

REPORT ON EXAMINATION  
OF  
RAMPART INSURANCE COMPANY  
AS OF  
DECEMBER 31, 2002

DATE OF REPORT

AUGUST 5, 2003

EXAMINER

JAINARINE TILAKDHARRY

## TABLE OF CONTENTS

<u>ITEM NO</u>	<u>PAGE NO.</u>
1. Scope of examination	2
2. Description of Company	3
A. Management	4
B. Territory and plan of operation	6
C. Reinsurance	8
D. Holding company system	12
E. Accounts and records	15
F. Significant operating ratios	17
3. Financial statements	19
A. Balance sheet	19
B. Underwriting and investment exhibit	21
4. Losses	23
5. Loss adjustment expenses	23
6. Other expenses	24
7. Market conduct activities	24
8. Subsequent events	25
9. Compliance with prior report on examination	26
10. Summary of comments and recommendations	29



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

August 5, 2003

Honorable Gregory V. Serio  
Superintendent of Insurance  
Albany, New York 12257

Sir:

Pursuant to the instructions contained in Appointment Number 22044, dated April 9, 2003 and attached hereto, I have made an examination into the condition and affairs of Rampart Insurance Company as of December 31, 2002, and respectfully submit the following report thereon.

The examination was conducted at the Company's home office located at 90 Broad Street, New York, New York 10004.

Whenever the designations "Company" or "Rampart" or "GAN" appear herein without qualification, they should be understood to indicate Rampart Insurance Company.

Whenever the designation the "Department" appears herein without qualification, it should be understood to indicate the New York Insurance Department.

## 1. SCOPE OF EXAMINATION

The prior examination was conducted as of December 31, 1998. This examination covered the four-year period from January 1, 1999 through December 31, 2002. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

The examination comprised of a complete verification of assets and liabilities as of December 31, 2002, a review of income and disbursements deemed necessary to accomplish such verification and utilized, to the extent considered appropriate, work performed by the Company's independent certified 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 the Company
- Management and control
- Corporate records
- Fidelity bond and other insurance
- Territory and plan of operation
- Growth of the Company
- Business in force
- Loss experience
- Reinsurance
- Market conduct activities
- 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 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 Company was incorporated on September 13, 1979 pursuant to Article 12 of the New York Insurance Law as GAN Anglo-American Insurance Company. The Company commenced writing business on May 30, 1980. The Company's name was changed to GAN National Insurance Company on October 16, 1992. Capital paid up was originally \$1 million consisting of 2000 shares of common stock at a par value of \$500 per share. In May 1990, the Company increased its paid-in capital to \$5 million by transfer of \$4 million from surplus. Thus, the \$5 million paid-in capital is comprise of 2,000 common shares with a par value of \$2,500 per share. Rampart's parent company made additional surplus contributions as follows:

<u>Year</u>	<u>Amount</u>
1988	\$6,000,000
1989	11,000,000
1990	8,000,000
1997	15,000,000
1998	<u>80,000,000</u>
Total	<u>\$120,000,000</u>

Sorema North America Reinsurance Company ("Sorema") acquired the Company as of July 1, 1999. This amounted to a lateral transfer within the Groupama holding company system from under GAN International to Sorema. At about the same time Sorema acquired control of GAN, the name of the Company was changed to "Rampart Insurance Company." On August 25, 1999, subsequent to the

acquisition, Sorema changed the management of and contributed \$23 million in securities to the Company on September 7, 1999. On July 31, 2001, Rampart was sold by Sorema to its affiliate, Groupama International. Subsequent to the sale of Rampart, all writing of new business ceased.

On December 17, 2002, the New York Insurance Department approved the redemption and retirement of seven hundred and sixty two shares of the Company's common stock and a simultaneous return of capital to the parent of \$30,030,085. On the same date, the Company amended its charter to increase its capital from \$5,000,000 to \$5,000,010 by decreasing the number of authorized shares from 2,000 to 1,238 and to increase the par value of the shares from \$2,500 per share to \$4,039 per share. This transaction was also approved by the Department.

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. As of the examination date, the board of directors was comprised of the following thirteen members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Michel Beauchesne Paris, France	Managing Director, Groupama S.A.
Jean-Paul Bouquin Paris, France	Managing Director, Groupama S.A.
Mark P. Bronzo White Plains, New York	Managing Director, Groupama Asset Management
Robert M. Brown Brooklyn, New York	Senior Vice President, Rampart Insurance Company

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
René Cado Chaville, France	Director, Groupama S.A.
Christian Collin Paris, France	General Counsel, Groupama S.A.
Jacques Giraud Paris, France	Chief Operating Officer, Groupama S.A.
Rolph Harff Antony, France	Managing Director, Groupama S.A.
Joseph C. O'Connor Briarcliff Manor, New York	Managing Director, Groupama Asset Management
Daniel W. Portanova Ho-Ho-Kus, New Jersey	Managing Director, Groupama Asset Management
Mark J. Purcell Staten Island, New York	President & Chief Executive Officer, Rampart Insurance Company
John T. Speckman Bronx, New York	Executive Vice President, Rampart Insurance Company
Marc M. Tract, Esq. Brookville, New York	KMZ Rosenman LLP

The minutes of all meetings of the board of directors held during the examination period were reviewed. It was noted that three board members, Michel Beauchesne, Mark P. Bronzo and Joseph O'Connor, did not attend any of the meetings that they were eligible to attend. Christian Collin attended only 33% of the meetings that he was eligible to attend.

Members of the board have a fiduciary responsibility and must evince an ongoing interest in the affairs of the Company. It is essential that board members attend meetings consistently and set forth their

views on relevant matters so that appropriate decisions can be reached by the board. Individuals who fail to attend at least one-half of the board's regular meetings do not fulfill such criteria.

It is recommended that board members who are unable to attend meetings consistently should resign or be replaced.

The following were the principal officers of the Company on December 31, 2002:

Mark J. Purcell	President and Chief Executive Officer
Christiane Strano	Secretary
Peter F. Henry	Treasurer

B. Territory and Plan of Operation

At December 31, 2002, Rampart Insurance Company was licensed in forty-two states and the District of Columbia. Credit is allowed for reinsurance as an accredited reinsurer in Alaska, North Carolina and Tennessee.

The following schedule illustrates the direct premiums written by the Company within the State of New York and the total direct premiums written during the examination period:

DIRECT WRITTEN PREMIUNS

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
New York	\$221,759	\$3,017,516	\$1,877,090	\$141,602
Countrywide	\$554,641	\$4,938,548	\$3,543,571	\$267,398
% New York to Countrywide	39.98%	61.10%	52.97%	52.96%

As of December 31, 2002, the Company is licensed to transact the kinds of insurance as set forth in the following numbered paragraphs of Section 1113(a) of the New York Insurance Law:

<u>Paragraph</u>	<u>Line of Insurance</u>
3	Accident and health
4	Fire
5	Miscellaneous property damage
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
20	Marine and inland marine
21	Marine protection and indemnity

In addition, the Company is licensed to write such workers' compensation insurance as may be incidental to coverages contemplated under paragraphs 20 and 21 of Section 1113 (a), of the New York Insurance Law, including insurances described in the Longshoremen's and Harbor Workers' Compensation Act (Public Law 803, 69<sup>th</sup> Congress as amended 33USC Section 901 et. seq. as amended).

Based upon 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 of \$35,000,000.

C. Reinsurance

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

Intercompany Pooling Agreement

The Company and its subsidiary, Western Continental Insurance Company ("Western Continental"), formerly GAN North American Insurance Company, entered into an intercompany pooling arrangement on January 1, 1992. All business written by the Company and Western Continental was pooled and each company participated in the combined underwriting, reinsurance, retrocessions and claims operations of the other. Western ceded 100% of its business to the Company, which in turn retroceded 15% of the combined business after reinsurance back to Western. The Company retained 85% of the net combined business after reinsurance. Effective January 1, 2000, the pooling agreement was terminated.

Effective November 1, 1999, Rampart Insurance Company entered into a 95% quota share reinsurance agreement with Sorema North America Reinsurance Company, whereby 95% of all business entered into or issued by the Company on or after November 1, 1999 was ceded to Sorema. Under the terms of the agreement, Sorema also provided Rampart with 100% stop loss protection for a loss ratio in excess of 105%. This agreement was amended as of July 27, 2001, to allow Rampart to cede to Sorema 100% of all policies with an expiration date of December 2000 and for all policies entered into or issued by the Company on or after January 1, 2001. These transactions were approved by the New York State Insurance Department.

The examiner reviewed all ceded reinsurance contracts in effect at December 31, 2002. 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, 2002, which was the same as the prior report:

<u>Type of Contract</u>	<u>Coverage</u>
<u>Property Per Risk Excess of Loss</u>	
First Property Per Risk 73.86% authorized 26.14% unauthorized	\$500,000 excess of \$500,000 ultimate net loss any one risk, subject to an occurrence limit of \$1,500,000.
Second Property Per Risk 71.58% authorized 28.42% unauthorized	\$4,000,000 excess of \$1,000,000 ultimate net loss any one risk, subject to an occurrence limit of \$8,000,000.
<u>Property Catastrophe Excess of Loss</u>	
<u>Property Catastrophe Excess</u> 92.50% authorized 7.50% unauthorized	\$2,000,000 excess of \$1,000,000 ultimate net loss, in respect any one such loss occurrence, nor more than an aggregate of \$4,000,000.
<u>Casualty Excess of Loss</u>	
First Casualty Excess 97.5% authorized 2.5% unauthorized	\$500,000 excess of \$500,000 ultimate net loss each and every loss occurrence. Notwithstanding the foregoing, \$500,000 excess of \$500,000 ultimate net loss in the aggregate any one original policy each original policy year.

Type of ContractCoverage

Second Casualty Excess  
 92.5% authorized  
 7.5% unauthorized

\$5,000,000 excess of \$1,000,000 ultimate net loss each and every loss occurrence. Notwithstanding the foregoing, \$5,000,000 excess of \$1,000,000 ultimate net loss in the aggregate any one original policy each original policy year.

Casualty Clash Excess of Loss

First Layer Excess  
 85.0% authorized  
 15.0% unauthorized

\$4,000,000 excess of \$6,000,000 ultimate net loss in respect of each such loss occurrence. Notwithstanding the foregoing, \$4,000,000 excess of \$6,000,000 ultimate net loss in the aggregate any one original policy each original policy year.

Second Layer Excess  
 87.5% authorized  
 12.5% unauthorized

\$5,000,000 excess of \$10,000,000 ultimate net loss in respect of each such loss occurrence. Notwithstanding the foregoing, \$5,000,000 excess of \$10,000,000 ultimate net loss in the aggregate any one original policy each original policy year.

Workers' Compensation Excess of Loss

First Per Claimant Excess  
 98.0% authorized  
 2.0% unauthorized

\$1,000,000 excess of \$10,000,000 ultimate net loss in respect of each claimant each such loss occurrence. The limit of liability of the Reinsurer in respect of any one claimant each such loss occurrence shall be \$1,000,000, subject to an annual aggregate limit of \$10,000,000.

<u>Type of Contract</u>	<u>Coverage</u>
Second Per Claimant Excess 98.0% authorized 2.0% unauthorized	\$3,000,000 excess of \$2,000,000 ultimate net loss in respect of each claimant each such loss occurrence. The limit of liability of the Reinsurer in respect of any one claimant each such loss occurrence shall be \$3,000,000, subject to an annual aggregate limit of \$10,000,000.
 <u>Workers' Compensation Catastrophe Excess</u>	
First Layer Excess 98.0% authorized 2.0% unauthorized	\$4,000,000 excess of \$1,000,000 ultimate net loss in respect of each such loss occurrence.
Second Layer Excess 98.0% authorized 2.0% unauthorized	\$5,000,000 excess of \$5,000,000 ultimate net loss in respect of each such loss occurrence.
Third Layer Excess 98.0% authorize 2.0% unauthorized	\$10,000,000 excess of \$10,000,000 ultimate net loss in respect of each such loss occurrence.
Fourth Layer Excess 98.0% authorized 2.0% unauthorized	\$20,000,000 excess of \$20,000,000 ultimate net loss in respect of each such loss occurrence.

In addition to the above agreements, the Company also had the following agreements providing additional reinsurance protection:

(i) Portfolio Retrocessions

Effective January 1, 2001, the Company entered into portfolio retrocessional agreements with General Security Natonal Insurance Company ("GSNIC"). Formerly known as Sorema North America Reinsurance Company. Under the terms of these agreements, GSNIC transferred its obligations, as the assuming reinsurer, under certain reinsurance agreements to the Company. These agreements constituted

novations, if that Company accepted and assumed 100% of GSNIC's obligations as if it were the original reinsurer under certain on GSNIC's underlying reinsurance agreements.

Effective October 1, 2002, Rampart entered into a "loss portfolio transfer and assumption agreement" with its subsidiary Western Continental. Under the terms of the agreement Rampart has effectively taken on all liabilities of its subsidiary for underwriting years 1999 and prior. This agreement was entered into in preparation of the sale of Western Continental which took place in February of 2003. These transactions were approved by the Department.

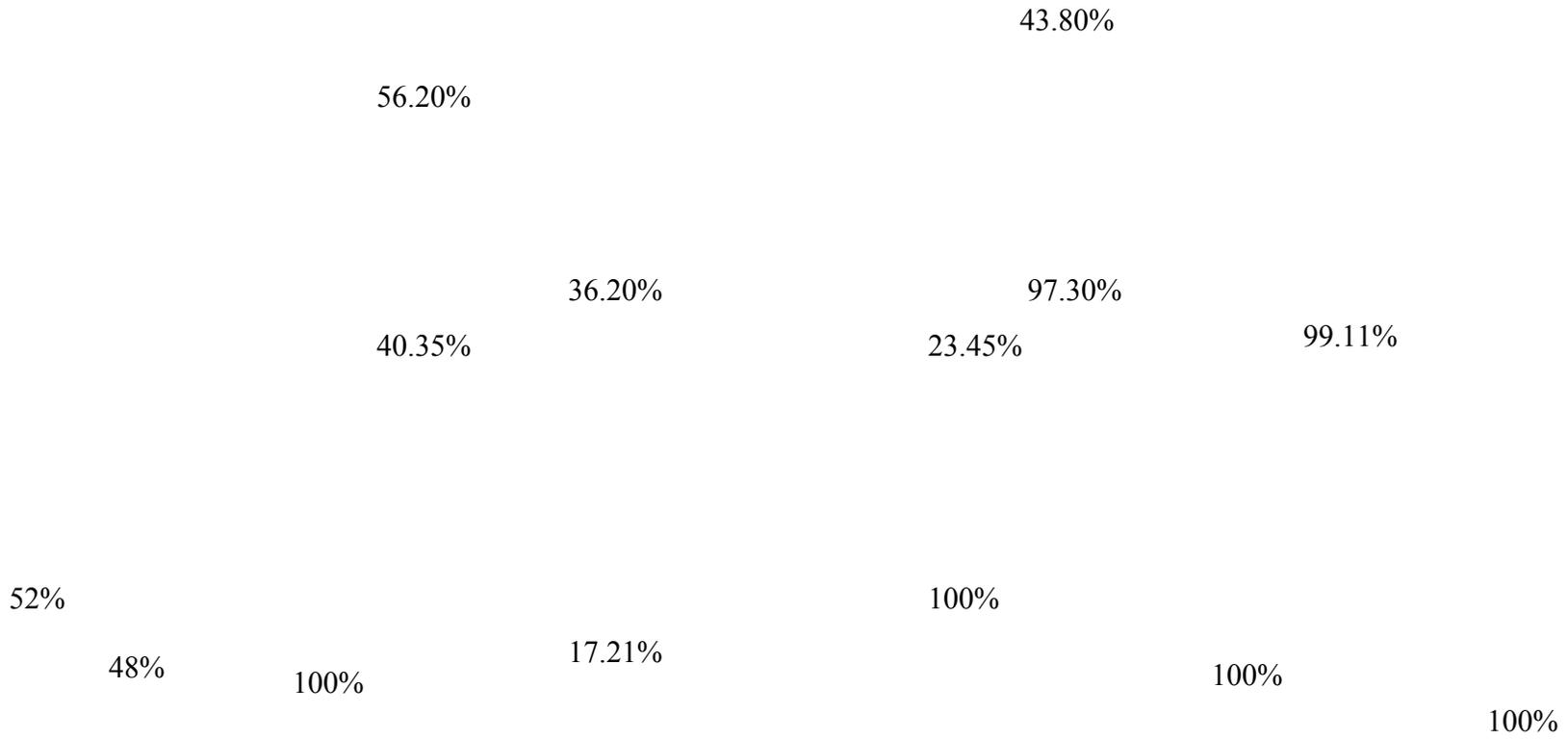
The loss portfolio transfer with GSNIC included reinsurance contracts that covered various underwriting years for 1985 and prior. The Company incorrectly reported the reserves of \$53.6 million associated with this lost portfolio transfer to underwriting year 2000 in Schedule P for year end 2001. In 2002 Schedule P, the reserves were reported to the correct underwriting years.

D. Holding Company System

The Company is a wholly-owned subsidiary of Groupama International, a French Company, which in turn is wholly-owned by Groupama S.A., another French Company. As of December 31, 2002, Rampart owned all the outstanding shares of Western Continental Insurance Company. The Company has made the appropriate filings required by Article 15 of the New York Insurance Law and Department Regulation 52.

The following chart depicts the Company's position the holding company system:

# COMPANY ORGANIZATIONAL CHART



At December 31, 2002, the Company had the following service agreements in effect with its parent:

1. Investment Advisory Agreement

The Company has a management agreement with an affiliated company, Groupama Asset Management (“manager”). Under this agreement, which became effective on February 1, 1999 and was approved by the Department, the manager agrees to manage the Company’s investment portfolio. Effective May 12, 2003, Groupama Asset Management was purchased by Gartmore Global Investments and its name changed to Gartmore Separate Account, L.L.C.

2. Employment Agreement

As of December 31, 2002, the Company had two employment agreements in effect. One is with Mr. Mark Purcell, the President and Chief Executive Officer of the Company, and the other one is with Mr. John Speckman, the Chief Claims Officer. Both of these agreements became effective on October 31, 2001 and expire on December 31, 2006. No disclosure of these contracts were made in the 2002 financial statement. However, the Company indicated that a disclosure of a contingent liability would be made in future annual statements.

3. Tax Allocation Agreement

For the year ended December 31, 2002, the Company filed a consolidated federal income tax return with its subsidiary, Western Continental Insurance Company. The Company does not have a separate tax allocation agreement.

Department Circular Letter #33 (1979) states that every domestic insurer which is a party to a consolidated federal income tax filing must have a definitive written agreement, approved by its board of directors. Section 1505(d)(2) of the New York State Insurance Law, which states in part:

“The following transactions between a domestic controlled insurer and any person in its holding company system may not be entered into unless the insurer has notified the superintendent in writing of its intention to enter into such transaction at least thirty days prior thereto, or such shorter period as he may permit and he has not disapproved it within such period: (2) reinsurance treaties or agreements...”

Western Continental was sold in 2003.

E. Accounts and Records

As part of the sale agreement between GAN International and Sorema, Sorema was issued a reserve guaranty, covering all reinsurance and insurance business underwritten by GAN prior to January 1, 1999. The intention of this guaranty was to protect Sorema’s surplus to policyholders against any adverse development of Sorema’s new subsidiary, Rampart Insurance Company, for the December 31, 1998 reserve for loss and loss adjustment expenses.

On July 31, 2001, Rampart was sold by Sorema to Groupama International. As part of the sale agreement, Groupama International transferred the guaranty from Sorema North America to Rampart. Rampart received \$7,659,735 in cash as an advance payment against the estimated adverse development on the December 31, 1998, loss and lost adjustment expense reserves. This amount was recorded as a debit to cash and a credit to other liabilities in Rampart’s 2001 general ledger. In principle, as an adverse development occurs, the liability is reduced. The transaction was approved by the Department as part of the acquisition of the Company.

At December 31, 2002, the Company recognized \$1,698,712 as other income and reported it as a special surplus fund. The balance of \$5,961,023 was recorded as other liabilities. The Company requested and received an opinion from its certified public accountant about the accounting treatment of this guaranty.

### Investments

Section 1402 of the New York Insurance Law requires a domestic insurer to “..invest and maintain an amount equal to the greater of the minimum capital required by law or the minimum surplus to policyholders required to be maintained by law . . . only in investments of the types specified in this section which are not in default as to principal or interest”. Section 1402(b) sets forth the type of permissible minimum capital investments, as follows:

“Not less than sixty percent of the amount of the required minimum capital or surplus to policyholder investments shall consist of the types specified in paragraphs one and two hereof:

- (1) Obligations of the United States or of any agency thereof provided such agency obligations are guaranteed as to principal and interest by the United States.
- (2) Direct of obligations of this state or of any county, district or municipality thereof.
- (3) Direct obligations of any state of the United States.
- (4) Obligations secured by first mortgage loans which meet the standards specified in paragraph four of subsection (a) of section one thousand four hundred four of this article on property located in this state.”

The Company’s required to be maintain investments under Section 1402 of the New York Insurance Law is \$35,000,000. Examination review indicated that the Company’s minimum capital or minimum surplus to policyholder investments was deficient by \$4.9 million.

It is recommended that the Company comply with the provisions of Section 1402 of the New York Insurance Law.

F. Significant Operating Ratios

The following ratios have been computed as of December 31, 2002 based upon the results of this examination:

Net premiums written to surplus as regards policyholders	0.0 to 1
Liabilities to liquid assets (cash and invested assets less investment in affiliates)	159.33%
Premiums in course of collection to surplus as regards policyholders	0.00%

The ratio of Liabilities to liquid assets exceeds the benchmark of 105% established by the Insurance Regulatory Information System of the National Association of Insurance Commissioners. The unusual value is attributable to the examination increase to liability for losses and loss adjustment expenses, as well as a significant illiquid asset reported by the Company in its December 31, 2002 filed annual statement.

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

	<u>Amounts</u>	<u>Ratios</u>
Losses incurred	\$(15,473,327)	(1,256.11)%
Loss adjustment expenses incurred	26,805,291	2,176.03
Other underwriting expenses incurred	12,229,942	992.81
Net underwriting loss	<u>(22,330,060)</u>	<u>(1,812.73)</u>
 Premiums earned	 <u>\$1,231,846</u>	 <u>100.00%</u>

### 3. FINANCIAL STATEMENTS

#### A. Balance Sheet

The following shows the assets, liabilities and surplus as determined by this examination as of December 31, 2002:

<u>Assets</u>	<u>Examination</u>			<u>Company</u>	<u>Surplus Increase (Decrease)</u>
	<u>Assets</u>	<u>Non-admitted Assets</u>	<u>Admitted Assets</u>	<u>Admitted Assets</u>	
Bonds	\$ 70,893,050		\$ 70,893,050	\$ 70,893,050	
Common stocks	13,934,629		13,934,629	13,934,629	
Cash on hand and on deposit	465,937		465,937	465,937	
Premiums and agents' balances in the course of collection	(512,336)		(512,336)	(512,336)	
Funds held by or deposited with reinsured companies	54,686,918		54,686,918	54,686,918	
Amounts receivable under high deductible policies	430,279	430,279			
Reinsurance recoverables on loss and loss adjustment expense payments	3,985,843		3,985,843	3,985,843	
Electronic data processing equipment and software	225,224		225,224	225,224	
Interest, dividends, and real estate income due and accrued	1,047,780		1,047,780	1,047,780	
Receivable from parents, subsidiaries and affiliates	7,467,343		7,467,343	7,467,343	
Other assets non-admitted	308,471	308,471			
Aggregate write-ins for other than invested assets	<u>4,311,528</u>	<u>272,588</u>	<u>4,038,940</u>	<u>4,038,940</u>	
Total assets	<u>\$157,244,666</u>	<u>\$ 1,011,338</u>	<u>\$156,233,327</u>	<u>\$156,233,327</u>	<u>\$ 0</u>

<u>Liabilities</u>	<u>Examination</u>	<u>Company</u>	<u>Surplus Increase (Decrease)</u>
Losses	\$ 60,920,749	\$ 59,797,749	\$(1,123,000)
Loss adjustment expenses	16,872,338	8,958,338	(7,914,000)
Other expenses (excluding taxes, licenses and fees)		1,671,832	1,671,832
Unearned premiums	414,780	414,780	
Ceded reinsurance premiums payable (net of ceding commissions)	178	178	
Amounts withheld or retained by company for account of others	500,000	500,000	
Provision for reinsurance	1,483,861	1,483,861	
Aggregate write-ins for liabilities	<u>38,680,107</u>	<u>38,680,107</u>	<u>                    </u>
Total liabilities	<u>\$ 118,872,013</u>	<u>\$ 111,506,845</u>	<u>\$(7,365,168)</u>
 <u>Surplus and other funds</u>			
Aggregate write-ins for special surplus funds	\$ 1,698,712	\$ 1,698,712	
Common capital stock	5,000,010	5,000,010	
Gross paid-in and contributed surplus	127,735,015	127,735,015	
Unassigned funds (surplus)	<u>(97,072,423)</u>	<u>(89,707,255)</u>	<u>\$(7,365,168)</u>
Surplus as regards to policyholders	<u>\$ 37,361,317</u>	<u>\$ 44,726,482</u>	<u>\$(7,365,168)</u>
Total liabilities and surplus	<u>\$ 156,233,327</u>	<u>\$156,233,327</u>	

Note: The Internal Revenue Service has completed its audits of the consolidated federal income tax returns filed on behalf of the Company through the tax year ended 1997. All material adjustments, if any, made subsequent to the examination date and arising from said audits, are reflected in the financial statements included in this report.

B. Underwriting and Investment Exhibit

Surplus as regards policyholders increased \$28,764,438 during the four-year examination period, January 1, 1999 through December 31, 2002 detailed as follows:

Statement of Income

Underwriting Income

Premiums earned		\$1,231,846
Deductions		
Losses incurred	\$(15,473,327)	
Loss adjustment expenses incurred	26,805,291	
Other underwriting expenses incurred	<u>12,229,942</u>	
Total underwriting deductions		<u>23,561,906</u>
Net loss from underwriting		\$(22,330,060)

Investment Income

Net investment income earned	\$ 15,593,075	
Net realized capital gains	<u>3,942,013</u>	
Net investment gain		19,535,088

Other Income

Net loss from agents' or premium balances charged off	\$ (971,113)	
Provision for discontinued operations	5,918,656	
Interest on funds held	2,251,826	
Miscellaneous losses	<u>3,937,758</u>	
Total other income		<u>11,137,127</u>
Net income before federal and foreign income taxes		\$8,342,155
Federal and foreign income taxes incurred		<u>(176,764)</u>
Net income		<u>\$8,518,919</u>

Capital and Surplus Account

Surplus as regards policyholders,  
December 31, 1998 per report on examination \$8,596,874

	<u>Gains in</u> <u>Surplus</u>	<u>Losses in</u> <u>Surplus</u>	
Net income	\$ 8,518,919	\$	
Net unrealized capital gains	10,534,836		
Change in non-admitted assets	6,830,020		
Change in provision for reinsurance		1,089,262	
Capital paid-in	10		
Paid in surplus	<u>3,969,915</u>	_____	
 Total gains and losses	 <u>\$29,853,700</u>	 <u>\$1,089,262</u>	
 Net increase in surplus			 <u>28,764,438</u>
 Surplus as regards policyholders, December 31, 2002 per report on examination			 <u>\$37,361,312</u>

### 3. LOSSES

The examination liability of \$60,920,749 for losses is \$1,123,000 more than the \$59,797,749 reported by the Company as of December 31, 2002. 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 its filed annual statements and verified by the examiner. The examination liability reflects this Department's best estimate of the Company's ultimate liability for unpaid losses as of the examination date.

### 5. LOSS ADJUSTMENT EXPENSES

The examination liability of \$16,872,338 for loss adjustment expenses is \$7,914,000 more than the \$8,958,338 reported by the Company as of December 31, 2002. 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 its filed annual statements and verified by the examiner.

The examination increase represented a \$6,242,168 deficiency in the Company's unallocated loss adjustment expense reserves as of December 31, 2002, plus a reclassification of the Company's liability for other expenses of \$1,671,832 to its proper statutory classification of unallocated loss adjustment expenses. Section 1303 of the New York Insurance Law requires insurers to maintain,

“reserves in an amount estimated to provide for the expenses of adjustment or settlement of ...losses or claims.”

Since the Company has ceased writing any new business, the majority of unpaid operating expenses should have been classified as unallocated loss adjustment expenses.

It is recommended that the Company establish the necessary procedures so as to provide adequate reserves for unpaid unallocated loss adjustment expenses all future financial statements filed with this Department in order to comply with the requirements of Section 1303 of the New York Insurance Law.

#### **5. OTHER EXPENSES**

The Company reported an amount of \$1,671,832 as other expenses for accrued operating expenses. This amount has been reclassified to its proper statutory classification of unallocated loss adjustment expenses. Section 1303 of the New York Insurance Law requires insurers to maintain,

“reserves in an amount estimated to provide for the expenses of adjustment or settlement of ...losses or claims.”

Since the Company has ceased writing any new businesses, the majority of operating expenses should have been classified as unallocated loss adjustment expenses.

#### **7. MARKET CONDUCT ACTIVITIES**

In the course this examination, a review was made of the manner in which the Company conducts its business practices and fulfils 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 examination, 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 major areas:

- A. Sales and advertising
- B. Underwriting
- C. Rating
- D. Treatment of policyholders and claimants

No problems were encountered.

## **8. SUBSEQUENT EVENT**

On February 25, 2003, the Company sold its wholly-owned subsidiary Western Continental to CDC IXIS Financial Guaranty North America, Inc. under a stock purchase agreement dated November 4, 2002. The agreement, which was amended on December 4, 2002, February 21, 2003, and February 25, 2003, defined the purchase price as follows:

1. The amount of Western Continental's surplus as of February 24, 2003; plus
2. The amount of \$7,550,000; plus (or minus)
3. The unrealized gains or losses in Western Continental's investment portfolio as of February 24, 2003.

## 9. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination contained the following comments detailed as follows (page numbers refer to the prior report):

<u>ITEM</u>	<u>PAGE NO.</u>
<p>A. <u>Reinsurance</u></p> <p>i) It is recommended that the Company endeavor to have all of its reinsurance agreements reduced to written form and signed within nine months of the effective date, in accordance with the NAIC Accounting Practices and Procedures Manual for Property/Casualty Insurance Companies, Chapter 22, "Reinsurance."</p> <p>The Company has complied with this recommendation</p> <p>ii) It is recommended that the funding sections of all the Company's ceded reinsurance contracts be amended to comply with all the provisions of Section 79.5(a)(2)(iii) of Department 133.</p> <p>The Company has complied with this recommendation</p>	<p>11-13</p>
<p>B. <u>Holding Company System</u></p> <p>It is recommended that in future annual statement filings with the Department that the holding company chart or schedule include all of the Company's affiliated insurers and other affiliates, as required by the NAIC Annual Statement Instructions.</p> <p>The Company has complied with this recommendation</p>	<p>13-16</p>
<p>C. <u>Management Agreement</u></p> <p>It is recommended that the Company file an amended insurance management and services agreement with the Department, in accordance with Section 1505(d)(3) of the New York Insurance Law.</p> <p>This agreement is no longer in effect.</p>	<p>16-18</p>

<u>ITEM</u>	<u>Tax Allocation Agreement</u>	<u>PAGE NO.</u>
D.	<p>It is recommended that the Company file its tax allocation agreement with the Department, in accordance with Section 1505(d)(3) of the New York Insurance Law.</p> <p>It is recommended that the Company's board of directors ratify its tax allocation agreement, in accordance with Department Circular Letter No. 33(1979).</p> <p>The Company sold its subsidiary in February of 2003.</p>	18
E.	<p><u>Ward North America, Inc.</u></p> <p>i) The Company's investment in Ward was required to be filed with the New York Insurance Department, pursuant to Section 1505(d)(1) of the Insurance Law. The Company failed to make the proper filing with the New York Insurance Department.</p> <p>The investment in Ward had been disposed of.</p> <p>ii) Neither the Company's July 1, 1996 nor January 1, 1998 third party administrative agreement with Ward, had been filed with the New York Insurance Department, as required by Section 1505(d)(3) of the New York Insurance Law. The Company terminated its relationship with Ward in November 1998.</p> <p>This agreement is no longer in effect.</p>	18-19
	<p><u>Conflict of Interest</u></p> <p>It is recommended that the Company's officers complete conflict of interest statements annually.</p> <p>It is recommended that the Company's policy guide on conflicts of interest be amended to require all directors, officers and principal employees to state all business relationships that exist between entities which the director, officer, principal employee or any member of their immediate family are associated and which transact any material business with the Company, i.e. agency affiliations, law firms, investment management services, claims adjusting services, suppliers, vendors, etc.</p> <p>The Company has complied with these recommendations</p>	21

<u>ITEM</u>	<u>PAGE NO.</u>
G.	23-24
<u>Inaccurate Financial Statement</u>	
	It appears that the Company's September 30, 1997 quarterly statement filed with the New York Insurance Department was deliberately misstated to preserve the Company's A.M. Best's rating. As such it appears that the Company's officers failed to adhere to the requirements of the jurats of the quarterly statement of the same date.
H.	29-30
<u>Common Stocks – Investment in Insurance Company Stock</u>	
	It is recommended that the Company adhere to the limitations of Section 1404(b) of the New York Insurance Law when valuing the investment in insurance company stock in its statutory financial statements.
	The Company has complied with this recommendation
I.	32
<u>Deductible Recoveries</u>	
	It is recommended that the Company refrain from recording deductible recoveries on paid losses as admitted assets in its statutory financial statements.
	The Company has complied with this recommendation
J.	35-36
<u>Allocated Loss Adjustment Expenses</u>	
	It is recommended that the Company establish an appropriate case reserve for allocated loss adjustment expenses, in accordance with Section 4117(b)(1) of the New York Insurance Law.
	The Company is establishing adequate case reserve for allocated loss adjustment expenses in a timely manner.
K.	36-37
<u>Federal Income Taxes Recoverable</u>	
	It is recommended that the Company's admitted assets for inter-company receivables and federal income taxes recoverable comply with Department Circular Letter No. 15 (1975).
	This Company has complied with this recommendation.

- L. New York Insurance Department Circular Letter No. 11 (1978) 38

It is recommended that the Company furnish the Insurance Department's Consumer Services Bureau with the name and title of the corporate officer specifically designated to investigate and resolve complaints, in accordance with Department Circular Letter No. 11 (1978).

This recommendation has been complied with.

## 10. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Board of Directors</u>	
It is recommended that board members who are unable to attend meetings consistently should resign or be replaced.	5
B. <u>Accounts and Records</u>	
It is recommended that the Company change its investment portfolio to comply with the investment requirements of Section 1402 of the New York Insurance Law.	17
C. <u>Loss Adjustment Expenses</u>	
It is recommended that the Company establish the necessary procedures so as to provide adequate reserves for unpaid unallocated loss adjustment expenses all future financial statements filed with this Department in order to comply with the requirements of Section 1303 of the New York Insurance Law.	24



Appointment No. 22044

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:

**Jainarine Tilakdharry**

*as proper person to examine into the affairs of the*

**RAMPART INSURANCE COMPANY**

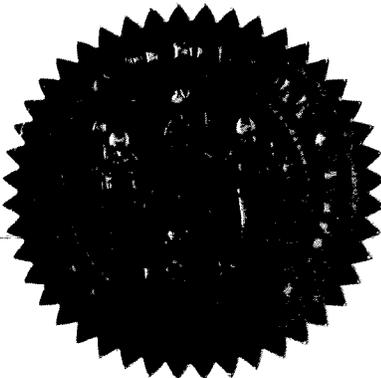
*and to make a report to me in writing of the condition of the said*

**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 9th day of April, 2003*



  
\_\_\_\_\_  
GREGORY V. SERIO  
Superintendent of Insurance