REPORT ON EXAMINATION
OF
KINGSTONE INSURANCE COMPANY

AS OF DECEMBER 31, 2022

EXAMINER:	**DILBRINA BELGRAVE, AFE, CISA**
DATE OF REPORT:	**MAY 15, 2024**

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May 15, 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 32473 dated February 8, 2023, attached hereto, I have made an examination into the condition and affairs of Kingstone Insurance Company as of December 31, 2022, and submit the following report thereon.

Wherever the designation "the Company" appears herein without qualification, it should be understood to indicate Kingstone 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 Kingstone Insurance Company, a multi-state insurer. The previous examination was conducted as of December 31, 2018. This examination covered the four-year period from January 1, 2019 through December 31, 2022. 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

The Company was incorporated under the laws of the State of New York in 1886 under the name of the Co-operative Fire Insurance Company of Greene, Schoharie, and Delaware Counties. It was the first advanced premium cooperative fire insurance company in New York. In 1922, the Company changed its name to The Co-operative Fire Insurance Company of Catskill and in 1935, the Company assumed all of the assets and liabilities of its affiliate, the Commercial Mutual Fire Insurance Company of Greene County. In 1976, the merged company adopted the name of Commercial Mutual Insurance Company ("CMIC").

On April 1, 1998, Eagle Insurance Company ("Eagle") obtained a controlling interest of the Company by investing $3 million in the form of a Section 1307 surplus note. On March 12, 1999, Eagle purchased another surplus note in the amount of $750,000.

On January 31, 2006, the surplus notes with a principal amount of $3,750,000 were sold by Eagle to the DCAP Group, Inc., currently known as Kingstone Companies, Inc. ("KCI").

In March 2007, the Company's board of directors approved a resolution to convert (demutualize) CMIC from an advance premium cooperative insurance company to a domestic stock property and casualty insurance company pursuant to Section 7307 of the New York Insurance Law. The charter, by-laws, and plan of conversion were submitted to the Department and were approved on April 15, 2009. On June 8, 2009, the eligible policyholders of CMIC voted in favor of the conversion by the required two-thirds majority. On June 30, 2009, the Department gave final approval of the demutualization to become effective July 1, 2009. Upon the effective date of the conversion, CMIC's name was changed to Kingstone Insurance Company.

Pursuant to the plan of conversion, KCI acquired a 100% equity interest in the Company in consideration of the exchange of the $3,750,000 principal dollar amount of surplus notes of CMIC. Accordingly, on July 1, 2009, the Company issued 3,000 shares of common stock with a par value of $1,000 to KCI, and the $3,750,000 surplus note was discharged. In addition, KCI forgave all accrued and unpaid interest on the surplus notes as of the date of conversion.

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 eighteen members. The board meets at least three times during each calendar year. As of December 31, 2022, the board of directors was comprised of the following eight members:

Name and Residence	Principal Business Affiliation
Sarah Chen Lexington, Massachusetts	Chief Actuary, Kingstone Insurance Company
Barry B. Goldstein [1] Hewlett, New York	Chief Investment Officer, Chief Executive Officer and Chairman of the Board, Kingstone Insurance Company
Meryl Golden Westport, Connecticut	President, Kingstone Insurance Company
Shannon A. Matty-Provvisiero Lynbrook, New York	Vice President of Business Transformation and Experience, Kingstone Insurance Company
John D. Reiersen Port Jefferson, New York	Retired from Kingstone Insurance Company
Thomas G. Seccia Kingston, New York	Secretary, Chief Administrating Officer, General Counsel and Chief Risk Officer, Kingstone Insurance Company
Nigel Shepherd [2] Norwalk, Connecticut	Senior Vice President and Chief Claims Officer, Kingstone Insurance Company
Richard J. Swartz [3] Walden, New York	Treasurer and Chief Accounting Officer, Kingstone Insurance Company

[1] Barry B. Goldstein resigned as Chief Investment Officer and Chief Executive Officer, effective October 1, 2023.

[2] Nigel Shepherd resigned as Chief Claim Officer and board member effective September 21, 2023.

[3] Richard J. Swartz resigned as Treasurer, Chief Accounting Officer, and board member effective December 31, 2022.

As of December 31, 2022, the principal officers of the Company were as follows:

Name	Title
Barry B. Goldstein [1]	Chairman of the Board, Chief Investment Officer
Meryl Golden	President
Thomas G. Seccia	Secretary, Chief Administrative Officer, General Counsel and Chief Risk Officer
Richard J. Swartz [3]	Treasurer and Chief Accounting Officer
Sarah Chen	Chief Actuary
Shannon A. Matty-Provvisiero	Vice President of Business Transformation & Experience
Robert Jacobson	Vice President, Operations
Nigel Shepherd [2]	Senior Vice President, Chief Claims Officer
Sara D. Mikulski	Chief Information Security Officer

B. Territory and Plan of Operation

As of December 31, 2022, the Company was licensed to write business in the following eight states: Connecticut, Maine, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, and Rhode Island. The Company rescinded its license with the state of Texas in 2019.

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:

Paragraph	Line of Business
4	Fire
5	Miscellaneous property
6	Water damage
7	Burglary and theft
8	Glass
9	Boiler and machinery
12	Collision
13	Personal injury liability
14	Property damage liability
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine (inland only)

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 $3,000,000.

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

Calendar Year	Direct Premiums	Assumed Premiums	Total Gross Premiums
2019	$171,214,091	$939	$171,215,030
2020	$169,317,904	$ 0	$169,317,904
2021	$181,665,178	$ 0	$181,665,178
2022	$201,254,837	$ 0	$201,254,837

The Company offers property and casualty insurance products to individuals. The majority (80.6%) of the Company's 2022 business was written in New York, with the remainder written in New Jersey, Rhode Island, Connecticut, and Massachusetts. The largest lines of business, by percentage of total 2022 direct written premium, are homeowners' multiple peril (73%), fire and allied lines (14%), and commercial auto physical damage (7%) which consists of auto physical damage only for the for-hire vehicle market primarily based in New York City. Business originated through over 700 producers.

Through July 2019, the Company offered commercial businessowners policies and artisan's liability policies for small businesses and small independent contractors. Due to poor performance in these commercial lines, the Company made the decision to discontinue its commercial business. As of December 31, 2022, there were no commercial businessowners or artisan's liability policies in-force.

The Company did not assume business during the years under examination except for 2019 when the Company assumed a small amount of business, which consisted of the Company's participation in a mandatory pool, The New York Special Risk Distribution Program ("NYSRDP").

C. Reinsurance Ceded

The Company has structured its ceded reinsurance program as follows:

Type of Treaty	Cession
Personal Lines Quota Share	30% of net liability of policies classified as Homeowners Sections I and II; limit to $10,000,000 any one loss occurrence, $20,000,000 as respects to all catastrophic events commencing during the term of the contract, and $5,000,000 from an act of terrorism.
Excess Multiple Line	50% of ultimate net loss of $400,000 in excess of $600,000 in respect to any one risk, each loss; limited to $1,200,000 in respect to all risks involved in any one loss occurrence for property business; and $600,000 in respect to all risks

Type of Treaty	Cession
	involved in any one loss occurrence for casualty business.
Excess Multiple Line (Two layers)	\$2,500,000 in excess of \$1,000,000 as respects to any one risk, each loss; limited to \$2,000,000 in respect to all risks involved in any one loss occurrence for property business; and \$2,500,000 in respect to all risks involved in any one loss occurrence for casualty business.
High Value Homeowners Automatic Facultative	\$5,500,000 in excess of \$3,500,000 of ultimate net loss arising out of any one risk, each loss occurrence; not to exceed \$5,500,000 any one risk, each loss occurrence.
Property Catastrophe Excess of Loss (Three layers)	\$355,000,000 in excess of \$10,000,000, each occurrence The excess of loss and quota share agreements inure to the benefit of this agreement; and there is a reinstatement premium protection policy in place covering the first layer of this agreement.
Personal Line Umbrella Quota Share	90% of the net liability for the first \$1,000,000; and 95% for policies with limits greater than \$1,000,000 any one policy, any one occurrence, limit to \$5,000,000 any one policy, any one occurrence.
Inland Flood Quota Share	100% of inland flood coverage not to exceed \$50,000 net loss any one policy, any one flood occurrence, subject to an annual aggregate of \$100,000 per policy.

On January 1, 2023, the Company entered into a new 30% quota share treaty for its personal lines business, covering the period from January 1, 2023 to January 1, 2024. Upon the expiration of this treaty on January 1, 2024, the Company entered into a new 27% quota share treaty for its personal lines business, covering the period from January 1, 2024 to January 1, 2025.

The Company ceded business to authorized, unauthorized, and certified reinsurers during the period under examination. The majority of the business, a total of \$64.9 million, was ceded to authorized reinsurers. Approximately 64% of reinsurance recoverables are due from one authorized reinsurer and one accredited reinsurer. These reinsurers had financial strength ratings of A+ from A.M. Best. In 2022, cessions to unauthorized and certified reinsurers represented 1% of the total business ceded. It is the Company's policy to obtain the appropriate collateral for its cessions to unauthorized and certified reinsurers.

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 of the Schedule F data, reported by the Company in its filed annual statement, was found to accurately reflect its material reinsurance transactions. However, the Company did not report in Schedule F Part 3 amounts in dispute or age its reinsurance recoverable in accordance with the NAIC Accounting Practices and Procedures Manual, Statement of Statutory Accounting Principles ("SSAP") No. 62R, and the annual statement instructions. SSAP No. 62R requires reinsurance recoverable to be aged based on the billing date and that a provision for reinsurance be set up for amounts greater than 90 days overdue. The annual statement instructions require companies to age reinsurance recoverables in Schedule F Part 3.

It is recommended that the Company comply with SSAP 62R and the annual statement instructions and age its recoverables to ensure proper reporting of its credit for reinsurance.

Management represented that all material ceded reinsurance agreements transfer both underwriting and timing risk as set forth in SSAP No. 62R. Representations were supported by an attestation 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 wholly owned subsidiary of KCI, a public company incorporated in Delaware. KCI offers property and casualty insurance products through its subsidiary, Kingstone Insurance Company. The Company has two direct subsidiaries and one indirect subsidiary at December 31, 2022, each of which is described below:

CMIC Properties, Inc. ("CPI")

CPI was organized in 2003 and is a wholly owned subsidiary of the Company. CPI owns 100% of 15 Joys Lane, LLC ("the LLC"). The LLC in-turn owns 100% of the Company's home office building located at 15 Joys Lane, Kingston, New York 12401, along with an adjacent building at 9 Joys Lane, Kingston, New York, that is used as a guest house. The LLC also owns a vacant adjacent lot at 27 Joys Lane, Kingston, New York. The three properties were appraised in June 2022 for $2,800,000. The value of the LLC is carried as the primary asset on the books of CPI. Because CPI is a wholly owned subsidiary of the Company, CPI is valued on the books of the Company, using the equity method, at $2.83 million. CPI has no other function but to manage properties owned by the LLC.

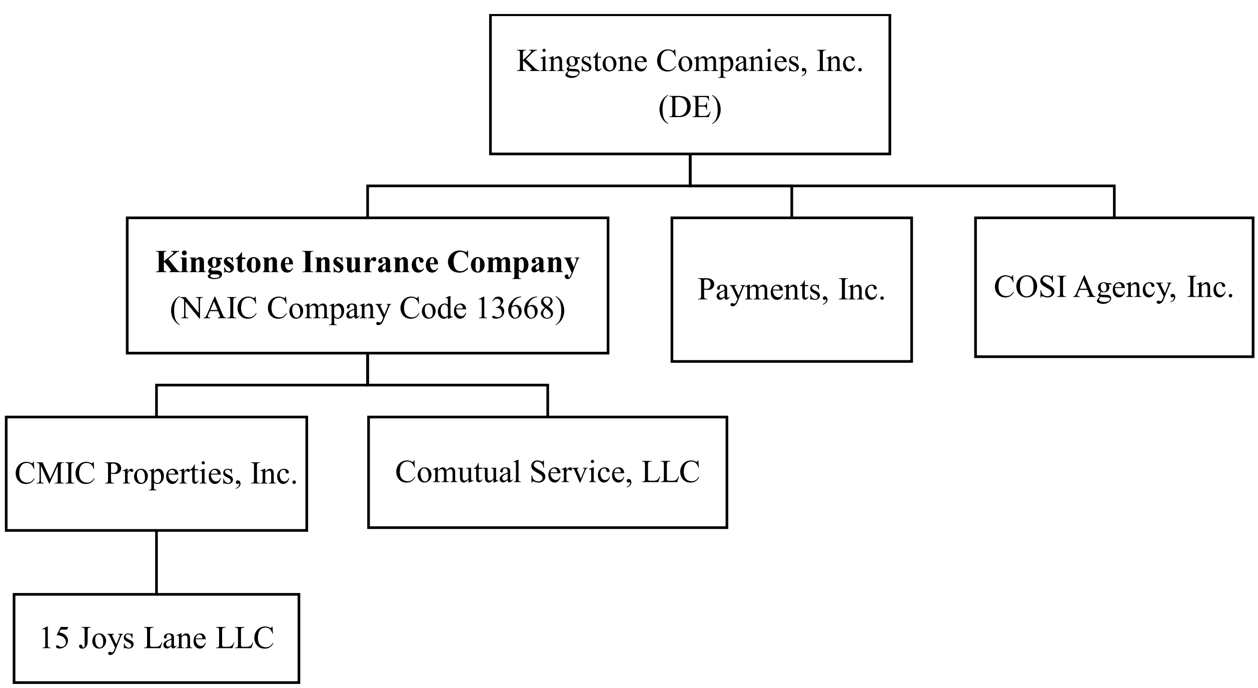
In 2003, the Company and the LLC entered into a 10-year lease of the Company's home office. The lease was amended in 2012 and again in 2023. Pursuant to the terms of the second amendment, effective March 1, 2023, the Company and LLC extended the lease through February 28, 2030, with rent payable in equal monthly installments of $18,850.

Comutual Services, LLC

Comutual Services, LLC, a wholly owned subsidiary of the Company, is licensed as an insurance broker in New York. This subsidiary has a brokerage agreement in place with the Company.

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 on December 31, 2022:



Holding Company Agreements

At December 31, 2022, the Company was party to the following agreement with other members of its holding company system:

Tax Allocation Agreement

This agreement became effective January 1, 2012 between the Company and KCI. The agreement was non-objected to in a letter from the Department dated July 18, 2012. The agreement provides for the calculation of the Company's tax liability on a separate return basis. Settlements under the agreement shall be made within thirty days following the later of the filing of the applicable consolidated tax return or the receipt of a tax refund.

Other Holding Company Transactions

Based on a review of inter-company transactions, it was noted that the Company reported a receivable from its parent, KCI, related to shared expenses. SSAP No. 25 states that transactions between related parties must be in the form of a written agreement.

Section 1505(d)(3) of the New York Insurance Law states, in part:

> "(d) The following transactions between a domestic controlled insurer and any person in its holding company system may not be entered into unless the insurer has notified the superintendent in writing of its intention to enter into any such transaction at least thirty days prior thereto, or with regard to reinsurance treaties or agreements at least forty-five days prior thereto, or such shorter period as the superintendent may permit, and the superintendent has not disapproved it within such period: . . . (3) rendering of services on a regular or systematic basis..."

It is recommended that an agreement(s) between the Company and its affiliate(s) be committed to writing and submitted to the Superintendent pursuant to Section 1505(d)(3) of the New York Insurance Law.

Dividends and Loans to Parent, Subsidiaries, and Affiliates

The Company paid $21,750,000 in reported ordinary dividends during the examination period. The Company reported in note 13 of the Notes to the Financial Statements, that as of December 31, 2022, the maximum ordinary dividend payment which may be made by the Company without prior approval of the Superintendent during 2022 was $0. Further, the Company reported negative unassigned surplus in the amount of $(5,069,493). Subsequently, in January 2023, the Company paid a dividend in the amount of

$1,250,000 to KCI without requesting the Superintendent's prior approval. The Company indicated that it paid this dividend based on its interpretation of Section 4105(a) of the New York Insurance Law.

Section 4105(a) of the New York Insurance Law states in part:

> "Except as provided in subsection (c) of this section no domestic property/casualty insurance company shall declare or distribute any dividend to shareholders except out of earned surplus . . .No domestic stock property/casualty insurance company shall declare or distribute any dividend to shareholders which, together with all dividends declared or distributed by it during the next preceding twelve months, exceeds the lesser of ten percent of its surplus to policyholders as shown by its last statement on file with the superintendent, or one hundred percent of adjusted net investment income during such period unless, upon prior application therefor, the superintendent approves a greater dividend distribution . . ."

It is recommended that the Company receive prior approval from the Superintendent regarding declaring and distributing dividends in excess of the limitation specified in Section 4105(a) of the New York Insurance Law.

As indicated in section 5 of this report, the Company entered into two loans with its parent, KCI, totaling $7,950,000. The issuance of these loans, along with the $1,250,000 dividend, was primarily necessitated by the need to restructure KCI's debt. On December 9, 2022, the Company entered into a note and warrant exchange agreement with several holders of $30 million outstanding 2017 5.5% senior notes due 2022 ("Exchanging Noteholders"). The Exchanging Noteholders exchanged $21,545,000 of those notes for, among other things, new 12% senior notes due December 30, 2024, in the aggregate principal amount of $19,950,000.

E. Significant Ratios

The following operating ratios, computed as of December 31, 2022, taking into account the examination changes, fell within the benchmark ranges set forth in the Insurance Regulatory Information System of the NAIC:

Operating Ratios	Result
Net premiums written to policyholders' surplus	243%
Adjusted liabilities to liquid assets	90%

The Company's two-year overall operating ratio of 109% was outside the benchmark due to the Company's increase in the combined loss and expense ratios and the decrease in the investment income ratio.

Underwriting Ratios

The underwriting ratios presented below are on an earned/incurred basis and encompass the four-year period covered by this examination:

	Amount	Ratio
Losses and loss adjustment expenses incurred	$346,976,035	70.14%
Other underwriting expenses incurred	205,424,026	41.53%
Net underwriting gain (loss)	(57,739,871)	(11.67)%
Premiums earned	$494,660,190	100.00%

The Company's reported risk-based capital ("RBC") score was 436.9% at December 31, 2022. The RBC score is a measure of the minimum amount of capital appropriate for a reporting entity to support its overall business operations in consideration of its size and risk profile. The financial adjustments reflected in this report brings the RBC score to approximately 324.5% at December 31, 2022. An RBC of 200% or below can result in regulatory action.

F. Accounts and Records

i. Annual Statement Instructions

Based on a review of the 2022 annual statement, it was noted that the Company incorrectly reported names of reinsurers in Schedule F Part 3; improperly responded to general interrogatories questions 10 and 13; improperly reported states in which the Company was licensed in Schedule T; did not complete Schedule Y Part 2; and improperly disclosed information in notes 23(a) and 23(b) of the Notes to the Financial Statements.

It is recommended that the Company exercise due care and follow the NAIC annual statement instructions when completing its annual statement. A similar recommendation was noted in the prior report on examination.

ii. Premium Receivable

Based on a review of uncollected premiums and deferred premiums, it was noted that the Company was not properly aging its receivables in accordance with paragraph 9 of SSAP No. 6.

Paragraph 9 of SSAP No. 6 states, in part:

> "Nonadmitted amounts are determined as follows: (a) Uncollected premium – to the extent that there is no related unearned premium, any uncollected premium balances which are over ninety days due shall be nonadmitted. If an installment premium is over ninety days due, the amount over ninety days due plus all future installments that have been recorded on that policy shall be nonadmitted. (b) Bills receivable – bills receivable shall be nonadmitted if either of the following conditions are present: (i) if any installment is past due, the entire bills receivable balance from that policy is nonadmitted . . . (c) agents' balances – the uncollected agent's receivable on a policy-by-policy basis which is over ninety days due shall be nonadmitted regardless of any unearned premium . . ."

Furthermore, Section 1301(a)(6) of the New York Insurance Law states, in part:

> "(a) In determining the financial condition of a domestic or foreign insurer or the United States branch of an alien insurer for the purposes of this chapter, there may be allowed as admitted assets of such insurer, unless otherwise specifically provided in this chapter, only the following assets owned by such insurer: . . . (6) Premiums in course of collection, other than life insurance premiums, not more than ninety days past due, less commissions payable thereon…"

It is recommended that the Company comply with SSAP No. 6 and properly age its receivable and non-admit bills receivables that are over ninety days overdue. It is also recommended that the Company comply with Section 1301(a)(6) of the New York Insurance Law and only allow as an admitted asset premiums that are not more than ninety days past due.

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2022, as reported by the Company:

Assets	Assets	Assets Not Admitted	Net Admitted Assets
Bonds	$173,232,838	$ 0	$173,232,838
Preferred stocks (stocks)	9,994,629	0	9,994,629
Common stocks (stocks)	3,182,347	200	3,182,147
Cash, cash equivalents and short-term investments	23,580,458	0	23,580,458
Other invested assets	2,771,652	0	2,771,652
Investment income due and accrued	1,298,908	0	1,298,908
Uncollected premiums and agents' balances in the course of collection	930,762	39,210	891,552
Deferred premiums, agents' balances and installments booked but deferred and not yet due	12,988,952	0	12,988,952
Amounts recoverable from reinsurers	13,588,981	0	13,588,981
Current federal and foreign income tax recoverable and interest thereon	2,016,333	0	2,016,333
Net deferred tax asset	7,521,049	0	7,521,049
Electronic data processing equipment and software	917,310	917,310	0
Receivables from parent, subsidiaries and affiliates	9,570,037	0	9,570,037
Equity in New York Property Insurance Underwriting Association	105,289	0	105,289
Other assets	433,186	19,632	413,554
Miscellaneous receivable	22,747	0	22,747
Total assets	$262,155,477	$976,352	$261,179,125

Liabilities, Surplus and Other Funds

Liabilities

Losses and Loss Adjustment Expenses		$ 90,680,013
Commissions payable, contingent commissions and other similar charges		3,810,919
Other expenses (excluding taxes, licenses and fees)		1,706,441
Taxes, licenses and fees (excluding federal and foreign income taxes)		222,601
Unearned premiums		82,276,197
Advance premium		2,839,028
Ceded reinsurance premiums payable (net of ceding commissions)		11,009,232
Funds held by company under reinsurance treaties		85,437
Amounts withheld or retained by company for account of others		193,416
Provision for reinsurance		182,000
Aggregate write-ins for liabilities		197,402
Total liabilities		$193,202,686
Surplus and Other Funds		
Common capital stock	$ 3,000,000	
Gross paid in and contributed surplus	70,045,932	
Unassigned funds (surplus)	(5,069,493)	
Surplus as regards policyholders		67,976,439
Total liabilities, surplus and other funds		$261,179,125

Note: The Internal Revenue Service has not audited tax returns covering tax years 2019 through 2022. 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 examination period as reported by the Company was $(19,482,367), as detailed below:

Underwriting Income		
Premiums earned		$494,660,190
Deductions:		
Losses and loss adjustment expenses incurred	$346,976,035	
Other underwriting expenses incurred	205,424,026	
Total underwriting deductions		552,400,061
Net underwriting gain or (loss)		$(57,739,871)
Investment Income		
Net investment income earned	$25,048,742	
Net realized capital gain	7,773,685	
Net investment gain or (loss)		32,822,427
Other Income		
Net gain or (loss) from agents' or premium balances charged off	$ (534,292)	
Finance and service charges not included in premiums	4,434,637	
Aggregate write-ins for miscellaneous income	33,969	
Total other income		3,934,314
Net income before federal and foreign income taxes		$(20,983,130)
Federal and foreign income taxes incurred		(1,500,763)
Net income		$(19,482,367)

C. Capital and Surplus

Surplus as regards policyholders decreased $(30,769,505) during the four-year examination period January 1, 2019 through December 31, 2022, as reported by the Company, detailed as follows:

	Gains in Surplus	Losses in Surplus	
Surplus as regards policyholders as reported by the Company as of December 31, 2018			$98,745,943
Net income		$19,482,367	
Net transfers (to) from protected cell accounts			
Net unrealized capital gains or (losses)	$ 168,644		
Change in net deferred income tax	4,106,402		
Change in nonadmitted assets	2,924,352		
Change in provision for reinsurance		32,468	
Surplus adjustments paid in	3,295,932		
Dividends to stockholders	0	21,750,000	
Total gains and losses	$10,495,330	$41,264,835	
Net increase (decrease) in surplus			(30,769,505)
Surplus as regards policyholders as reported by the Company as of December 31, 2022			$67,976,438

Capital paid in is $3,000,000 consisting of 3,000 common shares of $1,000 par value per share common stock. Gross paid in and contributed surplus is $70,045,932. Gross paid in and contributed surplus increased by $3,295,932 during the examination period, as follows:

Year	Description	Amount
2018	Beginning gross paid in and contributed surplus	$66,750,000
2019	Surplus contribution	3,295,932
2022	Ending gross paid in and contributed surplus	$70,045,932

In 2019, KCI contributed to the Company $3,295,932 in the form of mortgage-backed bond securities. These securities were then pledged to the Federal Home Loan Bank of New York.

The examiner notes that KCI has contributed $67,975,589 to the Company's surplus between 2013 and 2019.

D. Analysis of Changes to Surplus

Surplus as regards policyholders as of December 31, 2022, as reported by the Company		$67,976,438
Decrease in surplus due to non-admittance of receivables asset (refer to section 5)	$(9,570,037)	
Decrease in surplus due to establishment of borrowed money liability (refer to section 6)	(7,905,655)	
Net increase (or decrease) in surplus		(17,475,692)
Surplus as regards policyholders as of December 31, 2022, per report on examination		$50,500,746

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of $90,680,013 is the same as reported by the Company in its filed annual statement as of December 31, 2022. 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. RECEIVABLES FROM PARENT, SUBSIDIARIES AND AFFILIATES

The examination asset for the captioned items of $0 is $9,570,037 less than the $9,570,037 reported by the Company in its filed annual statement as of December 31, 2022. The examination analysis of receivables from parent, subsidiaries, and affiliates was conducted in accordance with the New York Insurance Law. The captioned balance sheet item was non-admitted in accordance with Sections 1302(b) and 1407(a)(4) of the New York Insurance Law. The captioned balance sheet item consisted of:

1. Receivables from affiliated transactions totaling $1,620,037; and
2. Two loans with the Company's parent totaling $7,950,000:

   - On February 1, 2022, the Company and KCI executed a promissory note wherein KCI, as borrower, promises to pay the Company, as lender, the principal loaned sum of $1,500,000 with interest accruing on the unpaid balance at 7% per year. KCI shall make four equal payments of $375,000 plus interest on or before January 31st of each of the following years: 2023, 2024, 2025, and 2026. On October 1, 2022, this note was amended to state the borrower shall pay to lender $1,500,000 on or before January 31, 2027, and borrower shall pay lender five equal interest payments on the unpaid balance at a rate of 7% per year on or before January 31st of each of the following years: 2023, 2024, 2025, and 2026.

- On October 17, 2022, the Company and KCI executed a promissory note wherein KCI, as borrower, promises to pay the Company, as lender, the principal loaned sum of $6,450,000 with interest accruing on the unpaid balance at 7% per year. The payment of principal is due on or before October 15, 2029.

Regarding the receivable of $1,620,037, the Company is the only company in its holding company system that generates income and that has substantial liquid assets. According to paragraph 10 of SSAP No. 25, a loan is determined to be collectible based on the parent's independent payment ability; ability to pay shall be determined after consideration of the liquid assets or revenues available from external sources which are available to repay the balance and/or maintain its account on a current basis.

Furthermore, pursuant to Section 1302(b) of the New York Insurance Law, assets of doubtful value should be disallowed.

Section 1302(b) of the New York Insurance Law states:

> "(b) All non-admitted assets and all other assets of doubtful value or character included as ledger or non-ledger assets in any statement by an insurer to the superintendent, or in any examiner's report to him, shall also be reported, to the extent of the value disallowed, as deductions from the gross assets of such insurer except where the superintendent permits a reserve to be carried among the liabilities of such insurer in lieu of any such deduction."

The captioned balance sheet item should only include items such as receivables under written service and expense agreements and expenses in the ordinary course of business.

Regarding the promissory notes, loans by an insurer to its parent are prohibited by Section 1407(a)(4) of the New York Insurance Law.

Section 1407(a)(4) of the New York Insurance Law states, in part:

> "(a) Any insurer that makes investments . . . may invest in, or otherwise acquire or loan upon, directly or indirectly, any of the types of investments described in section one thousand four hundred four of this article . . . except the following prohibited investments: . . . (4) Obligations, shares or other securities (including certificates of deposit) issued by a parent corporation or a corporation which is an affiliate. . ."

The Company indicated that it issued the promissory notes based on its interpretation of Section 1505(d)(1)(C) of the New York Insurance Law, which governs certain transactions within a holding company system, including "...sales, purchases, exchanges, loans or extensions of credit, or investments...", and that the notes were within the threshold permitted by the statute.

It is recommended that the Company reclassify its loans to its parent as other long-term invested assets and reflect it on Schedule BA of the annual statement.

6. BORROWED MONEY

The examination liability for the captioned item of $7,905,655 is $7,905,655 more than the $0, reported by the Company in its filed annual statement as of December 31, 2022. The examination analysis of this liability was conducted in accordance with statutory accounting principles, including SSAP No. 22R. The examination change is due to the following:

The Company entered into an arrangement on October 27, 2022, whereby it purportedly sold $8,096,824 in electronic data processing ("EDP") equipment to First American Commercial Bancorp, Inc. ("First American"). The Company then leased the equipment back from First American in return for 60 monthly payments of $126,877.24, including principal and interest. At the end of the lease, the Company has the option of purchasing the equipment for $2,024,206 or renewing the lease for an additional 16 months for the same rate of $126,877.24, which totals $2,030,036.

The Company indicated that it entered into this arrangement based on its interpretation of SSAP 22R "Leases" and SSAP 5R "Liabilities, Contingencies and Impairment of Assets" and its public accounting firm affirmed this interpretation.

Paragraph 4 of SSAP 22R states, in part:

> "Determining whether an arrangement contains a lease that is within the scope of this SSAP should be based on the substance of the arrangement. At inception of a contract, an entity shall determine whether that contract is or contains a lease . . . "

The substance of this transaction indicate that it is not a true lease transaction. This determination is based on:

1. The value of the underlying assets does not match the $8,096,824 in proceeds received;

2. The Company pledged U.S. treasury bills with a par value of $9,958,700 as collateral for the $8,096,824, indicating that this is a collateralized loan instead of a sales leaseback arrangement;

3. The schedule of equipment includes licenses and service contracts that would expire, by the time the loan is paid off.

Additionally, paragraph 3 of SSAP No. 22R states, in part:

> "Property, plant or equipment, (including computer software) as used in this SSAP, includes only land and/or depreciable assets. Therefore, inventory (including equipment parts inventory), other intangible assets, assets under construction, leases to explore for or use minerals, natural gas and similar nonregenerative resources, and leases of biological assets, such as timber cannot be the subject of a lease for accounting purposes…"

Other relevant guidance is as follows:

Paragraph 39 of SSAP No. 22R states, in part:

> "A sale-leaseback transaction that does not qualify for sale-leaseback accounting nor the deposit method shall be accounted for by the financing method. Under this method the seller-lessee shall not derecognize the transferred asset and shall account for any amounts received as a financial liability . . . "

The deposit method is required when a transaction involves the lease of non-admitted assets to a related party which is not relevant to the facts in this transaction.

Paragraph 3 of SSAP No. 5R states, in part:

> "A liability has three essential characteristics: (a) it embodies a present duty or responsibility to one or more other entities that entails settlement by probable future transfer or use of assets at a specified or determinable date, on occurrence of a specified event, or on demand, (b) the duty or responsibility obligates a particular entity, leaving it little or no discretion to avoid the future sacrifice, and (c) the transaction or other event obligating the entity has already happened . . . Liabilities shall be recorded on a reporting entity's financial statements when incurred."

7. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

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

ITEM		PAGE NO.
A.	Accounts and Records	
	It was recommended that the Company implement controls to ensure that it completes its annual statement filing in accordance with the NAIC annual statement instructions.	10
	The Company did not comply with this recommendation. A similar recommendation is made in this report.	
B.	Losses and Loss Adjustment Expenses	
	It was recommended that the Company maintain adequate reserves, pursuant to the provisions of Section 1303 of the New York Insurance Law and Paragraph 10 of SSAP No. 55.	16
	The Company complied with this recommendation.	

8. SUMMARY OF COMMENTS AND RECOMMENDATIONS

ITEM			PAGE NO.
A.		Reinsurance	
		It is recommended that the Company comply with SSAP 62R and the annual statement instructions and age its recoverables to ensure proper reporting of its credit for reinsurance.	8
B.		Holding Company	
	i.	It is recommended that an agreement(s) between the Company and its affiliate(s) be committed to writing and submitted to the Superintendent pursuant to Section 1505(d)(3) of the New York Insurance Law.	10
	ii.	It is recommended that the Company receive prior approval from the Superintendent regarding declaring and distributing dividends in excess of the limitation specified in Section 4105(a) of the New York Insurance Law.	11
C.		Accounts and Records	
	i.	It is recommended that the Company exercise due care and follow the NAIC annual statement instructions when completing its annual statement. A similar recommendation was noted in the prior report on examination.	12
	ii	It is recommended that the Company comply with SSAP No. 6 and properly age its receivable and non-admit bills receivables that are over ninety days overdue.	13
	iii	It is recommended that the Company comply with Section 1301(a)(6) of the New York Insurance Law and only allow as an admitted asset premiums that are not more than ninety days past due.	13
D.		Receivables from Parent, Subsidiaries and Affiliates	
		It is recommended that the Company reclassify its loans to parent as other long-term invested assets and reflect it on Schedule BA of the annual statement.	20

Respectfully submitted,

_______________/S/________________
Dilbrina Belgrave, AFE, APIR, CISA
Financial Services Specialist 4

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

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

___________/S/____________
Dilbrina Belgrave

Subscribed and sworn to before me

this_________ day of __________________, 2024.

APPOINTMENT NO. 32473

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:*

Dilbrina Belgrave

as a proper person to examine the affairs of the

Kingstone 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 8th day of February 2023

ADRIENNE A. HARRIS
Superintendent of Financial Services

By:

Joan Riddell

Joan Riddell
Deputy Bureau Chief