

REPORT ON EXAMINATION

OF THE

RAMPART INSURANCE COMPANY

AS OF

DECEMBER 31, 2012

DATE OF REPORT

NOVEMBER 1, 2013

EXAMINER

BERNARD LOTT

## 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	5
	C. Reinsurance	6
	D. Holding company system	7
	E. Significant operating ratios	8
3.	Financial Statements	9
	A. Balance sheet	9
	B. Statement of income	10
4.	Losses and loss adjustment expenses	11
5.	Compliance with prior report on examination	12
6.	Summary of comments and recommendations	12



NEW YORK STATE  
DEPARTMENT *of*  
FINANCIAL SERVICES

Andrew M. Cuomo  
Governor

Benjamin M. Lawsky  
Superintendent

November 1, 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 31020 dated July 15, 2013, attached hereto, I have made an examination into the condition and affairs of Rampart Insurance Company as of December 31, 2012, and submit the following report thereon.

Wherever the designation “the Company” appears herein without qualification, it should be understood to indicate Rampart Insurance Company. In addition, wherever the designation “Groupama” appears herein without qualification, it should be understood to indicate the Company’s immediate and ultimate parent, Groupama S.A.

Wherever the term “Department” appears herein without qualification, it should be understood to mean the New York State Department of Financial Services.

The examination was conducted at the Company’s home office located at 80 Broad Street, New York, NY 10004.

## 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, 2007. This examination covered the five-year period from January 1, 2008 through December 31, 2012. Transactions occurring subsequent to this period were reviewed where deemed appropriate.

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. In addition, reliance was placed 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
- Pensions, stock ownership and insurance plans
- 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 incorporated under the laws of the State of New York on September 13, 1979 as GAN Anglo-American Insurance Company and commenced writing business on May 30, 1980. The Company's name was changed to GAN National Insurance Company on October 16, 1992. In 1998, the Company ceased writing business.

On August 2, 1999, Sorema North America Reinsurance Company ("Sorema") acquired 100% of the stock of the Company from GAN International. The Company's name was changed to Rampart Insurance Company on August 25, 1999. The Company resumed writing business in the 3<sup>rd</sup> quarter of 2000.

On July 31, 2001, Groupama International acquired 100% of the Company's stock from Sorema (now known as General Security National Insurance Company). Upon acquisition by Groupama International, the Company ceased writing new business and all business written in 2000 and subsequent was ceded 100% to General Security National Insurance Company.

Effective October 1, 2002, the Company entered into a Loss Portfolio Transfer and Assumption Reinsurance Agreement with its subsidiary, Western Continental Insurance Company ("Western Continental") whereby the Company assumed all of the liabilities of Western Continental for underwriting years 1999 and prior. This agreement was entered into as part of the sale of Western Continental, which took place in February of 2003.

The Company's current operations involve managing the runoff of business written by the Company prior to 2000 as well as various reinsurance contracts assumed from Sorema that are also in runoff.

At December 31, 2012, capital paid in was \$5,000,000 consisting of 653 shares of common stock at \$7,656.97 par value per share. Gross paid in and contributed surplus was \$109,721,294. On

August 2, 2012, pursuant to a plan of stock redemption and retirement, the Company repurchased, from Groupama, 349 shares of its common stock at the aggregate price of \$7,990,875, representing the book value of the redeemed shares. The Company then retired the repurchased shares and, through a charter amendment, increased the par value of the remaining 653 shares from \$4,990.02 per share to \$7,656.97 per share. As a result of this transaction, the Company's paid in capital of \$5,000,000 remains the same and its gross paid in and contributed surplus decreased by \$7,790,875. The plan of stock redemption and retirement was approved by this Department. Gross paid in and contributed surplus decreased by \$7,990,875 during the examination period, as follows:

<u>Year</u>	<u>Description</u>	<u>Amount</u>
2008	Beginning gross paid in and contributed surplus	\$117,712,169
2012	Distribution to parent from stock redemption	<u>(7,990,875)</u>
2012	Ending gross paid in and contributed surplus	<u>\$109,721,294</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 two times during each calendar year. At December 31, 2012, the board of directors was comprised of the following thirteen members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Mark P. Bronzo White Plains, NY	Managing Director, Security Global Investors
Robert M. Brown Brooklyn, NY	Retired
Rene Cado Chaville, France	Director, Groupama S.A.
Charles de Tinguy Rome, Italy	Managing Director, Groupama S.A.
Sophie Dureu Joinville-le-Pont, France	Director, Groupama S.A.
Yu Yi Fang Paris, France	Managing Director, Groupama S.A.

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Joseph O'Connor Briarcliff Manor, NY	Managing Director, Security Global Investors
Daniel W. Portanova Ho-Ho-Kus, NJ	Managing Director, Security Global Investors
Mark J. Purcell Staten Island, NY	President & Chief Executive Officer, Rampart Insurance Company
Daniel Sidobre Paris, France	Directeur Juridique, Groupama S.A.
John T. Speckman Lakewood, NJ	Claims Consultant, Rampart Insurance Company
Marc M. Tract Brookville, NY	Partner, Katten Muchin Rosenman LLP
Dominique Uzel Madrid, Spain	Managing Director, Groupama International

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, 2012, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Mark J. Purcell	President
Christiane Strano	Secretary
Peter Henry	Treasurer

B. Territory and Plan of Operation

As of December 31, 2012, the Company was licensed to write business in 42 states and the District of Columbia.

As of the examination date, the Company was authorized to transact the kinds of insurance as defined in the following numbered paragraphs of Section 1113(a) of the New York Insurance Law:

<u>Paragraph</u>	<u>Line of Business</u>
3	Accident & health
4	Fire
5	Miscellaneous property
6	Water damage
7	Burglary and theft
8	Glass
9	Boiler and machinery
10	Elevator
11	Animal
12	Collision
13	Personal injury liability
14	Property damage liability
15	Workers' compensation and employers' liability
16	Fidelity and surety
17	Credit
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine
21	Marine protection and indemnity
29	Legal services

Based on the lines of business for which the Company is licensed and the Company's current capital structure, and pursuant to the requirements of Articles 13 and 41 of the New York Insurance Law, the Company is required to maintain a minimum surplus to policyholders in the amount of \$2,200,000.

During 1998, the Company stopped writing business and went into run-off. The Company briefly began writing business again in 2000 but ceased writing business again concurrent with its sale to Groupama International on July 31, 2001. All new business written in 2000 and subsequent has been ceded 100% to General Security National Insurance Company.

### C. Reinsurance

As of December 31, 2012, the company had no reinsurance coverage in effect. The company has been in runoff since July 2001 and no longer assumes any business.

Examination review found that the Schedule F data reported by the Company in its filed annual statement accurately reflected its reinsurance transactions. Additionally, management has represented that all material ceded reinsurance agreements transfer both underwriting and timing risk as set forth in SSAP No. 62.

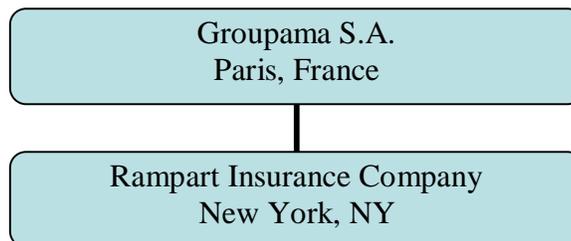
During the period covered by this examination, the Company commuted various reinsurance agreements where it was an assuming reinsurer. These commutations did not have a material effect on the Company's surplus position.

D. Holding Company System

The Company is a member of the Groupama Group. The Company is 100% owned by Groupama S.A., a French company, which is its immediate and ultimate parent.

Pursuant to Part 80-1.4 of New York Regulation 52, all controlled insurers are required to file an annual holding company registration statement (Form HC1) within 120 days following the end of its ultimate holding company's fiscal year (Groupama's fiscal year ends on the thirty-first day of December). A review of the Holding Company Registration Statements filed with this Department indicated that such filings were not filed in a timely manner for any year covered by this examination. It is recommended that the Company file its annual holding company registration statements in a timely manner pursuant to the provisions of Part 80-1.4 of Department Regulation 52.

The following is an abridged chart of the holding company system at December 31, 2012:



E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2012, based upon the results of this examination:

Net premiums written to surplus as regards policyholders	0%
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	145% *
Premiums in course of collection to surplus as regards policyholders	0%

The first and third ratios are not applicable due to the run-off status of the Company. The second ratio falls outside the benchmark range set forth in the Insurance Regulatory Information System of the National Association of Insurance Commissioners. This appears to be due primarily to the Company maintaining approximately 47% of its total assets in an illiquid “funds held” account. In addition, the examination increased the liabilities for losses and loss adjustment expense, which increased the ratio further.

### 3. FINANCIAL STATEMENTS

#### A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2012 as determined by this examination and as reported by the Company:

<u>Assets</u>	Examination		Net Admitted <u>Assets</u>
	<u>Assets</u>	<u>Not-Admitted</u>	
Bonds	\$21,723,684	\$ 0	\$21,723,684
Cash, cash equivalents and short-term investments	488,142		488,142
Investment income due and accrued	119,280		119,280
Uncollected premiums and agents' balances in the course of collection	(8,960)		(8,960)
Amounts recoverable from reinsurers	324,801		324,801
Funds held by or deposited with reinsured companies	20,027,876		20,027,876
Current federal and foreign income tax recoverable and interest thereon	11,874		11,874
Electronic data processing equipment and software	8,952		8,952
Furniture and equipment, including health care delivery assets	590	590	0
Aggregate write-ins for other than invested assets	<u>38,311</u>	<u>38,311</u>	<u>0</u>
Total assets	<u>\$42,734,550</u>	<u>\$38,901</u>	<u>\$42,695,649</u>
<u>Liabilities, surplus and other funds</u>			Surplus Increase (Decrease)
	<u>Examination</u>	<u>Company</u>	<u>(Decrease)</u>
Losses and loss adjustment expenses	\$30,553,839	\$27,753,839	\$2,800,000
Reinsurance payable on paid losses and loss adjustment expenses	451,664	451,664	0
Ceded reinsurance premiums payable (net of ceding commissions)	104,546	104,546	0
Funds held by company under reinsurance treaties	102,914	102,914	0
Amounts withheld or retained by company for account of others	50,000	50,000	0
Provision for reinsurance	58,349	58,349	0
Payable for securities	13,662	13,662	0
Aggregate write-ins for liabilities	<u>184</u>	<u>184</u>	<u>0</u>
Total liabilities	<u>\$31,335,158</u>	<u>\$28,535,158</u>	<u>\$2,800,000</u>
Common capital stock	\$ 5,000,000	\$ 5,000,000	\$ 0
Gross paid in and contributed surplus	109,721,294	109,721,294	0
Unassigned funds (surplus)	<u>(103,360,803)</u>	<u>(100,560,803)</u>	<u>2,800,000</u>
Surplus as regards policyholders	<u>\$11,360,491</u>	<u>\$14,160,491</u>	<u>\$2,800,000</u>
Totals	<u>\$42,695,649</u>	<u>\$42,695,649</u>	

Note: The Internal Revenue Service has not audited the Company's Federal Income Tax returns for the years covered by this examination (2008 through 2012). 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 \$10,917,523 during the five-year examination period January 1, 2008 through December 31, 2012, detailed as follows:

Underwriting Income

Premiums earned		\$ 69,724
Deductions:		
Losses and loss adjustment expenses incurred	\$14,447,033	
Other underwriting expenses incurred	<u>378,236</u>	
Total underwriting deductions		<u>14,825,269</u>
Net underwriting gain or (loss)		\$(14,755,545)

Investment Income

Net investment income earned	\$6,096,411	
Net realized capital gain	<u>4,103,073</u>	
Net investment gain or (loss)		\$ <u>10,199,484</u>

Other Income

Interest income on funds held	\$1,750,915	
Change in Reserve Guaranty deposits	778,006	
Miscellaneous income/expenses	<u>(24,511)</u>	
Total other income		\$ <u>2,504,410</u>
Net income before dividends to policyholders and before federal and foreign income taxes		\$ (2,051,651)
Dividends to policyholders		<u>0</u>
Net income after dividends to policyholders but before federal and foreign income taxes		\$ (2,051,651)
Federal and foreign income taxes incurred		<u>(5,753)</u>
Net Income		\$ <u>(2,045,898)</u>

Surplus as regards policyholders per report on examination as of December 31, 2007			\$21,278,014
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	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income		\$ 2,045,898	
Change in non-admitted assets	11,692		
Change in provision for reinsurance	107,558		
Surplus adjustments paid in	<u>0</u>	<u>7,990,875</u>	
Net increase (decrease) in surplus	<u>\$119,250</u>	<u>\$10,036,773</u>	<u>\$(9,917,523)</u>

Surplus as regards policyholders per report on examination as of December 31, 2012			<u>\$11,360,491</u>
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#### 4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of \$30,553,839 is \$2,800,000 more than the \$27,753,839 reported by the Company in its filed 2012 annual statement. The examination change is wholly attributable to a deficiency in the Company's reported Adjusting and Other ("A&O") expenses.

The Department's actuarial analysis was conducted in accordance with generally accepted actuarial principles and practices and was based on the underlying data, assumptions and methodologies used in the Company's appointed actuary's Actuarial Report, the Statement of Actuarial Opinion, and the Actuarial Opinion Summary. The analysis included information obtained during meetings with the Company, the Company's responses to Department inquiries, and the Company's runoff history.

The Company has been in runoff since 2001 and A&O expenses comprise the majority of its operating expenses. A&O reserves have been inadequate since the last examination in 2007, resulting in substantial runoff deficiencies from 2006 onward because carried A&O reserves did not adequately reflect the projected future payments. Company assumptions in developing the A&O projected reserves were found to be unreasonable and/or inadequate.

## 5. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

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

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Accounts and Records</u>	
i. It is recommended that the Company amend its custodial agreement to comply with the NAIC Financial Examiner's Handbook Part 1 Section IV J.	9
ii. It is recommended that the Company comply with Department Regulation No. 118 by entering into future engagement letter contracts with its independent certified public accountant that contain the requisite provisions.	10

The Company is in compliance with the revised Regulation No. 118 in effect as of the examination date.

## 6. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Holding company</u>	
i. It is recommended that the Company file its annual holding company registration statements in a timely manner pursuant to the provisions of Part 80-1.4 of Department Regulation 52.	7

Respectfully submitted,

\_\_\_\_\_/s/  
Bernard Lott  
Senior Insurance Examiner

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

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

\_\_\_\_\_/s/  
Bernard Lott

Subscribed and sworn to before me

this \_\_\_\_\_ day of \_\_\_\_\_, 2014.

APPOINTMENT NO. 31020

**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:

**Bernard Lott**

as a proper person to examine the affairs of the

**Rampart Insurance Company**

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

**COMPANY**

with such other information as she shall deem requisite.

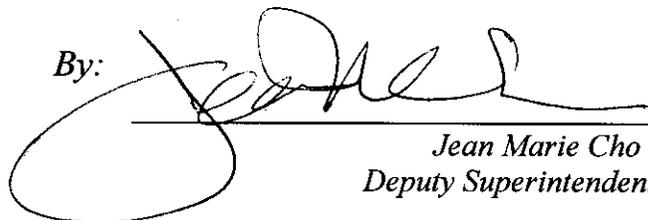
In Witness Whereof, I have hereunto subscribed by name  
and affixed the official Seal of the Department  
at the City of New York

this 15th day of July, 2013

**BENJAMIN M. LAWSKY**  
Superintendent of Financial Services



By:

  
\_\_\_\_\_  
Jean Marie Cho  
Deputy Superintendent