



**REPORT ON EXAMINATION
OF
AMERICAN GUARANTEE AND LIABILITY
INSURANCE COMPANY**

AS OF DECEMBER 31, 2021

**EXAMINER:
DATE OF REPORT:**

**WAYNE LONGMORE
APRIL 1, 2023**

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KATHY HOCHUL
Governor



ADRIENNE A. HARRIS
Superintendent

April 1, 2023

Honorable Adrienne A. Harris
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 32296 dated August 19, 2021, attached hereto, I have made an examination into the condition and affairs of American Guarantee and Liability Insurance Company as of December 31, 2021, and submit the following report thereon.

Wherever the designation “the Company” appears herein without qualification, it should be understood to indicate American Guarantee and Liability Insurance Company.

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

1. SCOPE OF EXAMINATION

The Department has performed an examination of American Guarantee and Liability Insurance Company, a multi-state insurer. The previous examination was conducted as of December 31, 2016. This examination covered the five-year period from January 1, 2017, through December 31, 2021. Transactions occurring subsequent to this period were reviewed when deemed appropriate by the examiner.

New York was the lead state of the Zurich Insurance Group (“ZAIG”). The examination was performed concurrently with the examinations of the following insurers:

<u>Company</u>	<u>State of Domicile</u>
Zurich American Insurance Company	New York
American Zurich Insurance Company	Illinois
Zurich American Insurance Company of Illinois	Illinois
Steadfast Insurance Company	Illinois
Fidelity and Deposit Company of Maryland	Illinois
Colonial American Casualty and Surety Company	Illinois
Universal Underwriters Insurance Company	Illinois
Universal Underwriters of Texas Insurance Company	Illinois
Empire Fire & Marine Insurance Company	Illinois
Empire Indemnity Insurance Company	Oklahoma
Rural Community Insurance Company	Minnesota

Other states participating in this examination were Illinois, Oklahoma, Minnesota, and California.

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
Summary of recommendations

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

American Guarantee and Liability Insurance Company was incorporated under the laws of the State of New York on July 17, 1939. It commenced business on September 6, 1939. Zurich Fire Insurance Company of New York was merged into the Company on December 31, 1952.

The Company became an affiliate of the U.S. Branch of the Zurich Insurance Company (“U.S. Branch”), now known as Zurich American Insurance Company (“ZAIC”), after the domestication of the U.S. Branch on December 31, 1998. All outstanding capital stock of the Company was transferred from Zurich Holding Company of America, Inc. (“ZHCA”), a Delaware holding company, to ZAIC, a New York domestic insurer, in December 1998 as a surplus contribution related to the domestication of the U.S. Branch. ZAIC, the Company’s immediate parent, is the lead company in a group of wholly owned property and casualty insurance companies based in the United States.

The Company is domiciled in New York and its headquarters are located in Schaumburg, Illinois.

A. Corporate Governance

Pursuant to the Company’s charter and by-laws, management of the Company is vested in a board of directors consisting of not less than seven nor more than 12 members. The board meets at least four times during each calendar year. As of December 31, 2021, the board of directors was comprised of the following nine members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Debra K. Broek Big Stone City, South Dakota	Trainer/Facilitator, GAAP Dynamics
Wayne H. Fisher Bonita Springs, Florida	Retired
Peter C. Hirs Lake Forest, Illinois	Executive Vice President and Chief Financial Officer, American Guarantee and Liability Insurance Company
Richard P. Kearns East Williston, New York	Retired
Mark E. Knipfer Lake Forest, Illinois	Executive Vice President, Chief Operations and Technology Officer, American Guarantee and Liability Insurance Company
Laura J. Lazarczyk Oak Park, Illinois	Executive Vice President and Chief Legal Officer, American Guarantee and Liability Insurance Company
Laura A. Rock Lake Barrington, Illinois	Executive Vice President and Chief Human Resources Officer, American Guarantee and Liability Insurance Company
Kristof F. R. Terryn Chicago, Illinois	President and Chief Executive Officer, American Guarantee and Liability Insurance Company
Angela J. Yochem Charlotte, North Carolina	Chief Transformation and Digital Officer, Novant Health

As of December 31, 2021, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Kristof F. R. Terryn	President and Chief Executive Officer
Peter C. Hirs	Executive Vice President and Chief Financial Officer
Laura J. Lazarczyk	Executive Vice President, Chief Legal Officer and Secretary
Mark. E. Knipfer	Executive Vice President, Chief Operations and Technology Officer
Laura A. Rock	Executive Vice President and Chief Human Resources Officer
Brandon S. Fick ¹	Executive Vice President and Chief Underwriting Officer
Paul Horgan ²	Executive Vice President and Head of National Accounts
Paul Lavelle ³	Executive Vice President and Chief Claims Officer

<u>Name</u>	<u>Title</u>
Alexander B. Wells	Executive Vice President and Head of Middle Markets
Michael P. Day ⁴	Executive Vice President and Head of Crop
Vincent L. Santivasi	Executive Vice President and Head of Direct Markets
David J. Fike	Executive Vice President and Head of Life, Accident and Health
Barry A. Franklin	Executive Vice President and Chief Actuary
Vinayak Awati	Treasurer

Note: Christopher Lewis started on May 16, 2022, as Head of Excess and Surplus Lines business unit and reports to the Chief Executive Officer.

¹ Brandon Fick resigned and was replaced by Peter Caminiti as ad interim Chief Underwriting Officer effective July 28, 2022.

² Paul Lavelle replaced Paul Horgan as Head of National Accounts effective April 1, 2022. Paul Horgan will remain with the Company as Senior Advisor to the Chief Executive Officer until his planned retirement on April 1, 2023.

³ Keith Daly replaced Paul Lavelle as Chief Claims Officer effective April 1, 2022.

⁴ Jason Meador replaced Michael Day as Head of Crop effective February 1, 2022. Michael Day retired effective March 31, 2022.

B. Territory and Plan of Operation

As of December 31, 2021, the Company was licensed to write business in all 50 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
12	Collision
13	Personal injury liability
14	Property damage liability
15	Workers' compensation and employers' liability
16	Fidelity and surety

<u>Paragraph</u>	<u>Line of Business</u>
17	Credit
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine
21	Marine protection and indemnity
28	Service contract reimbursement
29	Legal services insurance

The Company is authorized to write such workers' compensation insurance as may be incidental to coverages contemplated under paragraphs 20 and 21 of Section 1113(a) of the New York Insurance Law. The Company is also licensed to conduct the business of special risk insurance pursuant to Article 63 of the New York Insurance Law and is authorized by Section 4102(c) of the New York Insurance Law to reinsure risks of every kind or description and insure property or risks of every kind or description located or resident outside of the United States, its territories, and possessions.

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 \$35,000,000. However, pursuant to Section 6302(c)(1) of the New York Insurance Law, to be licensed to write special risks, the Company is required to maintain a surplus as regards policyholders of at least 200% of its authorized control level risk-based capital; therefore, the Company was required to maintain a minimum surplus to policyholders in the amount of \$79,456,518 as of December 31, 2021.

The Company is a direct writer. For each year covered by the exam, the Company writes a small amount of assumed business representing less than one percent of the Company's total gross premiums.

The following schedule shows the direct written premiums and premiums assumed by the Company for the period under examination:

<u>Calendar Year</u>	<u>Direct Premiums</u>	<u>Assumed Premiums</u>	<u>Total Gross Premiums</u>
2017	\$1,073,478,345	\$ 812,378	\$1,074,290,723
2018	\$1,053,800,491	\$1,286,154	\$1,055,086,645
2019	\$1,110,859,055	\$ 914,502	\$1,111,773,557
2020	\$1,234,005,014	\$1,044,660	\$1,235,049,674
2021	\$1,301,292,189	\$1,789,182	\$1,303,081,371

In 2021, the Company reported \$0 of net premiums written as 100% of direct and assumed premiums were ceded to ZAIC pursuant to a pooling agreement further described in Section 2C of this report.

During the examination period, other liability-occurrence was the largest single line of direct premiums. The other liability-occurrence category includes coverage for umbrella and directors' and officers' liability.

The Company offers its products and services primarily through independent insurance agents and brokers. The Company is represented by approximately 5,700 independent and general insurance agencies and 500 insurance brokers, which are supported by the Company's network of four regional offices and 35 field offices. In most instances, these agencies and brokers also represent other companies that compete with the Company.

C. Reinsurance Ceded

The Company, as a pooled company, participates in the Zurich-American Insurance Companies Amended Inter-Company Pooling Agreement (the "Pooling Agreement"), effective January 1, 2009. The agreement was amended three times (as of April 1, 2010, as of January 1, 2012, and as of January 1, 2018) primarily to add or remove a pooled company. This agreement supersedes the inter-company pooling agreement effective January 1, 1999. Pursuant to the terms of the agreement, the pooled companies cede 100% of all underwriting assets, liabilities and expenses, as well as underwriting income and losses, net of applicable reinsurance, to the lead company, ZAIC. ZAIC is liable for 100% of the liabilities of the pool, including charges against its surplus for non-admitted assets of each pooled company resulting from assets pooled to ZAIC. There is no retrocession from ZAIC to any of the pooled companies.

All of the pooled companies are either directly or indirectly owned by ZAIC. As of December 31, 2021, the pooled companies include the following affiliates:

- American Zurich Insurance Company
- Colonial American Casualty and Surety Company
- Empire Fire and Marine Insurance Company
- Empire Indemnity Insurance Company
- Fidelity and Deposit Company of Maryland
- Rural Community Insurance Company
- Steadfast Insurance Company
- Universal Underwriters Insurance Company
- Universal Underwriters of Texas Insurance Company
- Zurich American Insurance Company of Illinois

The Pooling Agreement was reviewed for compliance with Article 15 of the New York Insurance Law. The agreement and amendments were filed with the Department pursuant to the provisions of Section 1505(d)(2) of the New York Insurance Law.

After cessions to ZAIC pursuant to the Pooling Agreement, the Company is a party to the same underlying ceded reinsurance program of ZAIC. An examination of ZAIC was conducted by this Department concurrently with this examination. A description of the underlying ceded reinsurance program as of December 31, 2021, is included in the ZAIC report on examination.

Examination review found that the Schedule F data reported by the Company in its filed annual statement accurately reflected its reinsurance transactions. Additionally, management has represented that all material ceded reinsurance agreements transfer both underwriting and timing risk as set forth in SSAP No. 62R. Representations were supported by attestations from the Company's Chief Executive Officer and Chief Financial Officer. Additionally, examination review indicated that the Company was not a party to any finite reinsurance agreements.

D. Holding Company System

The Company is a member of the ZAIG. The Company is a wholly owned subsidiary of ZAIC, a New York domiciled property and casualty insurer, which in turn is a wholly owned subsidiary of Zurich Holding Company of America, Inc. (“ZHCA”), a Delaware holding company. ZHCA is wholly owned by Zurich Insurance Company Ltd. (Switzerland) (“ZIC”). ZIC is wholly owned by Zurich Insurance Group Ltd (Switzerland) (“ZIG”), a publicly traded holding company that is listed on the SIX Swiss Exchange.

ZAIG, through its individual legal entities, has licenses in all 50 states, the District of Columbia, and several U.S. territories. It provides a variety of commercial insurance and risk management products and services to domestic and international companies. The property and casualty insurance companies within ZAIG are operated as separate legal entities, under a common management structure, with coordinated operations and strategy.

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 abridged chart of the holding company system as of December 31, 2021:

Zurich Insurance Group Ltd (Switzerland)

- Allied Zurich Limited (United Kingdom)
- Zurich Insurance Company Ltd (Switzerland)
 - Zurich Canadian Holding Limited
 - Farmers Group, Inc. (NV) (12.1% Zurich Insurance Group Ltd)
 - Zurich Holding Company of America, Inc. (DE)
 - ZFUS Services, LLC (DE)
 - ZNA Services, LLC (DE)
 - Zurich Global, Ltd. (Bermuda)
 - Universal Underwriters Service Corporation (MO)
 - The Zurich Services Corporation (IL)
 - Zurich Agency Services Inc. (MA)
 - Zurich American Insurance Company (NY)
 - Fidelity and Deposit Company of Maryland (IL)
 - Colonial American Casualty and Surety Company (IL)
 - Empire Fire and Marine Insurance Company (IL)
 - Rural Community Insurance Company (MN)
 - Empire Indemnity Insurance Company (OK)
 - Steadfast Insurance Company (IL)
 - American Zurich Insurance Company (IL)
 - Zurich American Insurance Company of Illinois (IL)
 - Zurich E&S Brokerage, Inc.
 - Universal Underwriters Insurance Company (IL)
 - Universal Underwriter of Texas Insurance Company (IL)
 - **American Guarantee and Liability Insurance Company (NY)**

Holding Company Agreements

As of December 31, 2021, the Company was party to the following agreements with other members of its holding company system:

Intercompany Service Agreement

Effective January 1, 2008, the Company and several other named affiliates entered into an Intercompany Service Agreement with ZAIC. Under the terms of the agreement, ZAIC provides administrative and back-office support-type services such as financial and accounting, human resources, and IT services for the benefit of the named affiliates. This agreement was filed with the Department pursuant to Section 1505 of the New York Insurance Law and was non-disapproved on May 29, 2007. Amendment No. 1, which became effective as of January 1, 2010, provides that additional services may be provided by ZAIC through one of its affiliates. These additional services include managed care-related services, risk-engineering services, general claims adjusting services, workers compensation hearing

representation services, care center services, and recovery services. Amendment 1 was non-disapproved by the Department on January 8, 2010. A second amendment to the agreement, which was non-disapproved by the Department on July 29, 2011, and became effective as of March 31, 2011, added aircraft transportation services to the agreement. This agreement supersedes the Amended and Restated Information Technology Service Agreement with the Farmers Group.

Producer Agreement

Effective January 18, 2012, the Company, ZAIC, and other named affiliates entered into a Producer Agreement with Zurich Agency Services, Inc. (“ZAS”), formerly known as Universal Underwriters Insurance Services Inc. Pursuant to the terms of this agreement, ZAS, as producer, may provide insurance producer services to the Company and other parties to the agreement. This agreement was filed with the Department pursuant to Section 1505 of the New York Insurance Law and was non-disapproved on November 14, 2011.

Tax Allocation Agreement

The Company is a party to the Zurich Holding Company of America, Inc., and Subsidiaries Amended and Restated Tax Allocation Agreement (“TAA”), which amended and restated the tax allocation agreement dated December 1981. The TAA became effective with the tax year 1996 and was subsequently amended on December 1, 1999, to clarify the consolidated tax liability calculation. It was further amended effective March 1, 2021, to address the change in U.S. tax law with respect to the Base Erosion and Anti-Abuse Tax. The agreement provides that the Company’s tax liability on a consolidated basis will not exceed the liability had it filed its tax return on a separate return basis. The agreement and amendments were filed with the Department in accordance with Department Circular Letter No. 33 (1979) and were non-disapproved.

E. Significant Ratios

The Company’s adjusted liabilities to liquid assets ratio of 66% 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 fact that the Company cedes 100% of all underwriting assets, liabilities, and expenses, as well as underwriting income and losses, to ZAIC.

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities, and surplus as regards policyholders as of December 31, 2021, as reported by the Company:

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$178,109,347	\$ 0	\$178,109,347
Cash, cash equivalents and short-term investments	2,461,103	0	2,461,103
Investment income due and accrued	1,064,290	83	1,064,208
Uncollected premiums and agents' balances in the course of collection	260,718	0	260,718
Amounts recoverable from reinsurers	<u>118,757,035</u>	<u>0</u>	<u>118,757,035</u>
Total assets	<u>\$300,652,494</u>	<u>\$83</u>	<u>\$300,652,411</u>

Liabilities, Surplus and Other FundsLiabilities

Losses and loss adjustment expenses	\$	0
Reinsurance payable on paid losses and loss adjustment expenses		(2,276)
Other expenses (excluding taxes, licenses and fees)		31,525
Current federal and foreign income taxes		303,904
Net deferred tax liability		97,894
Ceded reinsurance premiums payable (net of ceding commissions)		96,321,112
Payable to parent, subsidiaries and affiliates		<u>22,723,855</u>
Total liabilities		\$119,476,015

Surplus and Other Funds

Common capital stock	\$	5,000,027
Gross paid in and contributed surplus		172,270,401
Unassigned funds (surplus)		<u>3,905,969</u>
Surplus as regards policyholders		<u>\$181,176,397</u>
Total liabilities, surplus and other funds		<u>\$300,652,411</u>

Note: The Internal Revenue Service has completed its audits of the Company's Consolidated Federal Income Tax returns through tax year 2017, as well as the audit of tax year 2019. The Revenue Agent's Report for tax year 2018 has been executed and a required review by the Joint Committee on Taxation has been completed. The Company awaits a closing letter to conclude the audit. All material adjustments, if any, made subsequent to the date of examination and arising from said audits, are reflected in the financial statements. The Internal Revenue Service has not audited tax returns covering tax years 2020 and 2021.

B. Statement of Income

The net income for the examination period as reported by the Company was \$22,840,886, as detailed below:

Underwriting Income

Premiums earned		\$	0
Deductions:			
Losses and loss adjustment expenses incurred	\$	0	
Other underwriting expenses incurred		0	
Total underwriting deductions			<u>0</u>
Net underwriting gain or (loss)		\$	0

Investment Income

Net investment income earned	\$23,028,623		
Net realized capital gain	<u>1,781,071</u>		
Net investment gain or (loss)			<u>24,809,694</u>
Net income before federal and foreign income taxes		\$24,809,694	
Federal and foreign income taxes incurred			<u>1,968,808</u>
Net income			<u>\$22,840,886</u>

C. Capital and Surplus

Surplus as regards policyholders increased \$2,391,927 during the examination period January 1, 2017, through December 31, 2021, as reported by the Company, detailed as follows:

Surplus as regards policyholders as reported by the Company as of December 31, 2016			\$178,784,470
	<u>Gains in</u> <u>Surplus</u>	<u>Losses in</u> <u>Surplus</u>	
Net income	\$22,840,886		
Change in net deferred income tax	56,428		
Change in nonadmitted assets	1,294,613		
Dividends to stockholders	<u>0</u>	<u>\$21,800,000</u>	
Total gains and losses	<u>\$24,191,927</u>	<u>\$21,800,000</u>	
Net increase (decrease) in surplus			<u>2,391,927</u>
Surplus as regards policyholders as reported by the Company as of December 31, 2021			<u>\$181,176,397</u>

As of December 31, 2021, the Company's capital paid in was \$5,000,027, consisting of 6,636 shares of common stock at \$753.47 par value per share. Gross paid in and contributed surplus was \$172,270,401, which did not change during the examination period.

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

4. **LOSSES AND LOSS ADJUSTMENT EXPENSES**

The examination liability for the captioned items of \$0 is the same as reported by the Company as of December 31, 2021. The examination analysis of the loss and loss adjustment expense reserves was conducted in accordance with actuarial standards of practice and statutory accounting principles, including SSAP No. 55.

5. **COMPLIANCE WITH PRIOR REPORT ON EXAMINATION**

The prior report on examination did not contain any comments or recommendations.

6. **SUMMARY OF COMMENTS AND RECOMMENDATIONS**

This report on examination does not contain any comments or recommendations.

Respectfully submitted,

/S/

Wayne Longmore
Financial Services Manager 1

STATE OF NEW YORK)

)ss:

COUNTY OF NEW YORK)

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

/S/

Wayne Longmore

Subscribed and sworn to before me

this _____ day of _____, 2023.

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:

Wayne Longmore

*as a proper person to examine the affairs of the
American Guarantee and Liability Insurance Company
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 19th day of August, 2021

*LINDA A. LACEWELL
Superintendent of Financial Services*

By:

Joan Riddell

*Joan Riddell
Deputy Bureau Chief*

