

REPORT ON EXAMINATION

OF

COMPASS INSURANCE COMPANY

AS OF

DECEMBER 31, 2020

DATE OF REPORT

DECEMBER 7, 2021

EXAMINER

SUSAN WEIJOLA

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Department of Financial Services

KATHY HOCHUL
Governor

ADRIENNE A. HARRIS
Acting Superintendent

December 7, 2021

Honorable Adrienne A. Harris
Acting Superintendent
New York State Department of Financial Services
Albany, New York 12257

Madam:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 32279 dated July 26, 2021, attached hereto, I have made an examination into the condition and affairs of Compass Insurance Company as of December 31, 2021, and submit the following report thereon.

Wherever the designation “the Company” or “Compass” appears herein without qualification, it should be understood to indicate Compass Insurance Company.

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

Due to the COVID-19 pandemic, the examination was conducted remotely.

1. SCOPE OF EXAMINATION

The Department has performed an examination of Compass Insurance Company, a multi-state insurer. The previous examination was conducted as of December 31, 2015. This examination covered the five-year period from January 1, 2016, through December 31, 2020. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

This examination was conducted in accordance with the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners Handbook, which requires that we plan and perform the examination to evaluate the financial condition and identify current and 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 New York laws, statutory accounting principles, and annual statement instructions.

This examination report includes, but is not limited to, the following:

- Company history
- Management and control
- Territory and plan of operation
- Reinsurance
- Holding company description
- Financial statement presentation
- Loss review and analysis
- Significant subsequent events
- Summary of recommendations

A review was also made to ascertain what action was taken by the Company with regard to the recommendation 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 on March 6, 1968, under the laws of the State of New York. It was licensed on December 22, 1969 and commenced business the same day. Business was conducted under the name Medallion Insurance Company until July 19, 1971, when the current name of Compass Insurance Company was adopted. The Company discontinued writing new and renewal business in June 1984, and subject to the provisions of Section 1203 of the New York Insurance Law, must obtain prior approval of the Superintendent of Insurance before it can resume doing any insurance business.

In March 1980, the ultimate parent of Compass was Armco, Inc. After various relocations within the Armco Inc., holding company system, in January 1985, Northwestern National Insurance Company of Milwaukee, Wisconsin ("NNIC") became the immediate parent of Compass.

In August 1999, with the Department's approval, the Company's former ultimate parent, Armco Inc., merged with AK Steel Holding Corporation and AK Steel Corporation. Pursuant to the merger agreement, the surviving corporation was AK Steel Corporation. AK Steel Holding Corporation became Compass' ultimate parent.

In February 2011, the Company reduced its capital from \$1,253,480 consisting of 125,348 shares with a par value of \$10 per share to \$947,420 consisting of 94,742 shares with a par value of \$10 per share pursuant to a stock redemption agreement with its immediate parent, NNIC. The Company also amended its charter pursuant to the provisions of Section 1206 of the New York Insurance Law to reduce the number of its outstanding shares. The stock redemption agreement and charter amendment were approved by the Department on February 23, 2011.

On April 22, 2016, SOBC Gamma Holding Company Limited ("SOBC Gamma"), proposed to acquire control of Compass pursuant to a Stock Purchase Agreement, dated as of January 13, 2016, and amended on April 12, 2016 (the "Agreement"), by and among Armco Insurance Group, Inc., a Delaware corporation and the direct parent of NNIC, SOBC Gamma, and NNIC (with respect only to certain limited provisions). Pursuant to the Agreement, SOBC Gamma would acquire all of the issued and outstanding capital stock of NNIC for cash in the amount of \$1.00. As a result, NNIC would become a direct, wholly owned subsidiary of SOBC Gamma, and Compass would become an indirect, wholly owned subsidiary of SOBC Gamma. The application was approved by the Department on October 27, 2016.

In July 2017, the Company requested approval, pursuant to Section 1411(d) of the New York Insurance Law, of a Plan of Stock Redemption and Retirement ("Plan"). The Plan was accomplished by the Company's purchase from NNIC and retirement of 41,952 shares of its common stock. Upon completion of the proposed Plan, the Company's capital totaled \$527,900, consisting of 52,790 shares of \$10 par value per share common stock. The Plan was approved by the Department on November 27, 2017.

On May 2, 2019, NNIC, the administrator of the Company's run-off business, was ordered into liquidation by the Wisconsin Commissioner of Insurance. After May 2, 2019, SOBC Darag Services Company Limited provided support services to the Company pursuant to a service agreement. This agreement was terminated effective December 31, 2020.

Effective January 1, 2021, the Company entered into a service agreement with GLS Services Company ("GLS"), a Delaware corporation, whereby GLS provides certain support services to administer the Company's runoff business, including financial management, claims and data processing, general administration, and regulatory relations. This agreement was non-objected by the Department on December 31, 2020.

A. Corporate Governance

Pursuant to the Company's by-laws, management of the Company is vested in a board of directors consisting of seven members. The board meets once during each calendar year. At December 31, 2020, the board of directors was comprised of the following six members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Patricia S. Henson Maineville, OH	Assistant Secretary, Compass Insurance Company
Thomas F. Hodson West Hartford, CT	Secretary and General Counsel, Compass Insurance Company
Brian Johnston Spencerville, NY	Chief Financial Officer, Compass Insurance Company
Stephanie C. Mocatta Broadstairs, UK	President & Chief Executive Officer, Compass Insurance Company
Gary M. Sussman Riverview, FL	Assistant Treasurer, Compass Insurance Company

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Richard P. Whatton Kent, UK	Director, Compass Insurance Company

A review of the minutes of the board of directors' meetings held during the examination period indicated that board members Patricia Henson and Gary Sussman each attended less than 50% of the meetings for which they were eligible to attend. Members of the board have a fiduciary responsibility; individuals who fail to attend at least one-half of the regular meetings do not fulfill such responsibility.

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

It was also noted that the Company's charter was amended in 2010 to reduce the number of its directors from 13 to seven. However, at December 31, 2020, the Company only has six directors. Jonathan Rosen resigned on June 30, 2020, and has not yet been replaced.

It is recommended that the Company comply with its charter and ensure the number of directors in no case be less than the minimum required.

As of December 31, 2020, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Stephanie C. Mocatta	President
Thomas F. Hodson	Secretary
Brian Johnston	Chief Financial Officer

B. Territory and Plan of Operation

As of December 31, 2020, the Company was licensed to write business in 23 states. The Company discontinued writing new and renewal business in June 1984. There are no policies in force on the Company's books.

During the period prior to cessation of premium writings in 1984, the Company was a direct writer of all lines of property and casualty insurance, primarily for large commercial insureds. The Company also

engaged in the assumption of business from NNIC and participated with other affiliates in inter-company pools. The pooling agreement terminated in 1990.

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

The Company is also empowered to transact such worker's compensation business as maybe incident to coverages contemplated under paragraphs 20 and 21 of Section 1113(a) of the New York Insurance Law, including insurances described in the Longshore and Harbor Workers' Compensation Act (Public Law No. 803, 69th Congress as amended; 33 USC Section 901 et seq. as amended).

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

C. Reinsurance Ceded

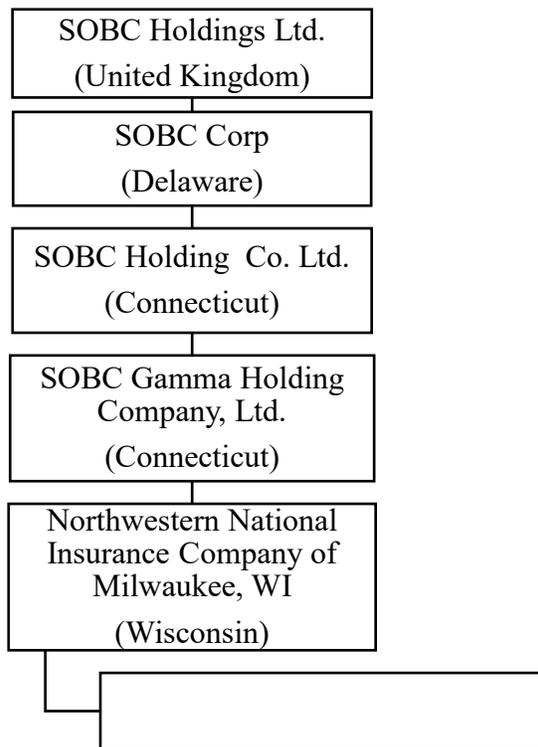
The Company has no active cessions as of December 31, 2020.

D. Holding Company System

The Company is a wholly-owned subsidiary of NNIC, an insurance company domiciled in Wisconsin. In turn, NNIC is a wholly-owned subsidiary of SOBC Gamma, a Connecticut corporation. The ultimate parent is SOBC Holdings Ltd. (“SOBC Holdings”), a corporation based in the United Kingdom.

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 abridged chart of the holding company system at December 31, 2020:



At December 31, 2020, the Company was party to the following agreement with other members of its holding company system:

Tax Sharing Agreement

Effective December 1, 2015, an agreement by and between SOBC Corp., SOBC Services Company Limited, SOBC Insurance Company Limited, SOBC Holding Company Limited, SOBC

Alpha Holding Company Limited, SOBC Alpha Insurance Company Limited, SOBC Beta Holding Company Limited, and SOBC Gamma Holding Company Limited was effectuated whereby the companies file a consolidated tax return. The agreement was amended effective December 31, 2016, to include the Company.

E. Significant Ratios

The Company's adjusted liabilities to liquid assets ratio of 46%, computed as of December 31, 2020, falls within the benchmark range set forth in the Insurance Regulatory Information System of the NAIC. All other ratios are not presented because they are not meaningful due to the Company's run-off status.

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2020, as reported by the Company:

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$4,590,239	\$0	\$4,590,239
Cash, cash equivalents and short-term investments	1,057,697	0	1,057,697
Investment income due and accrued	<u>30,834</u>	<u>0</u>	<u>30,834</u>
Total assets	<u>\$5,678,770</u>	<u>\$0</u>	<u>\$5,678,770</u>
 <u>Liabilities, Surplus and Other Funds</u>			
<u>Liabilities</u>			
Losses and loss adjustment expenses			\$2,421,734
Taxes, licenses and fees (excluding federal and foreign income taxes)			164,452
Current federal and foreign income taxes			25,424
Amounts withheld or retained by company for account of others			8,496
Derivatives			175
Aggregate write-in for liabilities			<u>1,484</u>
Total liabilities			\$2,621,767*
 <u>Surplus and Other Funds</u>			
Common capital stock	\$ 527,900		
Gross paid in and contributed surplus	27,039,986		
Unassigned funds (surplus)	<u>(24,510,883)</u>		
Surplus as regards policyholders			<u>\$3,057,003</u>
Total liabilities, surplus and other funds			<u>\$5,678,770</u>

*Difference of \$2 due to rounding

Note: The Internal Revenue Service has not audited tax returns covering tax years 2016 and through 2020. 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

The net loss for the five-year examination period, from January 1, 2016, through December 31, 2020, as reported by the Company was \$(2,367,617), as detailed below:

Underwriting Income

Premiums earned		\$	0
Deductions:			
Losses and loss adjustment expenses incurred	\$1,873,817		
Other underwriting expenses incurred	<u>1,259,161</u>		
Total underwriting deductions			<u>3,132,978</u>
Net underwriting gain or (loss)			\$(3,132,978)

Investment Income

Net investment income earned	\$1,026,830		
Net realized capital gains (losses)	<u>192,152</u>		
Net investment gain or (loss)			1,218,982

Other Income

Aggregate write-ins for miscellaneous income	<u>(138,548)</u>		
Total other income			<u>(138,548)</u>
Net income after dividends to policyholders but before federal and foreign income taxes			\$(2,052,544)
Federal and foreign income taxes incurred			<u>315,073</u>
Net income			<u>\$(2,367,617)</u>

C. Capital and Surplus

Surplus as regards policyholders decreased \$7,133,285 during the five-year examination period January 1, 2016, through December 31, 2020, as reported by the Company, detailed as follows:

Surplus as regards policyholders, as reported by the Company as of December 31, 2015			\$ 10,190,288
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income		\$2,367,617	
Net unrealized capital gains or (losses)		1,111	
Change in net deferred income tax		107,770	
Change in nonadmitted assets	\$125,703		
Capital changes paid in		419,520	
Surplus adjustments paid in		4,389,429	
Aggregate write-ins for gains and losses in surplus	<u>26,459</u>	<u>0</u>	
Total gains and losses	\$152,162	\$7,285,447	
Net increase (decrease) in surplus			<u>(7,133,285)</u>
Surplus as regards policyholders, as reported by the Company as of December 31, 2020			<u>\$3,057,003</u>

No adjustments were made to surplus as a result of this examination.

Capital paid in is \$527,900 consisting of 52,790 shares of \$10 par value per share common stock. Gross paid in and contributed surplus is \$27,039,986. Gross paid in and contributed surplus and capital paid in decreased during the examination period due to the Company's redemption and retirement of 41,952 shares in 2017.

4. **LOSSES AND LOSS ADJUSTMENT EXPENSES**

The examination liability for the captioned items of \$2,421,734 is the same as reported by the Company as of December 31, 2020. 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 and Procedures Manual, Statement of Statutory Accounting Principles (“SSAP”) No. 55.

5. **SUBSEQUENT EVENTS**

On March 11, 2020, the World Health Organization declared an outbreak of a novel coronavirus (“COVID-19”) pandemic. The COVID-19 pandemic has continued to develop throughout 2020 and 2021, with uncertainty remaining regarding the full effect of COVID-19 on the U.S. and global insurance and reinsurance industry. At the time of releasing this report, the examiner’s review noted that there has not been a significant impact to the Company. The Department has been in communication with the Company regarding the impact of COVID-19. The Department continues to closely monitor the impact of the pandemic on the Company and will take necessary action if a solvency concern arises.

6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

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

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Accounts and Records</u>	
It was recommended that the Company obtain a fidelity bond for the appropriate employees and ensure that the bond amount is at least the minimum suggested level of \$175,000 per the NAIC guidelines.	10
The Company has complied with this recommendation.	

7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Corporate Governance</u>	
i. It is recommended that board members who are unable or unwilling to consistently attend meetings resign or be replaced.	5
ii. It is recommended that the Company comply with its charter and ensure the number of directors in no case be less than the minimum required.	5

Respectfully submitted,

_____/S/_____
Susan Weijola, CPCU
Associate Insurance Examiner

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

Susan Weijola, being duly sworn, deposes and says that the foregoing report, subscribed by her,
is true to the best of her knowledge and belief.

_____/S/_____
Susan Weijola

Subscribed and sworn to before me
this _____ day of _____, 2022.

NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

I, Linda A. Lacewell, 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:

Susan Weijola

as a proper person to examine the affairs of the

Compass 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 26th day of July, 2021

*LINDA A. LACEWELL
Superintendent of Financial Services*

By:

Joan Riddell

*Joan Riddell
Deputy Bureau Chief*

