

REPORT ON EXAMINATION

OF THE

GUILDERLAND REINSURANCE COMPANY

AS OF

DECEMBER 31, 2011

DATE OF REPORT

MAY 9, 2013

EXAMINER

LAMIN JAMMEH

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NEW YORK STATE
DEPARTMENT *of*
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Benjamin M. Lawsky
Superintendent

May 9, 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 30877 dated September 6, 2012 attached hereto, I have made an examination into the condition and affairs of Guilderland Reinsurance 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 Guilderland Reinsurance 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 4751 Wilshire Boulevard, Suite 111, Los Angeles, CA 90010.

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
- Growth of Company
- Loss experience
- Reinsurance
- Accounts and records
- Statutory deposits
- 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 originally organized in 1854 as a co-operative assessment fire insurance association under the title Guilderland Mutual Insurance Association. The association liquidated its affairs in 1939 and on January 1, 1940, was reorganized for the purpose of transacting fire reinsurance exclusively. The association restated its charter on April 1, 1969, at which time it converted to a mutual fire insurance company with authority to write all forms of reinsurance other than life, annuity and title. Concurrently, the title Guilderland Mutual Reinsurance Company was adopted. Effective September 30, 1969, the Company absorbed by merger, the Cooperative Windstorm Insurance Company of New York, Delmar, New York.

In December 1990, the Company completed a plan of demutualization and was acquired by the Main Street America Financial Corporation, a wholly-owned subsidiary of National Grange Mutual Insurance Company. On November 4, 1999, the Company was acquired by Excess Reinsurance Company (“Excess”). In July 2008, Excess was acquired by KnightBrook, LLC., a Delaware limited liability company, and its name was changed to KnightBrook Insurance Company.

The Company terminated all of its business at the end of 2004. The last of its previously written business expired in 2006.

As of December 31, 2011 capital paid in is \$1,000,000 consisting of 1,000,000 shares of \$1 par value per share common stock. On May 14, 2010, the Department approved a share redemption plan to KnightBrook Insurance Company, whereby the Company redeemed 1,051,960 shares of its common stock for an aggregate amount of \$10,480,270 or \$9.96 per share. Gross paid in and contributed surplus and common capital stock changed during the examination period, as follows:

<u>Date</u>	<u>Description</u>	<u>Common Stock</u>	<u>Gross paid in and contributed surplus</u>
1/1/2007	Beginning balance	\$ 2,051,960	\$ 9,260,267
2010	Stock redemption	<u>(1,051,960)</u>	<u>(9,260,267)</u>
12/31/2011	Ending Balance	<u>\$ 1,000,000</u>	<u>\$ 0</u>

Note: The difference of \$168,043 between the \$10,480,270 paid and the \$10,312,227 change in Common capital stock and Gross paid in and contributed surplus was charged directly to Unassigned funds.

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 nineteen members. The board did not meet during the examination period. All actions of the board were conducted by written consent in lieu of a meeting. At December 31, 2011, the board of directors was comprised of the following thirteen members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Marc Joseph Bishara Westlake Village, CA	Officer, Venbrook Insurance Holdings
Richard Dillon Simi Valley, CA	Chief Financial Officer, Chief Technical Officer and Treasurer, KnightBrook Insurance Company
Don Robert Hankey Malibu, CA	Owner and Chief Executive Officer, Hankey Group
Don Rufus Hankey Los Angeles, CA	President, Nowcom
Eric David Jarvis Los Angeles, CA	Chief Executive Officer, Knight Insurance Group
Irwin Charles Keightly Longs, SC	Vice President, KnightBrook Insurance Company
William Barry Lopatin Beverly Hills, CA	Insurance Agent, Hollander & Lopatin, PC
Richard A. Nardi Armonk, NY	Attorney, Loeb & Loeb LLP
Robert Lawrence Norton Westlake Village, CA	Insurance Agent, Venbrook Insurance Holdings
Matthew Lee Sherman Los Angeles, CA	Insurance Agent, Venbrook Insurance Holdings
Stephen Chu Ming Su Los Alamitos, CA	Chief Underwriting Officer, Knight Insurance Group
Cory A. Tavel Old Bethpage, NY	Attorney, Smith Mazure

Name and ResidencePrincipal Business Affiliation

Jason Dexter Turner
Los Angeles, CA

Secretary,
Venbrook Insurance Holdings

During the examination period, the board of directors did not physically meet, but acted by unanimous written consent in lieu of a meeting four times. The Company's by-laws require that its board of directors have an annual meeting and regular meetings at least three times each calendar year. It is recommended that the Company comply with the provision of its by-laws and hold regular and annual meetings as prescribed.

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

<u>Name</u>	<u>Title</u>
Eric David Jarvis	President and Chief Executive Officer
Jason Dexter Turner	Secretary
Richard Allan Dillon	Treasurer, Chief Financial Officer and Chief Technology Officer

B. Territory and Plan of Operation

As of December 31, 2011, the Company was licensed to write business in New York, Indiana and Wisconsin. The Company is also an accredited reinsurer in Vermont.

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>
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
19	Motor vehicle and aircraft physical damage

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 \$1,900,000.

The Company has been in runoff since 2006.

C. Reinsurance

The Company is in runoff and does not assume any reinsurance.

Prior to being purchased by KnightBrook Insurance Company (“KnightBrook”), the Company entered into a 100% quota share retrocessional agreement with National Grange Mutual (“NGM”), which reinsures all losses for accident years 1999 and prior.

Effective January 1, 2000, the Company entered into a reinsurance pooling agreement with KnightBrook, whereby all premiums and losses occurring during a year were shared between the two companies based on the relative amounts of policyholders’ surplus at the end of the previous year. This agreement was terminated effective March 31, 2009 and the Company paid KnightBrook 100% of the insurance liabilities assumed under the agreement. Therefore, the Company has no further liabilities under the agreement.

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.

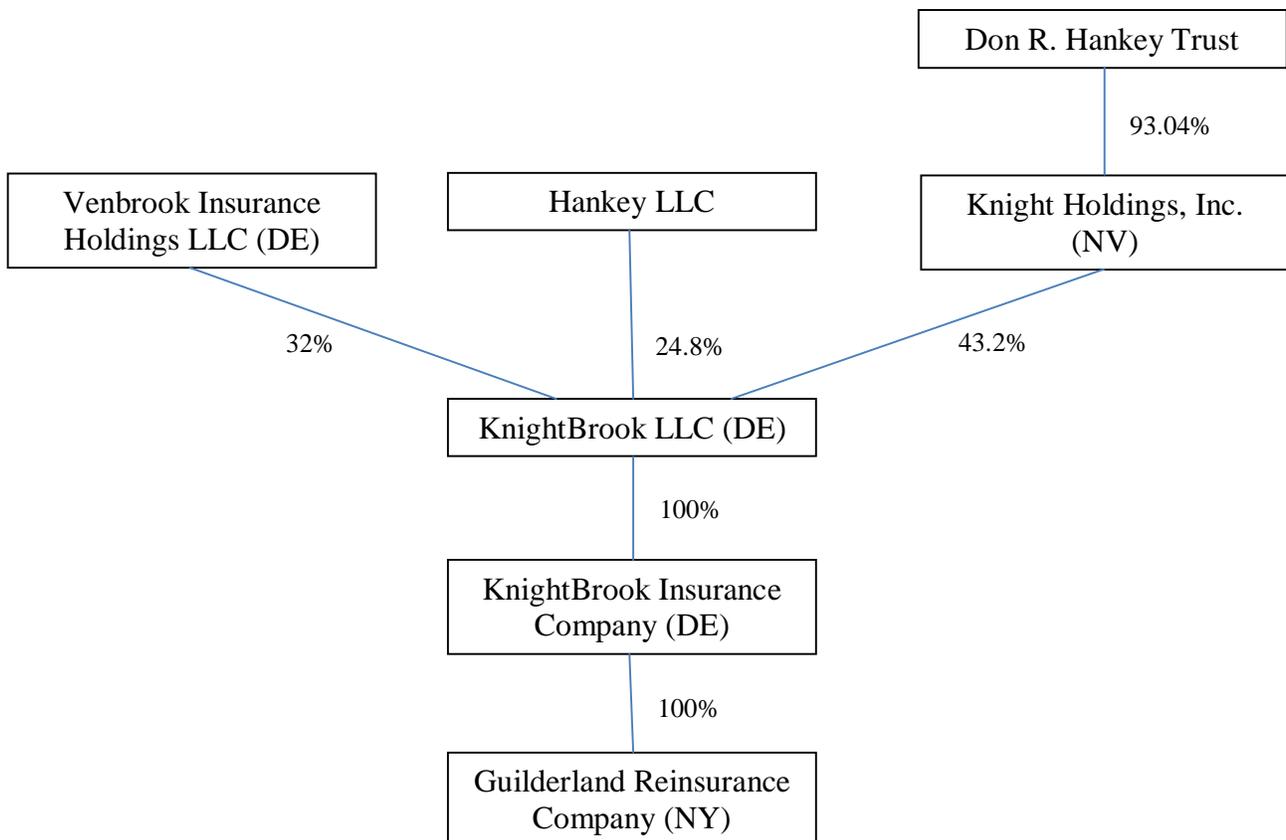
Examination review of the Schedule F data reported by the Company in its filed annual statement was found to accurately reflect its reinsurance transactions. Additionally, management has represented that all material ceded reinsurance agreements transfer both underwriting and timing risk as set forth in SSAP No. 62. Representations were supported by an attestation from the Company's Chief Executive 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.

D. Holding Company System

Guilderland Reinsurance Company is a wholly-owned subsidiary of KnightBrook Insurance Company (formerly known as Excess Reinsurance Company), a Delaware insurer. KnightBrook Insurance Company is 100% owned by KnightBrook LLC. Don R. Hankey has been deemed the ultimate controlling person by virtue of his 24.8% ownership of KnightBrook LLC through Hankey LLC and his 93.04% ownership of Knight Holdings, Inc., which owns 43.2% of KnightBrook LLC.

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, 2011:



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

Tax Allocation

Effective January 1, 2000, the Company entered into a tax allocation agreement with Excess Reinsurance Company. The agreement provides for the calculation of Guilderland Reinsurance Company's tax liability on a separate company basis. In addition, the agreement provides that carryback net operating losses are to be handled on a separate company basis. The agreement was filed with this Department pursuant to Section 1505 of 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:

Net premiums written to surplus as regards policyholders	N/A*
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	15%
Premiums in course of collection to surplus as regards policyholders	N/A*

* These ratios are not applicable due to the fact that the Company is in runoff.

The second ratio falls within the benchmark ranges 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	\$ (449,189)	250,944%
Other underwriting expenses incurred	1,263,870	(706,073)%
Net underwriting loss	<u>(814,860)</u>	<u>455,229%</u>
Premiums earned	<u>\$ (179)</u>	<u>100%</u>

The above ratios are unusual due to the fact that the Company is in runoff.

F. Accounts and Records

i. Approval of Investments

A review of the actions by the Company's board of directors indicated that the board did not approve the Company's investment transactions. Section 1411(a) of the New York Insurance Law states that:

“No domestic insurer shall make any loan or investment, except as provided in subsection (h) hereof, unless authorized or approved by its board of directors or a committee thereof responsible for supervising or making such investment or loan. The committee's minutes shall be recorded and a report submitted to the board of directors at its next meeting.”

It is recommended that the Company's board of directors approve all investment transactions pursuant to the requirements of Section 1411(a) of the New York Insurance Law.

ii. Conflict of Interest Policy and Statements

During the review of the Company's corporate governance it was noted that the Company does not have a conflict of interest policy approved by its board of directors.

It is recommended that the Company adopt a conflict of interest policy, approved by the board of directors, and have all officers, directors and key employees sign a conflict of interest statement annually.

iii. Location of Books and Records

The Company's annual statement lists the location of its main administrative office as Valley View, PA and the Company had an approved plan, pursuant to Section 325(b) of the New York Insurance Law, to maintain its books and records at that location. Prior to the commencement of the examination the Company advised us that its books and records are now located in Los Angeles, CA.

Section 325(b) of the New York Insurance Law states, in part:

“ a domestic insurer may keep and maintain its books of account without this state if, in accordance with a plan adopted by its board of directors and approved by the superintendent, it maintains in this state suitable records in lieu thereof; provided, however, that the superintendent may after notice and hearing direct such insurer to return all or any of its books of account to this state if such return is reasonably necessary to protect the interests of the people of this state or to permit their inspection in this state by a director, a shareholder,”

It is recommended that the Company comply with the provisions of Section 325(b) of the New York Insurance Law and submit a plan, adopted by its board of directors, to maintain its books and records in California.

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	\$1,884,038	\$ 0	\$1,884,038
Common stocks	651,299		651,299
Cash, cash equivalents and short-term investments	303,686		303,686
Investment income due and accrued	28,258		28,258
Amounts recoverable from reinsurers	262,707		262,707
Net deferred tax asset	<u>12,833</u>	<u>12,814</u>	<u>19</u>
Total assets	<u>\$3,142,821</u>	<u>\$12,814</u>	<u>\$3,130,007</u>
 <u>Liabilities, surplus and other funds</u>			
<u>Liabilities</u>			
Losses and loss adjustment expenses			\$ 672
Reinsurance payable on paid losses and loss adjustment expenses			269,374
Commissions payable, contingent commissions and other similar charges			34
Other expenses (excluding taxes, licenses and fees)			29,392
Current federal and foreign income taxes			25,917
Funds held by company under reinsurance treaties			15,459
Amounts withheld or retained by company for account of others			<u>94,668</u>
Total liabilities			\$ 435,516
 <u>Surplus and other funds</u>			
Common capital stock		\$1,000,000	
Gross paid in and contributed surplus		0	
Unassigned funds (surplus)		<u>1,694,492</u>	
Surplus as regards policyholders			<u>2,694,492</u>
Total liabilities, surplus and other funds			<u>\$3,130,007</u>

Note: The Internal Revenue Service has not yet begun to audit tax returns covering tax years 2007 through 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 \$10,317,573 during the five-year examination period January 1, 2007 through December 31, 2011, detailed as follows:

Underwriting Income

Premiums earned		\$ (179)
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Deductions:

Losses and loss adjustment expenses incurred	\$ (449,189)	
Other underwriting expenses incurred	<u>1,263,870</u>	

Total underwriting deductions		<u>814,681</u>
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Net underwriting gain or (loss)		(814,860)
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Investment Income

Net investment income earned	\$1,649,519	
Net realized capital gain	<u>29,807</u>	

Net investment gain or (loss)		1,679,326
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Other Income

Miscellaneous income	<u>221</u>	
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Total other income		<u>221</u>
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Net income before federal and foreign income taxes		\$ <u>864,687</u>
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Federal and foreign income taxes incurred		<u>197,286</u>
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Net income		\$ <u>667,401</u>
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Surplus as regards policyholders per report on examination as of December 31, 2006			\$13,012,066
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income	\$667,401		
Net unrealized capital gains or (losses)		\$ 524,126	
Change in net deferred income tax		32,596	
Change in non-admitted assets		12,814	
Change in provision for reinsurance	64,833		
Capital changes paid in		1,051,960	
Surplus adjustments paid in		9,260,267	
Miscellaneous surplus adjustment	<u>0</u>	<u>168,043</u>	
Total gains or losses in surplus	<u>\$732,234</u>	<u>\$11,049,806</u>	
Net increase (decrease) in surplus			<u>\$(10,317,572)</u>
Surplus as regards policyholders per report on examination as of December 31, 2011			<u>\$ 2,694,492</u>

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of \$672 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 four recommendations as follows (page numbers refer to the prior report):

<u>ITEM</u>		<u>PAGE NO.</u>
A.	<u>Management</u>	
	It was recommended that the Company maintain signed conflict of interest statements at its home office for each year under examination.	4
	The Company has not complied with this recommendation. A similar comment is made in this report.	
B.	<u>Reinsurance</u>	
	It was recommended that the Company comply with Section 1505(d) (2) of the New York Insurance Law and immediately file its existing intercompany quota share reinsurance agreement for review.	8
	The Company has complied with this recommendation.	
C.	<u>Holding Company System</u>	
	It was recommended that the Company file its holding company registration statements in a timely manner pursuant to the provisions of Part 80-1.4 of Department Regulation 52.	9
	The Company has complied with this recommendation.	
D.	<u>Custody Agreement</u>	
	It was recommended that the Company amend its custodial agreement to incorporate the appropriate covenants in accordance with Part 1, Section IV-J of the NAIC Financial Condition Examiners Handbook.	11
	The Company has complied with this recommendation.	

6. **SUMMARY OF COMMENTS AND RECOMMENDATIONS**

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Management</u>	
It is recommended that the Company comply with the provision of its by-laws and hold regular and annual meetings as prescribed.	5
B. <u>Accounts and Records</u>	
i. It is recommended that the Company's board of directors approve all investment transactions pursuant to the requirements of Section 1411(a) of the New York Insurance Law.	9
ii. It is recommended that the Company adopt a conflict of interest policy, approved by the board of directors, and have all officers, directors and key employees sign a conflict of interest statement annually.	9
iii. It is recommended that the Company comply with the provisions of Section 325(b) and submit a plan, adopted by its board of directors, to maintain its books and records in California.	10

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 _____, 2013.

APPOINTMENT NO. 30877

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:

Lamin Jammeh

as a proper person to examine the affairs of the

GUILDERLAND REINSURANCE 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 6 day of September, 2012

BENJAMIN M. LAWSKY
Superintendent of Financial Services



By:

Jean Marie Cho
Deputy Superintendent