

REPORT ON EXAMINATION

OF THE

ALLIANCE ASSURANCE COMPANY OF AMERICA

AS OF

DECEMBER 31, 2007

DATE OF REPORT

DECEMBER 30, 2008

EXAMINER

JOHN CONLEY

TABLE OF CONTENTS

<u>ITEM NO.</u>		<u>PAGE NO.</u>
1	Scope of examination	2
2.	Description of Company	2
	A. Management	3
	B. Territory and plan of operation	5
	C. Reinsurance	6
	D. Holding company system	6
	E. Accounts and records	8
3.	Financial statements	10
	A. Balance sheet	10
	B. Underwriting and investment exhibit	11
4.	Losses and loss adjustment expenses	12
5.	Compliance with prior report on examination	12
6.	Summary of comments and recommendations	14



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

December 30, 2008

Honorable Eric R. Dinallo
Superintendent of Insurance
Albany, New York 12257

Sir:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 22814 dated August 18, 2008 attached hereto, I have made an examination into the condition and affairs of Alliance Assurance Company of America as of December 31, 2007, and submit the following report thereon.

Wherever the designations “the Company” or “Alliance” appear herein without qualification, they should be understood to indicate Alliance Assurance Company of America.

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

The examination was conducted at the offices of the New York State Insurance Department located at 25 Beaver Street, New York, NY 10004.

The Company’s statutory home office is located at One Chase Plaza, 38th floor, New York, New York 10005.

1. SCOPE OF EXAMINATION

The previous examination was conducted as of December 31, 2002. This examination covered the five year period from January 1, 2003 through December 31, 2007, and comprised a complete verification of assets and liabilities as of December 31, 2007. The examination included a review of income, disbursements and Company records deemed necessary to accomplish such analysis or verification and utilized, to the extent considered appropriate, work performed by the Company's independent accountants. A review or audit was also made of the following items as called for in the Examiners Handbook of the National Association of Insurance commissioners ("NAIC"):

- History of Company
- Management and control
- Corporate records
- Territory and plan of operation
- Accounts and records
- Financial statements

This report on examination is confined to financial statements and comments on those matters, which involve departures from laws, regulations or rules, or which are deemed to require explanation or description.

2. DESCRIPTION OF COMPANY

The Company was incorporated on July 26, 1991 under the laws of the State of New York to serve as the vehicle for the domestication of the United States Branch of the Alliance Assurance Company Limited, London, England ("the Branch"). The Company assumed all of the assets and liabilities of the Branch and commenced business on January 1, 1992. The Company was a member of the Royal and Sun Alliance and the ultimate parent was Royal & Sun Alliance Insurance Group plc, a UK company.

Effective July 1, 2000, the Company entered into a Reinsurance Assignment and Assumption Agreement with Globe Indemnity Company ("Globe"), an affiliate. Under this agreement, the Company transferred all of its liabilities arising from its operations prior to the effective date, along

with an equal amount of assets to Globe. The Reinsurance Assignment and Assumption Agreement was done to prepare the Company for sale

On January 23, 2001, Eastern Casualty Insurance Company (“Eastern Casualty”), a Commonwealth of Massachusetts domiciled insurer, purchased Alliance Assurance Company of America as a shell.

In 2005, the Company reduced its capital stock from \$5,000,000 to \$3,000,000 and its gross paid in and contributed surplus from \$5,700,000 to \$3,420,000 pursuant to a stock redemption and retirement plan. The stock redemption reduced the number of outstanding shares from 100 shares to 60 shares. Additionally, in 2005 the Company paid an extraordinary stock dividend to its parent in the amount of \$2,604,268. The stock redemption and retirement plan and extraordinary dividend were approved by the Department on May 26, 2005.

At December 31, 2007, capital paid in is \$3,000,000 consisting of 60 shares of \$50,000 par value per share common stock. Gross paid in and contributed surplus is \$3,420,000. Gross paid in and contributed surplus and/or capital paid in decreased by \$2,280,000 during the examination period, as follows:

<u>Year</u>	<u>Description</u>	<u>Amount</u>
2003	Beginning gross paid in and contributed surplus	\$5,700,000
2005	Stock redemption	<u>(2,280,000)</u>
2007	Ending gross paid in and contributed surplus	<u>\$3,420,000</u>

Subsequent to the examination date, on October 16, 2008, the Company was acquired by WRM America Holding Company LLC (“WRM”). The Application for Acquisition of Control was submitted to this Department on May 29, 2008 and was approved pursuant to the provisions of Section 1506 of the New York Insurance Law and Part 80-1.6 of Department Regulation 52. The Company’s name was subsequently changed to WRM America Indemnity Company.

A. Management

Pursuant to the Company’s charter and by-laws, management of the Company is vested in a board of directors consisting of not less than thirteen nor more than twenty-one members. The board met four times during each calendar year. At December 31, 2007, the board of directors was comprised of the following thirteen members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Joseph E. Coffey West Roxbury, MA	Self Employed Attorney
Lori Coonan Auburn, MA	Claims Adjuster, Eastern Casualty Insurance Company
Michael Farina Worcester, MA	Self Employed Consultant
Pamela A. Genelli Hubbardston, MA	Vice President, Eastern Casualty Insurance Company
Frederick J. Hansberry Andover, MA	Self Employed Consultant
Kerri Hollenkamp Marlborough, MA	Claims Adjuster, Eastern Casualty Insurance Company
Dennis M. Kass New York, NY	Vice Chairman J.P. Morgan Fleming
Henry C. Lodge, III New York, NY	Executive Vice President, Star Financial
Stewart A McIntire Melrose, MA	Vice President, Eastern Casualty Insurance Company
Mary Jane Peoples Hopkinton, MA	Executive Vice President, Eastern Casualty Insurance Company
James A. Radley Dedham, MA	President, Chief Executive Officer and Owner, Eastern Casualty Insurance Company
Carl F. Schmitt Stow, MA	Attorney, McNamara & Associates
John F. Sweeney New York, NY	Attorney, Morgan & Finnegan, LLP

A review of the minutes of the board of directors' meetings held during the examination period indicated that the meetings were generally well attended with the exception of John F. Sweeney, Henry C. Lodge III, Dennis M. Kass, and Carl Schmidt, each of whom attended less than 50% of the meetings for which they were eligible to attend. It is noted that subsequent to the examination date, the Company was acquired by WRM and the entire board was replaced.

As of December 31, 2007, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
James Albert Radley	President and Treasurer
Mary Jane Peoples	Vice President
Joseph E. Coffey	Secretary

B. Territory and Plan of Operation

As of December 31, 2007, the Company was licensed to write business in thirty-three states and the District of Columbia. Currently, the Company is inactive and has not written any business since its acquisition by Eastern Casualty on January 23, 2001.

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
22	Residual value
24	Credit unemployment

In addition, the Company is licensed to transact such workers' compensation insurance as may be incident to coverages contemplated under paragraphs 20 and 21 of Section 1113(a) of the New York Insurance Law, including insurances described in the Longshoremen's and Harbor

Workers' Compensation Act (Public Law No. 803, 69th Congress, as amended; 33 USC Section 901 et. Seq. as amended).

Based on the lines of business for which the Company is licensed and the Company's current capital structure, and pursuant to the requirements of Articles 13 and 41 of the New York Insurance Law, the Company is required to maintain a minimum surplus to policyholders in the amount of \$4,600,000.

C. Reinsurance

The Company is currently inactive and does not assume or cede any business.

D. Holding Company System

At December 31, 2007, the Company was a member of the North American Enterprises, Inc. holding company system. The Company was 100% owned by Eastern Casualty Insurance Company, a Massachusetts corporation, which is ultimately controlled by North American Enterprises, Inc.

Subsequent to the examination date, on October 16, 2008, the Company was acquired by WRM America Holding Company LLC ("WRM"). The Application for Acquisition of Control was submitted to this Department on May 29, 2008 and was approved pursuant to the provisions of Section 1506 of the New York Insurance Law and Part 80-1.6 of Department Regulation 52.

Pursuant to Part 80-1.4 of Department Regulation 52, all controlled insurers are required to file an annual holding company registration statement (Form HC-1) within 120 days following the end of its ultimate holding company's fiscal year. As of the date of this report, the Company has not filed a Form HC-1 for 2003, 2004, 2005 and 2006. The Company filed Form HC-1 late for 2007. No recommendation is being made for the failure to file its annual holding company registration statements due to the subsequent acquisition by WRM.

The following is a chart of the holding company system at December 31, 2007:

North American Enterprises, Inc.

Eastern Casualty Insurance Company

Alliance Assurance Company of America

E. Accounts and Records

Custodial Agreement

The Company entered into a custodial agreement with Morgan Stanley on March 30, 2007. This agreement did not include any of the recommended NAIC Financial Condition Examiners Handbook safeguards and controls. It is recommended that the Company revise its custodial agreement to include the protective safeguards and controls in accordance with Part 1 General - Section IV(H) of the NAIC Financial Condition Examiners Handbook.

Annual Statement Discrepancies

A review of the filed annual statement reveals the following discrepancies:

- a. State deposits included in Schedule E, Part 3, were understated by a certificate of deposit held by the State of California in the amount of \$130,000, a cash deposit with the State of North Carolina, in the amount of \$84,019 and a certificate of deposit with the State of Oklahoma in the amount of \$10,000.
- b. The Statement of Income included in the 2007 Annual Statement reported no premiums earned for 2007. However, Schedule P – Part 1 of the Annual Statement reported Direct and Assumed Premiums earned of \$163,000 in error.
- c. The Company stated in the General Interrogatories of the 2007 Annual Statement that the purchase and sale of all investments were passed upon either the board of directors or a subcommittee thereof. The minutes of the meetings of the board of directors did not indicate that the investment transactions were approved by the board of directors or a by a subcommittee thereof.
- d. The Company stated in the General Interrogatories of the 2007 Annual Statement that a complete permanent record of the proceedings of the board of directors and all subcommittees thereof was maintained. The Company failed to provide its minutes for the first quarter of 2003 and failed to include a detailed discussion of the matters discussed by members of the board other than the approval of members of the board and minutes of a previous meeting.

It is recommended that the Company exercise greater care in the preparation of its annual statement.

Minimum Capital Investments Pursuant to Section 1402 of the New York Insurance Law

Upon review of the Company's investments, it was noted that the Company does not have the minimum capital investments as required by Section 1402(a) of the New York Insurance Law.

Based on the lines of business the Company is licensed to write, the Company is required to maintain minimum capital investments, as defined in Section 1402(b) of the Insurance Law, in the amount of \$4,600,000; of that amount, 60% or \$2,760,000 must be of the types specified in Section 1402(b)(1) and (2). Our review of Schedules D and DA of the Company's annual statement indicates that the Company's capital investments are deficient by \$1,014,309, as follows:

	<u>Minimum</u>	<u>Company</u>	<u>Deficiency</u>
1. Obligations of the U.S. or any agency thereof		\$3,585,691	
2. Direct obligations of this state		<u>0</u>	
Total Section 1402(b)(1) & (2) investments	<u>\$2,760,000</u>	<u>\$3,585,691</u>	<u>\$ 0</u>
3. Direct obligations of any state in the U.S.			
4. Obligations secured by first mortgage loans pursuant to Section 1404(a)(4)		<u>0</u>	
Total Section 1402 investments	<u>\$4,600,000</u>	<u>\$3,585,691</u>	<u>\$1,014,309</u>

It is recommended that the Company maintain the minimum required amount of capital investments pursuant to Section 1402 of the New York Insurance Law.

Filing of a Consolidated Federal Income Tax Return

Upon review, it was noted that the Company filed a consolidated federal income tax return with its parent, North American Enterprises, Inc., and subsidiaries without having a tax allocation agreement approved by this Department. The prior report on examination recommended that the Company execute a formal tax allocation agreement and submit such agreement to the Department. It is noted that the Company was subsequently acquired by WRM and is no longer part of the same holding company; therefore, the recommendation is no longer applicable.

FINANCIAL STATEMENTSA Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2007 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	\$5,422,288	\$ 0	\$5,422,288
Common stocks	1,425,000	0	1,425,000
Cash	267,081	0	267,081
Investment income due and accrued	<u>55,804</u>	<u>0</u>	<u>55,804</u>
Total assets	<u>\$7,170,173</u>	<u>\$ 0</u>	<u>\$7,170,173</u>

Liabilities, Surplus and Other Funds

Total liabilities		\$ 0
-------------------	--	------

Surplus and Other Funds

Common capital stock	\$3,000,000	
Gross paid in and contributed surplus	3,420,000	
Unassigned funds (surplus)	<u>750,173</u>	
Surplus as regards policyholders		<u>7,170,173</u>
Total liabilities, surplus and other funds		<u>\$7,170,173</u>

NOTE: The Internal Revenue Service has never audited the Company's tax returns. The examiner is unaware of any potential exposure of the Company to any tax assessment and no liability has been established herein relative to such contingency.

B. Underwriting and Investment Exhibit

Surplus as regards policyholders decreased \$5,535,519 during the five-year examination period January 1, 2003 through December 31, 2007, detailed as follows:

Underwriting Income

Premiums earned		\$	0
Deductions:			
Other underwriting expenses incurred	<u>\$ 264,315</u>		
Total underwriting deductions			<u>264,315</u>
Net underwriting gain or (loss)			\$(264,315)

Investment Income

Net investment income earned	<u>\$1,613,064</u>		
Net investment gain or (loss)			<u>1,613,064</u>
Net income			<u>\$1,348,749</u>

C. Capital and Surplus Account

Surplus as regards policyholders per report on examination as of December 31, 2002			\$12,705,692
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income	\$1,348,749		
Capital stock redemption		\$2,000,000	
Stock redemption – paid in and contributed surplus		<u>2,280,000</u>	
Dividends to stockholders	<u>0</u>	<u>2,604,268</u>	
Total gains and losses	<u>\$1,348,749</u>	<u>\$6,884,268</u>	
Net increase (decrease) in surplus			<u>(5,535,519)</u>
Surplus as regards policyholders per report on examination as of December 31, 2007			<u>\$7,170,173</u>

4. **LOSSES AND LOSS ADJUSTMENT EXPENSES**

The examination liability for the captioned items of \$0 is the same as reported by the Company as of December 31, 2007.

5. **COMPLIANCE WITH PRIOR REPORT ON EXAMINATION**

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

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Management</u>	
It is recommended that board members who are unable or unwilling to attend meetings consistently should resign or be replaced.	5
Subsequent to the examination date, the Company was acquired by WRM and the entire board was replaced; therefore the recommendation is no longer applicable.	
It is recommended that the Company establish procedures for disclosing conflict of interest and ensures that all directors and officers complete conflict of interest statements yearly.	6
The Company has complied with this recommendation.	

ITEMPAGE NO.B. Holding Company System

It is recommended that the Company file its annual holding company registration statements in a timely manner pursuant to the provisions of Part 80-1.4 of Department Regulation 52. 8

Subsequent to the examination date, the Company was acquired by WRM and is no longer part of the same holding company; therefore, the recommendation is no longer applicable.

It is recommended that the Company write a formal federal tax allocation agreement with North American Enterprises, Inc. and its subsidiaries. 9

Subsequent to the examination date, the Company was acquired by WRM and is no longer part of the same holding company; therefore, the recommendation is no longer applicable.

It is recommended that the Company submit a formal federal income tax allocation agreement to the Department for review pursuant to Section 1505(d) of the New York Insurance Law. 9

Subsequent to the examination date, the Company was acquired by WRM and is no longer part of the same holding company; therefore, the recommendation is no longer applicable.

C. Abandoned Property Law

It is recommended that the Company file abandoned property reports annually pursuant to the provisions of Section 1316 of the New York Abandoned Property Law. 15

The Company has complied with this recommendation.

D. Custodial Agreement

It is recommended that the Company procure a custodial agreement in compliance with NAIC guidelines. 15

The Company has not complied with this recommendation. The Company entered into an agreement with its custodian on March 30, 2007; however, this agreement does not include the safeguards and controls in compliance with Part 1 Section IV(J) of the NAIC Financial Condition Examiner's Handbook. A similar comment is made in this report.

6. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>		<u>PAGE NO.</u>
A.	<u>Minimum Capital</u>	
	It is recommended that the Company maintain the minimum surplus to policyholders investments as required by Section 1402 of the New York Insurance Law.	6
B.	<u>Accounts and Records</u>	
i.	It is recommended that the Company revise its custodial agreement to include the protective safeguards and controls in accordance with Part 1 General - Section IV(H) of the NAIC Financial Condition Examiners Handbook.	9
ii.	It is recommended that the Company exhibit greater care in the preparation of its annual statement.	10

Respectfully submitted,

_____/S/
John Conley,
Senior Insurance Examiner

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

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

_____/S/
John Conley,

Subscribed and sworn to before me
this _____ day of _____, 2009.

STATE OF NEW YORK
INSURANCE DEPARTMENT

I, Eric R. Dinallo, Superintendent of Insurance of the State of New York,
pursuant to the provisions of the Insurance Law, do hereby appoint:

John Conley

as proper person to examine into the affairs of the

ALLIANCE ASSURANCE COMPANY OF AMERICA

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 18 day of August, 2008



A handwritten signature in black ink that reads "Eric Dinallo".

ERIC R. DINALLO
Superintendent of Insurance