REPORT ON EXAMINATION

OF THE

LION INSURANCE COMPANY

AS OF

DECEMBER 31, 2002

DATE OF REPORT    MAY 1, 2004
EXAMINER     ROBERT A. VARGAS
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</table>
May 1, 2004

Honorable Gregory V. Serio
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 22090 dated August 26, 2003 attached hereto, I have made an examination into the condition and affairs of Lion Insurance Company as of December 31, 2002, and submit the following report thereon.

The examination was conducted at the Company’s administrative offices located at 999 Stewart Avenue, Bethpage, New York 11714.

Wherever the designations “the Company” appear herein without qualification, they should be understood to indicate Lion Insurance Company.

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

This examination has determined that both the Company’s capital and required to be maintained minimum surplus to policyholders are impaired in the amount of $410,896. The impairment was cured subsequent to the date of this examination as further described in item 8 herein, “Subsequent events”.

1. **SCOPE OF EXAMINATION**

The previous 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 a complete verification of assets and liabilities as of December 31, 2002. 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 Company was incorporated as a stock insurance company on July 14, 1989. It was licensed under the laws of the State of New York on October 1, 1990 and commenced operations on May 15, 1991. The Company is wholly-owned by Eagle insurance Company (the immediate parent), which is a wholly-owned subsidiary of The Robert Plan Corporation, a Delaware corporation.

Common capital stock is $1,500,000 consisting of 1,500 shares of common stock at $1,000 par value per share. Gross paid in and contributed surplus is $2,500,000. Gross paid in and contributed surplus and capital paid in did not change during the examination period.

**A. Management**

Pursuant to the Company’s charter and by-laws, the management of the Company shall be vested in a board of directors consisting of not less than thirteen nor more than twenty-one members. The board meets once during each calendar year. At December 31, 2002, the board of directors was comprised of only twelve members, as follows:

<table>
<thead>
<tr>
<th>Name and Residence</th>
<th>Principal Business Affiliation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Paul Michael Alliegro</td>
<td>Vice President</td>
</tr>
<tr>
<td>Bayport, NY</td>
<td>The Robert Plan Corp.</td>
</tr>
<tr>
<td>Lisa Ann Drillich</td>
<td>Vice President</td>
</tr>
<tr>
<td>Hewlett, NY</td>
<td>The Robert Plan Corp.</td>
</tr>
<tr>
<td>Marie Julia Grossman</td>
<td>Vice President,</td>
</tr>
<tr>
<td>Morganville, NJ</td>
<td>The Robert Plan Corporation</td>
</tr>
<tr>
<td>Name and Residence</td>
<td>Principal Business Affiliation</td>
</tr>
<tr>
<td>--------------------------</td>
<td>------------------------------------------------------</td>
</tr>
<tr>
<td>Monclair, NJ</td>
<td></td>
</tr>
<tr>
<td>John Louis Lusardi Jr.</td>
<td>Sr. Vice President, The Robert Plan Corp Corporation</td>
</tr>
<tr>
<td>Hazlet, NJ</td>
<td></td>
</tr>
<tr>
<td>Philbert Anthony Nezamoodeen</td>
<td>Sr. Executive Vice President, The Robert plan Corp Corporation</td>
</tr>
<tr>
<td>East Rockaway, NY</td>
<td></td>
</tr>
<tr>
<td>Robert Gustav Palm</td>
<td>Sr. Executive Vice President, The Robert Plan Corp Corporation</td>
</tr>
<tr>
<td>Fairfield, CT</td>
<td></td>
</tr>
<tr>
<td>Stephen Frank Paparo</td>
<td>Sr. Vice President, Marketing, The Robert Plan Corporation</td>
</tr>
<tr>
<td>Fort Salonga, NY</td>
<td></td>
</tr>
<tr>
<td>John David Reiersen</td>
<td>Vice Chairman, The Robert Plan Corp Corporation</td>
</tr>
<tr>
<td>Port Jefferson, NY</td>
<td></td>
</tr>
<tr>
<td>Sally Anne Udalovas</td>
<td>Retired, The Robert Plan Corp Corporation</td>
</tr>
<tr>
<td>Eatons Neck, NY</td>
<td></td>
</tr>
<tr>
<td>Robert Matthew Wallach</td>
<td>Chairman &amp; CEO, The Robert Plan Corp Corporation</td>
</tr>
<tr>
<td>Mill Neck, NY</td>
<td></td>
</tr>
<tr>
<td>William Wallach</td>
<td>Chairman Emeritus &amp; Director, The Robert Plan Corp Corporation</td>
</tr>
<tr>
<td>Lauderhill, FL</td>
<td></td>
</tr>
</tbody>
</table>

It is noted that the Company did not abide by its corporate by-laws or by Section 1201(a)(5)(B) of the New York Insurance Law which require that the board consist of a minimum of thirteen directors.

It is recommended that the Company abide by its by laws and by New York Insurance Law Section 1201(a)(5)(B) and elect a minimum of thirteen members to the board of directors.

It was noted that subsequent to the date of this examination, the board consisted of thirteen members as required by its by-laws.
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 has an acceptable record of attendance with the exception of William Wallach, who attended less than 50% of the meetings for which he was eligible to attend.

Members of the board have a fiduciary responsibility and must evince an ongoing interest in the affairs of the insurer. It is essential that board members attend meetings consistently and set forth their views on relevant matters so that the board may reach appropriate decisions. Individuals who fail to attend at least one-half of the regular meetings do not fulfill such criteria.

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

The board of directors’ executive and finance committees did not meet during the examination period. This appears to be in conflict with Article III(1) of the Company’s by-laws.

It is recommended that the executive and finance committees fulfill their responsibilities in accordance with the provisions of Article III(1) of the Company’s by-laws.

As of December 31, 2002, the principal officers of the Company were as follows:

<table>
<thead>
<tr>
<th>Name</th>
<th>Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>Philbert Anthony Nezamoodeen</td>
<td>President and Treasurer</td>
</tr>
<tr>
<td>Jasper John Jackson Jr.</td>
<td>Secretary</td>
</tr>
<tr>
<td>Robert Matthew Wallach</td>
<td>Vice President</td>
</tr>
<tr>
<td>Paul Michael Alliegro</td>
<td>Vice President</td>
</tr>
<tr>
<td>Jasper John Jackson Jr.</td>
<td>Vice President</td>
</tr>
<tr>
<td>John David Reiersen</td>
<td>Vice President</td>
</tr>
</tbody>
</table>
B. **Territory and Plan of Operation**

As of December 31, 2002, the Company was licensed to write business in New York State only.

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:

<table>
<thead>
<tr>
<th>Paragraph</th>
<th>Line of Business</th>
</tr>
</thead>
<tbody>
<tr>
<td>13</td>
<td>Personal injury liability</td>
</tr>
<tr>
<td>14</td>
<td>Property damage liability</td>
</tr>
<tr>
<td>19</td>
<td>Motor vehicle and aircraft physical damage</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Calendar Year</th>
<th>Direct Premiums Written</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999</td>
<td>$ 8,327,317</td>
</tr>
<tr>
<td>2000</td>
<td>9,502,289</td>
</tr>
<tr>
<td>2001</td>
<td>9,673,499</td>
</tr>
<tr>
<td>2002</td>
<td>(45,431)</td>
</tr>
<tr>
<td>Total</td>
<td>$ 27,457,674</td>
</tr>
</tbody>
</table>

Based on the lines of business for which the Company is licensed and the Company’s current capital structure, and pursuant to the requirements of Articles 13 and 41 of the New York Insurance Law, the Company is required to maintain a minimum surplus to policyholders in the amount of $1,500,000.
On December 6, 2001, the Company received permission to cease writing both new and renewal business in the state of New York as of January 1, 2002. The Company has entered into a runoff administration and management agreement with its affiliated companies: The Robert Plan of New York Corporation, The Robert Plan of California Corporation and Freedom General Agency, Inc.

The Company historically underwrote nonstandard voluntary private passenger and physical damage business for risks located in New York State.

C. Reinsurance

As of December 31, 2002, the Company had one ceded reinsurance quota share agreement in effect. Under the terms of this agreement, the Company ceded 70% of automobile liability and physical damage on each and every policy to the Company’s immediate parent, Eagle Insurance Company. The agreement was filed and approved by the Department in accordance with Section 1505(d)(2) of the New York Insurance Law, and contained all the required standard clauses, including an insolvency clause meeting for requirements of Section 1308 of the New York Insurance Law.

The Company does not assume any reinsurance business.

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

D. Holding Company System

The Company is a member of The Robert Plan Corporation (“RPC”). The Company is a wholly-owned subsidiary of Eagle Insurance Company, a New Jersey domiciled insurer, which is ultimately controlled by RPC.
A review of the holding company registration Statements filed with this Department indicated that such filings were complete and were filed in a timely manner pursuant to Article 15 of the New York Insurance Law and Department Regulation 52.

The following is an abbreviated chart of the holding company system at December 31, 2002:

At December 31, 2002, the Company was party to the following agreements with other members of its holding company system:

**Runoff Administration and Management Agreement**


This agreement has been filed with the Department pursuant to Section 1505(d)(3) of the New York Insurance Law.
**Tax Allocation Agreement**

The Company files its income tax return on a consolidated basis with its parent and affiliates. Effective December 1, 2000, the Company executed a tax allocation agreement that superceded a prior agreement in effect as of May 1, 1993. The Company has not filed this agreement with Department pursuant to Circular Letter No. 33(1979).

It is recommended that the Company file its tax allocation agreement with the Department in compliance with the provisions of Circular Letter No. 33 (1979).

**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 has not filed any abandoned property reports for the period covered by this examination.

It is recommended that the Company file its abandoned property reports on a timely basis pursuant to the provisions of Section 1316 of the New York Abandoned Property Law.
F. **Significant Operating Ratios**

The Company is currently in runoff. Therefore, the IRIS ratios were not computed as of December 31, 2002.

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

<table>
<thead>
<tr>
<th>Amounts</th>
<th>Ratios</th>
</tr>
</thead>
<tbody>
<tr>
<td>Losses and loss adjustment expenses incurred</td>
<td>$9,732,082</td>
</tr>
<tr>
<td>Other underwriting expenses incurred</td>
<td>2,793,835</td>
</tr>
<tr>
<td>Net underwriting loss</td>
<td>(2,286,409)</td>
</tr>
<tr>
<td>Premiums earned</td>
<td>$10,239,508</td>
</tr>
</tbody>
</table>

G. **Accounts and Records**

Management answered affirmatively to the following General Interrogatory in its December 31, 2002 file annual statement:

“Excluding items in Schedule E, real estate, mortgage loans and investments held physically in the reporting entity’s offices, vaults or safety deposit boxes, were all stocks, bonds and other securities, owned throughout the current year held pursuant to a custodial agreement with a qualified bank or trust company in accordance with Part 1-General, Section IV, H-Custodial or Safekeeping Agreements of the NAIC Financial condition Examiners handbook?”

However, examination review indicated that the Company’s custodial agreement was missing certain of the protective covenants set forth in the referenced section of the NAIC Examiner’s Handbook. A similar finding was made during the previous examiner.

It is again recommended that the Company amend its custodial agreement to incorporate the appropriate protective covenants set forth in the NAIC Examiner’s Handbook.
H. Facilitation of Examination

The Company failed to provide to the examiners material information with respect to the $2,252,041 cash held as collateral, which has a significant effect on the surplus of the Company, as discussed in item 4 of this report, resulting in its disallowance as an admitted asset. The Company also failed to provide timely responses to examiners’ questions pertinent to this item. The Company’s actions are in violation of Section 310(a)(3) of the New York Insurance Law, which provides that:

“The officers and agents of such insurer or other person shall facilitate such examination and aid such examiners in conducting the same so far as it is in their power to do so”.

It is recommended that the Company comply with Section 310(a)(3) of the New York Insurance Law.
3. **FINANCIAL STATEMENTS**

A. **Balance Sheet**

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

<table>
<thead>
<tr>
<th>Assets</th>
<th>Examination Assets</th>
<th>Examination Assets Not Admitted</th>
<th>Net Admitted Assets</th>
<th>Company Net Admitted Assets</th>
<th>Surplus Increase (Decrease)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bonds</td>
<td>$1,502,937</td>
<td>$</td>
<td>$1,502,937</td>
<td>$1,502,937</td>
<td>$</td>
</tr>
<tr>
<td>Cash and short-term investments</td>
<td>2,564,476</td>
<td>2,252,041</td>
<td>312,435</td>
<td>2,564,476</td>
<td>(2,252,041)</td>
</tr>
<tr>
<td>Reinsurance recoverables on loss and loss adjustment expense payments</td>
<td>711,717</td>
<td>711,717</td>
<td>711,717</td>
<td>711,717</td>
<td>711,717</td>
</tr>
<tr>
<td>Federal and foreign income taxes recoverable</td>
<td>38,180</td>
<td>38,180</td>
<td>38,180</td>
<td>38,180</td>
<td>38,180</td>
</tr>
<tr>
<td>Interest, dividends and real estate income due and accrued</td>
<td>24,430</td>
<td>24,430</td>
<td>24,430</td>
<td>24,430</td>
<td>24,430</td>
</tr>
<tr>
<td>Receivable from parent, subsidiaries and affiliates</td>
<td>780,149</td>
<td>780,149</td>
<td>780,149</td>
<td>780,149</td>
<td>780,149</td>
</tr>
<tr>
<td>Total assets</td>
<td>$5,645,227</td>
<td>$2,252,041</td>
<td>$3,393,186</td>
<td>$5,645,227</td>
<td>(2,252,041)</td>
</tr>
</tbody>
</table>
### Liabilities, Surplus and Other Funds

<table>
<thead>
<tr>
<th>Liabilities</th>
<th>Examination</th>
<th>Company</th>
<th>Increase/Decrease</th>
</tr>
</thead>
<tbody>
<tr>
<td>Losses</td>
<td>$1,865,759</td>
<td>$1,865,759</td>
<td>$0</td>
</tr>
<tr>
<td>Loss adjustment expenses</td>
<td>347,077</td>
<td>347,077</td>
<td></td>
</tr>
<tr>
<td>Other expenses (excluding taxes, licenses and fees)</td>
<td>65,000</td>
<td>65,000</td>
<td></td>
</tr>
<tr>
<td>Unearned premiums</td>
<td>4,839</td>
<td>4,839</td>
<td></td>
</tr>
<tr>
<td>Payable to parent, subsidiaries and affiliates</td>
<td>21,407</td>
<td>21,407</td>
<td></td>
</tr>
<tr>
<td>Total liabilities</td>
<td>$2,304,082</td>
<td>$2,304,082</td>
<td></td>
</tr>
</tbody>
</table>

### Surplus and Other funds

<table>
<thead>
<tr>
<th>Surplus and Other funds</th>
<th>Examination</th>
<th>Company</th>
<th>Increase/Decrease</th>
</tr>
</thead>
<tbody>
<tr>
<td>Common capital stock</td>
<td>$1,500,000</td>
<td>$1,500,000</td>
<td></td>
</tr>
<tr>
<td>Gross paid in and contributed surplus</td>
<td>2,500,000</td>
<td>2,500,000</td>
<td></td>
</tr>
<tr>
<td>Unassigned funds (surplus)</td>
<td>(2,910,902)</td>
<td>(658,857)</td>
<td>(2,252,045)</td>
</tr>
<tr>
<td>Surplus as regards policyholders</td>
<td>$1,089,098</td>
<td>$3,341,143</td>
<td>(2,252,045)</td>
</tr>
<tr>
<td>Total liabilities, surplus and other funds</td>
<td>$3,393,180</td>
<td>$5,645,225</td>
<td></td>
</tr>
</tbody>
</table>

**NOTE 1:** As a result of this examination the Company’s capital stock and its required to be maintained surplus of $1,500,000 are impaired in the amount of $410,896. This impairment was cured subsequent to the date of this examination as further described in item 8 herein, “Subsequent events”.

**NOTE 2:** The Internal Revenue Service has not completed its audits of the company’s federal income Tax returns covering the tax years 1992 to 1997. The examiner is unaware of any potential exposure of the Company to any material tax assessment and no liability has been established herein relative to such contingency.
B. Underwriting and Investment Exhibit

Surplus as regards policyholders decreased $3,476,036 during the four-year examination period January 1, 1999 through December 31, 2002, detailed as follows:

Underwriting Income

Premiums earned $10,239,508

Deductions:
- Losses incurred $8,036,468
- Loss adjustment expenses incurred 1,695,614
- Other underwriting expenses incurred 2,793,835

Total underwriting deductions 12,525,917

Net underwriting gain or (loss) $(2,286,409)

Investment Income

Net investment income earned $1,243,308
Net realized capital gains 63,100

Net investment gain 1,306,408

Other Income

Net gain or (loss) from agents’ or premium balances charged off $(243,154)

Total other income $(243,154)

Net income before federal and foreign income taxes $(1,223,155)

Federal and foreign income taxes incurred (6,900)

Net income $(1,216,255)
Capital and surplus Account

Surplus as regards policyholders per report on Examination as of December 31, 1998 $ 4,565,134

<table>
<thead>
<tr>
<th>Gains in Surplus</th>
<th>Losses in Surplus</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net income</td>
<td>$ 1,216,255</td>
</tr>
<tr>
<td>Net unrealized capital gains or (losses)</td>
<td>7,740</td>
</tr>
<tr>
<td>Change in net deferred income tax</td>
<td></td>
</tr>
<tr>
<td>Change in nonadmitted assets</td>
<td>2,252,041</td>
</tr>
<tr>
<td>Total gains and losses</td>
<td>$ 0</td>
</tr>
</tbody>
</table>

Net increase (decrease) in surplus (3,476,036)

Surplus as regards policyholders per report on Examination as of December 31, 2002 $ 1,089,098
4. **CASH AND SHORT-TERM INVESTMENTS**

The examination asset of $312,435 is $2,252,041 less than the $2,564,476 reported by the Company.

As of December 31, 2002 the Company pledged $2,252,041 as collateral to secure an irrevocable letter of credit, established on behalf of the parent company, The Robert Plan Corporation and its subsidiaries, who were named as defendants in a lawsuit.

Section 1301(a)(1) of the New York Insurance Law states:

“(a) In determining the financial condition of a domestic or foreign insurer or the United States branch of an alien insurer for the purposes of this chapter, there may be allowed as admitted assets of such insurer, unless otherwise specifically provided in this chapter, only the following assets owned by such insurer:

(1) Cash, including legal tender or the equivalent in any office of such insurer or in transit under its control and the true balance of any deposit in a solvent bank, trust company or thrift institution”.

The Company violated Section 1301(a)(1) of the New York Insurance Law by including as admitted asset cash that was not in its control as of December 31, 2002.

Section 1411(a) of the New York Insurance Law states:

“No domestic insurer shall make any loan or investment, except as provided in subsection (h) hereof, unless authorized or approved by its board of directors or a committee thereof responsible for supervising or making such investment or loan. The committee’s minutes shall be recorded and a report submitted to the board of directors at its next meeting”.
The pledge of the $2,252,041 as collateral to secure an irrevocable letter of credit was never approved by the Company’s board of directors.

The Company violated Section 1411(a) of the New York Insurance Law when the Board of Directors did not approve the pledge of $2,252,041 as collateral to secure an irrevocable letter of credit.

Section 1411(c) of the New York Insurance Law states, in part:

“Except as otherwise specifically provided in this chapter, no domestic insurer shall pledge or transfer any securities as collateral for a loan (including a sale of securities subject to an unconditional obligation to repurchase the same) if such loan and all other outstanding loans secured by pledge or deposit of its securities will exceed, when the loan is made, five percent of its admitted assets as shown by its last sworn statement to the superintendent, unless the superintendent shall first give his permission for such loan as necessary in the conduct of the insurer’s business. No pledge or transfer of securities for a loan shall be made if the insurer does not receive the loan’s proceeds.”

The Company violated Section 1411(c) of the New York Insurance Law by pledging collateral in excess of 5% of its admitted assets.

Section 1505(c) of the New York Insurance Law states:

“The superintendent's prior approval shall be required for the following transactions between a domestic controlled insurer and any person in its holding company system: sales, purchases, exchanges, loans or extensions of credit, or investments, involving five percent or more of the insurer's admitted assets at last year-end”

The Company violated Section 1505(c) of the New York Insurance Law by failing to submit the pledge of more than 5 percent of its admitted assets in support of a letter of credit established for the benefit of its parent company to the Department for prior approval as required by Section 1505(c) of the New York Insurance Law.
The pledged collateral was returned to the Company subsequent to the date of this examination.

5. **LOSSES AND LOSS ADJUSTMENT EXPENSES**

The examination liability for the captioned items of $2,212,836 is the same as reported by the Company as of December 31, 2002.

The examination analysis of the loss and loss adjustment expense reserves was conducted in accordance with generally accepted actuarial principles and was based on statistical information contained in the Company’s internal records and in its filed annual statements.

6. **MARKET CONDUCT ACTIVITIES**

In the course of this examination, a review was made of the manner in which the Company conducts its business 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

The examiners reviewed a limited sample of no-fault claims to determine compliance with
Department Regulation No. 68. Although the sample size was small and could not statistically support a finding of violations of Department Regulation No. 68, the examiners noted potential areas of non-compliance with Part 65 3.5 (a) (Verifications forms sent within 10 business days after receipt of application), Part 65 3.5 (b) (Additional Verification forms requested within 15 days) and Part 65 3.7 (Late Payment of Claims).

Management had acknowledged that due to problems with its internal systems during 2000 and 2001, the Company did not fully comply with Department Regulation No. 68. The Company feels that it is currently at 80% compliance with the Regulation.

It is recommended that the Company continue to improve its compliance with the provisions of Parts 65 3.5(a) and (b) and 65 3.7 of Regulation No. 68 when processing no-fault claims.

7. CONCLUSION

This examination has determined that both the Company’s capital and required to be maintained surplus of $1,500,000 are impaired in the amount of $410,896.

8. SUBSEQUENT EVENTS

Subsequent to the examination date, the collateral pledged by the Company on behalf of its parent was returned. Therefore, this asset would meet the definition of an admitted asset per Section 1301 of the New York Insurance Law, and eliminates the impairment noted herein.
9. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

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

<table>
<thead>
<tr>
<th>ITEM</th>
<th>PAGE NO.</th>
<th></th>
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</thead>
<tbody>
<tr>
<td>A. Management</td>
<td></td>
<td></td>
</tr>
<tr>
<td>i.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>It was recommended that the members of the board of directors attend meetings regularly in accordance with the Company’s bylaws.</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>The Company has not complied with this recommendation. A similar comment is made in this report.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ii.</td>
<td></td>
<td></td>
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<tr>
<td>It was recommended that the executive and finance committees fulfill their responsibilities and hold meetings in accordance with the provisions of Article III of the Company’s by-laws.</td>
<td>6</td>
<td></td>
</tr>
<tr>
<td>The Company has not complied with this recommendation. A similar comment is made in this report.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>B. Holding Company System</td>
<td></td>
<td></td>
</tr>
<tr>
<td>i.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>It was recommended that the policy administration and servicing agreement be amended to clarify that RPC is entitled to the policy service fees.</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>Since a new agreement, the run-off administration and management agreement, replaced the aforementioned prior agreement. This comment is no longer applicable.</td>
<td></td>
<td></td>
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<tr>
<td>ii.</td>
<td></td>
<td></td>
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<tr>
<td>It was recommended that the Company revise its agreement with The Robert Plan of New York Corporation to indicate the method used to allocate corporate and overhead expenses.</td>
<td>11</td>
<td></td>
</tr>
<tr>
<td>Since a new agreement, the run-off administration and management agreement, effective January 1, 2002 replaced the aforementioned prior agreement, this comment is no longer applicable.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>iii</td>
<td></td>
<td></td>
</tr>
<tr>
<td>It was recommended that the Company complete time studies regarding Department Regulation 30 analysis and submit the same to the Department for approval.</td>
<td>12</td>
<td></td>
</tr>
</tbody>
</table>
Since the Company is in a run-off status, this comment is no longer applicable.

iv. It was recommended that the Company comply with the provisions of Article 15 of the New York Insurance Law when amending the tax allocation agreement.

The Company has executed a new tax allocation agreement, and a similar recommendation is made in this report.

C. Accounts and Records

i. It was recommended that the Company establish reserves that are reflective of the costs needed to ultimately resolve its claims.

The Company has complied with this recommendation.

ii. It was recommended that the Company maintain the proper records that would enable a proper analysis and verification of its loss adjustment expenses.

The Company has not complied with this recommendation.

iii. It was recommended that the Company not deviate from the fee structure approved by the Department.

The Company has complied with this recommendation.

iv. It was recommended that the Company report the liability for loss adjustment expenses in accordance with the “Annual Statement Instructions- Property & Casualty” as promulgated by the National Association of Insurance Commissioners.

The Company has complied with this recommendation.

v. It was recommended that the Company install procedures for investigating differences appearing in the bank reconciliation and resolve such differences in a timely manner.

The Company has complied with this recommendation.

vi. It is recommended that the Company adhere to the provisions of Section 1217 of the New York Insurance Law for disbursement of expenses of one hundred-dollars or greater.

The Company has complied with this recommendation.
D. Abandoned Property Law

It was recommended that the Company comply with Section 1316 of the New York Abandoned Property Law.

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

E. Custodian Agreement

It was recommended that the Company amend its custodian agreement to incorporate the appropriate covenants.

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

F. Conflict of Interest

It was recommended that the Company ensure that all directors and officers complete conflict of interest disclosure statements on an annual basis.

The Company has complied with this recommendation.

G. Taxes, Licenses and Fees

It was recommended that the Company report the expenses related to this item in accordance with the annual statement instructions in all its future filed annual statements.

The Company complied with this recommendation
## 10. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<table>
<thead>
<tr>
<th>ITEM</th>
<th>CAPITAL IMPAIRMENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>This examination has documented that the Company’s capital stock and its required to be maintained surplus are impaired in the amount of $410,896. The impairment was eliminated subsequent to the date of this examination.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>B</th>
<th>MANAGEMENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>i.</td>
<td>It is recommended that the Company elect a minimum of the thirteen members to the board of directors in accordance with Section 1201(a)(5)(B) of the New York Insurance Law and with the Company’s corporate by-laws.</td>
</tr>
<tr>
<td>ii.</td>
<td>It is recommended that board members who are unable or unwilling to attend meetings consistently should resign or be replaced. It was noted that subsequent to the date of this examination, the board consisted of thirteen members as required by its by-laws.</td>
</tr>
<tr>
<td>iii.</td>
<td>It is again recommended that the executive and finance committees fulfill their responsibilities and hold meetings in accordance with the provisions of Article III of the Company’s by-laws.</td>
</tr>
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<thead>
<tr>
<th>C</th>
<th>HOLDING COMPANY SYSTEM</th>
</tr>
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<tbody>
<tr>
<td></td>
<td>It is recommended that the Company submit its tax allocation agreement to the Department for approval pursuant to the provision of Article 15 of the New York Insurance law and the Department’s Circular Letter No. 33 (1979).</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>D</th>
<th>ABANDONED PROPERTY LAW</th>
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<tbody>
<tr>
<td></td>
<td>It is again recommended that the Company comply with Section 1316 of the New York Abandoned Property Law.</td>
</tr>
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<thead>
<tr>
<th>E</th>
<th>ACCOUNTS AND RECORDS</th>
</tr>
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<tbody>
<tr>
<td></td>
<td>CUSTODIAN AGREEMENT</td>
</tr>
<tr>
<td></td>
<td>It is again recommended that the Company amend its custodian agreement to incorporate the appropriate covenants set forth in the NAIC Handbook.</td>
</tr>
</tbody>
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<tr>
<th>F</th>
<th>FACILITATION OF EXAMINATION</th>
</tr>
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<tbody>
<tr>
<td></td>
<td>It’s recommended that the company comply with Section 310(a)3 of the New York Insurance Law.</td>
</tr>
</tbody>
</table>
ITEM | PAGE NO.
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G | Cash and Short Term Investments

i. The Company violated Section 1301 (a)(1) of the New York Insurance Law by including in its admitted assets cash that was not in its control as of December 31, 2002. 16

ii. The Company violated Section 1411(a) of the New York Insurance Law. The board of directors did not approve the pledge of $2,252,041 as collateral to secure an irrevocable letter of credit. 17

iii. The Company violated Section 1411(c) of the New York Insurance Law by pledging collateral in excess of 5% of its admitted assets. 17

iv. The Company violated Section 1505(c) of the New York Insurance Law by failing to submit to the Department for approval intercompany transactions in excess of 5% of admitted assets. 17

H | Market Conduct Activities

It is recommended that the Company continue to improve its compliance with Parts 65 3.5(a) and (b) and 65 3.7 of Department Regulation No. 68 when processing no-fault claims. 19
Respectfully submitted,

________________________

Robert A. Vargas, CPA
Senior Insurance Examiner

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

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

________________________

Robert A. Vargas

Subscribed and sworn to before me

this______________________ day of__________________ , 2004
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:

Robert Vargas

as proper person to examine into the affairs of the

LION 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 26th day of August, 2003

GREGORY V. SERIO
Superintendent of Insurance