

REPORT ON EXAMINATION

OF

GUILDERLAND REINSURANCE COMPANY

AS OF

DECEMBER 31, 2016

DATE OF REPORT

FEBRUARY 28, 2018

EXAMINER

LEE PROWELL

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NEW YORK STATE
DEPARTMENT *of*
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Maria T. Vullo
Superintendent

February 28, 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 31657 dated August 14, 2017, attached hereto, I have made an examination into the condition and affairs of Guilderland Reinsurance Company as of December 31, 2016, and submit the following report thereon.

Wherever the designation “the Company” appears herein without qualification, it should be understood to indicate 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, California 90010.

1. SCOPE OF EXAMINATION

The Department has performed an examination of the Company, a multi-state insurer. The previous examination was conducted as of December 31, 2011. This examination covered the five-year period from January 1, 2012 through December 31, 2016. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

The examination was conducted in conjunction with the state of Delaware, which was the lead state of the Knight Insurance Group. The examination was performed concurrently with the examinations of the following insurers: KnightBrook Insurance Company and Knight Specialty Insurance Company.

This examination was conducted in accordance with the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners Handbook (“Handbook”), which requires that we plan and perform the examination to evaluate the financial condition and identify current and prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company and evaluating system controls and procedures used to mitigate those risks. This examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management’s compliance with New York Laws, statutory accounting principles, and annual statement instructions.

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

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

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

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

2. DESCRIPTION OF COMPANY

Guilderland Reinsurance 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 then converted to a mutual fire insurance company, and the title Guilderland Mutual Reinsurance Company was adopted.

On December 18, 1990, the Company completed a plan of demutualization and was acquired by the Main Street American Financial Corporation, a wholly-owned subsidiary of National Grange Mutual Insurance Company (“NGM”). 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.

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 nineteen members. The board is scheduled to meet four times during each calendar year. At December 31, 2016, the board of directors was comprised of the following six members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Bret C. Hankey Malibu, California	Assistant Secretary Knight Management Services, LLC and Knight Insurance Company
Don R. Hankey Malibu, California	Chairman and Chief Executive Officer, Knight Insurance Group
Dong (David) Mok Keum Rancho Palos Verdes, California	Chief Financial Officer & Treasurer Knight Insurance Group
John M. Rygh Seal Beach, California	Secretary and General Counsel Knight Insurance Group

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Amit B. Shah Burbank, California	President, Knight Insurance Group Chief Operating Officer, The Hankey Group
Corey A. Tavel Old Bethpage, New York	Attorney, Smith Mazure

Subsequent to the examination date, the Company added Jacqueline Leung as a director thereby increasing the number of directors to seven as required by the by-laws.

The examiner's review of the Company's charter and by-laws revealed that the Company did not comply with the following sections of its' by-laws:

- a. Article II, section 2 states that, annual meeting of the stockholders shall be held each year on the first Thursday of May, if a legal holiday then on the next Thursday thereafter not a legal holiday. The meetings were not held on the stated days.
- b. Article II, section 6 Nominating Committee - There is no evidence that the Company's Nominating Committee was used as prescribed by this article.
- c. Article II, section 7 Election of Directors - The Company did not elect directors pursuant to this article.
- d. Article III, section 8 Meetings – Neither annual meetings nor regular meetings of the board of directors were held as prescribed by this article.
- e. Article IV, section 2 states that, the President shall be the Chief Executive Officer (CEO) of the Company. As of 12/31/2015 and 12/31/2016 the Company did not comply with this article.

It is recommended that the Company fully comply with all the provisions of its by-laws.

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

<u>Name</u>	<u>Title</u>
Don R. Hankey	Chairman and Chief Executive Officer
Amit B. Shah	President
Dong (David) Mok Keum	Chief Financial Officer and Treasurer
John M. Rygh	Secretary and General Counsel
Bret C. Hankey	Assistant Secretary

B. Territory and Plan of Operation

As of December 31, 2016, the Company was licensed to write business in New York, Indiana and Wisconsin and is 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

The Company did not write any business during the examination period as it has been in runoff since 2006.

Based on the lines of business for which the Company is licensed, 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.

C. Reinsurance Ceded

The Company entered into a 100% quota share retrocessional reinsurance agreement with NGM, which reinsures all losses past, present and future, effective January 1, 1998. The agreement was filed with the Department pursuant to the provisions of Section 1505(d)(2) 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. 62R. Representations were supported by appropriate risk transfer analyses and 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. 62R.

D. Holding Company System

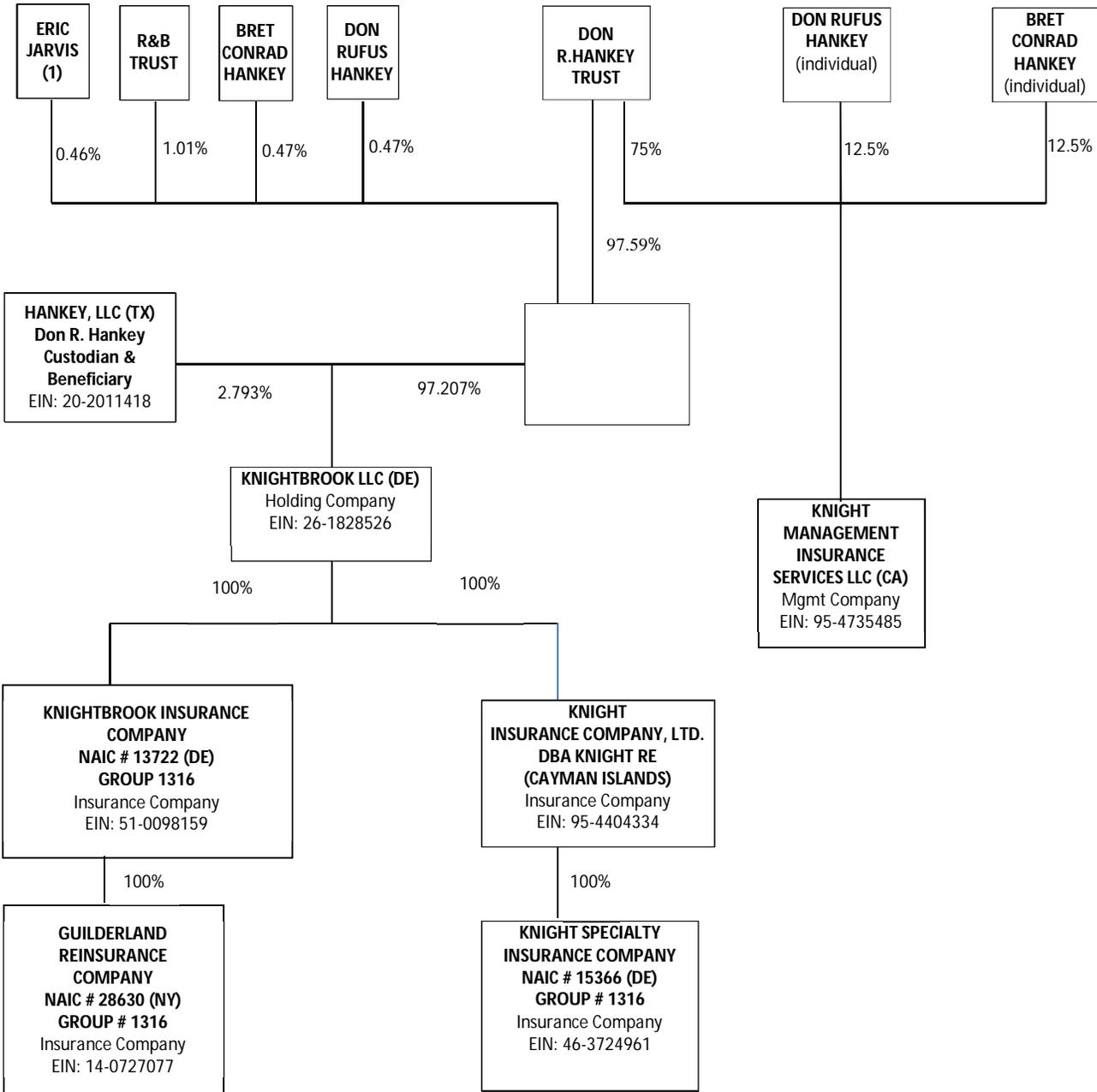
The Company is a member of the Knight Insurance Group. The Company is a wholly-owned subsidiary of KnightBrook Insurance Company, a Delaware corporation. KnightBrook Insurance Company is 100% owned by KnightBrook, LLC. Knight Holdings, Inc. (“KHI” or “Holding Company”) and Hankey, LLC indirectly own 97.207% and 2.793% of the Company, respectively. As of December 31, 2016, KHI was ultimately owned and controlled by Don Robert Hankey as Trustee of the Don Hankey Trust with minority ownership held by R&B Trust and the following individuals: Don Rufus Hankey, Bret Conrad Hankey and the former President of Knight Insurance Group, Eric Jarvis. Don Robert Hankey is the ultimate owner of Hankey, LLC via a Trust.

A review of the Holding Company Registration Statements filed with this Department indicated such filings were complete and were filed in a timely manner except for the 2013 and 2014 statements which were not filed. Pursuant to Part 80-1.2 of New York Regulation 52, all controlled insurers are required to file an annual holding company registration statement (Form HC-1) within 120 days following the end of its ultimate holding company’s fiscal year. As of the date of this report, the Company has not filed a Form HC-1 for 2013 and 2014.

It is recommended that the Company file its annual holding company registration statements in a timely manner pursuant to the provisions of Part 80-1.2 of Department Regulation 52.

The following is a full organizational chart of the Holding Company including its related party general agency:

Knight Insurance Group Ownership Structure



(1) Eric Jarvis was divested of his ownership in KHI subsequent to the examination period and the Company’s new President, Amit Shah, obtained comparable ownership interest in KHI.

Holding Company Agreements

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

Tax Allocation Agreement

This agreement was entered into on August 23, 2013 and effective January 1, 2014. The agreement provides for the calculation of the Company's tax liability on a separate return basis. As soon as the group's consolidated tax liability for the year is determined, as calculated on the timely filed tax return, each subsidiary shall make/receive payment to/from its parent, less amounts already paid for estimated tax. No payment by a subsidiary shall be made significantly prior (more than ten days) to the payment dates in which its parent is required to pay taxes. The Company was unable to provide evidence during the examination that the agreement was filed with the Department. Subsequent to the examination date the Company filed the agreement with the Department on November 3, 2017. The Department issued a non-objection letter on February 1, 2018.

Management Agreement

Management services are provided by Knight Management Insurance Services, LLC("KMIS"), which is a member of the holding company group. However, the Company was unable to provide documentation that a management agreement was in effect. Subsequent to the examination date the Company filed the agreement with the Department on November 7, 2017. The Department issued a non-objection letter on November 20, 2017.

E. Significant Ratios

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

Net premiums written to policyholders' surplus	N/A
Adjusted liabilities to liquid assets	8%
Two-year overall operating	N/A

The Company is in runoff, therefore the net premiums written to policyholders' surplus and the two-year overall operating ratio are not applicable.

The Company's reported risk based capital score (RBC) was 1,025% at 12/31/16. The RBC is a measure of the minimum amount of capital appropriate for a reporting entity to support its overall business operations in consideration of its size and risk profile. An RBC of 200 or below can result in regulatory action.

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

F. Accounts and Records

i. Conflict of Interest Statements

During the review of the Company's corporate governance it was noted that the Company's officers, directors and key employees did not complete and sign conflict of interest statements for 2012, 2015 and 2016.

It is recommended that the Company have all officers and directors sign a conflict of interest statement annually.

ii. Compliance with Section 312(b) of the New York Insurance Law ("NYIL")

Section 312(b) of the NYIL states in part:

"A copy of the report shall be furnished by such insurer or other person to each member of its board of directors and each such member shall sign a statement which shall be retained in the insurer's files confirming that such member has received and read such report."

The Company was unable to provide such statements. It is recommended that the Company comply with Section 312(b) of the NYIL by submitting the report on examination to its board of directors and have each director sign a statement and retain a copy that such member has received and read the report.

3. FINANCIAL STATEMENTS

A. Balance Sheet

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

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$1,951,289	\$ 0	\$1,951,289
Common stocks (stocks)	1,555,152	0	1,555,152
Cash, cash equivalents and short-term investments	161,901	0	161,901
Investment income due and accrued	20,255	0	20,255
Amounts recoverable from reinsurers	<u>753</u>	<u>0</u>	<u>753</u>
Total assets	<u>\$3,689,350</u>	<u>\$ 0</u>	<u>\$3,689,350</u>

Liabilities, Surplus and Other Funds

Liabilities

Reinsurance payable on losses and loss adjustment expenses	\$ 753
Other expenses (excluding taxes, licenses and fees)	50,000
Current federal and foreign income taxes	85,813
Net deferred tax liability	<u>165,431</u>
Total liabilities	\$ 301,997

Surplus and Other Funds

Common capital stock	\$1,000,000
Unassigned funds (surplus)	<u>2,387,353</u>
Surplus as regards policyholders	<u>3,387,353</u>
Total liabilities, surplus and other funds	<u>\$3,689,350</u>

Note: The Internal Revenue Service has not audited the Company's consolidated tax returns covering tax years 2012 through 2016. The examiner is unaware of any potential exposure of the Company to any tax assessment and no liability has been established herein relative to such contingency.

B. Statement of Income

The net income for the examination period as reported by the Company was \$264,157 as detailed below:

Underwriting Income

Premiums earned		\$	0
Deductions:			
Losses and loss adjustment expenses incurred	\$	1	
Other underwriting expenses incurred		<u>146,392</u>	
Total underwriting deductions			<u>146,393</u>
Net underwriting gain or (loss)			\$(146,393)

Investment Income

Net investment income earned	\$517,585	
Net realized capital gain	<u>(53,960)</u>	
Net investment gain or (loss)		463,625

Other Income

Miscellaneous write off	<u>\$ 56,558</u>	
Total other income		<u>56,558</u>

Net income before dividends to policyholders and before federal and foreign income taxes		\$ 373,790
Federal and foreign income taxes incurred		<u>109,633</u>
Net income		<u>\$ 264,157</u>

C. Capital and Surplus Account

Surplus as regards policyholders increased \$692,861 during the five-year examination period January 1, 2012 through December 31, 2016 as reported by the Company, detailed as follows:

Surplus as regards policyholders as reported by Company as of December 31, 2011			\$2,694,492
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income	\$264,157		
Net unrealized capital gains or (losses)	445,324		
Change in net deferred income tax		\$29,435	
Change in non-admitted assets	<u>12,815</u>	<u>0</u>	
Net increase (decrease) in surplus	\$722,296	\$29,435	<u>692,861</u>
Surplus as regards policyholders as reported by the Company as of December 31, 2016			<u>\$3,387,353</u>

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

As of December 31, 2016, capital paid in was \$1,000,000 consisting of 1,000,000 shares of \$1 par value per share common stock. Gross paid in and contributed surplus was \$0, which 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. Effective January 1, 1998, the Company entered into a 100% quota share retrocessional reinsurance agreement with NGM, which reinsures all losses past, present and future.

The Company has taken approximately \$4.6 million reinsurance reserve credit for losses ceded to NGM.

5. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination contained four recommendations as follows:

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Management</u>	
It was recommended that the Company comply with the provisions of its by-laws and hold regular and annual meetings as prescribed.	5
The Company has not complied with this recommendation. A similar recommendation is included in this report.	
B. <u>Accounts and Records</u>	
i. It was 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
The Company has complied with this recommendation.	
ii. It was 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
The Company has not fully complied with this recommendation. A similar recommendation is included in this report.	
iii. It was 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.	10
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 fully comply with all the provisions of its by-laws.	4
B. <u>Holding Company</u> It is recommended that the Company file its annual holding company registration statements in a timely manner pursuant to the provisions of Part 80-1.2 of Department Regulation 52.	6
C. <u>Accounts and Records</u>	
i. It is recommended that the Company ensure that all of its officers and directors sign a conflict of interest statement annually.	9
ii. It is recommended that the Company comply with Section 312(b) of the NYIL by submitting the report on examination to its board of directors and have each director sign a statement and retain a copy that such member has received and read the report.	9

Respectfully submitted,

Lee Prowell
Senior Insurance Examiner

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

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

Lee Prowell

Subscribed and sworn to before me
this _____ day of _____, 2018.

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:

Lee Prowell

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 14th day of August, 2017

MARIA T. VULLO
Superintendent of Financial Services



By:

Joan P. Riddell

Joan Riddell
Deputy Bureau Chief