

REPORT ON EXAMINATION

OF THE

GREAT AMERICAN INSURANCE COMPANY OF NEW YORK

AS OF

DECEMBER 31, 2006

DATE OF REPORT

FEBRUARY 4, 2008

EXAMINER

LAMIN JAMMEH

## TABLE OF CONTENTS

<u>ITEM NO.</u>		<u>PAGE NO.</u>
1	Scope of examination	2
2.	Description of Company	3
	A. Management	3
	B. Territory and plan of operation	5
	C. Reinsurance	6
	D. Holding company system	8
	E. Significant operating ratios	11
	F. Accounts and records	11
3.	Financial statements	12
	A. Balance sheet	12
	B. Underwriting and investment exhibit	13
4.	Losses and loss adjustment expenses	14
5.	Market conduct activities	14
6.	Compliance with prior report on examination	15
7.	Summary of comments and recommendations	16



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

February 4, 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 22652 dated June 13, 2007 attached hereto, I have made an examination into the condition and affairs of the Great American Insurance Company of New York as of December 31, 2006, and submit the following report thereon.

Wherever the designations "the Company" or "Great American New York" appear herein without qualification, they should be understood to indicate Great American Insurance Company of New York.

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 Company's administrative offices located at 580 Walnut Street, Cincinnati, Ohio 45202.

## 1. SCOPE OF EXAMINATION

The previous examination was conducted as of December 31, 2001. This examination covered the five-year period from January 1, 2002 through December 31, 2006. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

The current examination was organized, planned, and conducted based upon the application of the risk surveillance approach in accordance with the guidelines and procedures established in the Financial Condition Examiners Handbook of the National Association of Insurance Commissioners (“NAIC”). To the extent considered appropriate, work performed by the Company’s independent public accountants and the Sarbanes Oxley documentation was considered. A review was also made of the following items as called for in the Financial Condition Examiners Handbook of the NAIC:

- History of Company
- Management and control
- Corporate records
- Territory and plan of operation
- Business in force by states
- Loss experience
- Reinsurance
- Accounts and records
- Financial statements

A review was also made to ascertain what action was taken by the Company with regard to comments and recommendations contained in the prior report on examination.

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

## 2. DESCRIPTION OF COMPANY

The Company was incorporated on August 22, 1947, under the laws of the State of New York and began operations on November 1, 1947. Originally formed under the name Tri-State Insurance Company, the Company served as a vehicle for the consolidation of American National Fire Insurance Company, Columbus, Ohio, and the North Carolina Home Insurance Company, Raleigh, North Carolina, which became effective at the close of business on October 31, 1947. Immediately upon completion of the merger, the name American National Fire Insurance Company was adopted. In that same year the Company became a wholly-owned subsidiary of Great American Insurance Company, which has since remained the direct parent. The parent has been a subsidiary of American Financial Corporation (“AFC”) since 1973. Effective November 17, 2000, the Company changed its name to the present name Great American Insurance Company of New York. In 2003, AFC merged into its parent, American Financial Group (“AFG”). There was no change in the ultimate controlling person resulting from the merger.

At December 31, 2006, Capital paid in was \$3,800,000 consisting of 200,000 shares of common stock at \$19 par value per share. Gross paid in and contributed surplus was \$20,250,000. Gross paid in and contributed surplus and capital paid in increased by \$15,000,000 during the examination period, as follows:

<u>Year</u>	<u>Description</u>		<u>Amount</u>
2002	Beginning gross paid in and contributed surplus		\$ 5,250,000
2002	Surplus contribution	\$12,500,000	
2003	Surplus contribution	<u>2,500,000</u>	
	Total surplus contributions		<u>15,000,000</u>
2006	Ending gross paid in and contributed surplus		<u>\$20,250,000</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 twenty members.

At December 31, 2006, the board of directors was comprised of the following thirteen members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Ronald James Brichler Wyoming, OH	Divisional President–Crop Insurance Division, Great American Insurance Company
Lindley Martin Franklin Darien, CT	Chairman, President and Chief Executive Officer, FCIA Management Company, Inc.
Gary John Gruber Cincinnati, OH	Senior Vice President, Great American Insurance Company
Karen Holley Horrell Cincinnati, OH	Senior Vice President, Executive Counsel and Secretary, Great American Insurance Company
Philip John Lally Commack, NY	Executive Vice President and Treasurer, FCIA Management Company, Inc.
Donald Dumford Larson Cincinnati, OH	Executive Vice President, Great American Insurance Company
Carol Gabriel McEvoy Little Silver, NJ	Senior Vice President, General Counsel and Secretary, FCIA Management Company, Inc.
Vito Charles Peraino Mason, OH	Divisional Senior Vice President–Staff Claims Office, Great American Insurance Company
Joseph Milton Piepul Ridgewood, NJ	Senior Vice President and Assistant Secretary, FCIA Management Company, Inc.
Eve Cutler Rosen Cincinnati, OH	Senior Vice President, General Counsel and Assistant Secretary, Great American Insurance Company
John Adalbert Rowney Rockville Centre, NY	Divisional President – Ocean Marine Division, Great American Insurance Company
Francis Andrew Skelly, Jr. Malverne, NY	Divisional Senior Vice President–Ocean Marine Division, Great American Insurance Company
David John Witzgall Villa Hills, KY	Senior Vice President, Chief Financial Officer and Treasurer, Great American Insurance Company

The Company conducted all its board of directors' annual meetings by written consent during the examination period. The board met at least two times during each calendar year. 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 has an acceptable record of attendance.

As of December 31, 2006 the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Donald Dumford Larson	President
Karen Holley Horrell	Senior Vice President, Executive Counsel, Secretary
Robert James Schwartz	Vice President, Controller
John Linn Doellman	Vice President, Actuary
Gary John Gruber	Senior Vice President
Eve Cutler Rosen	Senior Vice President, General Counsel, Assistant Secretary
David John Witzgall	Senior Vice President, Chief Financial Officer, Treasurer

B. Territory and Plan of Operation

As of December 31, 2006, the Company was licensed to write business in all fifty states, the District of Columbia and Canada.

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

<u>Paragraph</u>	<u>Line of Business</u>
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine
21	Marine protection and indemnity
29	Legal services

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

DIRECT PREMIUMS WRITTEN

<u>Calendar Year</u>	<u>New York State</u>	<u>Total United States</u>	<u>Premiums Written in New York State as a percentage of United States Premium</u>
2002	\$45,004,565	\$536,697,463	8.39%
2003	\$33,396,943	\$626,370,613	5.33%
2004	\$29,543,821	\$748,667,996	3.95%
2005	\$29,985,433	\$673,588,527	4.45%
2006	\$31,842,560	\$799,069,984	3.98%

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 \$3,800,000.

The Company's direct business is generated through the independent agent network maintained by the parent company through brokers. Business is assumed through FAIR plans, reinsurance facilities mandated by a number of states, and voluntary pools. Business written was comprised of allied lines, inland marine, ocean marine, commercial multiple peril, workers' compensation, other liability, commercial auto liability, auto physical damage, private passenger auto liability, and various other property and casualty lines of business.

C. Reinsurance

The Company assumes a relatively minor volume of business as compared to its direct writings. The only business assumed is through participation in various mandated pools. The



Company utilizes reinsurance accounting as defined in the NAIC Accounting Practices and Procedures Manual, Statements of Statutory Accounting Principles ("SSAP") No. 62 for all of its assumed reinsurance business.

The Great American Insurance Companies are governed by a pooling agreement which was incepted in 1954 and has been amended and restated several times. The current amended and restated pooling agreement became effective December 31, 2001. The restated pooling agreement was approved by the Department.

The agreement provides that each of the participating companies cede one hundred percent of their direct and assumed business to the parent, Great American Insurance Company. The parent is obligated to accept one hundred percent of the premiums, liability and related expenses in respect of such policies ceded. Great American Insurance Company must secure such reinsurance, excess reinsurance and catastrophe reinsurance as it shall deem appropriate with respect to its liability under all policies written or assumed under the terms of the agreement.

The Company and ten affiliates are parties to the pooling agreement with their parent, Great American Insurance Company. The effect is to transfer all direct insurance liabilities of these companies to Great American Insurance Company. Great American Insurance Company retains one hundred percent of all pooled business.

The following table illustrates the pool members and their corresponding net participation percentage:

<u>Company</u>	<u>Participation Percentage</u>
Great American Insurance Company	100.0%
Great American Insurance Company of New York	0.0
Great American Alliance Insurance Company	0.0
Great American Assurance Company	0.0
Great American Contemporary Insurance Company	0.0
Great American E & S Insurance Company	0.0
Great American Fidelity Insurance Company	0.0
Great American Protection Insurance Company	0.0
Great American Security Insurance Company	0.0
Great American Spirit Insurance Company	0.0
Worldwide Casualty Insurance Company	0.0

All expenses incurred in connection with the insurance business, including acquisition, general and administrative expenses, state premium taxes, licenses and fees, shall be borne by Great

American Insurance Company. The federal income taxes and investment expenses of each of the participating companies are not included or subject to the terms of the agreement.

Examination review of the Schedule F data reported by the Company in its filed annual statement was found to accurately reflect its reinsurance transactions. 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 pursuant to Department Circular Letter No. 8 (2005). 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 paragraph 17 through 24 of SSAP No. 62.

D. Holding Company System

The Company is defined as a controlled insurer pursuant to the provisions of Section 1501 of the New York Insurance Law. Carl H. Lindner has been deemed the ultimate controlling person by virtue of his ownership of 11.8 percent of American Financial Group, Inc. ("AFG"), an Ohio corporation. AFG was formed in December 1994, under the name American Premier Group, Inc., for the purpose of acquiring American Financial Corporation.

AFG is a holding company, which, through its subsidiaries is engaged primarily in specialty and multi-line property and casualty insurance businesses, in the sale of tax-deferred annuities, and certain life and related insurance products.

The Company's direct parent, Great American Insurance Company, is a major insurer within the AFG holding company system. In addition to its ownership of the Company, Great American Insurance Company is also the direct or indirect parent of various insurers and several insurance agency and brokerage firms.

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.

As noted in the table on page 3 of this report, the Company received surplus contributions of \$12,500,000 and \$2,500,000 in 2002 and 2003, respectively, from its parent company Great American Insurance Company. These transactions exceeded the statutory threshold set forth in

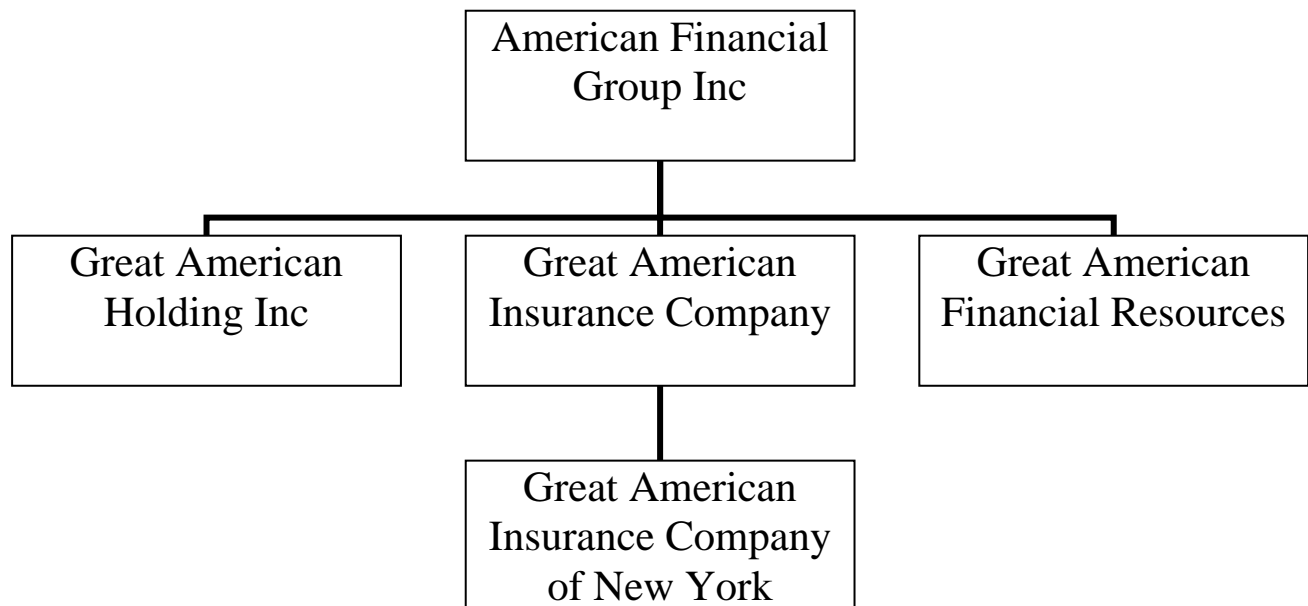
Section 1505 (c) of the New York Insurance Law. The Company did not seek the approval of the Superintendent prior to entering into these transactions.

Section 1505 (c) of the New York Insurance Law states that:

“The Superintendents prior approval shall be required for the following transactions between a domestic controlled insurer and any person in its holding company system: sales, purchases exchanges, loans or extensions of credit, or investments, involving five percent or more of the insurer’s admitted assets at last year end”.

It is recommended that the Company comply with Section 1505(c) of the New York Insurance Law and submit for approval, holding company transactions involving five percent or more of the Company’s admitted assets at prior year-end.

The following is an abridged chart of the holding company system at December 31, 2006:



In addition to the inter-company pooling agreement previously discussed in Item 2C of this report, the Company was a party to the following agreements with other members of its holding company system at December 31, 2006:

#### Tax Allocation Agreement

Effective December 31, 2005, the Company's tax expense is determined based upon its inclusion in the consolidated tax return of American Financial Group and its includable subsidiaries. Estimated payments are to be made quarterly during the year. Following year-end, additional settlements will be made on the original due date of the return and, when extended, at the time the return is filed. The method of allocation among the companies under the new agreement is based upon separate return calculations with current credit for net losses to the extent the losses provide benefit in the consolidated return.

The agreement was filed with this Department pursuant to Section 1505 of the New York Insurance Law.

#### Investment Management Agreement

Effective July 1, 1975, the Company entered into an agreement with American Money Management Corporation whereby the latter provides trading, investment, management and accounting services related to certain of the Company's investment portfolio. Services are provided at no greater than cost.

#### General Services Agreement

Effective August 1, 1996, the Company entered into a general services agreement with Great American Insurance Company, and other affiliates. Under the agreement each of the parties has agreed to provide such printing, office duplicating, telecommunications, purchasing, personnel, data processing, administrative, consultative and other services as are requested by any of the other parties. Fees payable for services furnished are to be based on cost.

The agreements with affiliates with the exception of the pooling agreement reflect the previous name of the Company. This was noted in the prior report on examination. It is again recommended that the Company amend its service agreements, as well as bank and custodial accounts, to reflect the current name of the Company.

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2006, based upon the results of this examination:

Net premiums written to surplus as regards policyholders	0%
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	1%
Premiums in course of collection to surplus as regards policyholders	0%

All of the above ratios fall within the benchmark ranges set forth in the Insurance Regulatory Information System of the National Association of Insurance Commissioners.

The Company cedes 100 percent of its writings and related liabilities to its parent, therefore the underwriting ratios are not applicable.

F. Accounts and Records

i. Custodian Agreements

The examiner reviewed the custodian agreements in effect as of December 31, 2006. The custodian agreements failed to provide the necessary safeguards and controls detailed in the NAIC Financial Condition Examiners Handbook, Part 1, Section IV- J.

It is recommended that the Company include the safeguard provisions in any custodial agreements it enters into as required by Part 1, Section IV-J of the NAIC Financial Condition Examiners Handbook.

### 3. FINANCIAL STATEMENTS

#### A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2006 as determined by this examination and as reported by the Company:

<u>Assets</u>	<u>Examination</u>		
	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$46,398,483	\$ 0	\$46,398,483
Preferred stocks	4,040,685		4,040,685
Common stocks	957,333		957,333
Cash, cash equivalents and short-term investments	2,780,205		2,780,205
Receivable for securities	283,615		283,615
Investment income due and accrued	564,402		564,402
Net deferred tax asset	299,426		299,426
Receivables from parent, subsidiaries and affiliates	225		225
Other receivables	314	0	314
Total assets	<u>\$55,324,688</u>	<u>\$ 0</u>	<u>\$55,324,688</u>

#### Liabilities, Surplus and Other Funds

##### Liabilities

Other expenses (excluding taxes, licenses and fees)	9,300
Current federal and foreign income taxes	38,378
Net adjustments in assets and liabilities due to foreign exchange rates	271,819
Aggregate write-ins for liabilities	<u>265</u>
Total liabilities	\$ 319,762

##### Surplus and other funds

Common capital stock	\$ 3,800,000
Gross paid in and contributed surplus	20,250,000
Unassigned funds (surplus)	<u>30,954,926</u>
Surplus as regards policyholders	<u>55,004,926</u>
Total liabilities, surplus and other funds	<u>\$55,324,688</u>

NOTE: The Internal Revenue Service has completed its audits of the consolidated Federal Income Tax returns through tax year 2003. No material adjustments were made subsequent to the date of examination and arising from said audits. Audits covering tax years 2004 and 2005 are currently under examination. The Internal Revenue Service has not yet begun to audit tax returns covering tax years 2006. 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 increased \$25,923,832 during the five-year examination period January 1, 2002 through December 31, 2006, detailed as follows:

Investment Income

Net investment income earned	\$12,171,631	
Net realized capital gain	<u>371,665</u>	
Net investment gain or (loss)		\$12,543,296

Other Income

Aggregate write-ins for miscellaneous income	\$ (5,316)	
Total other income		<u>(5,316)</u>
Net income before dividends to policyholders and before federal and foreign income taxes		\$12,537,980
Dividends to policyholders		<u>0</u>
Net income after dividends to policyholders but before federal and foreign income taxes		\$12,537,980
Federal and foreign income taxes incurred		<u>3,856,390</u>
Net income		<u>\$ 8,681,590</u>

C. Capital and Surplus Accounts

Surplus as regards policyholders per report on examination as of December 31, 2001			\$29,081,096
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income	\$ 8,681,590		
Net unrealized capital gains or (losses)	2,186,451		
Change in net unrealized foreign exchange capital gain (loss)		\$ 276,819	
Change in net deferred income tax	332,609		
Capital changes transferred to surplus			
Surplus adjustments paid in	<u>15,000,000</u>	<u>                    </u>	
Total gains and losses	<u>\$26,200,651</u>	<u>\$ 276,819</u>	
Net increase (decrease) in surplus			<u>25,923,832</u>
Surplus as regards policyholders per report on examination as of December 31, 2006			<u>\$55,004,928</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, 2006. The Company reported zero losses and loss adjustment expenses as a result of the pooling agreement, effective December 31, 2001, whereby the Company cedes 100 percent of its losses and loss adjustment expenses to its parent, Great American Insurance Company, and has a zero percent participation in the pool.

**5. MARKET CONDUCT ACTIVITIES**

In the course of this examination, a review was made of the manner in which the Company conducts its business and fulfills its contractual obligations to policyholders and claimants. The review was general in nature and is not to be construed to encompass the more precise scope of a market conduct investigation, which is the responsibility of the Market Conduct Unit of the Property Bureau of this Department.



The general review was directed at practices of the Company in the following areas:

- A. Sales and advertising
- B. Underwriting
- C. Rating
- D. Claims and complaint handling

No problem areas were encountered.

## 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>
A. <u>Holding Company System</u>	
i. It is recommended that the Company file amendments to affiliated agreements with the Department on a timely basis pursuant to the requirements of Section 1505(d) (3) of New York Insurance Law.	12
The Company has complied with this recommendation.	
ii. It is recommended that the Company amend its service agreements, as well as bank and custodial accounts, to reflect the current name of the Company.	13
The Company has not complied with this recommendation. A similar comment is made in this report.	

7. **SUMMARY OF COMMENTS AND RECOMMENDATIONS**

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Holding Company System</u>	
i. It is recommended that the Company comply with Section 1505(c) of the New York Insurance Law and submit for approval, holding company transactions involving five percent or more of the Company's admitted assets at prior year-end.	9
ii. It is recommended that the Company amend its service agreements, as well as bank and custodial accounts, to reflect the current name of the Company.	10
B. <u>Accounts and Records</u>	
It is recommended that the Company amend its custodial agreement to contain the requisite safeguards and controls detailed in the NAIC Financial Examiner's Handbook.	11

Respectfully submitted,

\_\_\_\_\_/S/  
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.

\_\_\_\_\_/S/  
Lamin Jammeh

Subscribed and sworn to before me  
this \_\_\_\_\_ day of \_\_\_\_\_, 2008.

Appointment No. 22652

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:

**Lamin Jammeh**

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

**GREAT AMERICAN INSURANCE COMPANY OF NEW YORK**

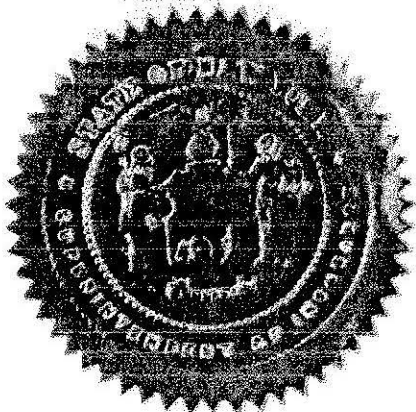
*and to make a report to me in writing of the condition of the said*

**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 13th day of June, 2007*



A handwritten signature in black ink, appearing to read "Eric R. Dinallo", written over a horizontal line.

ERIC R. DINALLO

Superintendent of Insurance