

REPORT ON EXAMINATION

OF THE

TOWER INSURANCE COMPANY OF NEW YORK

AS OF

DECEMBER 31, 2013

DATE OF REPORT:

MAY 27, 2015

EXAMINER:

JOHN J. D'AMATO, CPA, CFE, MCM

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NEW YORK STATE
DEPARTMENT *of*
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Benjamin M. Lawsky
Superintendent

May 27, 2015

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 31061 dated December 17, 2013, attached hereto, I have made an examination into the condition and affairs of Tower Insurance Company of New York as of December 31, 2013, and submit the following report thereon.

Wherever the designation “the Company” or “TICNY” appears herein without qualification, it should be understood to indicate Tower Insurance Company of New York.

Wherever the term “Department” or “NYDFS” 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 120 Broadway, New York, New York 10271.

This examination has determined that as of December 31, 2013, the Company was insolvent in the amount of \$16,403,864; its capital was impaired in the amount of \$20,109,078 and its minimum required to be maintained surplus was impaired in the amount of \$22,403,864.

1. SCOPE OF EXAMINATION

The Department has performed a coordinated group examination of the Company, a multi-state insurer. The previous examination was conducted as of December 31, 2009. This examination covered the four-year period from January 1, 2010 through December 31, 2013. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

New York was the coordinating state of the Tower Group Insurance Companies. Other states participating in this examination were California¹, Florida, Illinois, Maine, Massachusetts, New Hampshire and New Jersey.

The examination was performed concurrently with the examinations of the following insurers:

New York Domiciled Insurance Companies

- Adirondack Insurance Exchange (“ADIEX”) [NAIC #: 12583]
- CastlePoint Insurance Company (“CPIC”) [NAIC #: 17205]
- Hermitage Insurance Company (“HIC”) [NAIC #: 18376]

Florida Domiciled Insurance Companies

- CastlePoint Florida Insurance Company (“CPFIC”) [NAIC #: 13599]

Illinois Domiciled Insurance Companies

- CastlePoint National Insurance Company (“CPNIC”) [NAIC #: 40134]

Maine Domiciled Insurance Companies

- North East Insurance Company (“NEIC”) [NAIC #: 24007]
- York Insurance Company of Maine (“YIC”) [NAIC #: 31267]

Massachusetts Domiciled Insurance Companies

- Massachusetts Homeland Insurance Company (“MHIC”) [NAIC #: 40320]
- Tower National Insurance Company (“TNIC”) [NAIC #: 43702]

New Hampshire Domiciled Insurance Companies

- Mountain Valley Indemnity Company (“MVIC”) [NAIC #: 10205]

New Jersey Domiciled Insurance Companies

- New Jersey Skylands Insurance Association (“NJSIA”) [NAIC #: 11454]
- New Jersey Skylands Insurance Company (“NJSIC”) [NAIC #: 11453]
- Preserver Insurance Company (“PIC”) [NAIC #: 15586]

While the California Department of Insurance does not have any domestic insurers within the Tower Insurance Group (“the Group”), they participated on this examination because the Group is considered to be a "commercially domiciled insurer" in California per California Insurance Code Section 1215.13.

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. This examination also included a review and evaluation of the Company’s own control environment assessment and an evaluation based upon the parent company, Tower Group International, Ltd. (“TGIL”), Sarbanes Oxley documentation and testing. The examiners also relied 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
- 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

Tower Insurance Company of New York was incorporated under the laws of the State of New York on June 28, 1989, under the name Tower Insurance Company. It became licensed and began writing property and casualty insurance in December 1990. On April 18, 1994, the Department approved the name change to "Tower Insurance Company of New York". On March 25, 1995, the New York Insurance Department approved the restructuring of TICNY's individual controlling owners, so that 100% of their shares were transferred to LMC Holding Corp. ("LMC"), which then became parent company to TICNY. On March 19, 1996, Tower Group, Inc. ("TGI") was formed by LMC under the laws of Delaware for the purpose of being the partner company of TICNY. On December 16, 1996, the shareholders of all authorized and issued shares of LMC, exchanged their shares of LMC for all authorized shares of TGI so that 100% of LMC's shares were exchanged for 100% of TGI, making TGI the ultimate parent of TICNY.

On July 1, 2010 TGI acquired the personal lines companies of OneBeacon Insurance Group, a subsidiary of White Mountains. As part of the OneBeacon transaction, TICNY and CPNIC acquired Massachusetts Homeland Insurance Company ("MHIC") and York Insurance Company, ("YIC"). TICNY acquired 100% of the issued and outstanding shares of MHIC for \$17,486,510, resulting in goodwill of \$12,350,796.

Under the terms of the OneBeacon acquisition, TGI also acquired two management companies. The management companies are the attorneys-in-fact for AIDEX, a New York Reciprocal insurer, and NJSIA, a New Jersey reciprocal insurer. In addition, TICNY assumed the personal lines business written by other subsidiaries of OneBeacon which were not acquired by TGI and its insurance affiliates.

As of September 30, 2010, TICNY owned approximately 37% of the issued and outstanding shares of Preserver Group, Inc. ("PGI"). The remaining shares (63%) were held by TGI. PGI directly owned three subsidiaries, NEIC, MVIC and PIC. In the fourth quarter of 2010, TICNY and PGI entered into a Stock Exchange Agreement pursuant to which TICNY returned to PGI all the outstanding shares of PGI owned by TICNY and PGI transferred to TICNY all the issued and outstanding shares of NEIC. Further, TICNY received from PGI a 15% interest in the shares of PIC. At the conclusion of the exchange transaction PGI cancelled the PGI shares received from TICNY and TICNY now owns 100% of NEIC and 15% of PIC.

On August 20, 2012, TGI closed on a \$74.9 million acquisition, which provided it a 10.7% ownership of Canopus Group Limited (“Canopus Group”), a privately owned Lloyd’s insurance holding company domiciled in Guernsey Channel Islands. The Master Transaction Agreement for the acquisition provided TGI a merge option to exercise that would allow it to merge with Canopus Bermuda to establish a presence at Lloyd’s of London through a special purpose syndicate (“SPS Transaction Right and Acquisition Right”). TGI exercised its merger right by paying to the Canopus Group a fee of \$1 million. On March 12, 2013 the merger was finalized and formed a new ultimate parent, TGIL, with TGI becoming its indirect wholly-owned subsidiary.

Capital paid in is \$3,705,214 consisting of 1,482 shares of \$2,500.14 par value per share common stock. Gross paid in and contributed surplus is \$204,110,773. Gross paid in and contributed surplus increased by \$24,329,219 during the examination period, as follows:

<u>Year</u>	<u>Description</u>	<u>Amount</u>
2009	Beginning gross paid in and contributed surplus	\$179,781,554
2010	Surplus contribution	\$6,880,153
2011	Surplus contribution	9,088,385
2012	Surplus contribution	5,594,385
2013	Surplus contribution	<u>2,766,296</u>
	Total surplus contribution	<u>24,329,219</u>
2013	Ending gross paid in and contributed surplus	<u>\$204,110,773</u>

A. Management

In October, 2013, the Company amended its bylaws to reflect a change that the board of directors (“Board”) must have at least seven but no more than thirteen members. Prior to the amendment, the Board was to consist of not less than thirteen and not more than twenty-one members. The Company bylaws required the Board to meet at least quarterly during each calendar year. At December 31, 2013, the Board was comprised of the following thirteen members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Michael H. Lee ¹ Sunny Isles Beach, FL	President and Chief Executive Officer Tower Insurance Company of New York; Tower Group International, LTD.
William E. Hitselberger West Windsor, NJ	Executive Vice President and Chief Financial Officer Tower Insurance Company of New York; Tower Group International, LTD.
William F. Dove Princeton, NJ	Senior Vice President and Chief Actuary Tower Insurance Company of New York; Tower Group International, LTD.
Brian W. Finkelstein Rye Brook, NY	Managing Vice President and Controller Tower Insurance Company of New York
Edward Granaghan New York, NY	Tower – Director Tower Insurance Company of New York
Scott T. Melnik Kings Park, NY	Senior Vice President Claims Tower Insurance Company of New York
Vito A. Nigro Newtown, PA	Treasurer Tower Insurance Company of New York
Elliot S. Orol New York, NY	Senior Vice President, General Counsel and Secretary Tower Insurance Company of New York
Christian K. Pechmann Mendham, NJ	Senior Vice President Tower Insurance Company of New York
Laurie Ranegar New Hope, PA	Senior Vice President, Operations Tower Insurance Company of New York
Bruce W. Sanderson North Caldwell, NJ	Senior Vice President, Marketing and Distribution Tower Insurance Company of New York
John J. Williams Tenafly, NJ	Senior Vice President Corporate Initiative; Acting Chief Information Officer Tower Group International, LTD.
Catherine M. Wragg Jersey City, NJ	Senior Vice President, Human Resources and Administration Tower Insurance Company of New York

Effective February 7, 2014, Mr. Lee resigned his position as Chairman of the Board, President and CEO of Tower Group International, LTD and all other Companies within the holding company system. Bruce Sanderson was then appointed to serve as President of Tower Insurance Company of NY.

A review of the minutes of the Board's meetings held during the examination period indicated there were no regular meetings held. As noted in the prior examination report, the Board continues to conduct the Company's business through "Action by Unanimous Written Consent of Directors without a Meeting". The board of directors of the Company's ultimate parent, Tower Group International, LTD, is the governing board of all the companies within the holding company system and makes the decisions for all companies within the system. It would appear the Company is in violation of the New York Insurance Law Section 1507, which states, in part, as follows:

"notwithstanding the control of an authorized insurer by any person, the insurer's officers and directors shall not thereby be relieved of any obligation or liability to which they would otherwise be subject by law, and the insurer shall be managed so as to assure its separate operating identity."

It is recommended that the Company convene regularly scheduled quarterly meetings of its board of directors as stated in its by-laws and maintain complete minutes of such proceedings. It is also recommended that the Company comply with Section 1507(a) of the New York Insurance Law and ensure that the Company is operating as a separate entity.

It is noted that the Company was in violation of Section 312(b) of the New York Insurance Law by not obtaining and retaining in their files, signed statements from each member of their boards of directors stating that they have received and read the 2009 report on examination. Section 312(b) of the New York Insurance Law states, in part, as follows:

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

It is recommended that the Company comply with Section 312(b) of the New York Insurance Law.

As of December 31, 2013, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Michael H. Lee	President and Chief Executive Officer
William E. Hitselberger	Executive Vice President and Chief Financial Officer
William F. Dove	Senior Vice President and Chief Actuary
Brian W. Finkelstein	Managing Vice President and Controller
Scott T. Melnik	Senior Vice President Claims
Vito A. Nigro	Treasurer
Elliot S. Orol	Senior Vice President, General Counsel and Secretary

B. Territory and Plan of Operation

As of December 31, 2013, the Company was licensed to write business in forty-eight 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 and 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
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine
21	Marine protection and indemnity
22	Residual value

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 in the amount of \$6,000,000.

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

<u>Calendar Year</u>	<u>New York State</u>	<u>Total Premiums</u>	<u>Premiums Written in New York State as a percentage of Total Premium</u>
2010	\$243,329,708	\$474,770,018	51.25%
2011	\$245,083,090	\$506,723,823	48.37%
2012	\$250,809,540	\$574,338,483	43.67%
2013	\$230,959,394	\$480,885,400	48.03%

TICNY primarily writes commercial multiple peril, homeowners multiple peril, workers' compensation and commercial auto liability. In 2013, direct premiums written were a mix of: commercial multiple peril (29%), homeowners' multiple peril (27%), workers' compensation (21%), commercial auto liability (12%), and other (11%).

C. Reinsurance

Assumed reinsurance accounted for less than 1% of the Company's gross premium written at December 31, 2013, excluding business assumed via the inter-company pooling agreement.

Inter-Company Pooling Agreement

Effective January 1, 2008, the Company, functioning as the pool manager, entered into an inter-company pooling agreement with several of its insurance affiliates, TNIC, PIC, NEIC, and MVIC, collectively the "participating companies." During 2009, the pooling agreement was amended several times to include CPIC, HIC and CPNIC as pool participants. Effective January 1, 2012, MVIC exited the pool as a result of its sale to its affiliate ADIEX. CPIC assumed the 3% participation percentage of MVIC.

Kodiak Insurance Company ("KIC"), MHIC and YIC are not members of the Pooling Agreement; however, they cede 100% of their business to certain pool members under a quota share agreement.

According to the terms of the agreement, pool participants cede 100% of gross business (direct and assumed) to TICNY as pool manager. All lines of business are subject to the pooling arrangement. TICNY then cedes to the pool participants their respective share of the pool business.

The Company negotiates, obtains and maintains reinsurance on behalf of itself and the pool members with respect to the insurance liability under all policies written by the pool members and by

the Company. All ceded balances related to internal and external reinsurance contracts are recorded in the statutory financial statements of TICNY and all reinsurers which are parties to the contracts are included in TICNY's Schedule F. It is noted that the Company is the only pool participant that establishes a provision for reinsurance. Write-offs of uncollectible reinsurance are subject to the pooling arrangement and shared by all pool participants.

The participating percentages of each pool member as of December 31, 2013 were as follows:

<u>Company</u>	<u>State of Domicile</u>	<u>NAIC #</u>	<u>Pooling Percentage</u>
TICNY ³	NY	44300	22%
CPIC	NY	17205	22%
CPNIC	IL	40134	21%
HIC	NY	18376	21%
PIC	NJ	15586	8%
NEIC	ME	24007	4%
TNIC	MA	43702	2%
MVIC ⁴	NH	10205	<u>0%</u>
			<u>100%</u>

³Lead company and pool manager.

⁴ MVIC exited the pool on January 1, 2012 as a result of its sale to AIDEX, an affiliate. CPIC assumed the 3% participation percentage of MVIC.

The Company has structured its ceded reinsurance program to limit its maximum exposure on any one risk as follows:

Quota Share

	<u>Limit</u>	<u>Retention</u>	<u>Placed</u>
Net QS CPre (Bermuda affiliate)	Unlimited	65.0%	35.0%
Equipment Breakdown QS (Commercial)	100,000,000	0%	100.0%
Equipment Breakdown QS (Homeowners)	50,000	0%	100.0%
Identity Theft QS	15,000	0%	100.0%
Employment Practices Liability QS	250,000	0%	100.0%
Tower Homeowners QS II	2,500,000	70.0%	30.0%
Tower Homeowners QS (ACE)	2,500,000	65.0%	35.0%
Southport Re Workers Compensation QS	5,000,000	70.0%	30.0%
Hannover Re Brokerage Multiple Line QS	10,000,000	86.0%	14.0%
Arch Re Brokerage Multiple Line QS	25,000,000	82.5%	17.5%
Umbrella (Commercial & Personal) QS	5,000,000	50.0%	50.0%

Excess Programs

	<u>Limit</u>	<u>Retention</u>	<u>Placed</u>
Casualty Clash XOL	5,000,000	5,000,000	100.0%
1st Property XOL	5,000,000	5,000,000	100.0%
2nd Property XOL	20,000,000	10,000,000	100.0%
Property Auto Facultative	40,000,000	30,000,000	100.0%
Minnesota WCRA XL	Unlimited	1,880,000	100.0%
1st Workers Compensation XS	3,000,000	2,000,000	65.0%
2nd Workers Compensation XS	5,000,000	5,000,000	100.0%
3rd Workers Compensation XS	10,000,000	10,000,000	100.0%
4th Workers Compensation XS	40,000,000	20,000,000	100.0%
Southport Re WC ADC Aggregate XOL	Various	Various	100.0%

Catastrophe Programs

	<u>Limit</u>	<u>Retention</u>	<u>Placed</u>
1st Property Catastrophe XL (Nationwide)	75,000,000	75,000,000	100.0%
2nd Property Catastrophe XL (Nationwide)	150,000,000	150,000,000	100.0%
3rd Property Catastrophe XL (Nationwide)	300,000,000	300,000,000	100.0%
4th Property Catastrophe XL (Nationwide)	400,000,000	600,000,000	100.0%
Industry Loss Warranty (ILW) I	10,000,000	10,000,000	100.0%
Industry Loss Warranty (ILW) II	10,000,000	10,000,000	100.0%

Specialty Programs

	<u>Limit</u>	<u>Retention</u>	<u>Placed</u>
W H Greene Umbrella QS	5,000,000	20.0%	80.0%
W H Greene Umbrella XL	5,000,000	5,000,000	80.0%
NBIS Crane QS	1,000,000	70.0%	30.0%
NBIS Inland Marine XOL	9,500,000	500,000	100.0%
Cinium Surety QS	200,000	80.0%	20.0%
1st Marine Excess	2,500,000	2,500,000	100.0%
2nd Marine Excess	5,000,000	5,000,000	100.0%
3rd Marine Excess	15,000,000	10,000,000	100.0%
4th Marine Excess	25,000,000	25,000,000	100.0%
Rodney Square QS	50,000,000	90.0%	5.0%

In the third quarter of 2013, the Company entered into agreements with three reinsurers, Arch Reinsurance Ltd. (“Arch”), Hannover Re (Ireland) Plc. (“Hannover”) and Southport Re (Cayman), Ltd. (“Southport Re”); (details of the agreements listed in the above chart). These agreements provided for surplus enhancement and improved certain financial leverage ratios, while increasing the Company's financial flexibility. The agreements with Arch and Hannover each consisted of one reinsurance agreement while the arrangement with Southport Re consisted of several agreements with both prospective and retroactive components. The agreements with Arch and Hannover covered business written from July 1, 2013 to December 31, 2013, as well as unearned premiums at June 30, 2013.

In early 2014, management decided that the Southport treaties should be commuted. As a result of a negotiation between the Company and Southport, the treaties were commuted effective as of February 19, 2014, with the result of the commutation being that all premiums paid to Southport by the Company were returned to the Company, and all liabilities assumed by Southport were cancelled, and such liabilities became the obligation of the Company. It is noted that before the Company commuted the Southport treaty, management determined that such agreement should have been accounted for as deposit accounting as set forth in SSAP No.62R. It is further noted that the retroactive reinsurance treaties with Southport resulted in a surplus gain of \$3,535,405 at the examination date.

Reinsurance agreements with affiliates were reviewed for compliance with Article 15 of the New York Insurance Law. It was noted that all affiliated reinsurance agreements were filed with the Department pursuant to the provisions of Section 1505(d)(2) of the New York Insurance Law.

It is the Company's policy to obtain the appropriate collateral for its cessions to unauthorized reinsurers. Letters of credit and trust accounts obtained by the Company to take credit for cessions to unauthorized reinsurers were reviewed for compliance with Department Regulations 133 and 114, respectively.

All material ceded reinsurance agreements in effect as of the examination date were reviewed and found to contain the required clauses, including an insolvency clause meeting the requirements of Section 1308 of the New York Insurance Law. During the period covered by this examination, the company commuted various reinsurance agreements. These commutations were neutral to the Company's surplus position.

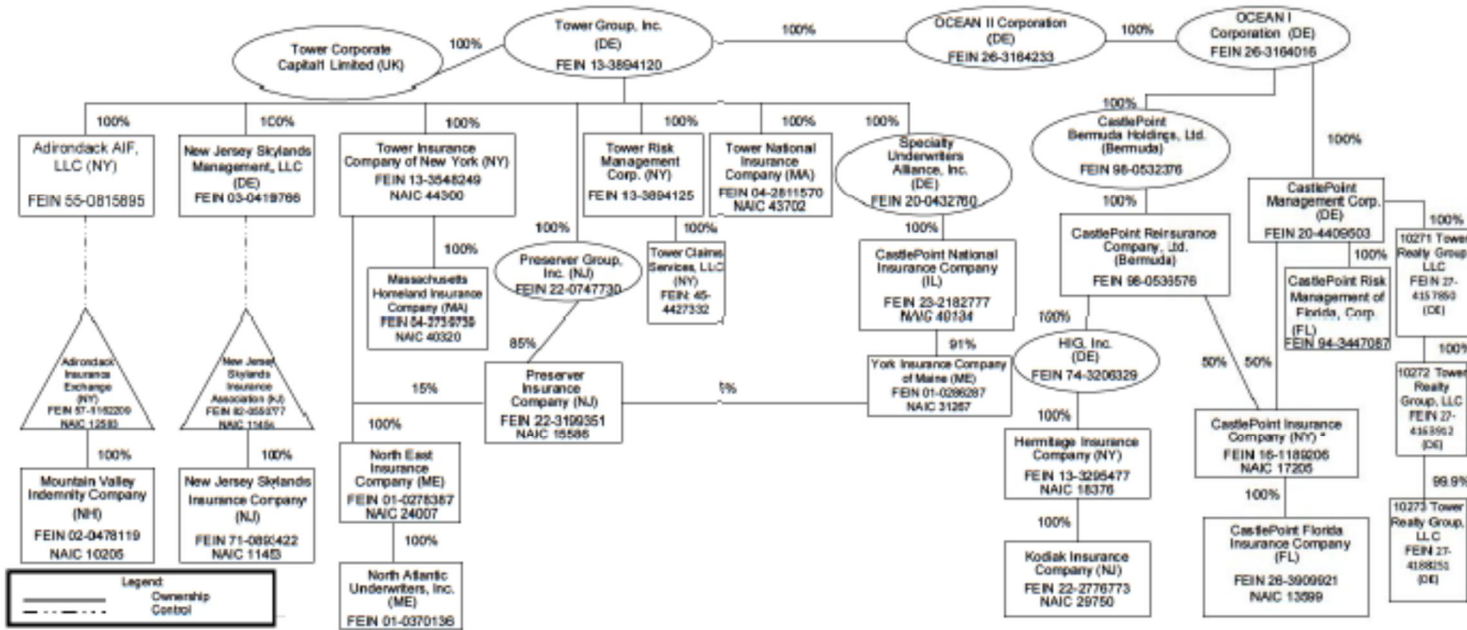
D. Holding Company System

The Company is a member of the Tower Group. The Company is 100% owned by, Tower Group, Inc. its immediate Parent, a Delaware stock corporation, which is ultimately owned by Tower Group International, LTD (Bermuda).

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 organizational chart displays the chain of ownership of subsidiary and affiliated companies which were members of Tower Group, Inc. at December 31, 2013:

Organizational Chart of Tower Group, Inc.



*All outstanding shares of CastlePoint Insurance Company ("CPIC") are owned 93% by CastlePoint Management Corp. ("CPM") and 6% by CastlePoint Reinsurance Company, Ltd. ("CPRL"). With respect to the ownership of CPIC, there are no voting rights preferences assigned to either CPM or CPRL.

At December 31, 2013, the Company was party to the following agreements with other members of its holding company system:

Service and Expense Sharing Agreements

There are a number of Service and Expense Sharing Agreements between the affiliated parties to jointly share in underwriting and claims expenses as well as sharing any profits and losses from rendering services to third parties. While each agreement may vary, in general terms, the agreements cover the following services which would be provided or received by any of the companies that are party to the agreement:

1. Underwriting and marketing;
2. Policy issuance, billing, and collection;
3. State filing and regulatory compliance;
4. Loss prevention, premium audit;
5. Claims services; and
6. Administrative services (i.e., Human Resources, IT, and facilities).

TICNY employs the staff that provides services to its affiliates that participate in the Intercompany Pooling Agreement. Underwriting and claim expenses are handled through the Intercompany Pooling Agreement, however the Service and Expense Sharing Agreements are in place for other services performed by the Company employees on behalf of the referenced affiliates.

As of December 31, 2013, the following is a list of Service and Expense Sharing Agreements between TICNY related parties:

1. TICNY and Tower Risk Management Corporation (“TRM”)
2. TICNY and TNIC
3. TICNY and CastlePoint Management Corporation (“CPM”)
4. TICNY and CPM
5. TICNY, PIC, NEIC and MVIC
6. TICNY and HIC
7. TICNY and Specialty Underwriters Alliance, Incorporated (“SUA”)
8. NEIC and YIC
9. TNIC and MHIC
10. CPM and CastlePoint Risk Management of Florida, Corporation (“CPRMFL”)
11. PIC and KIC
12. TRM and AIF
13. AIDEX and MVIC
14. TRM and CPM
15. CPFIC and CPM

Management Agreements

Affiliated parties have entered into a few specific purpose management agreements. The following summarizes those agreements:

1. Management Agreement between CPIC and TRM (amendment adds KIC and HIC) - to manage and to earn management fees on Tower's authorized brokerage business placed on CPIC paper.
2. Program Management Agreement between TICNY and CPM - to manage specialty program business and insurance risk sharing business.
3. Program Management Agreement TNIC and CPM - to manage specialty program business and insurance risk sharing business.
4. Management and Services Agreement between CPIC and CPM - to manage underwriting, claims and other support services.

Tax Allocation Agreement

Effective September 12, 2008, the Company entered into a tax allocation agreement with Tower Group, Inc. and several of its subsidiaries to jointly file consolidated federal income tax returns in accordance with the relevant Internal Revenue Service regulations. A tax allocation agreement between Tower Group and its subsidiaries allows the Company to compute and pay Federal income taxes on a consolidated basis. At the end of each consolidated return year, each entity must compute and pay to the Holding Company its share of the Federal income tax liability primarily based on separate return calculations.

Other Agreements

Trust Agreements

1. New York Trust Agreement between CPre, TICNY and State Street Bank
2. Trust Agreement between CPre, PIC and State Street Bank
3. Trust Agreement between CPre, NEIC and State Street Bank

E. Significant Operating Ratios

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 and loss adjustment expenses incurred	\$921,212,350	78.62%
Other underwriting expenses incurred	425,232,612	36.29%
Net underwriting loss	<u>(174,747,329)</u>	<u>(14.91%)</u>
Premiums earned	<u>\$1,171,697,633</u>	<u>100.00%</u>

F. Accounts and Records

Material weaknesses were noted in the Company's 'internal controls' over financial reporting. The Company did not maintain effective controls over:

1. The loss reserve estimation process.
2. The premium receivable account reconciliation
3. The tax valuation process
4. Information technology general controls
5. Period end financial reporting

G. Investments

It is noted that the Company has an investment in a surplus note of its affiliate, the Adirondack Insurance Exchange with an admitted value of \$6,814,767. This note can only be repaid with the permission of the Department. This investment represents a 13.9% interest in a \$70.7 million surplus note. The Company paid \$10,600,695 for its \$9,825,000 stake in the face value of the note.

During the review of the Company's investment practices, it was noted that the Company violated Section 1505 of the New York Insurance Law by transferring securities between members of its holding company system without permission from the Department.

TICNY sold 102 securities to AIDEX on December 23, 2010 without prior approval from the Department. AIDEX sold 6 securities to TICNY on February 16, 2011 without prior approval from the Department. CPIC and HIC invested in Lincoln Properties, a limited partnership formed for the purpose of developing a parcel of real estate in Edison, NJ. This partnership interest was acquired by TGI and later sold to CPIC and HIC in June of 2012 without prior approval from the Department. It is recommended that the Company comply with Section 1505 of the New York Insurance Law and obtain prior approval from the Department before transferring securities between members of the holding company group.

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2013 as determined by this examination and as reported by the Company:

<u>Assets</u>	<u>Examination</u> <u>Net Admitted</u> <u>Assets</u>	<u>Company</u> <u>Net Admitted</u> <u>Assets</u>	<u>Surplus</u> <u>Increase</u> <u>(Decrease)</u>
Bonds	\$222,559,463	\$222,559,463	
Preferred stocks (stocks)	517,450	517,450	
Common stocks (stocks)	33,543,870	55,140,499	\$(21,596,629)
Cash, cash equivalents and short-term investments	74,596,542	74,596,542	
Other invested assets	23,792,528	23,792,528	
Receivables for securities	17,735,635	17,735,635	
Investment income due and accrued	2,549,678	2,549,678	
Uncollected premiums and agents' balances in the course of collection	18,681,440	18,681,440	
Deferred premiums, agents' balances and installments booked but deferred and not yet due	34,353,351	34,353,351	
Accrued retrospective premiums	224,647	224,647	
Amounts recoverable from reinsurers	5,883,965	5,883,965	
Funds held by or deposited with reinsured companies	6,593,876	6,593,876	
Current federal and foreign income tax recoverable and interest thereon	17,507,030	17,507,030	
Electronic data processing equipment and software	1,984,857	1,984,857	
Receivables from parent, subsidiaries and affiliates	7,087,682	7,087,682	
State deposits for workers compensation reserves	33,699,181	33,699,181	
Advances to TPAs	7,473,732	7,473,732	
Retroactive reinsurance reserves recoverable of paid losses	7,009,154	7,009,154	
Miscellaneous assets	<u>6,349,664</u>	<u>6,349,664</u>	<u>0</u>
Total assets	<u>\$522,143,745</u>	<u>\$ 543,740,374</u>	<u>\$(21,596,629)</u>

Liabilities, surplus and other funds

<u>Liabilities</u>	<u>Examination</u>	<u>Company</u>	<u>Surplus Increase (Decrease)</u>
Losses and loss adjustment expenses	\$273,518,000	\$237,123,238	\$(36,394,762)
Reinsurance payable on paid losses and loss adjustment expenses	470,989	470,989	
Commissions payable, contingent commissions and other similar charges	916,117	916,117	
Other expenses (excluding taxes, licenses and fees)	10,365,153	10,365,153	
Taxes, licenses and fees (excluding federal and foreign income taxes)	165,506	165,506	
Unearned premiums	63,321,739	63,321,739	
Advance premium	2,582,150	2,582,150	
Ceded reinsurance premiums payable (net of ceding commissions)	39,014,304	39,014,304	
Funds held by company under reinsurance treaties	63,430,516	63,430,516	
Amounts withheld or retained by company for account of others	227,536	227,536	
Provision for reinsurance	99,943,000	5,095,000	(94,848,000)
Payable for securities	6,634,766	6,634,766	
Reserve for unsecured reinsurance recoverable	14,767,280	14,767,280	
Premium collateral and loss deposit	4,995,651	4,995,651	
Retroactive reinsurance reserves ceded	(43,527,022)	(43,527,022)	
Other liability	<u>1,721,744</u>	<u>1,721,744</u>	<u>0</u>
Total liabilities	<u>\$538,547,429</u>	<u>\$407,304,667</u>	<u>\$(131,242,762)</u>
<u>Surplus and other funds</u>			
Aggregate write-ins for special surplus funds	\$ 3,846,623	\$ 3,846,623	
Common capital stock	3,705,214	3,705,214	
Gross paid in and contributed surplus	204,110,773	204,110,773	
Unassigned funds (surplus)	<u>(228,066,294)</u>	<u>(75,226,903)</u>	<u>(152,839,391)</u>
Surplus as regards policyholders	<u>\$(16,403,684)</u>	<u>\$136,435,707</u>	<u>\$(152,839,391)</u>
Total liabilities, surplus and other funds	<u>\$522,143,745</u>	<u>\$543,740,374</u>	

Note: The Internal Revenue Service is currently conducting audits of the Company's consolidated Federal Income Tax returns for tax years 2010 through 2012. The results of this audit were not known at the date of this report and there has been no liability established herein.

B. Statement of IncomeUnderwriting Income

Premiums earned		\$1,171,697,633
Deductions:		
Losses and loss adjustment expenses incurred	\$921,212,350	
Other underwriting expenses incurred	<u>425,232,612</u>	
Total underwriting deductions		<u>1,346,444,962</u>
Net underwriting gain or (loss)		\$(174,747,329)

Investment Income

Net investment income earned	\$123,758,499	
Net realized capital gain	<u>3,893,252</u>	
Net investment gain or (loss)		127,651,751

Other Income

Net gain or (loss) from agents' or premium balances charged off	(\$6,465,267)	
Finance and service charges not included in premiums	10,600,438	
Impairment of fixed assets	(66,518,403)	
Reserve for unsecured reinsurance recoverable	(14,767,280)	
Retroactive reinsurance	3,532,359	
Interests on funds held	(4,429,025)	
Miscellaneous losses	<u>(589,079)</u>	
Total other income(loss)		<u>(78,636,257)</u>
Net income before federal and foreign income taxes		\$(125,731,835)
Federal and foreign income taxes incurred		<u>(29,050,764)</u>
Net loss		<u>\$(96,681,071)</u>

C. Capital and Surplus

Surplus as regards policyholders decreased \$249,548,862 during the four-year examination period January 1, 2010 through December 31, 2013, detailed as follows:

Surplus as regards policyholders per report on examination as of December 31, 2009			\$233,145,178
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net loss		\$96,681,071	
Net unrealized capital gains or (losses)		17,697,557	
Change in net deferred income tax		55,927,604	
Change in non-admitted assets	\$19,242,136		
Change in provision for reinsurance		81,089,287	
Surplus adjustments paid in	24,329,219		
Dividends to stockholders		17,500,000	
Correction of error (SSAP 3)		16,185,459	
Effect on adoption of SSAP 10R	<u>0</u>	<u>8,039,239</u>	
Net increase (decrease) in surplus	<u>\$43,571,355</u>	<u>\$293,120,217</u>	<u>(\$249,548,862)</u>
Surplus as regards policyholders per report on examination as of December 31, 2013			<u>(\$16,403,684)</u>

Note: This examination has determined that as of December 31, 2013, TICNY was insolvent in the amount of \$16,403,864 and that its capital was impaired in the amount of \$20,109,078. Additionally, the Company's minimum required to be maintained surplus of \$6,000,000 was impaired in the amount of \$22,403,864.

4. **COMMON STOCK**

The examination asset for the captioned item of \$33,543,870 is \$21,596,629 less than the \$55,140,499 reported by the Company in its December 31, 2013, filed annual statement.

This change represents the disallowed portion of TICNY's investment in subsidiaries Mass Homeland Insurance Company, Northeast Insurance Company, and Preserver Insurance Company per Section 1408(b) of the New York Insurance Law. Section 1408(b), limits the admitted value of insurance company shares to the greater of fifty per centum of the surplus to policyholders or sixty per centum of surplus.

5. **LOSSES AND LOSS ADJUSTMENT EXPENSES**

The examination liability for the captioned items of \$273,518,000 is \$36,394,762 more than the \$237,123,238 reported by the Company in its December 31, 2013 filed annual statement. The examination analysis of the Loss and loss adjustment expense reserves was conducted in accordance with generally accepted actuarial principles and statutory accounting principles, including the NAIC Accounting Practices & Procedures Manual, Statement of Statutory Accounting Principle No. 55 ("SSAP No. 55").

It is noted, by virtue of its nine month runoff for accident years 2013 and prior as reported by the Company in its filed quarterly statement as of September 30, 2014, the Company has recognized approximately \$10 million of the Department's \$36 million projected Loss and loss adjustment expense reserve deficiency.

6. **PROVISION FOR REINSURANCE**

The examination liability for the captioned item of \$99,943,000 is \$94,848,000 more than the \$5,095,000 reported by the Company in its December 31, 2013 filed annual statement. The increase is due to the examination increase in loss reserves and loss adjustment expenses and to cessions to unauthorized reinsurers which were not fully collateralized.

7. CONCLUSION

This examination has determined that as of December 31, 2013, TICNY was insolvent in the amount of \$16,403,864 and that its capital was impaired in the amount of \$20,109,078. Additionally, the Company's minimum required to be maintained surplus of \$6,000,000 was impaired in the amount of \$22,403,864.

8. SUBSEQUENT EVENTS

On January 3, 2014, TGIL, ultimate parent of the Company entered into an Agreement and Plan of Merger ("the Merger Agreement") with ACP Re, Ltd. ("ACP Re") and London Acquisition Company, LTD ("LACL"), a wholly owned subsidiary of ACP Re. ACP Re is a Bermuda-based reinsurance company which historically reinsured a portion of the property and casualty business of National General Holdings Corporation ("NGHC"). The controlling shareholder of ACP Re is a trust established by the founder of AmTrust Financial Services, Inc. ("AmTrust"), NGHC and Maiden Holdings, Ltd.

The terms of the Merger Agreement indicate that TGIL would be merged with LACL and TGIL would be the surviving corporation and become a wholly-owned subsidiary of ACP Re. Additionally, AmTrust would acquire the renewal rights and assets of TGIL's commercial lines insurance operations, and specialty personal-lines insurer NGHC would acquire the renewal rights and assets of TGIL's personal lines insurance operations.

On January 3, 2014, the Company and its insurance affiliates entered into a Commercial Lines Cut-Through Quota Share Reinsurance Agreement with Technology Insurance Company, Inc. ("Technology") in connection with the Merger. Technology is a New Hampshire domiciled affiliate of ACP Re and a subsidiary of AmTrust. The agreement requires the ceding companies to use the reinsurers underwriting standards on all new and renewed policies. The reinsurer will assume 100% of all losses on non-excluded policies. The ceding companies will transfer the unearned premium of reinsured policies less a ceding commission and 100% of all premiums on new and renewed policies less a ceding commission.

On January 3, 2014, the Company and its insurance affiliates entered into a Personal Lines Cut-Through Quota Share Reinsurance Agreement with Integon National Insurance Company ('Integon') in connection with the Merger Agreement previously mentioned. Integon is a North

Carolina domiciled authorized insurance company that is a subsidiary of NGHC and an affiliate of ACP Re. The terms of the Personal Lines Cut-Through Reinsurance Agreement are the same as the Commercial Lines described above.

By letter dated September 12, 2014 (the “Approval Letter”), the NYDFS approved ACP Re’s acquisition of TGIL New York insurers (subsidiaries), Tower Insurance Company of NY, Hermitage Insurance Company and Castle Point Insurance Company (“Tower Companies”).

On September 15, 2014, the Merger Agreement of TGIL was completed. It is noted that as part of the merger, the Company entered into the following agreements effective September 15, 2014:

1. A loss portfolio transfer agreement with CastlePoint Reinsurance Company, Ltd of Bermuda (‘CP Re’), pursuant to which CP Re assumed all of the insurance liabilities of the Company as well as cash and invested assets equal to the assumed liabilities. Once, the LPT agreement becomes effective, the NY insurers, TICNY, HIC and CPIC will have no net claim liabilities. CP Re is an unauthorized Bermuda reinsurer that was part of the pre-merger Tower Group holding company system.
2. A quota share reinsurance agreement with Technology, under which the Company prospectively cedes 100% of its commercial lines of business issued pursuant to a managing general agent agreement between the Company and AmTrust North America, Inc.
3. A quota share reinsurance agreement with Integon under which the Company prospectively cedes 100% of its personal lines business issued pursuant to a managing general agent agreement between the Company and National General Insurance Marketing, Inc.

The two quota share reinsurance agreements and cut through endorsements related to the commercial and personal lines dated January 3, 2014, were terminated on a run-off basis effective the September 15, 2014 merger agreement.

CP Re in turn entered into an aggregate stop loss reinsurance contract under which it is indemnified with respect to the liability that may accrue to it as a result of losses reinsured by CP Re under the loss portfolio agreement that it entered into with the Company identified above. The coverage attaches at the first dollar of adverse development, based on the TGIL U.S. insurers’ liabilities as of the closing of the Tower transactions.

There are two participating reinsurers, in the aggregate stop loss reinsurance contract, each with a 50% interest which is several only. The two participating reinsurers are AmTrust International Insurance, Ltd. and National General Re, Ltd. which are subsidiaries of AmTrust and NGHC,

respectively. The aggregate limit of liability of the reinsurers under this contract is \$250 million with each reinsurer having a liability limited to \$125 million. CP Re will pay \$56 million dollars for this coverage on the fifth anniversary of the effective date of the contract.

9. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

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

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Management</u>	
It was recommended that the Company convene regularly scheduled quarterly meetings of its Board as stated in its bylaws and maintain complete minutes of such proceedings.	5
The Company has not complied with this recommendation. A similar comment is made in this report.	
B. <u>Reinsurance</u>	
It was recommended that the Company comply with Article IX, Section B of its pooling agreements as filed in accordance with Section 1505(d)(2) of the New York Insurance Law	10
The Company has not complied with this recommendation. Due to the merger between the Tower Group and ACP Re, this recommendation is no longer applicable.	
C. <u>Holding Company</u>	
i. It was recommended that the Company follow the provisions of its service agreement filed in accordance with Section 1505(d)(3) of the New York Insurance Law.	15
The Company has complied with this recommendation.	
ii. It was recommended that the Company comply with the filing requirements of Section 1505(d)(3) of the New York Insurance Law as well as the provisions of Department of Circular Letter No. 33 (1979).	16
The Company has complied with this recommendation.	
D. <u>Accounts and Records</u>	
It was recommended that the Company continue its remediation efforts in reconciling its premiums receivables.	17
The Company did not comply with this recommendation. Due to the merger between the Tower Group and ACP Re, this recommendation may no longer be applicable.	

10. **SUMMARY OF COMMENTS AND RECOMMENDATIONS**

<u>ITEM</u>	<u>PAGE NO.</u>
<p>A <u>Insolvency</u></p> <p>This examination has determined that as of December 31, 2013, the Company was insolvent in the amount of \$16,403,864; its capital was impaired in the amount of \$20,109,078 and its minimum required to be maintained surplus was impaired in the amount of \$22,403,864.</p>	<p>1, 22, 24</p>
<p>B <u>Management</u></p> <p>i It is recommended that the Company convene regularly scheduled quarterly meetings of its board of directors as stated in its by-laws and maintain complete minutes of such proceedings.</p> <p>ii It is recommended that the Company comply with Section 1507 of the New York Insurance Law by ensuring that the Company is operating as a separate entity.</p> <p>iii It is recommended that the Company comply with Section 312(b) of the New York Insurance Law by obtaining and retaining in their files signed statements from each member of their board of directors stating that they have received and read the prior report on examination.</p>	<p>7</p> <p>7</p> <p>7</p>
<p>C <u>Reinsurance</u></p> <p>It is noted that the retroactive reinsurance treaties entered into with Southport Re resulted in a surplus gain of \$3,535,405 at the examination date. These treaties were commuted on February 19, 2014.</p>	<p>12</p>
<p>D <u>Accounts and Records</u></p> <p>i. Material weaknesses were noted in the Company's 'internal controls' over financial reporting.</p>	<p>17</p>

E Investments

- i. It is recommended that the Company comply with Section 1505 of the New York Insurance Law and obtain prior approval from the Department before transferring securities between members of the holding company group. 18
- ii. It is noted that the Company has an investment in a surplus note of its affiliate, the Adirondack Insurance Exchange with an admitted value of \$6,814,767. This note can only be repaid with the permission of the Department. 18

F Common Stock

The examination non-admitted \$21,596,629 in the common stock of insurance company subsidiaries per Section 1408(b) of the New York Insurance Law. 23

G Loss and Loss Adjustment Expense

The examination concluded that the Company's loss and loss adjustment expense reserves were understated by \$36,394,762. This conclusion is reflected in the financial statements included in this report. 23

H Provision for Reinsurance

The examination increased the provision for reinsurance by \$94,848,000 to reflect an increase in gross reserves and the resultant increase in cessions to unauthorized reinsurers which were not fully collateralized. 24

Respectfully submitted,

John J. D'Amato, CPA, CFE, MCM
Director & EIC

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

JOHN J. D'AMATO, being duly sworn, deposes and says that the foregoing report, subscribed by him, is true to the best of his knowledge and belief.

John J. D'Amato

Subscribed and sworn to before me

this _____ day of _____, 2014.

APPOINTMENT NO. 31061

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:

John Damato

as a proper person to examine the affairs of the

Tower Insurance Company of New York

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

COMPANY

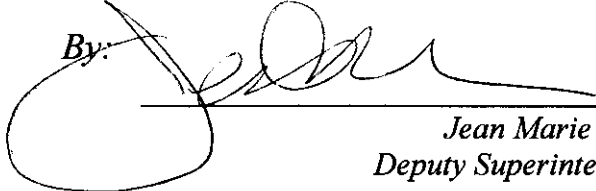
with such other information as he shall deem requisite.

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

this 17th day of December, 2013

BENJAMIN M. LAWSKY
Superintendent of Financial Services



By: 

Jean Marie Cho
Deputy Superintendent