



**REPORT ON EXAMINATION
OF
GUILDERLAND REINSURANCE COMPANY**

AS OF DECEMBER 31, 2021

**EXAMINER:
DATE OF REPORT:**

**LAMIN JAMMEH
JUNE 13, 2023**

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KATHY HOCHUL
Governor



ADRIENNE A. HARRIS
Superintendent

June 13, 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 32410, dated May 18, 2022, attached hereto, I have made an examination into the condition and affairs of Guilderland Reinsurance 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 Guilderland Reinsurance 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 Guilderland Reinsurance 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 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
- Summary of recommendations

A review was also made to ascertain what action was taken by the Company with regard to the 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

Guilderland Reinsurance Company was originally organized in 1854 as a co-operative assessment fire insurance association under the title Guilderland Mutual Insurance Association. The association liquidated its affairs in 1939 and on January 1, 1940, was reorganized for transacting fire reinsurance exclusively. The association then converted to a mutual fire insurance company, and the title Guilderland Mutual Reinsurance Company was adopted. The Company adopted its current title on November 30, 1990.

On December 18, 1990, the Company completed a plan of demutualization and was acquired by the Main Street America Financial Corporation, a wholly owned subsidiary of National Grange Mutual Insurance Company (“NGM”). On November 4, 1999, the Company was acquired by Excess Reinsurance Company (“Excess”). In July 2008, Excess was acquired by KnightBrook, LLC, a Delaware limited liability company, and Excess’ name was changed to KnightBrook Insurance Company.

The Company terminated all of its business at the end of 2004. The last of its previously written business expired in 2006.

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 19 members. The board meets at least four times during each calendar year. At December 31, 2021, the board of directors was comprised of the following seven members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Gracia Slamet Ang Los Angeles, California	Chief Financial Officer, Hankey Investment Company
Bret Conrad Hankey Malibu, California	Assistant Secretary, Knight Management Company, LLC Assistant Secretary, Knight Insurance Company, Ltd.
Don Robert Hankey Malibu, California	Chairman and Chief Executive Officer, Knight Insurance Company, Ltd.
Jacqueline Leung San Marino, California	Chief Financial Officer and Treasurer, Knight Insurance Company, Ltd.

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
John Martin Rygh Seal Beach, California	Retired
Amit Bharatkumar Shah Burbank, California	President, Knight Insurance Company, Ltd.
Corey Alan Tavel Old Bethpage, New York	Attorney, Smith Mazure P.C.

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

<u>Name</u>	<u>Title</u>
Don Robert Hankey	President and Chief Executive Officer
Robert Witold Jozwik	Secretary and General Counsel
Bret Conrad Hankey	Assistant Secretary
Amit Bharatkumar Shah	Vice President

B. Territory and Plan of Operation

The Company has not written or assumed business since 2004. As of December 31, 2021, the Company was licensed to write business in Indiana, New York, and Wisconsin. It is an accredited reinsurer in Vermont.

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>
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
19	Motor vehicle and aircraft physical damage

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 \$1,900,000.

C. Reinsurance Ceded

Effective January 1, 1998, the Company entered into a 100% quota share retrocessional reinsurance agreement with NGM (at that time, an affiliated entity), which reinsures all losses past, present, and future. This reinsurance agreement was reviewed for compliance with Article 15 of the New York Insurance Law. It was filed with the Department pursuant to the provisions of Section 1505(d)(2) of the New York Insurance Law.

Effective January 1, 2019, American Family Mutual Insurance Company S.I. ("AFMICS") executed a loss portfolio transfer and 100% quota share reinsurance agreement with NGM. As a result, AFMICS elected to make a change in reporting entity (in addition to consolidating the results of various subsidiaries, including NGM). As of December 31, 2021, the Company reflected AFMICS as reinsurer in Schedule F Part 3 of the filed Annual Statement.

It is recommended that the Company properly reflect NGM as a reinsurer in its filed statements.

D. Holding Company System

The Company is a member of the KnightBrook Insurance Group (the "Group"). The Company is a wholly owned subsidiary of KnightBrook Insurance Company ("KBIC"), which is a wholly owned subsidiary of Knight Insurance Company, Ltd. DBA Knight Re ("KIC"). As of December 31, 2021, the Don R. Hankey Trust held a majority interest of 93.90% in KIC.

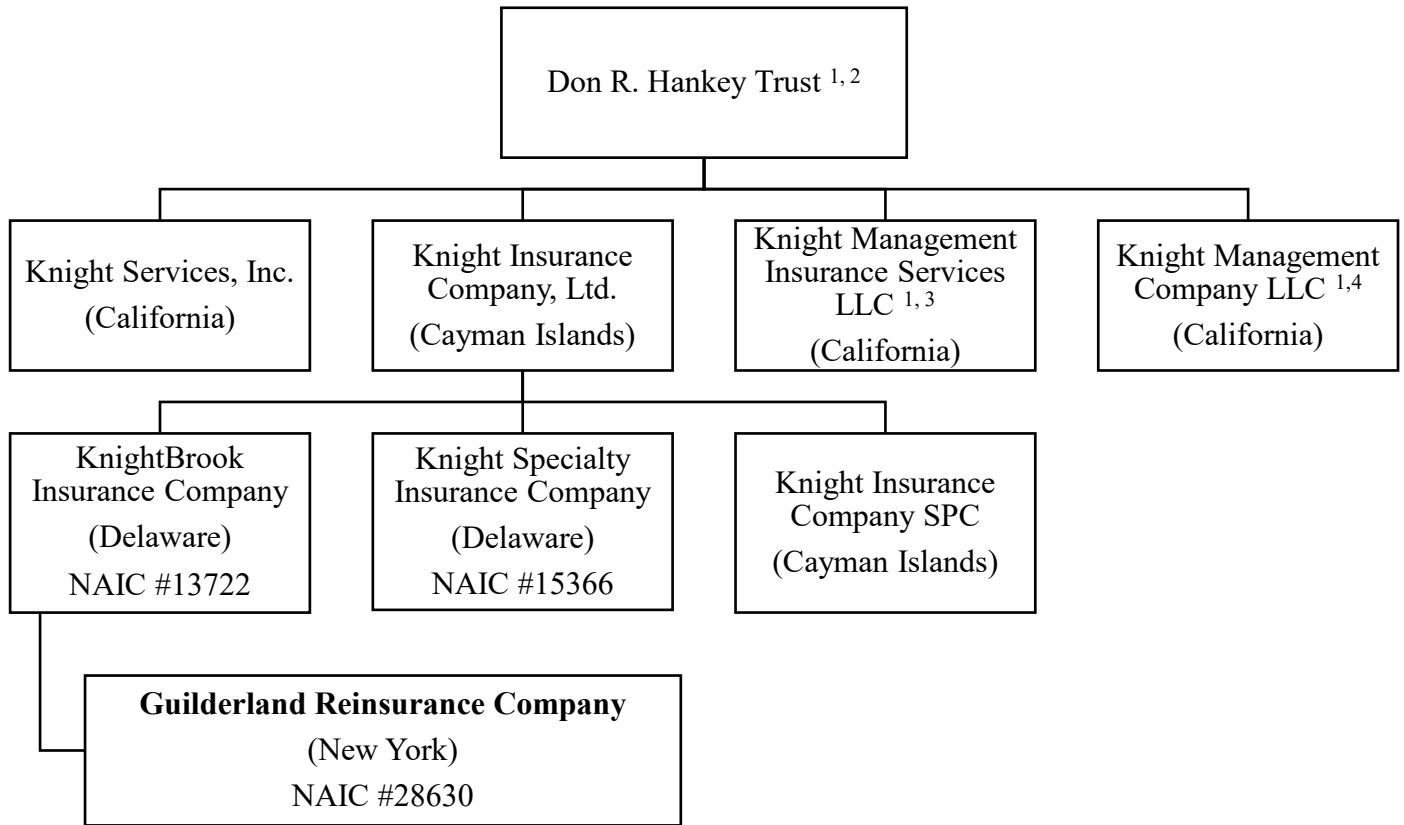
The Group provides underwriting capability for niche insurance program businesses. Lines of business and their respective programs include commercial auto liability, commercial general liability, specialty insurance, and general liability. The Group is comprised of the Company, KBIC, and Knight Specialty Insurance Company ("KSIC"). The Company's direct parent, KBIC, is a property and casualty insurance company domiciled in Delaware that primarily writes auto, collateral protection, and guaranteed asset protection insurance. The Company's affiliate, KSIC, was formed in 2013 to write excess and surplus lines of insurance and cedes 100% to its parent, KIC.

The Company's indirect parent, KIC, was incorporated as an exempted company under the laws of the Cayman Islands in 1993 and is the holder of a Class B (iii) Insurer's License. Effective December 31, 2020, KnightBrook, LLC, KIC's parent, merged into KIC, with KIC as the surviving entity. KIC mainly writes and assumes automobile and general liability coverages.

Other affiliated entities include Knight Management Insurance Services LLC ("KMIS") and Knight Management Company LLC ("KMC"). KMIS is a California limited liability company organized in 1999, and KMC is a California limited liability company organized in 2019. KMIS and KMC are licensed property and casualty insurance agents that provide program management, underwriting, policy production, and claims management services to affiliated and unaffiliated insurers.

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.

The following is an abridged chart of the holding company system at December 31, 2021:



¹ Don R. Hankey Trust owns 93.90% of Knight Insurance Company, Ltd., 75% of Knight Management Insurance Services LLC, and 75% of Knight Management Company LLC

² Minority interest is held by the R&B Trust (0.81%), Debbi Bowles, LLC (2.29%), and the following individuals: Don Rufus Hankey (0.38%), Bret Conrad Hankey (0.38%), Amit Shah (2.12%), Jacqueline Leung (0.10%), Aditya Samanta (0.01%), and Letian Zhao (0.01%)

³ Minority interest is held by Don Rufus Hankey (12.5%) and Bret Conrad Hankey (12.5%)

⁴ Minority interest is held by the Bret Conrad Hankey Trust (12.5%) and Amit Shah (12.5%)

Holding Company Agreements

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

Tax Allocation Agreement

Effective March 22, 2021, the Company and various affiliates entered into a tax allocation agreement with its parent, KIC, for taxable years commencing on and after January 1, 2020. The agreement provides for the calculation of the Company's tax liability on a separate return basis. All settlements under the agreement shall be made within 30 days of the filing of the applicable estimated or actual consolidated federal corporate income tax return with the Internal Revenue Service, except, where a refund is due KIC, KIC may defer payments to the Company to within 30 days of receipt of such refund. The Company submitted the agreement in accordance with Circular Letter No. 33(1979) and Section 1505(d) of the New York Insurance Law.

Management Agreement

Effective November 1, 2017, the Company entered into a management services agreement with its affiliate, KMIS, whereby KMIS provides regulatory services, home office services, reinsurance claims management, and accounting and cash records services. The Company pays KMIS a flat monthly fee for services received. The Company submitted this agreement in accordance with Section 1505(d) of the New York Insurance Law and the Department issued a non-objection letter on November 20, 2017.

E. Significant Ratios

The Company's adjusted liabilities to liquid assets ratio of 9%, computed as of December 31, 2021, falls within the benchmark range set forth in the Insurance Regulatory Information System of the NAIC. All other ratios are not presented as they are not meaningful because the Company has not written business since 2004.

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	\$2,040,033	\$0	\$2,040,033
Common stocks	2,947,009	0	2,947,009
Cash, cash equivalents and short-term investments	33,279	0	33,279
Investment income due and accrued	20,255	0	20,255
Amounts recoverable from reinsurers	<u>862</u>	<u>0</u>	<u>862</u>
Total assets	<u>\$5,041,438</u>	<u>\$0</u>	<u>\$5,041,438</u>

Liabilities, Surplus and Other Funds

Liabilities

Losses and Loss Adjustment Expenses	\$	0
Reinsurance payable on paid losses and loss adjustment expenses		862
Other expenses (excluding taxes, licenses and fees)		14,648
Current federal and foreign income taxes		261,212
Net deferred tax liability		<u>155,648</u>
Total liabilities	\$	432,370

Surplus and Other Funds

Common capital stock	\$1,000,000
Unassigned funds (surplus)	<u>3,609,068</u>
Surplus as regards policyholders	<u>\$4,609,068</u>
Total liabilities, surplus and other funds	<u>\$5,041,438</u>

Note: The Internal Revenue Service has not audited the Company's consolidated tax returns covering tax years 2017 through 2021. 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 income for the examination period as reported by the Company was \$661,313, as detailed below:

Underwriting Income

Premiums earned		\$	0
Deductions:			
Other underwriting expenses incurred	\$195,869		
Total underwriting deductions			<u>195,869</u>
Net underwriting gain or (loss)			\$(195,869)

Investment Income

Net investment income earned	\$678,495		
Net realized capital gain	<u>374,440</u>		
Net investment gain			<u>1,052,935</u>
Net income before dividends to policyholders and before federal and foreign income taxes		\$	857,066
Dividends to policyholders			<u>0</u>
Net income after dividends to policyholders and before federal and foreign income taxes		\$	857,066
Federal and foreign income taxes incurred			<u>195,753</u>
Net income		\$	<u>661,313</u>

C. Capital and Surplus

Capital paid in is \$1,000,000 consisting of 1,000,000 shares of \$1.00 par value per share common stock. Gross paid in and contributed surplus is \$0, which did not change during the examination period.

Surplus as regards policyholders increased \$1,221,715 during the five-year 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, 2017			\$3,387,353
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income	\$ 661,313		
Net unrealized capital gains or (losses)	529,322		
Change in net deferred income tax	<u>31,080</u>	\$0	
Total gains and losses	\$1,221,715	\$0	
Net increase (decrease) in surplus			<u>1,221,715</u>
Surplus as regards policyholders as reported by the Company as of December 31, 2021			<u>\$4,609,068</u>

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 liability of \$0 is due to the 100% quota share reinsurance with NGM, described in section 2C of this report. The Statement of Actuarial Opinion for the year ended December 31, 2021, indicated the stated reserve amounts are reasonable.

5. 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>
<p>A. <u>Management</u> It was recommended that the Company fully comply with all the provisions of its by-laws.</p> <p>The Company has complied with this recommendation.</p>	4
<p>B. <u>Holding Company</u> It was recommended that the Company file its annual holding company registration statements in a timely manner pursuant to the provisions of Part 80-1.2 of Department Regulation 52.</p> <p>The Company has complied with this recommendation.</p>	6
<p>C. <u>Accounts and Records</u></p> <p>i. It was recommended that the Company ensure all of its officers and directors sign a conflict of interest statement annually.</p> <p>The Company has complied with this recommendation.</p> <p>ii. It was recommended that the Company comply with Section 312(b) of the New York Insurance Law by submitting the report on examination to its board of directors and have each director sign a statement and retain a copy that such member has received and read the report.</p> <p>The Company has complied with this recommendation.</p>	9

6. SUMMARY OF COMMENTS AND RECOMMENDATIONSITEMPAGE NO.

A.

Reinsurance

It is recommended that the Company properly reflect NGM as a reinsurer in its filed statements.

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Respectfully submitted,

_____/S/_____
Lamin Jammeh
Financial Services Examiner 2

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

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

_____/S/_____
Lamin Jammeh

Subscribed and sworn to before me

this _____ day of _____, 2023.

APPOINTMENT NO. 32410

NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

I, Adrienne A. Harris, 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:

Lamin Jammeh

as a proper person to examine the affairs of the

Guilderland Reinsurance 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 18th day of May 2022

*ADRIENNE A. HARRIS
Superintendent of Financial Services*

By:

Joan Riddell

*Joan Riddell
Deputy Bureau Chief*

