

REPORT ON EXAMINATION

OF

GREAT AMERICAN INSURANCE COMPANY OF NEW YORK

AS OF

DECEMBER 31, 2016

DATE OF REPORT

APRIL 15, 2018

EXAMINER

SHEIK MOHAMED

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NEW YORK STATE
DEPARTMENT *of*
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Maria T. Vullo
Superintendent

April 15, 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 31577 dated February 27, 2017, attached hereto, I have made an examination into the condition and affairs of Great American Insurance Company of New York 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 Great American Insurance Company of New York.

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 49 East Fourth Street, Cincinnati, OH 45202.

1. SCOPE OF EXAMINATION

The Department has performed a coordinated group 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.

The examination was conducted in conjunction with the state of Ohio, which was the coordinating and lead state of the Great American Group. Other states participating in this examination were California, Delaware, Florida, Missouri and Texas.

The examination was performed concurrently with the examinations of the following twenty-eight insurers, domiciled as indicated:

- Great American Insurance Company (OH)
- Great American Alliance Insurance Company (OH)
- Great American Assurance Company (OH)
- Great American Casualty Insurance Company (OH)
- Great American Contemporary Insurance Company (OH)
- Great American E&S Insurance Company (DE)
- Great American Fidelity Insurance Company (DE)
- Great American Lloyd's Insurance Company (TX)
- Great American Protection Insurance Company (OH)
- Great American Security Insurance Company (OH)
- Great American Spirit Insurance Company (OH)
- Great American Life Insurance Company (OH)
- Annuity Investors Life Insurance Company (OH)
- Manhattan National Life Insurance Company (OH)
- American Empire Surplus Lines Insurance Company (DE)
- American Empire Insurance Company (OH)
- Mid-Continent Casualty Company (OH)
- Mid-Continent Assurance Company (OH)
- Mid-Continent Excess and Surplus Insurance (DE)
- Oklahoma Surety Company (OH)
- Republic Indemnity Company of America (CA)
- Republic Indemnity Company of California (CA)
- Bridgefield Employers Insurance Company (FL)
- Bridgefield Casualty Insurance Company (FL)
- National Interstate Insurance Company (OH)
- National Interstate Insurance Company of Hawaii Inc. (OH)
- Triumphe Casualty Company (OH)
- Vanliner Insurance Company (MO)

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 a summary of significant findings for the following items as called for in the Handbook:

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

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

2. DESCRIPTION OF COMPANY

The Company was incorporated under the laws of the State of New York on August 22, 1947, as the Tri-State Insurance Company to serve as a vehicle for the consolidation of American National Fire Insurance Company and the North Carolina Home Insurance Company, effective on October 31, 1947. After the merger, the Company adopted the title American National Fire Insurance Company. In that same year, the Company became a wholly-owned subsidiary of Great American Insurance

Company (“GAIC”), its current direct parent. Effective November 17, 2000, the Company changed its corporate title to Great American Insurance Company of New York.

From 1973 until 2003, GAIC was a subsidiary of American Financial Corporation (“AFC”). In 2003, AFC merged into its parent, American Financial Group, Inc. (“AFG”). There was no change in the ultimate controlling person after the merger.

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 twenty members. At December 31, 2016, the board of directors was comprised of the following nine members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Ronald James Brichler Cincinnati, OH	Executive Vice President, Great American Insurance Company
Gary John Gruber Cincinnati, OH	Executive Vice President, Great American Insurance Company
Philip John Lally Commack, NY	President and Treasurer, FCIA Management Company, Inc.
Donald Dumford Larson Cincinnati, OH	President Great American Insurance Company
Aaron Beasy Latto Cincinnati, OH	Senior Vice President and Assistant General Counsel, Great American Insurance Company
Michael David Pierce St. Charles, IL	Senior Vice President, Great American Insurance Company
Eve Cutler Rosen Cincinnati, OH	Senior Vice President, Executive Counsel and Secretary, Great American Insurance Company
Michael Eugene Sullivan, Jr. Cincinnati, OH	Senior Vice President, Great American Insurance Company
David John Witzgall Villa Hills, KY	Senior Vice President, Chief Financial Officer and Treasurer, Great American Insurance Company

During the period under examination, the board of directors held only four regular board meetings. Instead, the Company made all its decisions thru written consent with the approval/signature of all board members. These actions are contrary to the Company's by-laws which states in part:

“...where time is of the essence, but not in lieu of any regular or special scheduled meeting of the board of directors or any committee thereof, any action required or permitted to be taken by the board of directors or any committee thereof, may be taken without a meeting if all members of the board, or of such committee, consent in writing to the adoption of a resolution authorizing action. . .”

It is recommended that the Company comply with its by-laws and hold regularly scheduled meetings of its board of directors.

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

<u>Name</u>	<u>Title</u>
Donald Dumford Larson	President
Eve Cutler Rosen	Senior Vice President, Executive Counsel and Secretary
Robert James Schwartz	Vice President and Controller
Lisa Ann Hays	Vice President and Actuary

B. Territory and Plan of Operation

As of December 31, 2016, the Company was licensed to write business in all fifty states 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
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	Workers' compensation and employers' 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

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 \$2,200,000.

The following schedule shows the direct and assumed premiums written by the Company for the period under examination:

<u>Calendar Year</u>	<u>Direct Premiums</u>	<u>Assumed Premiums</u>	<u>Total Gross Premiums</u>
2012	\$393,218,528	\$2,993,010	\$396,211,538
2013	430,900,521	2,364,245	433,264,766
2014	433,241,756	1,719,111	434,960,867
2015	359,244,796	645,083	359,889,879
2016	342,399,103	906,368	343,305,471

The Company's direct business is generated through the independent agent network maintained by the parent company and brokers. The Company's predominant lines of business are commercial multiple peril, inland marine, excess and umbrella liability, and workers' compensation which accounted for 34.8%, 22.8%, 19.1% and 10.4%, respectively, of the Company's 2016 direct written business.

Assumed Reinsurance

Assumed reinsurance accounted for 0.26% of the Company's gross premium written at December 31, 2016. The Company's assumed reinsurance program consists primarily of business assumed from non-affiliates and through participation in various mandated pools. The Company utilizes reinsurance accounting as defined in Statement of Statutory Accounting Principle ("SSAP") No. 62R for all of its assumed reinsurance business.

C. Reinsurance

Intercompany Pooling Agreement

The Company and nine affiliates participate in an inter-company reinsurance pooling agreement with their parent, Great American Insurance Company (“GAIC”) whereby, each of the participating companies cede 100% of its direct and assumed business to GAIC. In turn, GAIC purchases reinsurance, excess reinsurance, and catastrophe reinsurance for all policies written or assumed under the agreement. GAIC does not cede any business back to pool members.

All expenses incurred under the pooling agreement including acquisition, general and administrative expenses, state premium taxes, licenses and fees are borne by GAIC except for the federal income taxes and the investment expenses of each of the participating companies.

The pooling agreement has been in effect since 1954 and has been amended and restated several times. The current amended and restated pooling agreement became effective December 31, 2001. The pooling agreement, as restated, has been filed with this Department. The Company has significant reinsurance recoverables due from GAIC related to the pooling agreement. The Company reported \$856,066,000 of reinsurance recoverables due from GAIC as of December 31, 2016. This represents a significant counterparty credit risk for the Company given that the reinsurance recoverable to surplus ratio is approximately 17.8 to 1. It is noted, that GAIC was examined concurrently with the Company and that there were no financial adjustments made to GAIC’s financial statements. GAIC reported an RBC of 450.4% as of December 31, 2016.

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.

D. Holding Company System

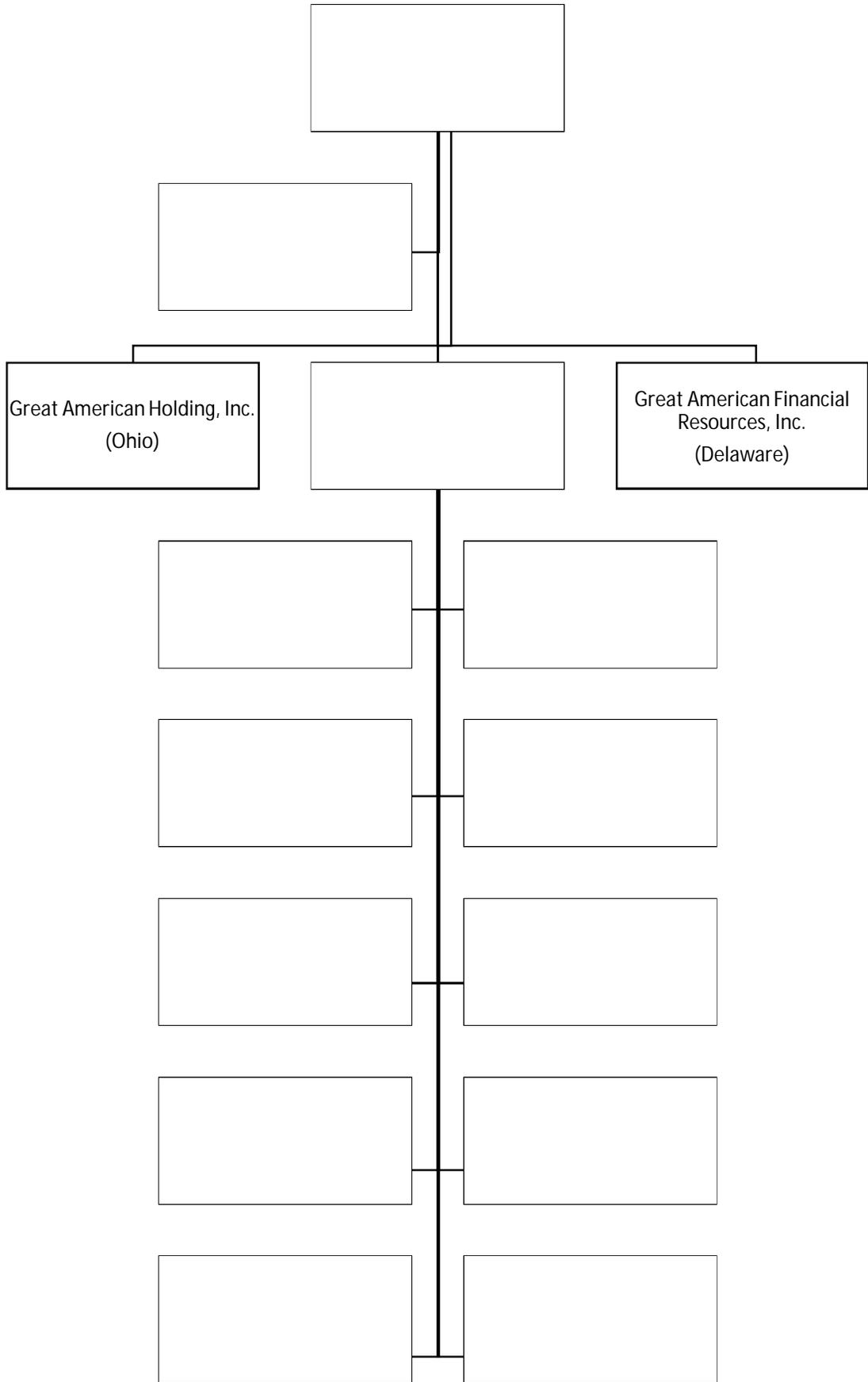
The Company is a member of the American Financial Group, Inc. (“AFG”). The Company is a wholly-owned subsidiary of Great American Insurance Company (“GAIC”), an Ohio corporation, which is ultimately controlled by AFG.

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, GAIC, is a major insurer within the AFG holding company system that 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.

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



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

Tax Allocation Agreement

Effective December 31, 2005, the Company's tax expense is determined based upon its inclusion in the consolidated tax return of AFG 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 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 the Department pursuant to Section 1505 of the New York Insurance Law.

Investment Management Agreement

Effective July 1, 1975, the Company entered into an investment management agreement with American Money Management Corporation ("AMMC"), whereby AMMC agrees to provide investment management services to the Company, including placing orders with broker-dealers for the purchase, sale and exchange of the Company's securities, subject to the direction and control of the Company's board of directors and in compliance with the investment guidelines adopted by the Company's board of directors. AMMC also agrees to provide the Company with monthly statements relating to the Company's investment portfolio and any other investment information and recommendations that the Company may from time to time request. Services are provided at no greater than cost. The cost of these services was \$7,508. The agreement was filed with the Department pursuant to Section 1505 of the New York Insurance Law.

General Services Agreement

Effective August 1, 1996, the Company entered into a general services agreement with GAIC, 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 based on cost. The agreement was filed with the Department pursuant to Section 1505 of the New York Insurance Law.

Collateral Agency Agreement

Effective January 1, 2014, the Company entered into a collateral agency agreement with GAIC, and other affiliates. Under the agreement GAIC agrees to act as the collateral agent in connection with all matters relating to creating, attaching, perfecting, maintaining, and enforcing insurers interest in the collateral. The agreement was filed with the Department pursuant to Section 1505 of the New York Insurance Law.

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2016 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	\$36,668,996	\$0	\$36,668,996
Preferred stocks (stocks)	1,293,000	0	1,293,000
Common stocks (stocks)	134,972	0	134,972
Cash, cash equivalents and short-term investments	9,571,813	0	9,571,813
Other invested assets	117,816	0	117,816
Receivables for securities	99,224	0	99,224
Investment income due and accrued	276,793	0	276,793
Net deferred tax asset	<u>75,636</u>	<u>0</u>	<u>75,636</u>
 Total assets	 <u>\$48,238,250</u>	 <u>\$0</u>	 <u>\$48,238,250</u>
 <u>Liabilities, surplus and other funds</u>			
 <u>Liabilities</u>			
Other expenses (excluding taxes, licenses and fees)			\$ 1,300
Current federal and foreign income taxes			<u>59,157</u>
 Total liabilities			 \$ 60,457
 <u>Surplus and other funds</u>			
Common capital stock		\$ 3,800,000	
Gross paid in and contributed surplus		20,250,000	
Unassigned funds (surplus)		<u>24,127,793</u>	
 Surplus as regards policyholders			 <u>\$48,177,793</u>
 Total liabilities, surplus and other funds			 <u>\$48,238,250</u>

Note: The Internal Revenue Service has completed its audits of the Company's consolidated Federal Income Tax returns through tax year 2011. 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. Tax returns covering tax years 2012 through 2016 remain subject to examination by the Internal Revenue Service. 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 income for the examination period as reported by the Company was \$5,377,046 as detailed below:

Underwriting Income

Premiums earned		\$ 0
Deductions:		
Losses and loss adjustment expenses incurred	\$ 0	
Other underwriting expenses incurred	<u>0</u>	
Total underwriting deductions		<u>0</u>
Net underwriting gain or (loss)		\$ 0

Investment Income

Net investment income earned	\$6,261,011	
Net realized capital gain	<u>(11,271)</u>	
Net investment gain or (loss)		\$6,249,740

Other Income

Miscellaneous income / (expense)	<u>(139)</u>	
Total other income / (expense)		<u>(139)</u>
Net income before dividends to policyholders and before federal and foreign income taxes		\$6,249,601
Dividends to policyholders		<u>0</u>
Net income after dividends to policyholders but before federal and foreign income taxes		\$6,249,601
Federal and foreign income taxes incurred		<u>872,555</u>
Net Income		<u>\$5,377,046</u>

C. Capital and Surplus

Surplus as regards policyholders increased \$4,228,073 during the five-year examination period January 1, 2012 through December 31, 2016, detailed as follows:

Surplus as regards policyholders per report on examination as of December 31, 2011			\$43,949,720
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income	\$5,377,046		
Net unrealized capital gains or (losses)	35,780		
Change in net deferred income tax	15,247		
Dividends to stockholders	<u>0</u>	<u>\$1,200,000</u>	
Total gains / losses	\$5,428,073	\$1,200,000	
Net increase (decrease) in surplus			<u>\$ 4,228,073</u>
Surplus as regards policyholders per report on examination as of December 31, 2016			<u>\$48,177,793</u>

Capital paid in is \$3,800,000 consisting of 200,000 shares of \$19 par value per share common stock. Gross paid in and contributed surplus was \$20,250,000. Gross paid in and contributed surplus did not change during the examination period.

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, 2016. The Company reported gross outstanding losses and loss adjustment expenses, including incurred but not reported losses, in the amount of \$681,951,000, that were ceded 100% to the Company's parent, Great American Insurance Company, pursuant to the pooling agreement.

5. **SUBSEQUENT EVENTS**

The Company reported reinsurance recoverables with GAIC of approximately \$937,606,000 at December 31, 2017. This results in a reinsurance recoverable to company surplus ratio in excess of 19 to 1. GAIC's RBC declined from 450.4% at December 31, 2016 to 331.4% at December 31, 2017, largely due to the issuance of \$717,714,806 in dividends during 2017.

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

The prior report on examination contained no recommendations.

7. **SUMMARY OF COMMENTS AND RECOMMENDATIONS**

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Board of directors</u>	
It is recommended that the Company comply with its by-laws and hold regularly scheduled meetings of its board of directors.	5

Respectfully submitted,

Sheik H. Mohamed,
Associate 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.

Sheik H. Mohamed

Subscribed and sworn to before me

this _____ day of _____, 2018.

APPOINTMENT NO. 31577

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:

Sheik Mohamed

*as a proper person to examine the affairs of the
Great American Insurance Company of New York
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 27th day of February, 2017

MARIA T. VULLO
Superintendent of Financial Services



By: Joan P. Riddell
Joan Riddell
Deputy Bureau Chief