

REPORT ON EXAMINATION

OF THE

NORTH SEA INSURANCE COMPANY

AS OF

DECEMBER 31, 2003

DATE OF REPORT

JANUARY 25, 2005

EXAMINER

MOSES EGBON, C.F.E.

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

January 25, 2005

Honorable Howard Mills
Acting Superintendent of Insurance
Albany, New York 12257

Sir:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 22239 dated July 13, 2004 attached hereto, I have made an examination into the condition and affairs of North Sea Insurance Company as of December 31, 2003, and submit the following report thereon.

Wherever the designation "the Company" appears herein without qualification, it should be understood to indicate North Sea Insurance Company.

Wherever the term "Department" appears herein without qualification, it should be understood to mean the New York Insurance Department.

The examination was conducted at the Company's administrative offices located at 50 West Hawthorne Avenue, Valley Stream, New York 11580.

1. SCOPE OF EXAMINATION

The previous examination was conducted as of December 31, 2000. This examination covered the three-year period from January 1, 2001 through December 31, 2003. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

The examination comprised a complete verification of assets and liabilities as of December 31, 2003. The examination included a review of income, disbursements and company records deemed necessary to accomplish such analysis or verification and utilized, to the extent considered appropriate, work performed by the Company's independent public accountants. A review or audit was also made of the following items as called for in the Examiners Handbook of the National Association of Insurance Commissioners:

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

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

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

2. DESCRIPTION OF COMPANY

The North Sea Insurance Company was incorporated in the State of New York on October 26, 1978. The Company became licensed on December 31, 1979 and commenced business on that date.

Capital paid in is \$1,600,000 consisting of 500,000 shares of common stock at \$3.20 par value per share. Gross paid in and contributed surplus is \$1,900,000. Gross paid in and contributed surplus increased by \$1,000,000 during the examination period, as follows:

<u>Year</u>	<u>Description</u>	<u>Amount</u>
2000	Beginning gross paid in and contributed surplus	\$900,000
2003	Surplus contribution	<u>1,000,000</u>
2003	Ending gross paid in and contributed surplus	<u>\$1,900,000</u>

A. Management

Pursuant to the Company's charter and by-laws, management of the Company is vested in a board of directors consisting of not less than thirteen nor more than twenty-one members. The board met four times during each calendar year. At December 31, 2003, the board of directors was comprised of the following thirteen members:

Name and Residence

Janice L. Baum
New York, NY

Bruce A. Blakeman
Woodmere, NY

Stephen N. Gwertzman
Franklin Lakes, NJ

Thomas M. Mannion, Jr.
Valley Stream, NY

Principal Business Affiliation

Office Manager,
I. Arthur Yanoff & Co. Jersey Ltd.

Partner,
Robert M. Blakeman & Associates

Officer,
US Adjustment Corp.

Vice President,
I. Arthur Yanoff & Co. Ltd.

Name and ResidencePrincipal Business Affiliation

Patrick M. McKenna
Malverne, NY

Partner,
Mc Kenna & Schneier

Dominick M. Minerva
Lido Beach, NY

Partner,
Minerva & D'Agostino PC

Joseph Morganbesser
Stony Brook, NY

Officer,
M&M Assoc. Ins Brokers Ltd.

Mark C. Perlmutter
East Meadow, NY

Partner,
T.D. Davidson CPA PC

Glenn R. Yanoff
Delray Beach, FL

Vice President,
Yanoff South Inc.

Grace Yanoff
Delray Beach, FL

Homemaker,
I. Arthur Yanoff & Co. Ltd.

Hazel Yanoff
Boca Raton, FL

Secretary/Treasurer,
Yanoff Corporations

I. Arthur Yanoff
Boca Raton, FL

President and Chief Executive Officer,
Yanoff Corporations

Ronald M. Yanoff
Pound Ridge, NY

Vice President,
I. Arthur Yanoff & Co. Ltd.

A review of the minutes of the board of directors' meetings held during the examination period indicated that the meetings were generally well attended and each board member had an acceptable record of attendance.

As of December 31, 2003, the principal officers of the Company were as follows:

NameTitle

Robert F. Boyle

President and Chief Operating Officer

Christine A. Farley-Buyers

Vice President

Hazel Yanoff

Secretary/Treasurer

Glenn Yanoff

Assistant Secretary/Assistant Treasurer

B. Territory and Plan of Operation

As of December 31, 2003, the Company was licensed to write business in the following seven states:

Mississippi
 New Jersey
 New York
 North Dakota
 Pennsylvania
 South Carolina
 Texas

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 damage
6	Water damage
7	Burglary and theft
8	Glass
12	Collision
13	Personal injury liability
14	Property damage liability
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine

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

DIRECT PREMIUMS WRITTEN

<u>Calendar Year</u>	<u>New York State</u>	<u>Total United States</u>	<u>Premiums Written in New York State as a Percentage of United States Premiums Written</u>
2001	\$3,087,371	\$3,378,296	91.39%
2002	\$4,061,457	\$4,474,041	90.78%
2003	\$5,427,592	\$5,900,945	91.98%

Based on the lines of business for which the Company is licensed and the Company's current capital structure, and pursuant to the requirements of Articles 13 and 41 of the New York Insurance Law, the Company is required to maintain a minimum surplus to policyholders in the amount of \$800,000.

C. Reinsurance

Assumed

The Company does not assume any reinsurance business.

Ceded

The Schedule F data as contained in the Company's filed annual statement was found to accurately reflect its reinsurance transactions.

The examiner reviewed all ceded reinsurance contracts in effect at December 31, 2003. The contracts all contained the required standard clauses including insolvency clauses meeting the requirements of Section 1308 of the New York Insurance Law.

The Company had the following ceded reinsurance program in effect at December 31, 2003:

<u>Type of treaty</u>	<u>Cession</u>
<u>Property Business:</u>	
First Multi-Line Excess of Loss 100% Authorized	\$125,000 excess of \$75,000 each risk, each loss and \$375,000 each occurrence.
Second Multi-Line Excess of Loss 100% Authorized	\$800,000 excess of \$200,000 each risk, each loss and \$1,600,000 occurrence.
First Property Catastrophe Excess of Loss 100% Authorized	95% of \$400,000 excess \$100,000 each loss occurrence.
Second Property Catastrophe Excess of Loss 100% Authorized	95% of \$1,500,000 excess \$500,000 each loss occurrence.
<u>Casualty Business:</u>	
First Multi-Line Excess of Loss 100% Authorized	\$125,000 excess of \$75,000 each loss occurrence and in the aggregate.
Second Multi-Line Excess of Loss 100% Authorized	\$800,000 excess of \$200,000 each loss occurrence and in the aggregate.
First Casualty Contingency Excess of Loss 100% Authorized	\$2,000,000 excess of \$1,000,000 each loss occurrence and in the aggregate.

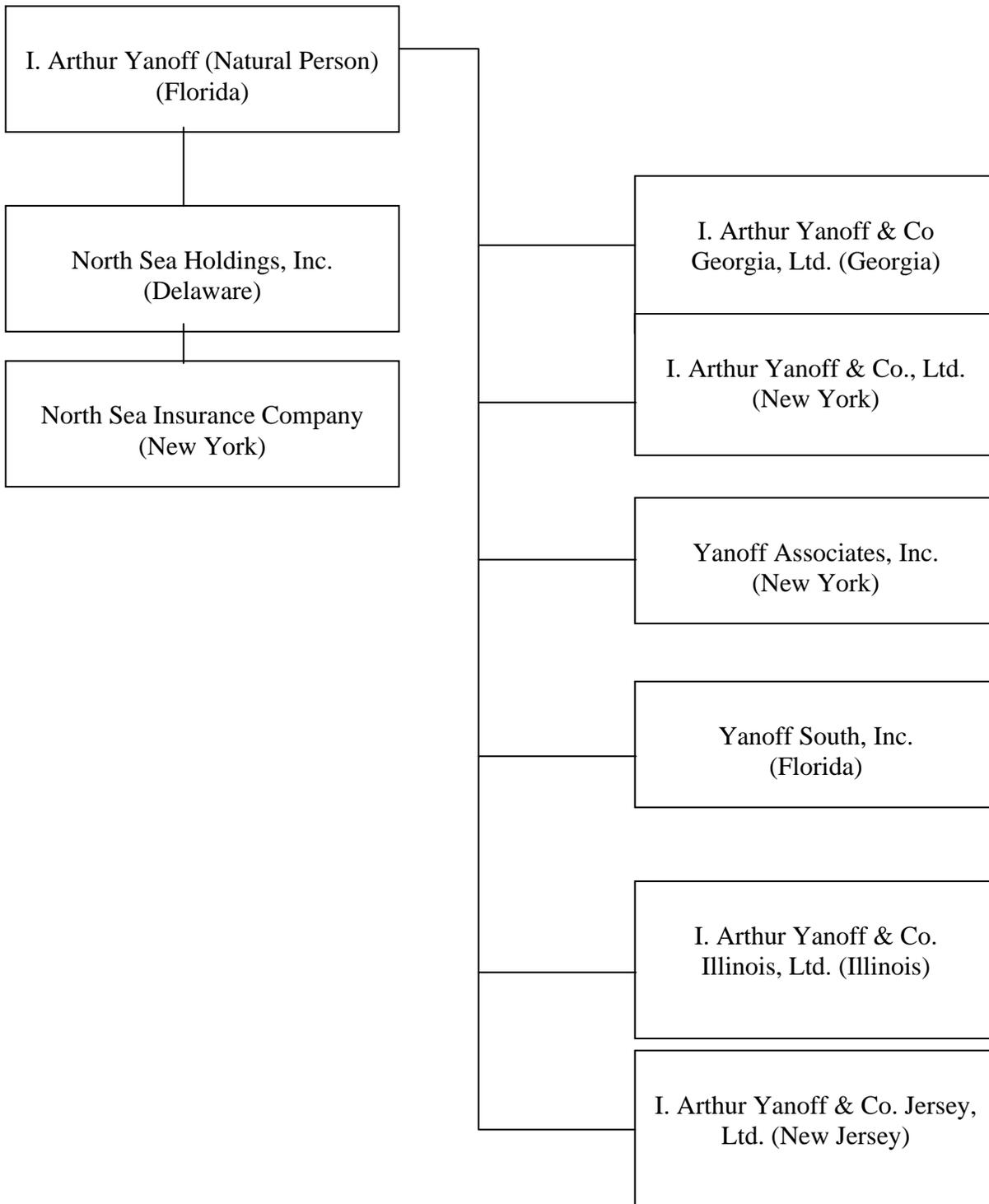
In addition, the Company also obtained facultative reinsurance coverage to supplement its treaty reinsurance program and to protect itself from policy limits above \$1,000,000 of property lines.

The Company's retention for the first multi-line excess of loss agreement increased from \$45,000 to \$75,000 since the last examination.

D. Holding Company System

The Company is a wholly-owned subsidiary of North Sea Holdings, Inc., a Delaware corporation, which in turn is wholly-owned by Mr. I. Arthur Yanoff. He is also the owner of six insurance agencies.

The following is an organization chart of the holding company system at December 31, 2003:



A review of the holding company registration statements filed with this Department indicated that such filings were complete and filed in a timely manner pursuant to Article 15 of the New York Insurance Law and Department Regulation 52.

At December 31, 2003, the Company was party to the following agreements with other members of its holding company system:

1. Lease Agreement Between the Company and its Owner, I. Arthur Yanoff

The Company is a party to a lease agreement with its owner for the office space occupied by the Company. The agreement was dated on August 11, 1989, and was extended every year. The agreement was filed with the Department in accordance with Section 1505 of the New York Insurance Law.

2. Tax Allocation Agreement

The Company participates in a tax allocation agreement with the members of the holding company system. Under the agreement, federal income taxes are computed as if the Company were filing a separate federal income tax return, except that income tax benefits are recognized to the extent utilized in a consolidated federal income tax return. The tax allocation agreement provides for the establishment of an escrow account by the parent for the benefit of the Company in order to maintain the Company's rights to recoup federal income taxes paid to the parent in the event of future net losses. This agreement was filed with the Department pursuant to Section 1505 of the New York Insurance Law.

3. Administrative Service Agreement between the Company and I. Arthur Yanoff & Co. Ltd

The Company entered into an administrative service agreement with an affiliate, I Arthur Yanoff & Co. Ltd. The agreement, dated January 1, 1997, provides that the affiliate will perform certain computer functions for the Company and allows the Company to use its computer network. The

Company pays the affiliate a monthly fee of \$166.67. The agreement was filed with the Department in accordance with Section 1505 of the New York Insurance Law.

E. Abandoned Property Law

Section 1316 of the New York Abandoned Property Law provides that amounts payable to a resident of this state from a policy of insurance, if unclaimed for three years, shall be deemed to be abandoned property. Such abandoned property shall be reported to the comptroller on or before the first day of April each year. Such filing is required of all insurers regardless of whether or not they have any abandoned property to report.

The Company's abandoned property reports for the period of this examination were all filed on a timely basis pursuant to the provisions of Section 1316 of the New York Abandoned Property Law.

F. Fidelity Bond Insurance

The examination of the Company's insurance coverage revealed that the Company did not have the required amount of fidelity bond insurance as suggested by the Financial Condition Examiner's Handbook of the National Association of Insurance Commissioners. It is recommended that the Company maintain adequate fidelity bond insurance coverage.

G. Significant Operating Ratios

The following ratios have been computed as of December 31, 2003 based upon the results of this examination:

Net premiums written to surplus as regards policyholders	.81:1
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	60%
Premiums in course of collection to surplus as regards policyholders	19%

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

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

	<u>Amounts</u>	<u>Ratios</u>
Losses and loss adjustment expenses incurred	\$3,764,318	62.49%
Other underwriting expenses incurred	3,480,177	57.77
Net underwriting loss	<u>(1,220,490)</u>	<u>(20.26)</u>
Premiums earned	<u>\$6,024,005</u>	<u>100.00%</u>

H. Accounts and Records

The examination revealed that the 2003 Schedule P, Other liability section, contained some incorrect loss data. The Company subsequently reproduced the schedule with corrected information. The schedule was reviewed and no errors were found. However, it is recommended that the Company exercise care in preparing Schedule P in its future filed annual statements.

I. Corporate Emergency Measures

It was recommended in last examination report that the Company adopt a plan or make a systematic preparation for the conduct of business and for the continuity of management in case of a catastrophic fire or other disaster. As of the date of this examination, no such plan has been formulated. Accordingly, it is again recommended that the Company adopt such a plan and make such preparation.

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as determined by this examination and as reported by the Company as of December 31, 2003:

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$6,156,549		\$6,156,549
Preferred stocks	224,917		224,917
Common stocks	529,473		529,473
Cash, cash equivalents and short-term investments	760,855		760,855
Investment income due and accrued	80,791		80,791
Uncollected premiums and agents' balances in the course of collection	720,629	\$5,176	715,453
Aggregate write-ins for other than invested assets	<u>45,712</u>	<u>0</u>	<u>45,712</u>
Total assets	<u>\$8,518,926</u>	<u>\$5,176</u>	<u>\$8,513,750</u>

Liabilities

Losses and loss adjustment expenses	\$2,987,298
Other expenses (excluding taxes, licenses and fees)	30,186
Unearned premiums	1,604,253
Ceded reinsurance premiums payable (net of ceding commissions)	42,585
Aggregate write-ins for liabilities	<u>1,126</u>
Total liabilities	\$4,665,448

Surplus and Other Funds

Common capital stock	\$1,600,000
Gross paid in and contributed surplus	1,900,000
Unassigned funds (surplus)	<u>348,302</u>
Surplus as regards policyholders	<u>3,848,302</u>
Total liabilities, surplus and other funds	<u>\$8,513,750</u>

NOTE: The Internal Revenue Service has not audited the consolidated income tax returns filed on behalf of the Company through the examination date. As such, the potential for exposure of the Company to any income tax assessment that may arise as a result of an audit has not been established herein.

B. Underwriting and Investment Exhibit

Surplus as regards policyholders increased \$539,595 during the three-year examination period January 1, 2001 through December 31, 2003, detailed as follows:

Underwriting income

Premiums earned		\$6,024,005
Deductions:		
Losses and loss adjustment expenses incurred	\$3,764,318	
Other underwriting expenses incurred	<u>3,480,177</u>	
Total underwriting deductions		<u>7,244,495</u>
Net underwriting gain or (loss)		\$(1,220,490)

Investment income

Net investment income earned	\$787,889	
Net realized capital gains	<u>(30,440)</u>	
Net investment gain or (loss)		757,449

Other income

Net gain or (loss) from agents' or premium balances charged off	\$(75,114)	
Finance and service charges not included in premiums	1,500	
Aggregate write-ins for miscellaneous income	<u>38,838</u>	
Total other income		<u>(34,776)</u>
Net income before federal and foreign income taxes		\$ (497,817)
Federal and foreign income taxes incurred		<u>(6,000)</u>
Net Income (loss)		<u><u>\$(491,817)</u></u>

Capital and Surplus Account

Surplus as regards policyholders per report on examination as of December 31, 2000			\$3,308,707
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income		\$491,817	
Net unrealized capital gains or (losses)	\$31,781		
Change in non-admitted assets	19,594		
Surplus adjustments paid in	1,000,000		
Dividends to stockholders		20,000	
Fair Plan	<u>37</u>	<u>0</u>	
Total gains and losses	<u>\$1,051,412</u>	<u>\$511,817</u>	
Net increase (decrease) in surplus as regards policyholders			<u>539,595</u>
Surplus as regards policyholders per report on examination as of December 31, 2003			<u>\$3,848,302</u>

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of \$2,987,298 is the same as reported by the Company as of December 31, 2003. 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. MARKET CONDUCT ACTIVITIES

In the course of this examination, a review was made of the manner in which the Company conducts its business practices and fulfills its contractual obligations to policyholders and claimants. The review was general in nature and is not to be construed to encompass the more precise scope of a market

conduct investigation, which is the responsibility of the Market Conduct Unit of the Property Bureau of this Department.

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

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

No problem areas were encountered.

6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination contained nine recommendations as follows (page numbers refer to the prior report):

<u>ITEM</u>	<u>PAGE NO</u>
A. <u>Management</u>	
It is recommended that the Company submit all necessary filings to the Department in a timely manner for non-disapproval of appointment of directors.	3
The Company has complied with this recommendation.	
It is recommended that board members who are unable or unwilling to attend meetings consistently should resign or be replaced.	5
The Company has complied with this recommendation.	
B. <u>Holding Company System</u>	
It is recommended that the Company reports all members of its holding company system in accordance with NAIC Annual Statement Instructions.	8
The Company has complied with this recommendation.	

<u>ITEM</u>	<u>PAGE NO</u>
C. <u>Inter-Company Agreements</u>	
i. It is recommended that the Company account for all federal income tax receivable and payable pursuant to the tax allocation agreement and report such amounts in the balance sheet and Schedule Y, Part 2 of the annual statements in a timely manner.	9
The Company has complied with this recommendation.	
ii. It is again recommended that the Company should report all inter-company transactions in its future filed statements.	9
The Company has complied with this recommendation.	
D. <u>Significant Operating Ratios</u>	
i. It is recommended that the Company establish cost control measures and finds ways to improve its loss and loss adjustment expense ratios.	11
The Company has complied with this recommendation.	
ii. In order to monitor and control its expenses, it is recommended that the Company prepare a business plan that includes a budget, compare it with the actual results and modify it on a regular basis.	11
The Company has complied with this recommendation.	
E. <u>Internal Controls</u>	
i. It is recommended that the Company comply with its internal control check issuance procedures at all times by requiring two signatures on all checks over \$25,000.	12
The Company has complied with this recommendation.	
ii. It is recommended that the Company amend the corporate resolution between the Company and the bank to require two signatures on all checks over \$25,000.	12
The Company has complied with this recommendation.	
iii. It is recommended that the Company engage a qualified independent certified public accounting firm, other than the one preparing the quarterly and the annual statements, to conduct the audit of the Company's financial statements.	13

ITEMPAGE NO.

Subsequent to the examination date, the Company has hired a different accounting firm to conduct the annual audit for the year 2001.

The Company has complied with this recommendation.

F. Accounts and Records

i. Financial Statements

It is recommended that the Company comply with the annual statement instructions in comprising its annual statements and exercise greater care in preparing Schedule P and other exhibits and schedules in its future quarterly and annual statements. 13

The Company has not complied with this recommendation. A similar recommendation is stated in this report.

ii. Agents' Balances

(a) It is recommended that the Company not report any transactions that have no basis and no probability of collection. 14

The Company has complied with this recommendation.

(b) It is recommended that the Company monitor the collectibility of its agents' balances and report any non-admitted assets for amounts of doubtful value, in accordance with Section 1302(b) of the New York Insurance Law. 14

The Company has complied with this recommendation.

(c) It is recommended that the Company use the effective date of the policy to age its agents' balances and to calculate aged receivables, in accordance with SSAP #6 of the NAIC Accounting Practices and Procedures Manual. 14

The Company has complied with this recommendation.

iii. Investments

It is recommended that the Company comply with Section 1409(a) of the New York Insurance Law and restrict its investments in any one institution to no more than 10% of its admitted assets. 15

The Company has complied with this recommendation.

<u>ITEM</u>		<u>PAGE NO</u>
G. <u>Custodial Agreement</u>		
	It is recommended that the Company include all necessary provisions in the custodial agreement with its custodian for the protection of the Company's assets.	16
	The Company has complied with this recommendation.	
H. <u>Corporate Emergency Measures</u>		
	It is again recommended that the Company adopt a formal disaster recovery plan and make systematic preparation for the conduct of business and for the continuity of management in case of a catastrophic fire or other disaster. The Company should also develop a monitoring system to periodically evaluate the effectiveness of the plan.	16
	The Company has not complied with this recommendation.	
I. <u>Market Conduct Activities</u>		
	It is recommended that the Company establish written procedures and guidelines in complaints handling and convey the information to its brokers and claim officers.	22
	The Company has complied with this recommendation.	

7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>		<u>PAGE NO.</u>
A.	<u>Fidelity Bond Coverage</u>	
	It is recommended that the Company maintain adequate fidelity bond insurance coverage.	10
B.	<u>Accounts and Records</u>	
	It is recommended that the Company exercise care in preparing Schedule P in its future filed annual statements.	11
C.	<u>Corporate Emergency Measures</u>	
	It is again recommended that the Company adopt a formal disaster recovery plan and make systematic preparation for the conduct of business and for the continuity of management in case of a catastrophic fire or other disaster.	12
	The Company indicated that the management has started to implement parts of a disaster recovery plan.	

Respectfully submitted,

Moses Egbon, CFE
Senior Insurance Examiner

STATE OF NEW YORK)
)SS:
COUNTY OF NEW YORK)

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

Moses Egbon

Subscribed and sworn to before me

this _____ day of _____, 2005.

Appointment No 22239

**STATE OF NEW YORK
INSURANCE DEPARTMENT**

I, GREGORY V. SERIO, Superintendent of Insurance of the State of New York,
pursuant to the provisions of the Insurance Law, do hereby appoint:

Moses Egbon

as proper person to examine into the affairs of the

NORTH SEA INSURANCE COMPANY

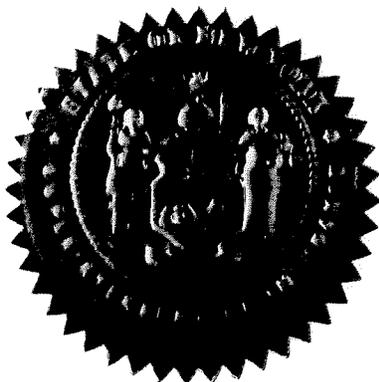
and to make a report to me in writing of the condition of the said

Company

with such other information as he shall deem requisite.

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

this 13th day of July, 2004





GREGORY V. SERIO
Superintendent of Insurance