



**REPORT ON EXAMINATION
OF
WATER QUALITY INSURANCE SYNDICATE**

AS OF NOVEMBER 30, 2020

**EXAMINER:
DATE OF REPORT:**

**SHEIK MOHAMED
APRIL 11, 2022**

TABLE OF CONTENTS

<u>ITEM</u>		<u>PAGE NO.</u>
1.	Scope of examination	2
2.	Description of Company	2
	A. Corporate governance	3
	B. Water Quality Insurance Syndicate Agreement	4
	C. Territory and plan of operation	4
	D. Reinsurance ceded	5
	E. Affiliated group	5
	F. Significant ratios	6
3.	Financial statements	7
	A. Balance sheet	7
	B. Statement of income	8
	C. Subscriber's accountability	8
4.	Losses and loss adjustment expenses	9
5.	Subsequent events	9
6.	Compliance with prior report on examination	9
7.	Summary of comments and recommendations	10

KATHY HOCHUL
Governor



ADRIENNE A. HARRIS
Superintendent

February 23, 2024

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 32249 dated May 6, 2021, attached hereto, I have made an examination into the condition and affairs of Water Quality Insurance Syndicate as of November 30, 2020, and submit the following report thereon.

Wherever the designation “the Syndicate” appears herein without qualification, it should be understood to indicate Water Quality Insurance Syndicate.

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

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1. SCOPE OF EXAMINATION

The Department has performed a limited scope examination of the Syndicate. The previous examination was conducted as of November 30, 2015. This examination covered the five-year period from December 1, 2015 through November 30, 2020. The scope of the examination was limited to balance sheet items considered by this Department to require analysis, verification, or description, including invested assets, loss and loss adjustment expense reserves, and provision for reinsurance. The examination included a review of income, disbursements, and Syndicate records deemed necessary to accomplish such analysis or verification and utilized to the extent deemed appropriate, work performed by the Syndicate's independent public accountants. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

A review was also made to ascertain what action was taken by the Syndicate with regard to comments and recommendations contained in the prior report on examination.

This report on examination is confined to the target areas investigated pursuant to the limited scope examination instructions, 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 Syndicate is an unincorporated association of insurance companies, called subscribers, which are authorized to transact the business of marine insurance in the United States.

The Syndicate was organized in June 1971, for the specific purpose of providing the insurance protection required by owners and operators of vessels of one hundred or more tons against liability imposed under the Water Quality Improvement Act of 1970. Under the provisions of this Act, owners and operators of vessels incurred liability, with some exceptions, for the cost of removal of oil discharged into or upon the navigable waters of the United States. With the passage of the Federal Water Pollution Control Act Amendments of 1972, the Syndicate expanded its coverage to include the cost of removal of a great variety of substances designated as hazardous. Further amendments were enacted by the Clean Water Act of 1977.

In 1978, Public Law 95-576 combined the Acts of 1972 and 1977. The combined legislation prohibits and imposes liability for discharges of oil or hazardous substances into or upon navigable waters

of the United States. Protection is afforded against said liability or in connection with activities under the Outer Continental Shelf Lands Act or Deepwater Port Act of 1974, or which may affect natural resources owned or managed by the United States Government, including resources under the Fishery Conservation and Management Act of 1976.

A. Corporate Governance

The business and affairs of the Syndicate are the responsibility of the board of managers. Each of the subscribing companies is entitled to have a representative on the board, each casting one vote. The board meets four times during each calendar year. At November 30, 2020, the board of managers was comprised of the following ten members:

<u>Subscriber</u>	<u>Representative</u>	<u>Participation</u>
Aspen American Insurance Company	Jonathan O'Hara	10.9711%
Atlantic Specialty Insurance Company	Robert Gallagher	10.9711%
National Union Fire Ins. Company of Pittsburgh	Michael Nukk	10.9711%
Navigators Insurance Company	Robert Ryan	10.9711%
RLI Insurance Company	Robert Schauer	10.9711%
StarNet Insurance Company	Lester Bogdan	7.0000%
StarStone National Insurance Company	Timothy McAndrew	10.9711%
The Continental Insurance Company	Jonathan Lacorazza	7.8690%
XL Specialty Insurance Company	Ann Marie Elder	10.9711%
Zurich American Insurance Company of Illinois	Matthew Elias	8.3333%

A review of the minutes of the board of managers' meetings held during the examination period indicated that subscriber National Union Fire Insurance Company of Pittsburgh and The Continental Insurance Company each attended less than 50% of the meetings for which they were eligible to attend. Members of the board have a fiduciary responsibility and must evince an ongoing interest in the affairs of the syndicate. It is essential that subscriber representatives attend meetings consistently and set forth their views on relevant matters so that the board may reach appropriate decisions. Individuals who fail to attend at least one-half of the regular meetings do not fulfill such criteria.

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

As of November 30, 2020, the principal officers of the Syndicate were as follows:

<u>Name</u>	<u>Title</u>
Justin A. Mongello	President and Chief Executive Officer
Ryan A. Puttick	Senior Vice President and Chief Claims Officer
John J. Hassett	Chief Financial Officer and Secretary

B. Water Quality Insurance Syndicate Agreement

The Syndicate conducts business for and on behalf of its subscribers pursuant to the provisions of the Water Quality Insurance Syndicate Agreement, which states that the purpose of the Syndicate is to provide, in the most convenient and efficient manner, a facility for the insurance of the following risks:

1. The costs incurred by the United States Government in the removal of oil and hazardous substances (including any costs incurred in the restoration or replacement of natural resources damaged or destroyed because of such discharge of oil or hazardous substances), and for civil penalties imposed in the case of non-removal of hazardous substances as defined in the Federal Water Pollution Control Act.
2. The costs and damages associated with the removal of oil and hazardous substances as defined in the Outer Continental Shelf Lands Act Amendments of 1978.
3. The liability for response costs and damages as defined in the Comprehensive Environmental Response Compensation and Liability Act of 1980.
4. Liabilities as defined in the Oil Pollution Act of 1990.
5. The risks of vessel owners' civil liability to third parties including the governments of foreign countries, for physical damage to or loss of real or personal property arising out of a discharge of oil or a hazardous substance.

The subscribers severally, but not jointly, agree to insure and reinsure all risks pertinent to the subject agreement.

C. Territory and Plan of Operation

The Syndicate's subscribers are authorized to write the kinds of marine risks as specified in Section 1113(a) of the New York Insurance Law, paragraphs 20 and 21 of the New York Insurance Law.

As of November 30, 2020, the Syndicate through its licensed subscribers, issues policies solely in the state of New York.

D. Reinsurance Ceded

The Syndicate places reinsurance with reinsurers that hold an A.M. Best financial strength rating of B++ or higher. There are no significant counter-party risks related to the reinsurance recoverables of the Syndicate. The Syndicate considers its risk appetite and tolerance when determining the reinsurance program.

The Syndicate has structured its ceded reinsurance program as follows:

<u>Type of Contract</u>	<u>Cession</u>
<u>Primary Pollution Liability Excess of Loss</u>	\$50,000,000 each vessel/unit/watercraft over and above an initial Ultimate Net Loss of \$2,000,000 each event.
<u>Excess Pollution Liability Excess of Loss</u>	\$150,000,000 excess of \$50,000,000 ultimate net loss each vessel/unit/watercraft.

It is the Syndicate's policy to obtain the appropriate collateral for its cessions to unauthorized reinsurers. Letters of credit obtained by the Syndicate to take credit for cessions to unauthorized reinsurers were reviewed for compliance with Department Regulations 133. No exceptions were noted.

All significant 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.

Examination review found that the equivalent Schedule F data prepared by the Syndicate accurately reflected its reinsurance transactions. Additionally, examination review indicated that the Syndicate was not a party to any finite reinsurance agreements. All ceded reinsurance agreements were accounted for utilizing reinsurance accounting as set forth in SSAP No. 62R.

E. Affiliated Group

The Syndicate has no employees. It owns 100% of Wall Street Marine, Inc. ("Wall Street Marine"), an incorporated non-insurer, which provides all staffing and services necessary for the operations of the Syndicate pursuant to a services agreement effective January 16, 2019. The agreement was filed with this Department pursuant to Section 1505(d) of the New York Insurance Law.

F. Significant Ratios

The following ratios have been computed as of November 30, 2020, based upon the results of this examination:

	<u>Amounts</u>	<u>Ratios</u>
Losses and loss adjustment expenses incurred	\$12,139,548	21.92%
Other underwriting expenses incurred	24,575,608	44.38%
Net underwriting gain	<u>18,657,832</u>	<u>33.69%</u>
Premiums earned	<u>\$55,372,988</u>	<u>100.00%</u>

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and the subscribers' accountability as reported in the Syndicate's audited financial statement as of November 30, 2020.

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Cash	\$5,161,414	\$ 0	\$5,161,414
Premiums receivable	2,567,763	1,431,393	1,136,370
Amounts recoverable from reinsurers	1,586		1,586
Other assets	<u>381,273</u>	<u>294,653</u>	<u>86,620</u>
Total assets	<u>\$8,112,036</u>	<u>\$1,726,046</u>	<u>\$6,385,990</u>

Liabilities and Net Subscribers' Accountability

Liabilities

Losses and loss adjustment expenses	\$ 4,554,884
Other expenses (excluding taxes, licenses and fees)	498,353
Unearned premiums	5,362,207
Provision for reinsurance	<u>449,979</u>
Total liabilities	\$10,865,423
Net subscribers' accountability	<u>(4,479,433)</u>
Total liabilities and net subscribers' accountability	\$ <u>6,385,990</u>

A provision for income taxes is not applicable for the Syndicate since earnings from operations are distributed to the subscriber companies and accordingly, the subscriber companies are responsible for income taxes.

B. Statement of Income

The net income for the examination period as reported by the Syndicate was \$18,907,832, as detailed below:

Underwriting Income

Premiums earned		\$55,372,988
Deductions:		
Losses and loss adjustment expenses incurred	\$12,139,548	
Other underwriting expenses incurred	<u>24,575,608</u>	
Total underwriting deductions		<u>36,715,156</u>
Net underwriting gain or (loss)		\$18,657,832
Other income		<u>250,000</u>
Net income		<u>\$18,907,832</u>

C. Subscriber's Accountability

The subscriber's accountability increased \$13,234,783 during the five-year examination period December 1, 2015, through November 30, 2020, as reported by the Syndicate, detailed as follows:

Subscribers' accountability, as reported by the Syndicate as of November 30, 2015			\$(17,714,216)
	<u>Gains</u>	<u>Losses</u>	
Net income	\$18,907,832		
Change in nonadmitted assets		\$ 213,236	
Change in provision for reinsurance	293,518	0	
Net remittances to and from subscribers		5,057,932	
Gains and losses in surplus	<u>0</u>	<u>695,399</u>	
Total gains and losses	\$19,201,350	\$5,966,567	
Net increase (decrease) in subscribers' accountability			<u>13,234,783</u>
Subscribers' accountability, as reported by the Syndicate as of November 30, 2020			<u>\$(4,479,433)</u>

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of \$4,554,884 is the same as reported by the Syndicate as of November 30, 2020. The examination analysis was based on statistical information contained in the Syndicate's records and its financial statements. The results indicated that the reserves as established by the Syndicate as of the examination date were adequate.

5. SUBSEQUENT EVENTS

On March 11, 2020, the World Health Organization declared an outbreak of a novel coronavirus ("COVID-19") pandemic. The pandemic presented significant uncertainty to the U.S. and global insurance and COVID-19 is still unknown. The Department has been in communication with the Syndicate regarding the impact of COVID-19 on its operations and financial position.

6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

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

<u>ITEM</u>	<u>PAGE NO.</u>
<p>A. <u>Affiliated Group</u> It was recommended that the Syndicate establish a written agreement outlining in detail all provisions that would set forth the roles and responsibilities of each party and that such agreement be submitted to the Department for non-objection pursuant to the requirements of Section 1608(e)(4) of the New York Insurance Law.</p> <p>The Syndicate has complied with this recommendation.</p>	<p>5</p>
<p>B. <u>Accounts and Records</u> It was recommended that the Syndicate exercise greater care in preparing and maintaining its financial statements and records.</p> <p>The Syndicate has complied with this recommendation.</p>	<p>6</p>

7. **SUMMARY OF COMMENTS AND RECOMMENDATIONS**ITEMPAGE NO.

- A. Corporate Governance
It is recommended that subscriber representatives who are unable or unwilling to attend meetings consistently should resign or be replaced. 3

Respectfully submitted,

_____/S/_____
Sheik H. Mohamed
Associate Insurance Examiner

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

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

_____/S/_____
Sheik H. Mohamed

Subscribed and sworn to before me

this _____ day of _____, 2024.

APPOINTMENT NO. 32249

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:

Sheik Mohamed

as a proper person to examine the affairs of the

Water Quality Insurance Syndicate

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 6th day of May, 2021

*LINDA A. LACEWELL
Superintendent of Financial Services*

By:

Joan Riddell

*Joan Riddell
Deputy Bureau Chief*

