

REPORT ON EXAMINATION

OF

EMPIRE INSURANCE COMPANY

AS OF

DECEMBER 31, 2016

DATE OF REPORT

APRIL 13, 2018

EXAMINER

JOSEPH REVERS, CFE

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NEW YORK STATE
DEPARTMENT *of*
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Maria T. Vullo
Superintendent

April 13, 2018

Honorable Maria T. Vullo
Superintendent
New York State Department of Financial Services
Albany, New York 12257

Madam:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 31696 dated December 6, 2017, attached hereto, I have made an examination into the condition and affairs of Empire Insurance Company as of December 31, 2016, and submit the following report thereon.

Wherever the designation “the Company” appears herein without qualification, it should be understood to indicate Empire 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 628 Hebron Avenue, Suite 106, Glastonbury, CT 06033-5018.

1. SCOPE OF EXAMINATION

The Department has performed an examination of the Company, a multi-state insurer. The previous examination was conducted as of December 31, 2011. This examination covered the five-year period from January 1, 2012 through December 31, 2016. 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 current and 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 New York Laws, statutory accounting principles, and annual statement instructions.

This examination report includes, but is not limited to, the following:

- Company history
- Management and control
- Territory and plan of operation
- Holding company description
- Reinsurance
- Loss review and analysis
- Financial statement presentation
- Significant subsequent events
- 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

Empire Insurance Company is a property and casualty insurer incorporated under the laws of the State of New York as Red Cab Mutual Company on February 6, 1925. It commenced business on March 1, 1925.

The name was changed to Empire Mutual Casualty Company in 1937 and to Empire Mutual Insurance Company in 1953. Under a plan of demutualization adopted on December 20, 1985, the stock company was formed on January 1, 1988 under its present name. The Company merged with its wholly-owned subsidiary, Centurion Insurance Company, effective December 31, 2001 and with another wholly-owned subsidiary, Allcity Insurance Company, on December 31, 2003, with Empire as the surviving company in both instances. On April 18, 2016, China Minsheng Investment Group Corp., Ltd. (formerly, China Minsheng Investment Co., Ltd.) through its direct wholly owned subsidiary, CM International Holding Pte. Ltd. (“CMIH”), purchased all the issued and outstanding shares of Sirius International Insurance Group, Ltd. (“SIIG”) from its parent, Lone Tree Holdings Ltd. and White Mountains Group, Ltd. (“WMIG”), and became the ultimate parent of the Company. Empire Insurance Company is a 100% indirect wholly owned subsidiary of SIIG.

Effective December 31, 2001, the Company commenced a run-off of all of its operations. Except for the run-off of its claims, the Company does not currently engage in any other business activities.

Historically, the Company specialized in commercial and personal property and casualty insurance primarily in the New York metropolitan area. The Company offered insurance products for automobile insurance coverage, general liability coverage, property coverage and workers’ compensation to commercial accounts and private passenger automobile and homeowners products to individuals.

A. Corporate Governance

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 seven nor more than twelve members. The board meets three times during each calendar year. At December 31, 2016, the board of directors was comprised of the following seven members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Jeffrey W. Davis New York City, NY	Executive Vice President, Chief Actuary & Chief Risk Officer, Sirius America Insurance Company
Walter N. Wasserman Glastonbury, CT	President and Chief Executive Officer, Sirius Global Solutions, Inc.
Michael R. Terelmes Glastonbury, CT	SVP, Chief Financial Officer & Treasurer, Sirius Global Solutions, Inc.
Michael A. Papamichael New York, NY	SVP, Group Planning Officer, Sirius America Insurance Company
Robert P. Kuehn New York, NY	SVP, General Counsel, Sirius America Insurance Company
Lori M. Powers Glastonbury, CT	VP, Secretary and Compliance Officer, Sirius Global Solutions, Inc.
Andrew J. Roth Glastonbury, CT	Senior Vice President, Sirius Global Solutions, Inc.

As of December 31, 2016, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Walter Neal Wasserman	President, Chief Executive Officer
Michael Raymond Terelmes	Senior Vice President, Chief Financial Officer & Treasurer
Lori M. Powers	VP Compliance Officer and Secretary

B. Territory and Plan of Operation

As of December 31, 2016, the Company was licensed to write business in six states as listed in Schedule T of the annual statement. Due its run-off status, the Company's Missouri certificate of authority is currently suspended with a restriction of renewal business only. The Company was ordered not to write any new or renewal business in New Hampshire effective September 12, 2002.

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
6	Water damage
7	Burglary and theft
8	Glass
9	Boiler and machinery
10	Elevator
12	Collision
13	Personal injury liability
14	Property damage liability
15	Workers' compensation and employers' liability
16	Fidelity and surety
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine (inland only)

Based upon 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 \$3,400,000.

C. Reinsurance Ceded

Due to the Company's run-off status, the last reinsurance contract was non-renewed in 2001.

Examination review found that the Schedule F data reported by the Company in its filed annual statement accurately reflects its reinsurance transactions.

D. Holding Company System

The Company is a member of the China Minsheng Group. The Company is a 100% wholly-owned subsidiary of Sirius Global Solutions Holding Company, a Connecticut company, which is ultimately controlled by China Minsheng Investment Group Corp., Ltd.

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.

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The following is an abridged chart of the holding company system at December 31, 2016:



Holding Company Agreements

At December 31, 2016, the Company was party to the following agreements with other members of its holding company system:

Tax Allocation Agreement

Effective June 15, 2016, the Company is party to a tax allocation agreement (11th Amendment) with various affiliates and its indirect wholly owned parent, Sirius Re Holdings, Inc. Pursuant to the terms of the agreement, the parties will file consolidated federal income tax returns. Such agreement stipulates that the Company's tax liability on a consolidated basis would not exceed the liability had the Company filed its tax return on a stand-alone basis.

The Agreement was non-disapproved by the Department on June 15, 2016.

Expense Allocation Agreement

Effective November 16, 2015, Sirius Re Holdings, Inc., a Delaware business corporation, entered into an Amended and Restated Expense Allocation Agreement with certain direct and indirect wholly owned subsidiaries. Pursuant to the agreement, Sirius Global Solutions will provide Empire with bookkeeping, regulatory reporting services, claims management, actuarial services and administrative services.

The Agreement was non-disapproved by the Department on November 16, 2015.

Investment Management Agreement

Effective September 16, 2016, the Company and Sirius Investment Advisors LLC entered into an Investment Management Agreement. Pursuant to the agreement, Sirius Investment Advisors will act as an investment manager of the Company.

The Agreement was non-disapproved by the Department on September 16, 2016.

E. Significant Operating Ratios

The Company's operating ratios, computed as of December 31, 2016, fall within the benchmark ranges set forth in the Insurance Regulatory Information System of the National Association of Insurance Commissioners.

Operating Ratios

	<u>Result</u>
Net premiums written to surplus as regards policyholders	*
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	58%
Two-year overall operating	*

*Ratio is not applicable due to the Company's run-off status.

The underwriting ratios are not included as they are not applicable due to the Company's run-off status.

The Company's reported risk based capital score (RBC) was 1,064% at 12/31/16. The RBC is a measure of the minimum amount of capital appropriate for a reporting entity to support its overall business operations in consideration of its size and risk profile. An RBC of 200 or below can result in regulatory action.

There were no financial adjustments in this report that impacted the Company's RBC score.

3. FINANCIAL STATEMENTS

A Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2016 as reported by the Company:

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$18,937,702	\$0	\$18,937,702
Cash, cash equivalents and short-term investments	3,553,432	0	3,553,432
Receivables for securities	1,392	0	1,392
Investment income due and accrued	56,098	0	56,098
Amounts recoverable from reinsurers	595,972	143,923	452,049
Net deferred tax asset	275,293	208,540	66,753
Cash Advance	<u>792,420</u>	<u>0</u>	<u>792,420</u>
Totals	<u>\$24,212,309</u>	<u>\$352,463</u>	<u>\$23,859,846</u>

Liabilities, surplus and other funds

Liabilities

Losses and Loss Adjustment Expenses	\$12,601,465
Other expenses (excluding taxes, licenses and fees)	122,488
Current federal and foreign income taxes	40,890
Ceded reinsurance premiums payable (net of ceding commissions)	72,153
Funds held by company under reinsurance treaties	58,820
Provision for reinsurance	275,496
Payable to parent, subsidiaries and affiliates	<u>7,395</u>
Total liabilities	13,178,707

Surplus and Other funds

Common capital stock	\$3,610,275
Gross paid in and contributed surplus	0
Unassigned funds (surplus)	<u>7,070,864</u>
Surplus as regards policyholders	<u>10,681,139</u>
Totals	<u>\$23,859,846</u>

Note: The Internal Revenue Service has not audited the Company's Federal income tax returns through tax year 2016. 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

The net loss for the examination period as reported by the Company was \$8,505,209 as detailed below:

Underwriting Income

Premiums earned		\$137,641
Deductions:		
Losses and loss adjustment expenses incurred	\$2,580,285	
Other underwriting expenses incurred	<u>7,329,413</u>	
Total underwriting deductions		<u>9,909,698</u>
Net underwriting gain or (loss)		\$(9,772,057)

Investment Income

Net investment income earned	\$913,898	
Net realized capital gain	<u>1,067,585</u>	
Net investment gain or (loss)		\$1,981,483

Other Income

Net gain or (loss) from agents' or premium balances charged off	\$(19,517)	
Sublease rental income	3,054,884	
Other (Expense) / income	<u>256,030</u>	
Total other income		<u>\$3,291,397</u>
Net income before federal income taxes		\$(4,499,177)
Federal and foreign income taxes incurred		<u>4,006,032</u>
Net Income		<u>\$(8,505,209)</u>

C. Capital and Surplus Account

Surplus as regards policyholders decreased \$7,976,945 during the five-year examination period January 1, 2012 through December 31, 2016 as reported by the Company, detailed as follows:

Surplus as regards policyholders per report on examination as of December 31, 2011				<u>\$18,658,084</u>
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>		
Net income		\$8,505,211		
Change in net deferred income tax	275,293			
Change in nonadmitted assets	5,341,050			
Change in provision for reinsurance	573,737			
Capital changes paid in	2,609,953			
Surplus adjustments transferred from capital		2,609,953		
Net remittances from or (to) home office				
Dividends to stockholders		5,661,824		
Change in treasury stock				
Routing	10			
Net increase (decrease) in surplus	<u>\$8,800,043</u>	<u>\$16,776,988</u>		<u>\$(7,976,945)</u>
Surplus as regards policyholders per report on examination as of December 31, 2016				<u>\$10,681,139</u>

No adjustments were made to surplus as a result of this examination.

Capital paid in is \$3,610,275 consisting of 19,515 shares of \$185 par value per share common stock. The par value of the Company common capital stock was changed from \$51.259133 to \$185 per share, effective September 13, 2016. The Gross paid in and contributed surplus is \$0.

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of \$12,601,465 is the same as reported by the Company as of December 31, 2016. 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”).

At December 31, 2016, approximately 97% of the carried reserves are dedicated to Workers’ Compensation indemnity claims.

5. SUBSEQUENT EVENTS

Pursuant to a certain purchase agreement between Sirius America Insurance Company (“Sirius America”), a New York domestic property and casualty insurer, and Sirius Global Solutions Holding Company (“Sirius Global”), a Connecticut corporation, Sirius America filed an application to acquire all of the outstanding shares of Empire Insurance Company. As a result of the proposed acquisition, the ownership of the Company would be transferred from one indirect subsidiary of Sirius International Insurance Group Ltd. to another indirect subsidiary thereof.

It appears there would be no actual change in control of the Company as a result of the proposed acquisition. As such, the Company was granted an exemption from filing an application for change of control pursuant to Section 1506 of the New York Insurance Law. Nevertheless, the proposed acquisition also requires prior approval from the Department in accordance with Section 1603 of the New York Insurance Law and Department Regulation No. 53 (11 NYCRR 81-1).

6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

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

<u>ITEM</u>	<u>PAGE NO.</u>
<p>A It is recommended that the Company report Schedule P Part 2 of its Annual Statement on a gross of discount basis going in the future.</p> <p>The Company has complied with this recommendation.</p>	<p>12</p>
<p>It is recommended that the Company reduce its known case reserves only by the amount of anticipated salvage and subrogation attributable to the projected recoveries on known case reserves and, similarly, IBNR reserves should only be reduced by the amount of the projected salvage and subrogation recoveries which are attributable to the IBNR reserves.</p> <p>The Company has complied with this recommendation.</p>	<p>12</p>

7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

This report on examination contains no recommendations.

Respectfully submitted,

Joseph Revers, CFE
Associate Insurance Examiner

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

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

Joseph Revers

Subscribed and sworn to before me

this _____ day of _____, 2018.

APPOINTMENT NO. 31696

NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

I, Maria T. Vullo, 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:

Joseph Revers

as a proper person to examine the affairs of the

Empire 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 6th day of December, 2017

MARIA T. VULLO
Superintendent of Financial Services



By:

Joan P. Riddell

Joan Riddell
Deputy Bureau Chief