

REPORT ON EXAMINATION

OF THE

ALEA NORTH AMERICA INSURANCE COMPANY

AS OF

DECEMBER 31, 2011

DATE OF REPORT

MAY 31, 2013

EXAMINER

SHEIK H. MOHAMED

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NEW YORK STATE
DEPARTMENT *of*
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Benjamin M. Lawsky
Superintendent

May 31, 2013

Honorable Benjamin M. Lawsky
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 30900, dated December 14, 2012, attached hereto, I have made an examination into the condition and affairs of Alea North America Insurance Company as of December 31, 2011, and submit the following report thereon.

Wherever the designation “the Company” appears herein without qualification, it should be understood to indicate Alea North America 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 home office located at 55 Capital Boulevard, Rocky Hill, CT 06067.

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, 2006. This examination covered the five year period from January 1, 2007 through December 31, 2011. 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
- Territory and plan of operation
- Loss experience
- Reinsurance
- Accounts and records
- 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.

2. DESCRIPTION OF COMPANY

The Company was formed under the name of Metropolitan Fire Reinsurance Company in 1932 as a result of the merger of the Fire Reassurance Company of New York and the Metropolitan Fire Insurance Company of New York. It became licensed on June 30, 1932, and commenced business on November 3, 1932. In 1946, the Company changed its name to Metropolitan Fire Assurance Company and in 1980 it changed its name to American Independent Reinsurance Company.

In 1989, the Company was acquired by Great American Insurance Company and in 1992 it changed its name to Seven Hills Insurance Company.

On July 2, 2001, the Company was acquired by Alea Holdings US Company (“Alea Holdings”), a Delaware holding company. The Company adopted its current title effective August, 2001.

In the Fall of 2005, both Standard and Poor’s and A.M. Best took rating actions with respect to the Alea Group and its member companies, including Alea North America Insurance Company. As a consequence, the Alea Group announced its transition into run-off, citing principally its inability to attract a suitable volume and quality of business following the rating agency downgrades in the latter part of 2005. The Company withdrew from the U.S. casualty reinsurance business on or about November 7, 2005. It also placed its direct (primary) insurance operation (Alternative Risk Division), into run-off on or about November 22, 2005.

On May 18, 2011, FIN Acquisition Limited, a new intermediate holding company acquired all the issued and outstanding stocks of Alea Group Holdings (Bermuda) Ltd., the Company’s ultimate holding company.

Capital paid in is \$6,960,496 consisting of 51,944 shares of \$134 par value per share common stock. Gross paid in and contributed surplus is \$160,805,956. On January 11, 2008, the Company repurchased 10,933 shares of its capital stock from its parent and sole shareholder, Alea Holdings US Company, at a total cost of \$30,000,152, or \$2,744 per share. Gross paid in and contributed surplus and capital paid in decreased by \$30,000,152 during the examination period, as follows:

<u>Year</u>	<u>Description</u>	<u>Gross paid in and contributed surplus</u>	<u>Common Capital Stock</u>
2007	Beginning balance	\$189,341,086	\$ 8,425,518
2008	Stock redemption	(28,535,130)	(1,465,022)
2011	Ending balance	<u>\$160,805,956</u>	<u>\$ 6,960,496</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 seven nor more than thirteen members. At December 31, 2011, the board of directors was comprised of the following nine members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Jonathan Ashley London, England	Managing Director, Fortress Investment Group (U.K.)
Suzanne Rathbun Fetter Chester, CT	Senior Vice President - Claims, Alea North America Company
Kay Leong Khoo New York, NY	Vice President, Fortress Capital Finance (U.S.) III
Kevin Paul Krieger New York, NY	Vice President. Fortress Capital Finance (U.S.) III
Rhonda Nalini Ramparas New York, NY	Vice President, Fortress Capital Finance (U.S.) III
Kenneth Molberg Riis La Jolla, CA	Managing Director/President of Newcastle, Fortress Investment Group (U.S.)
*Jeffrey Robert Rosenthal, Chairman Westport, CT	President & Chief Executive Officer, Alea North America Company
Carl Eduard Speck Fairfield, CT	Senior Vice President, Alea North America Company

Name and ResidencePrincipal Business Affiliation

Craig Michael Thomas,
Glastonbury, CT

Senior Vice President & Chief Financial Officer,
Alea North America Company

* Note: Effective in the fourth quarter of 2012, Jeffrey Rosenthal is no longer the President & Chief Executive Officer of the Company. Rhonda N. Ramparas is currently serving as Interim President and Chief Executive Officer.

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 Jonathan Ashley who attended less than 50% of the meetings for which he was eligible to attend.

Members of the board have a fiduciary responsibility and must evince an ongoing interest in the affairs of the insurer. It is essential that board members attend meetings consistently and set forth their views on relevant matters so that the board may reach appropriate decisions. Individuals who fail to attend at least one-half of the regular meetings do not fulfill such criteria. It is recommended that board members who are unable or unwilling to attend meetings consistently should resign or be replaced.

It is noted that on April 1, 2013, Jonathan Ashley resigned from the board of directors and was replaced by Susan S. Claflin.

As of December 31, 2011, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Jeffrey Robert Rosenthal	President and Chief Executive Officer
Susan Stonehill Claflin	Senior Vice President, General Counsel and Secretary
Craig Michael Thomas	Senior Vice President and Chief Financial Officer
Suzanne Rathbun Fetter	Senior Vice President - Claims
Cecil Haven Wheeler	Senior Vice President - Finance and Treasurer
Sheel Sawhney	Senior Vice President
Carl Eduard Speck	Senior Vice President
Jean-Claude Joseph Jacob	Senior Vice President and Group Chief Actuary

B. Territory and Plan of Operation

As of December 31, 2011, 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

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.

Prior to placing itself in run-off the majority of the Company's direct premium writings consisted primarily of the following lines of business: workers' compensation, commercial multi-peril and commercial auto liability. The direct book of business was produced exclusively through managing general agents.

C. Reinsurance

The Company has been in run-off since late 2005. When the Company was active, its assumed reinsurance program consisted mainly of casualty coverage assumed on quota share and excess of loss basis pursuant to the terms of facultative and treaty agreements with both authorized and unauthorized cedants. Additionally, the Company participated 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.

Ceded

The Company’s run-off business is protected by several excess of loss reinsurance contracts that were in effect prior to June 2006. The Company maintained an excess reinsurance program through its underwriting period 2002-2006. For underwriting year 2002, the Company ceded \$5 million in excess of its underlying retention (generally between \$250,000 and \$500,000) per risk. For underwriting years 2003 through 2006, the Company ceded \$2 million excess of \$3 million per risk. The Company also had catastrophe coverage of \$40 million excess of \$5 million per occurrence.

The Company also had a “GAP Product” quota share program with its Bermuda affiliate which reinsured eight direct insurance programs. Each of the individual reinsurance agreements had different terms which ranged from \$350,000 to \$500,000 of quota share coverage. These agreements were sent individually to the NY Department of Insurance for approval prior to their execution.

In addition, the Company participated in a flexible quota share agreement with Alea Bermuda, Ltd., pursuant to which the Company ceded approximately 70% of its net exposure.

Reinsurance agreements with affiliates were reviewed for compliance with Article 15 of the New York Insurance Law. It is 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.

The Company is not a party to any retrospective reinsurance agreements. The Company has not been a party to any loss portfolio transfers during the examination period.

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 take credit for cessions to unauthorized reinsurers were reviewed for compliance with Department Regulations 133 and 114, respectively.

All significant ceded reinsurance agreements had been 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 found that the Schedule F data reported by the Company in its filed annual statement accurately reflected 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 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. 62.

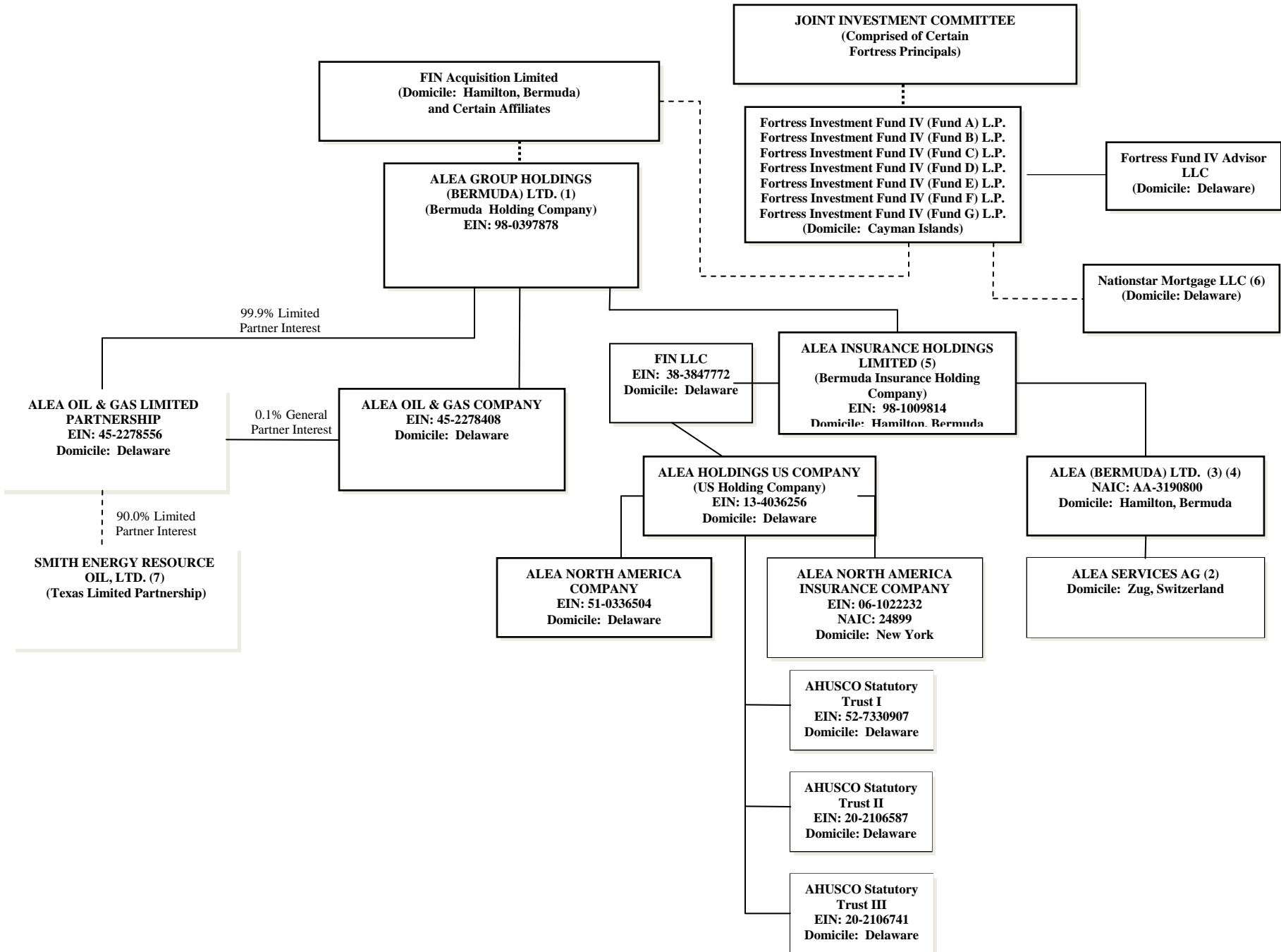
During the period covered by this examination, the Company commuted various reinsurance agreements where it is was a ceding/assuming reinsurer. These commutations did not result in a material change in the Company's surplus.

D. Holding Company System

The Company is a wholly-owned subsidiary of Alea Holdings US Company "AHUSCO", a Delaware corporation. At December 31, 2011 AHUSCO was 100% owned by FIN Acquisition LLC, a new intermediate holding company.

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 a chart of the holding company system at December 31, 2011:



At December 31, 2011, the Company was party to the following agreements with other members of its holding company system:

Underwriting Management and Administrative Services Agreement

Effective July 2, 2001, the Company entered into an underwriting management and administrative services agreement with Alea North America Company (“ANAC”). Pursuant to the terms of the agreement, ANAC agreed to provide various underwriting, management and administrative services to the Company. This agreement was filed with this Department pursuant to Section 1505 of the New York Insurance Law.

Tax Allocation Agreement

Effective December 31, 2011, the Company entered into a tax allocation agreement with Alea Holdings US Company, and its affiliates, Alea North America Reinsurance Company and Alea North America Company. Effective May 25, 2006, Alea North America Specialty Insurance Company (formerly known as Alea North America Reinsurance Company) ceased to be a subsidiary in the Alea group of companies and as such, Alea North America Specialty Insurance Company's participation in the tax allocation agreement terminated. The tax allocation agreement was amended to reflect this change. This agreement was non-disapproved by the Department pursuant to the provisions of Section 1505 of the New York Insurance Law.

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2011, based upon the results of this examination:

Adjusted liabilities to liquid assets	48%
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The Company is in run-off status; therefore, the IRIS ratios related to premiums do not provide any relevant information and were not presented. The adjusted liabilities to liquid assets IRIS ratio fall within the benchmark range set forth in the Insurance Regulatory Information System of the National Association of Insurance Commissioners.

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

	<u>Amounts</u>	<u>Ratios</u>
Losses and loss adjustment expenses incurred	\$16,707,325	(1,258.43)%
Other underwriting expenses incurred	79,860,818	(6,015.26)
Net underwriting loss	<u>(97,895,780)</u>	<u>7,373.69</u>
Premiums earned	<u>\$(1,327,637)</u>	<u>100.00%</u>

F. Accounts and Records
Corporate Center Costs

During 2011, the Company paid \$6,247,891 for various services pursuant to an Amended and Restated Services and Cost Allocation Agreement, which was effective May 18, 2011. Pursuant to the Agreement, Alea Group Holdings (Bermuda) Ltd. (“AGHB”), Alea North America Company (“ANAC”), and Alea Services AG (“ASAG”) (collectively, “the Service Companies”) provide various services and incur related expenses (“Corporate Centre Costs”) for the benefit of Alea (Bermuda) Ltd. (“ABL”) and ANAC (collectively, “the Receiver Companies”), and the Receiver Companies are responsible for their allocable share of the Corporate Centre Costs. The Agreement provides that the Corporate Centre Costs are to be allocated among the Receiver Companies based on the operating equity, insurance contract balances, and actual head count of the Receiver Companies.

It is noted that the Company is not a party to this Agreement but some of the Corporate Centre Costs are allocated to it by ANAC through the underwriting management and administrative services agreement, which is described in item 2D of this report. Since a portion of the Corporate Centre Costs are ultimately allocated to the Company, it is recommended that the Company submit to the Department for review the basis of allocation and expense detail in conjunction with the allocation of Corporate Centre Costs pursuant to the Amended and Restated Services and Cost Allocation Agreement.

Further, a review of the Company’s filed 2011 annual statement indicated that the Company had reported all costs associated with this Agreement as “Salaries” on line 8.1 of the Underwriting and Investment Exhibit, Part 3 – Expenses, rather than allocating the costs to the appropriate expense categories. It is recommended that the Company allocate the costs associated with the Services and Cost Allocation Agreement to the appropriate expense categories pursuant to the provisions of SSAP No. 70.

3. FINANCIAL STATEMENTS

A Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2011 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	\$152,399,881	\$0	\$152,399,881
Cash, cash equivalents and short-term investments	12,583,620	0	12,583,620
Investment income due and accrued	249,915	0	249,915
Uncollected premiums and agents' balances in course of collection	1,604	0	1,604
Amounts recoverable from reinsurers	(2,642,379)	0	(2,642,379)
Funds held by or deposited with reinsured companies	2,950,000	0	2,950,000
Electronic data processing equipment and software	362,647	362,647	0
Furniture and equipment, including health care delivery assets	307,274	307,274	0
Receivables from parent, subsidiaries and affiliates	9,250	0	9,250
Cash advances to third party administrators	3,750,560	1,395,129	2,355,431
Commissions receivable	1,966,178	0	1,966,178
Equities and deposits in pools and associations	<u>181,513</u>	<u>0</u>	<u>181,513</u>
Total assets	<u>\$172,120,063</u>	<u>\$2,065,050</u>	<u>\$170,055,013</u>

Liabilities, Surplus and Other Funds

Liabilities

Losses and loss adjustment expenses	\$ 30,777,216
Reinsurance payable on paid losses and loss adjustment expenses	1,320,856
Other expenses (excluding taxes, licenses and fees)	783,216
Taxes, licenses and fees (excluding federal and foreign income taxes)	591,433
Ceded reinsurance premiums payable (net of ceding commissions)	(237,904)
Funds held by company under reinsurance treaties	40,614,342
Amounts withheld or retained by company for account of others	1,516,061
Provision for reinsurance	594,074
Payable to parent, subsidiaries and affiliates	2,847,211
Payable for securities	6,144
Miscellaneous liabilities	66,670
Retroactive reinsurance reserve	<u>(18,622)</u>
Total liabilities	<u>\$ 78,860,697</u>

Surplus and Other Funds

Common capital stock	\$ 6,960,496
Gross paid in and contributed surplus	160,805,956
Unassigned funds (surplus)	<u>(76,572,136)</u>
Surplus as regards policyholders	<u>\$ 91,194,316</u>

Total liabilities, surplus and other funds \$170,055,013

Note: The Internal Revenue Service has completed its audits of the Company's consolidated Federal Income Tax returns through tax year 2006. 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 Internal Revenue Service has not yet begun to audit tax returns covering tax years 2009, 2010, and 2011. 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

Surplus as regards policyholders decreased \$87,876,243 during the five-year examination period January 1, 2007 through December 31, 2011, detailed as follows:

Underwriting Income

Premiums earned		\$(1,327,637)
Deductions:		
Losses and loss adjustment expenses incurred	\$16,707,325	
Other underwriting expenses incurred	79,884,675	
Aggregate write-ins for underwriting deductions	<u>(23,857)</u>	
Total underwriting deductions		<u>96,568,143</u>
Net underwriting gain or (loss)		\$(97,895,780)

Investment Income

Net investment income earned	\$66,998,380	
Net realized capital gain	<u>(45,237,748)</u>	
Net investment gain or (loss)		\$ 21,760,632

Other Income

Net gain or (loss) from agents' or premium balances charged off	\$(3,652,264)	
Aggregate write-ins for miscellaneous income	<u>7,338,975</u>	
Total other income		\$ <u>3,686,711</u>
Net income after dividends to policyholders but before federal and foreign income taxes		\$(72,448,437)
Federal and foreign income taxes incurred		<u>(2,417,108)</u>
Net Loss		<u>\$(70,031,329)</u>

Surplus as regards policyholders per report on examination as of December 31, 2006			\$179,070,558
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income(loss)		\$ 70,031,329	
Net unrealized capital gains or (losses)		2,869,673	
Change in net deferred income tax		12,390,950	
Change in nonadmitted assets	\$19,947,999		
Change in provision for reinsurance	2,464,926		
Capital changes paid in		1,465,022	
Surplus adjustments paid in		28,535,130	
Cumulative effect adjustment for SSAP 35R	<u>5,002,936</u>	<u>0</u>	
Net increase (decrease) in surplus	<u>\$27,415,861</u>	<u>\$115,292,104</u>	<u>(87,876,243)</u>
Surplus as regards policyholders per report on examination as of December 31, 2011			<u>\$ 91,194,315</u>

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of \$30,777,216 is the same as reported by the Company as of December 31, 2011. The examination analysis was conducted in accordance with generally accepted actuarial principles and practices and was based on statistical information contained in the Company's internal records and in its filed annual statements.

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>	
i. It was recommended that the Company maintain the proper minimum number of directors in accordance with its charter and by-laws and pursuant to Section 1201(a)(5)(B)(v) of the New York Insurance Law.	4
The Company has complied with this recommendation.	
ii. It was recommended that the Company comply with Section 1201(a)(5)(B)(vi) of the New York Insurance Law by having at least two directors that are residents of the State of New York.	5
The Company has complied with this recommendation.	
B. <u>Reinsurance</u>	
i. It was recommended that the Company comply with Section 1505(d) of the New York Insurance Law and notify the superintendent of its intention to enter into reinsurance agreements with members of its holding company system.	8
This recommendation is no longer applicable.	
C. <u>Accounts and Records</u>	
i. It was recommended that the Company ensure that all future contracts with its independent certified public accountants contain the required provisions pursuant to Department Regulation 118.	13
The Company has complied with this recommendation.	
ii. It was recommended that the Company comply with Parts 72.1(c) and 72.4 of Department Regulation 110 and include the required retention and coinsurance percentage in its directors and officers' indemnification policy.	13
The Company has complied with this recommendation.	
iii. It was recommended that the Company file the required form for all of its managing general agents pursuant to the provisions of Department Regulation 120.	13
This recommendation is no longer applicable.	

<u>ITEM</u>		<u>PAGE NO.</u>
iv.	It was recommended that in the future the Company complete its annual statement in accordance with the annual statement instructions.	11

The Company has complied with this recommendation.

6. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>		<u>PAGE NO.</u>
A	<p><u>Management</u></p> <p>It is recommended that board members who are unable or unwilling to attend meetings consistently should resign or be replaced.</p>	5
B	<p><u>Accounts and Records</u></p> <p>i. it is recommended that the Company submit to the Department for review the basis of allocation and expense detail in conjunction with the allocation of Corporate Centre Costs pursuant to the Amended and Restated Services and Cost Allocation Agreement.</p> <p>ii. It is recommended that the Company allocate the costs associated with the Services and Cost Allocation Agreement to the appropriate expense categories pursuant to the provisions of SSAP No. 70.</p>	11

Respectfully submitted,

Sheik H. Mohamed, CPCU
Senior Insurance Examiner

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

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 _____, 2013.

APPOINTMENT NO. 30900

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

ALEA NORTH AMERICA 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.

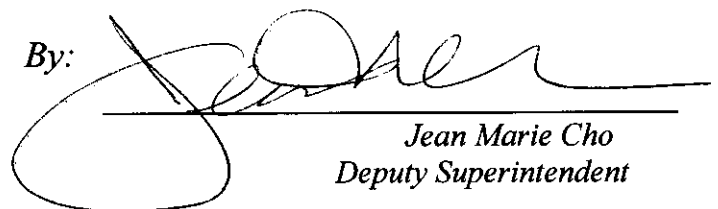
In Witness Whereof, I have hereunto subscribed by name
and affixed the official Seal of the Department
at the City of New York

this 14th day of December, 2012

BENJAMIN M. LAWSKY
Superintendent of Financial Services



By:



Jean Marie Cho
Deputy Superintendent