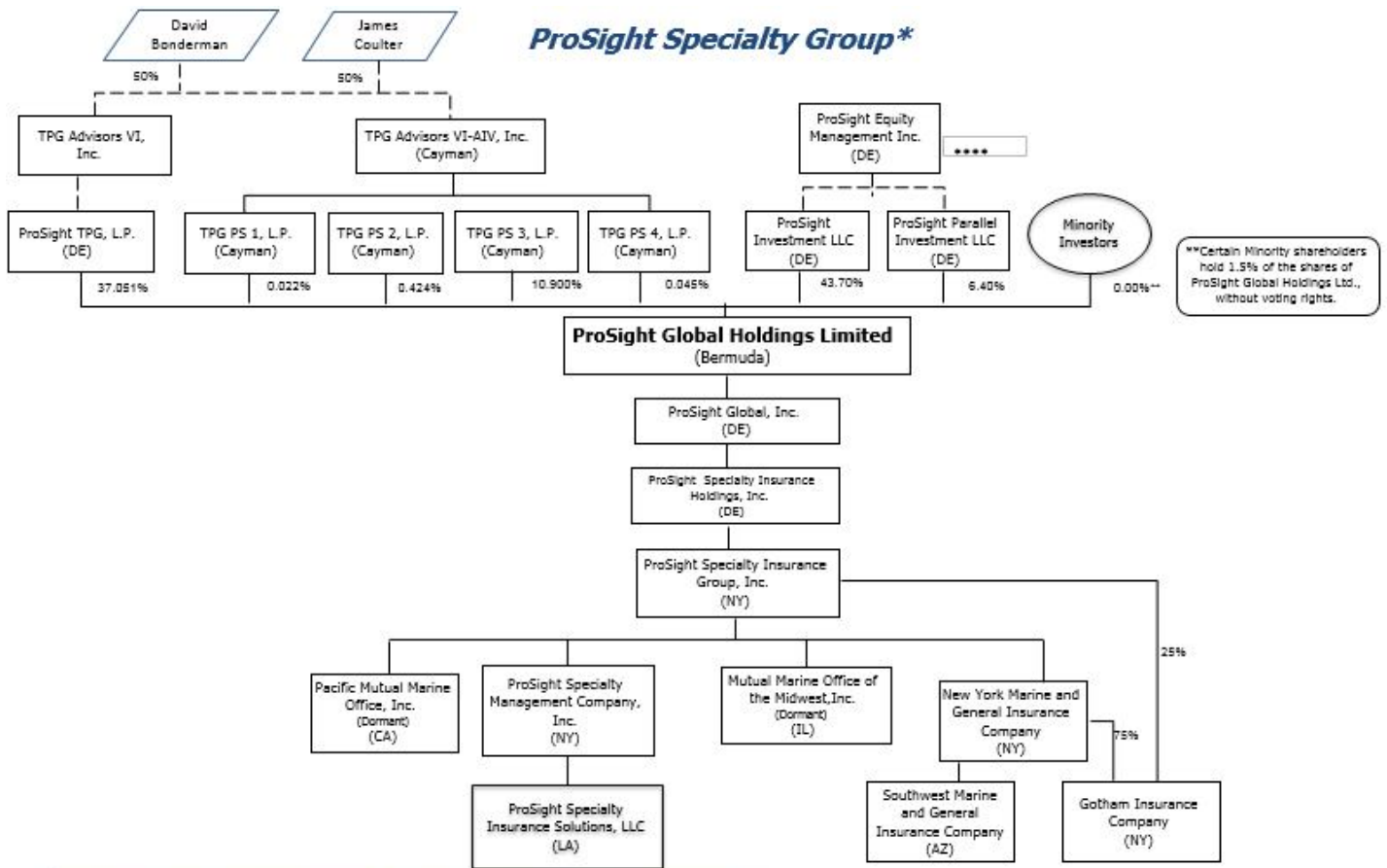
ProSight Equity Management, David Bonderman and James Coulter. This is based on ProSight Equity's control via the management contract with the investment vehicles and Mr. Bonderman's and Mr. Coulter's approximate 48% ownership in ProSight Global through their control/ownership of the TPG Investment Vehicles.

At the examination date the Company owned 100% of Southwest Marine and General Insurance Company of Arizona and 75% of Gotham Insurance Company of New York. The other 25% of Gotham was owned by ProSight Insurance Group. Subsequent to the examination date, ProSight Insurance Group contributed its 25% stake in Gotham to the Company, which now owns 100% of Gotham's \$100 par value common stock. The Company also received a contribution from ProSight Specialty Insurance Group in the form of its limited partnership investment in Tiptree Financial Inc. for approximately \$25.3 million in June 2014. Subsequently, the Company transferred approximately \$12.8 million and \$8.5 million of its Tiptree limited partnership investment to Gotham Insurance Company and Southwest Marine Insurance Company, respectively. Gotham and Southwest Marine in turn transferred corporate bonds in consideration of the transferred Tiptree investments. The above referenced transactions were approved by the Department. Gotham and SWM are primarily excess and surplus lines writers.

A review of the Holding Company Registration Statements filed with this Department indicated that such filings were complete and were filed in a timely manner pursuant to Article 15 of the New York Insurance Law and Department Regulation 52.

The following is an abbreviated chart of the holding company system, reflecting its holdings in the United States, at December 31, 2013:

**ProSight Specialty Group\***

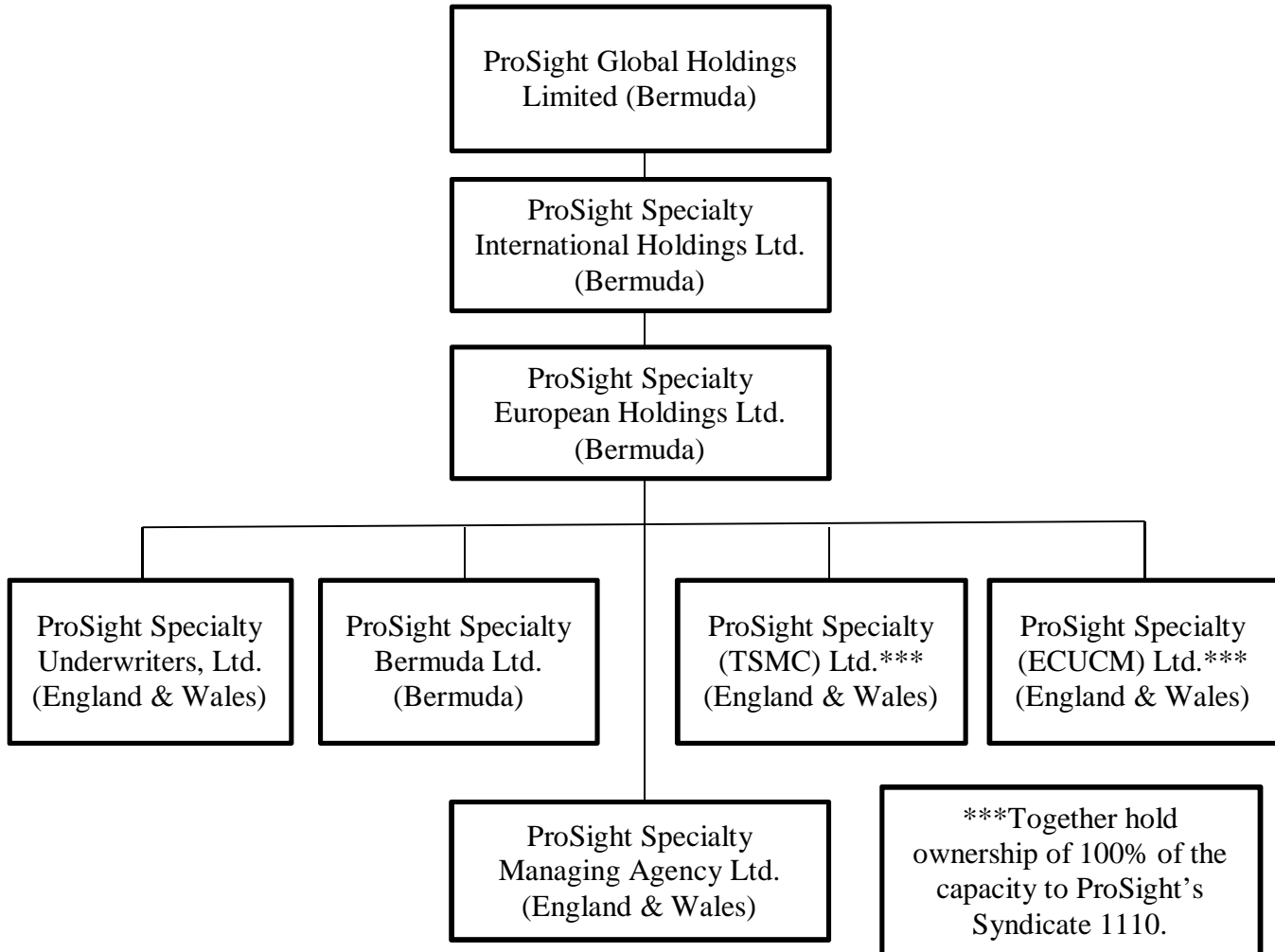


\*\*Certain Minority shareholders hold 1.5% of the shares of ProSight Global Holdings Ltd., without voting rights.

\*The percentages included in the chart reflect percentages of outstanding voting securities (100% unless otherwise noted). Omitted from this chart are (i) other affiliates of the persons and entities listed on this chart that do not possess the direct or indirect power to direct the management and policies of any of the persons or entities on this chart and (ii) limited partners of limited partnerships (and non-managing members of limited liability companies) listed on this chart (as they have only a passive investment interest and do not possess the direct or indirect power to direct the management and policies of such entities).

\*\*\*\*dotted lines indicate interest as general partner, not an equity interest

The following is a chart of the holding company system, reflecting its holdings outside of the United States, at December 31, 2013:



At December 31, 2013, the Company was party to the following agreements with other members of its holding company system:

1. Service Agreement

Effective January 15, 2011, the Company and ProSight Specialty Management Company, Inc. (“PSMC”) are parties to a Service Agreement under which PSMC supplies all services and facilities necessary for the conduct of the Company’s business. The Company pays PSMC fees equal to the actual costs and expenses incurred by or on behalf of PSMC in connection with rendering such services to the Company, including, without limitation, all reasonable employee benefits and overhead costs and expenses incurred by or on behalf of PSMC. The agreement was filed with this Department pursuant to Section 1505 of the New York Insurance Law and was non-disapproved.

Subsequent to the period covered by this examination, the aforementioned service agreement was amended and restated effective November 20, 2014 to correct the timing of the payments due to PSMC. The agreement was filed with this Department pursuant to Section 1505 of the New York Insurance Law and was non-disapproved.

A review of the agreement indicates that the Company is not complying with all of the terms stated in the agreement. The agreement states in part: "Any commercial bank suitable to the Company, ProSight Management and New York State Superintendent of Insurance, shall act as depository of the Company funds received by ProSight Management in a fiduciary capacity for the benefit of the Company. All such accounts shall be established and maintained in the Company's name. ProSight Management shall prepare monthly reconciliations of deposits to and withdrawals from such accounts and shall within one month of the last day of each month during the term of this Service Agreement, remit to the Company all balances due. In the event such reconciliations reveal that the amount in any such account is insufficient to meet the Company's obligations hereunder, the Company shall, promptly upon written notice from ProSight Management of such deficiency, provide ProSight Management with funds in an amount sufficient to allow ProSight Management to meet its obligations under this Service Agreement." (Emphasis added.)

Examination review revealed that all bank accounts were not maintained in the Company's name. Also, the Company was not able to show monthly or quarterly settlements during the examination period.

It is recommended that the Company comply with all terms of the Amended and Restated Service Agreement.

Subsequent to the examination date, the Company began to implement the terms stated in the agreement.

## 2. Tax Allocation Agreement

Effective April 1, 2013, the Company entered into a tax allocation agreement with members of the ProSight Specialty Group. Under this agreement, commencing with tax year ending December 31, 2010, the Company and its affiliates file a consolidated federal income tax return. The tax allocation agreement was reviewed for compliance with Department Circular Letter 1979-33. No exceptions were noted.

The agreement was approved by the Company's board of directors and a copy of the agreement was filed with this Department in accordance with Department Circular Letter 1979-33.

### 3. Reinsurance Agreement with Affiliated Companies

Effective since January 1, 2007, the Company is party to an affiliated reinsurance agreement with its subsidiary Southwest Marine and General Insurance Company (“SWM”). Under the terms of this agreement, the Company cedes 5% of its net retained business to SWM. This agreement was submitted to the Department pursuant to Section 1505(d)(3) of the New York Insurance Law and was non-disapproved.

In addition, the Company is party to an affiliated reinsurance agreement with Gotham as noted in item 2C of this report.

A review of the Company’s expense allocation indicates that it is not complying with the terms of its affiliated reinsurance agreements. According to the agreements, expenses should be allocated 80% to the Company, 15% to Gotham and 5% to SWM. The Company’s expenses have not been allocated according to these percentages. It is noted that the company is allocating expenses among the companies but not precisely in accordance with these percentages.

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

Effective January 1, 2012, the Company and ProSight Lloyd’s Syndicate #1110 (“the Syndicate”), an affiliate of the Company, entered into a 100% quota share reinsurance agreement pertaining to six select programs. The agreement provides for ceding commissions of four percent of gross premiums paid by the Syndicate to the Company.

#### E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2013, based upon the results of this examination:

Net premiums written to policyholders' surplus	113%	
Adjusted liabilities to liquid assets	114%	*
Gross agents' balances (in collection) to policyholders' surplus	42%	*

The above ratios denoted with an asterisk fall outside the benchmark ranges set forth in the Insurance Regulatory Information System of the National Association of Insurance Commissioners. The adjusted liabilities to liquid assets ratio was outside of the range because of the Company's large investments in insurance company subsidiaries. The gross agents' balance to policyholders' surplus ratio was outside of the benchmark range because premiums and considerations were not split between uncollected premiums and agents' balances in the course of collection and deferred premiums, agents' balances and installments booked but deferred and not yet due (see accounts and records section of this report).

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

	<u>Amounts</u>	<u>Ratios</u>
Losses and loss adjustment expenses incurred	\$337,634,996	61.67%
Other underwriting expenses incurred	237,841,367	43.45
Net underwriting loss	<u>(28,026,333)</u>	<u>(5.12)</u>
Premiums earned	<u>\$547,450,030</u>	<u>100.00%</u>

F. Accounts and Records

Preparation of 2013 Annual Statement

During the examination, the following reporting issues were noted:

(a) The Company did not have a valid license to write business in Puerto Rico in place as of the examination date. Schedule T shows that the Company is licensed in Puerto Rico. The Company indicated that its Certificate of Authority from Puerto Rico was inactive from July 1, 2010 through October 22, 2014 because of a licensing lapse that occurred in 2010 and its inability to find a suitable resident general agent as required by Puerto Rican law to secure its Certificate of Authority renewal. The Company indicated that it kept the Department of Insurance of Puerto Rico informed of its status and continued to file for renewal and pay its annual fee. The Company did write a small amount of business in Puerto Rico during the period where its license lapsed. It

is noted that, subsequent to the examination date, the Company secured a general agent and was able to complete the renewal of its Puerto Rico license.

(b) The Company reported assumed reinsurance business amounting to \$2,492,000 as direct business. Assumed reinsurance should be reported on Schedule F Part 1 and Underwriting & Investment Exhibit Part 1B.

(c) The Company's Underwriting & Investment Exhibit Part 3 – Expenses, column 1, line 26 (unpaid expenses current year) of \$66,309,773 and line 27 (unpaid expenses prior year) of \$49,203,815 were incorrectly reported as these amounts do not tie to the reported loss adjustment expenses of \$76,412,187 and \$49,344,206 for current year and prior year, respectively, on page 3, line 3 of the filed statement. The Company has acknowledged this error.

(d) The Company's Schedule F - Part 7 had several discrepancies. In the December 31, 2013 Schedule F, the Company listed several unauthorized companies as authorized.

(e) The Company failed to properly allocate its premiums receivable balance. It reported all balances as “uncollected premiums and agents' balances in the course of collection” whereas some should be reported as “deferred premiums, agents' balances and installments booked but deferred and not yet due”.

(f) The Company failed to report Lloyds Syndicate 1110 as a certified reinsurer and the 20% collateral in Schedule F - Part 6. It is noted that in fact post the adequate collateral.

It is recommended that the Company address the reporting issues, related to the preparation of the 2013 annual statement, referenced above.

It is further noted that control deficiencies were noted during this examination. There were risks identified by the examination with either no mitigating controls in place or no documentation available to confirm the existence of the mitigating control. The Company has indicated that it has implemented or is in the process of implementing measures to address the deficiencies.

The Company's external auditors reported, in reference to their 2013 audit of the Company, that material weaknesses existed in the Company's internal control over reinsurance accounting. A material

weakness is defined as a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

It is recommended that the Company put stronger control procedures in place in reference to the reinsurance accounting function. The Company has indicated that it has implemented or is in the process of implementing measures to address the deficiencies.

### 3. FINANCIAL STATEMENTS

#### A Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2013 as determined by this examination and as reported by the Company:

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$542,517,750	\$ 0	\$542,517,750
Common stocks (stocks)	104,553,037	0	104,553,037
Cash, cash equivalents and short-term investments	24,968,649	0	24,968,649
Other invested assets	51,096,032	0	51,096,032
Receivables for securities	251,563	0	251,563
Investment income due and accrued	2,410,766	0	2,410,766
Uncollected premiums and agents' balances in the course of collection	104,382,625	4,690,215	99,692,410
Amounts recoverable from reinsurers	24,958,000	0	24,958,000
Funds held by or deposited with reinsured companies	172,150	0	172,150
Net deferred tax asset	24,007,031	5,605,826	18,401,205
Electronic data processing equipment and software	7,122,110	0	7,122,110
Furniture and equipment, including health care delivery assets	2,051,753	2,051,753	0
Receivables from parent, subsidiaries and affiliates	4,224,361	0	4,224,361
TPA Claims Advance	11,338,507	0	11,338,507
Rent Receivable	3,071,661	3,071,661	0
Other Assets	<u>30,065</u>	<u>0</u>	<u>30,065</u>
Total assets	<u>\$907,156,060</u>	<u>\$15,419,455</u>	<u>\$891,736,605</u>



Liabilities, surplus and other fundsLiabilities

Losses and Loss Adjustment Expenses	\$379,753,413
Commissions payable, contingent commissions and other similar charges	4,789,579
Other expenses (excluding taxes, licenses and fees)	3,348,235
Taxes, licenses and fees (excluding federal and foreign income taxes)	2,857,542
Current federal and foreign income taxes	9,716,780
Unearned premiums	106,619,049
Ceded reinsurance premiums payable (net of ceding commissions)	59,214,000
Funds held by company under reinsurance treaties	50,298,054
Provision for reinsurance	21,008,595
Reserves for write-offs of pool member's obligations	1,205,366
Loss portfolio transfer liability	7,627,604
Equities and deposits in pools and associations	<u>5,195,256</u>
Total liabilities	\$651,633,473

Surplus and Other Funds

Common capital stock	\$ 8,827,889
Gross paid in and contributed surplus	108,177,256
Unassigned funds (surplus)	<u>123,097,987</u>
Surplus as regards policyholders	<u>\$240,103,132</u>
Total liabilities, surplus and other funds	<u>\$891,736,605</u>

Note: The Internal Revenue Service has completed its audits of the Company's consolidated Federal Income Tax returns through tax year 2008. 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 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

### Underwriting Income

Premiums earned		\$547,450,030
Deductions:		
Losses and loss adjustment expenses incurred	\$337,634,996	
Other underwriting expenses incurred	<u>237,841,367</u>	
Total underwriting deductions		<u>575,476,363</u>
Net underwriting gain or (loss)		\$(28,026,333)

### Investment Income

Net investment income earned	\$36,573,942	
Net realized capital gain	<u>(5,920,787)</u>	
Net investment gain		30,653,155

### Other Income

Net gain or (loss) from agents' or premium balances charged off	\$ (314,645)	
Aggregate write-ins for miscellaneous income	<u>(5,194,694)</u>	
Total other income		<u>(5,509,339)</u>
Net income before federal and foreign income taxes		\$ (2,882,517)
Federal and foreign income taxes incurred		<u>8,185,011</u>
Net Loss		<u>\$(11,067,528)</u>

C. Capital and Surplus Statement

Surplus as regards policyholders increased \$54,618,822 during the three-year examination period January 1, 2011 through December 31, 2013, detailed as follows:

Surplus as regards policyholders per report on examination as of December 31, 2010			\$185,484,310
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net loss		\$11,067,529	
Net unrealized capital gains or (losses)	\$23,632,337		
Change in net deferred income tax	12,983,399		
Change in nonadmitted assets	5,693,038		
Change in provision for reinsurance		87,995	
Surplus adjustments paid in	22,358,341		
Change in admitted DTA's due to paragraph 10.e. of SSAP No.10R / Rent Receivable	<u>1,107,231</u>	<u>0</u>	
Gains and Losses in surplus	<u>\$65,774,346</u>	<u>\$11,155,524</u>	
Net increase (decrease) in surplus			<u>54,618,822</u>
Surplus as regards policyholders per report on examination as of December 31, 2013			<u>\$240,103,132</u>

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

The examination liability for the captioned items of \$379,753,413 is the same as reported by the Company as of December 31, 2013. The examination analysis of the Loss and loss adjustment expense reserves was conducted in accordance with generally accepted actuarial principles and statutory accounting principles, including the NAIC Accounting Practices & Procedures Manual, Statement of Statutory Accounting Principle No. 55 (“SSAP No. 55”).

Further, the actuarial review conducted by the Department revealed that that the actuarial reports underlying the Statements of Actuarial Opinion did not contain both narrative and technical components in sufficient detail to clearly explain how all the exhibits and calculations tie together, as well as including an exhibit that reconciles and maps the data used to derive the loss development factors or pool data triangles to the Annual Statement Schedule P lines of business.

It is recommended that in accordance with the NAIC Instructions to the Annual Statement, future actuarial reports underlying the Statements of Actuarial Opinion contain both narrative and technical components in sufficient detail and include an exhibit that reconciles and maps the data used to derive the loss development factors or pool data triangles to the Annual Statement Schedule P lines of business. The Company has indicated that it has incorporated this recommendation into its procedures and in its preparation of the 2014 actuarial report.

## 5. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

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

ITEM		PAGE NO.
A	<p><u>Management</u> It is recommended that board members who are unable or unwilling to attend meetings consistently should resign or be replaced.</p> <p>The Company has complied with this recommendation.</p>	5
B	<p><u>Territory and Plan of Operation</u> It is recommended that the Company obtain and maintain its special risk license pursuant to Section 6302 of the New York Insurance Law.</p> <p>The Company has complied with this recommendation.</p>	6
C	<p><u>Reinsurance</u></p>	
i.	<p>It is recommended that the Company enter into formal written agreements with its reinsurance intermediaries in accordance with part 125.6(a)(2) of Department Regulation No. 20.</p> <p>The Company has complied with this recommendation.</p>	10
ii.	<p>It is recommended that the Company account for commuted reinsurance agreements pursuant to the provisions of SSAP 62R.</p> <p>The Company has not complied with this recommendation. A similar comment is made in this report.</p>	11
D	<p><u>Holding Company</u></p>	
i.	<p>It is recommended that the Company comply with Part 80-1.2 of Regulation 52 and file the amendments to its holding company filings by April 30 annually.</p> <p>The Company has complied with this recommendation.</p>	14
ii.	<p>It is recommended that the Company amend its service agreement to clearly disclose service fees and require quarterly statements to support the fees charged, and file the amendment with the Department pursuant to Section 1505(b) of the New York Insurance Law.</p> <p>The Company has complied with this recommendation.</p>	15

## 6. SUMMARY OF COMMENTS AND RECOMMENDATIONS

ITEM	PAGE NO.
A	
<u>Reinsurance</u>	
i. It is recommended that the Company comply with Department Regulation 133 and accurately list the correct beneficiaries on their letters of credit. It is noted that the Company has acknowledged this recommendation, and has corrected the names of several beneficiaries. The Company has indicated that it is in the midst of a project to correct the remainder of the beneficiary names.	13
ii. It is recommended that the Company account for commuted reinsurance agreements pursuant to the provisions of SSAP 62R.	13
B	
<u>Holding Company</u>	
i. It is recommended that the Company comply with all terms of the Amended and Restated Service Agreement.	18
ii. It is recommended that the Company comply with the terms of the affiliated reinsurance agreements and allocate expenses per the terms of these agreements. It is noted that the company is allocating expenses among the companies but not precisely in accordance with these percentages.	19
C	
<u>Accounts and records</u>	
It is recommended that the Company address the reporting issues, related to the preparation of the 2013 annual statement, identified in this examination report.	21
It is recommended that the Company put stronger control procedures in place in reference to the reinsurance accounting function.	22
The Company has indicated that it has implemented or is in the process of implementing measures to address the deficiencies.	
D	
<u>Losses and loss adjustment expenses</u>	
It is recommended that in accordance with the NAIC Instructions to the Annual Statement, future actuarial reports underlying the Statements of Actuarial Opinion contain both narrative and technical components in sufficient detail and include an exhibit that reconciles and maps the data used to derive the loss development factors or pool data triangles to the Annual Statement Schedule P lines of business. The Company has indicated that it has incorporated this recommendation into its procedures and in its preparation of the 2014 actuarial report.	26

Respectfully submitted,

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Sheik H. Mohamed, CPCU  
Senior Insurance Examiner

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

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

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Sheik H. Mohamed

Subscribed and sworn to before me

this \_\_\_\_\_ day of \_\_\_\_\_, 2015.

*NEW YORK STATE*

***DEPARTMENT OF FINANCIAL SERVICES***

*I, BENJAMIN M. LAWSKY, Superintendent of Financial Services of the State of New York, pursuant to the provisions of the Financial Services Law and the Insurance Law, do hereby appoint:*

***Sheik Mohamed***

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

***New York Marine and General Insurance Company***

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

***COMPANY***

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

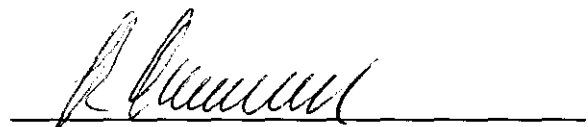
*In Witness Whereof, I have hereunto subscribed by name  
and affixed the official Seal of the Department  
at the City of New York*

*this 5th day of March, 2014*

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



By:



*Rolf Kaumann*  
*Deputy Chief Examiner*