



**REPORT ON EXAMINATION  
OF  
HEREFORD INSURANCE COMPANY  
AS OF DECEMBER 31, 2021**

**EXAMINER:  
DATE OF REPORT:**

**TEENA VARGHESE  
JULY 18, 2024**

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## 1. SCOPE OF EXAMINATION

The Department has performed an examination of Hereford 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 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

Hereford Insurance Company was incorporated under the laws of the State of New York on October 5, 1982. It became licensed on April 10, 1986, and commenced business on the same day.

The Company is a wholly owned direct subsidiary of Hereford Holding Company, Inc. (“HHC”), a privately held corporation. HHC is ultimately controlled by Neil Greenbaum and the Estate of Pearl S. Greenbaum.

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 20 members. The board met at least once during each calendar year. At December 31, 2021, the board of directors was comprised of the following ten members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Richard L. Chin Wantagh, New York	Retired
Keith E. Greenbaum Harrison, New York	Senior Vice President and Treasurer, Hereford Insurance Company
Neil S. Greenbaum New York, New York	President, Hereford Insurance Company
Eugene Haber Garden City, New York	Partner, Cobert, Haber and Haber
Barbara Hamill Boca Raton, Florida	Retired
John Hamill Boca Raton, Florida	Retired
Kim Matus West Hartford, Connecticut	Director of Business Development, Pearland Brokerage, Inc.
David Pollack Haverstraw, New York	Retired
Louis Trager Old Bridge, New Jersey	Retired
Annie V. Weinstein New York, New York	Senior Vice President, Chief Operating Officer and Secretary, Hereford Insurance Company

### Board of director meetings

Section 1411(a) of the New York Insurance Law states:

“No domestic insurer shall make any loan or investment, except as provided in subsection (h) hereof, unless authorized or approved by its board of directors or a committee thereof responsible for supervising or making such investment or loan. The committee’s minutes shall be recorded and a report submitted to the board of directors at its next meeting.”

A review of the minutes of the board of director meetings, including the board package provided to the board members, revealed that the board package included security transactions within a specific period of time. However, there was no indication in the board minutes that these transactions were approved or authorized by the board of directors.

The Company is directed to comply with Section 1411(a) of the New York Insurance Law and have the board of directors authorize or approve investment transactions and document such approval in the board minutes.

### Audit Committee

Section 89.12(e) of Department Regulation 118 states:

“The Company shall submit written notification to the superintendent of the selection of its audit committee within 30 days of the effective date of this Part and within 30 days of any change in membership of the audit committee. The notice shall include a description of the reason for the change.”

Membership of the Company’s audit committee changed since the last examination. However, the Company did not provide a written notification to the Superintendent as required by Section 89.12(e) of Department Regulation 118.

The Company is directed to comply with Section 89.12(e) of Department Regulation 118 and provide written notification to the Superintendent within 30 days of any change in audit committee membership.

It was noted that the Company was unable to provide the 2018 audit committee meeting minutes.

Department Regulation 152 states, in part:

“ . . . (b) . . . an insurer shall maintain . . . any . . . record for six calendar years from its creation or until after the filing of a report on examination . . . in which the record was subject to review . . . ”

The Company is directed to comply with Department Regulation 152 and maintain its records for six calendar years from its creation or until after the filing of the report on examination in which the record was subject to review, whichever is longer.

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

<u>Name</u>	<u>Title</u>
Neil S. Greenbaum	President
Keith E. Greenbaum	Senior Vice President and Treasurer
Annie V. Weinstein	Senior Vice President, Chief Operating Officer and Secretary

B. Territory and Plan of Operation

As of December 31, 2021, the Company was licensed to write business in New York and New Jersey. 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>
8	Glass
13	Personal injury liability
14	Property damage liability
15	Workers' compensation and employers' liability
16	Fidelity and surety
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 \$2,200,000.

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

<u>Calendar Year</u>	<u>Direct Premiums</u>
2017	\$152,475,984
2018	\$163,847,574
2019	\$158,831,463
2020	\$119,409,260
2021	\$122,112,849

The Company is a property and casualty insurance carrier that writes commercial automobile liability, workers' compensation, and automobile physical damage coverage, specializing in New York City Taxi & Limousine Commission ("NYCTLIC") insurance for New York City medallions, for-hire vehicles (community-based liveries, black cars, limousines, green cabs, app-based companies), and paratransit vehicles. Additionally, the Company writes workers' compensation insurance for the New York Independent Livery Drivers Benefit Fund, Inc. ("ILDBF"). These workers' compensation benefits are for serious injuries and crimes committed against drivers dispatched by qualifying independent livery bases in New York City, as well as Westchester and Nassau counties.

The Company utilizes a network of independent brokers for the procurement of its commercial automobile and workers' compensation insurance business. As of December 31, 2021, insurance policies were distributed through a network of 102 insurance brokers, including through its affiliates Pearland Brokerage, Inc. ("PBI"), Pearland Insurance Brokerage, LLC ("PIB") and HIC Business Services, LLC ("HIC BS"). PBI, PIB and HIC BS have been deemed controlling producers pursuant to Department Regulation 52-A. The controlling producers are further discussed in section 2D of this report.

### C. Reinsurance Ceded

The Company has structured its ceded reinsurance program as follows:

<u>Type of Treaty</u>	<u>Cession</u>
<u>Commercial Automobile Liability and Workers Compensation Quota Share</u>	
i. Sections A – C	<u>Commercial Auto Liability</u> 15% quota share for policies classified as: A) Automobile liability for certain New York public auto risks;

- B) Automobile liability for AIPSO, maximum of 10 special New York livery units;
- C) Ambulette.

ii. Section D

Workers Compensation

15% of \$200,000 per occurrence on certain public auto workers' compensation and employers' liability insurance business, including related class codes and limited for sanitation and gravel trucks.

Workers Compensation Excess of Loss

Four layers

\$14,800,000 excess of \$200,000 ultimate net loss, any one occurrence.

Automobile Liability Excess of Loss

Two layers

\$1,450,000 excess of \$300,000 ultimate net loss each and every occurrence – the first \$75,000 shall be retained by the reinsured.

For the period under examination, the Company's ceded business was solely to authorized reinsurers. The Company's primary reinsurer, whose reinsurance recoverable balances represented approximately 22% of the Company's surplus, has a credit rating of A+ from AM Best.

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 Schedule F data reported by the Company in its filed annual statement does not accurately reflect its reinsurance transactions with respect to the aging for reinsurance recoverables on paid losses and loss adjustment expenses, as illustrated in Schedule F - Part 3 of the 2021 Annual Statement. The Company employs a manual process for the aging of its reinsurance recoverable balances. The process does not provide for the correct and/or proper determination for the past due reinsurance recoverable balances for the Company's excess of loss reinsurance contracts. Had the proper aging determination for the past due reinsurance recoverable balances been illustrated in Schedule F – Part 3, no material impact on the Company's financial results as of December 31, 2021, would have been recognized.

The Company is directed to take the necessary steps to complete Schedule F - Part 3 accurately, in accordance with the NAIC annual statement instructions, and report the proper aging of the reinsurance recoverables on paid losses and loss adjustment expenses.



Management has represented that all material ceded reinsurance agreements transfer both underwriting and timing risk as set forth in the NAIC Accounting Practices and Procedures Manual, Statement of Statutory Accounting Principles (“SSAP”) No. 62R. Representations were supported by appropriate risk transfer analyses and an attestation from the Company’s President. Additionally, examination review indicated that the Company 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.

D. Holding Company System

The Company is a member of the Hereford Holdings Group. The Company is a wholly-owned direct subsidiary of HHC, a non-operating New York holding company, which is ultimately controlled by Neil Greenbaum, the president of the Company, and the Estate of Pearl Greenbaum. As of the examination date, Neil Greenbaum held 37.03% of HHC’s stock, the Estate of Pearl S. Greenbaum held 12.85%, and various other investors held the remaining interest, none of whom owned 10% or more of HHC’s shares. The Company has relationships with other companies and shares common management with All Taxi Management, Thirty Six O One LLC, PBI and PIB. Effective March 19, 2020, JAR, LLC, a partially owned HHC subsidiary, was dissolved.

A review of the holding company registration statements and the controlling producers’ statements filed with this Department pursuant to Department Regulation 52 and Regulation 52-A, respectively, indicated that such filings were complete and filed in a timely manner pursuant to Article 15 of the New York Insurance Law.

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



Other entities that have a common relationship and do business with the Company are:

**PBI:** Common Ownership - Neil Greenbaum, Estate of Pearl Greenbaum, and Barbara Hamill. PBI produces business for the Company. Neither the Company nor its affiliates have an equity interest in PBI.

**PIB:** Common Ownership – Neil Greenbaum, Keith Greenbaum, Cory Greenbaum, and Max Greenbaum. PIB produces business for the Company.

**All Taxi Management:** Common Ownership – Neil Greenbaum. All Taxi Management is a taxi management firm. Insurance for individual taxis may be purchased through PBI. Neither the Company nor its affiliates have an equity interest in All Taxi Management.

**Thirty Six O One, LLC:** Common Ownership – Neil Greenbaum. Thirty Six O One, LLC is the landlord for the office space used by the Company. Neither the Company nor its affiliates have an equity interest in Thirty Six O One, LLC.

### Holding Company Agreements

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

#### Lease Agreement

Effective April 1, 2017, the Company entered into a lease agreement with Thirty Six O One, LLC. This agreement replaced the lease agreement with Thirty Six O One, LLC effective April 1, 2007 and subsequently amended effective February 1, 2015. In 2021, the Company paid \$608,024 in rent expense.

### Amended and Restated Management Agreement

Effective January 1, 2019, the Company entered into an amended and restated management agreement with Hereford Managing Services, LLC (“HMS”). Pursuant to the terms of the agreement, the Company provides HMS with advice, staff, supervision, and managerial assistance for a compensation of 110% of the Company’s incurred expenses. Expenses shall be allocated in accordance with Department Regulation 30. In 2021, the Company received management fees totaling \$132,000.

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

“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 . . . and the superintendent has not disapproved it . . .(3) rendering of services on a regular or systematic basis . . .”

The Company did not file this amended and restated management agreement on a timely basis. The Company is directed to implement controls to ensure that agreements with affiliates are timely filed in accordance with Section 1505(d)(3) of the New York Insurance Law.

### Brokerage Agreements

The Company and its controlling producer, HIC BS, entered into a brokerage and management agreement, dated January 21, 2016. Pursuant to the terms of this agreement, HIC BS may produce business for the Company, subject to defined limits, and HIC BS may utilize personnel employed by the Company to perform services.

In 2021, the Company paid commissions of \$910,967 to HIC BS, and HIC BS paid management fees of \$160,000 to the Company. This agreement was submitted to the Department in accordance with Section 1505(d)(3) of the New York Insurance Law and Department Regulation 52-A.

Effective November 1, 2016, the Company entered into a brokerage agreement with its controlling producer, PIB. Pursuant to the terms of this agreement, PIB may produce business for the Company, subject to defined limits.

In 2021, commissions paid to PIB totaled \$451,286. This agreement was submitted to the Department in accordance with Section 1505(d)(3) of the New York Insurance Law and Department Regulation 52-A.

Effective February 12, 1998 and amended June 27, 2003, the Company and its controlling producer, PBI, entered into a brokerage agreement. Pursuant to the terms of the agreement, PBI may produce business for the Company, subject to defined limits. In 2021, commissions paid to PBI totaled \$3,940,944. This agreement was submitted to the Department in accordance with Section 1505(d)(3) of the New York Insurance Law and Department Regulation 52-A.

E. Significant Ratios

The Company's operating ratios, computed as of December 31, 2021, taking into account the examination changes (refer to sections 3D, 4 and 5), do not fall within the benchmark ranges set forth in the Insurance Regulatory Information System of the NAIC.

<u>Operating Ratios</u>	<u>Result</u>
Net premiums written to policyholders' surplus	311%
Adjusted liabilities to liquid assets	96%
Two-year overall operating	104%

Underwriting Ratios

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

	<u>Amount</u>	<u>Ratio</u>
Losses and loss adjustment expenses incurred	\$450,766,954	90.42%
Other underwriting expenses incurred	74,555,358	14.96%
Net underwriting gain (loss)	<u>(26,814,865)</u>	<u>(5.38)%</u>
Premiums earned	<u>\$498,507,447</u>	<u>100.00%</u>

### 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	\$227,338,903	\$ 0	\$227,338,903
Preferred stocks	623,742		623,742
Common stocks	4,782,376		4,782,376
Cash, cash equivalents and short-term investments	25,462,394		25,462,394
Investment income due and accrued	1,928,814		1,928,814
Uncollected premiums and agents' balances in the course of collection	7,849,653	3,529,162	4,320,492
Deferred premiums, agents' balances and installments booked but deferred and not yet due	3,036,200		3,036,200
Amounts recoverable from reinsurers	13,283,494		13,283,494
Current federal and foreign income tax recoverable and interest thereon	344,578		344,578
Net deferred tax asset	3,468,000	18,000	3,450,000
Electronic data processing equipment and software	127,535	127,535	0
Furniture and equipment, including health care delivery assets	49,173	49,173	0
Other assets	4,305,253	545,772	3,759,481
Leasehold improvements	<u>61,846</u>	<u>61,846</u>	<u>0</u>
Total assets	<u>\$292,661,960</u>	<u>\$4,331,487*</u>	<u>\$288,330,473</u>

\* Rounding difference of \$1

Liabilities, Surplus and Other FundsLiabilities

Losses and loss adjustment expenses	\$205,005,650
Other expenses (excluding taxes, licenses and fees)	1,304,107
Taxes, licenses and fees (excluding federal and foreign income taxes)	]333,614
Unearned premiums	23,821,225
Advance premium	486,302
Ceded reinsurance premiums payable (net of ceding commissions)	6,714,506
Amounts withheld or retained by company for account of others	2,413,300
Premium deficiency reserve	<u>178,132</u>
Total liabilities	\$240,256,837*

Surplus and Other Funds

Common capital stock	\$ 2,100,000
Gross paid in and contributed surplus	725,200
Unassigned funds (surplus)	<u>45,248,436</u>
Surplus as regards policyholders	<u>48,073,636</u>
Total liabilities, surplus and other funds	<u>\$288,330,472</u>

\* Rounding difference of \$1

Note: The Internal Revenue Service has not audited 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 \$24,401,760, as detailed below:

Underwriting Income

Premiums earned		\$498,507,447
Deductions:		
Losses and loss adjustment expenses incurred	\$440,860,954	
Other underwriting expenses incurred	<u>74,555,358</u>	
Total underwriting deductions		<u>515,416,312</u>
Net underwriting gain or (loss)		\$(16,908,865)

Investment Income

Net investment income earned	\$27,181,881	
Net realized capital gain	<u>4,457,522</u>	
Net investment gain or (loss)		31,639,403

Other Income

Net gain or (loss) from agents' or premium balances charged off	\$(2,371,024)	
Finance and service charges not included in premiums	14,639,419	
Aggregate write-ins for miscellaneous income	<u>1,884,713</u>	
Total other income		<u>14,153,108</u>
Net income before dividends to policyholders and before federal and foreign income taxes		\$28,883,646
Dividends to policyholders		<u>978,975</u>
Net income after dividends to policyholders but before federal and foreign income taxes		\$27,904,671
Federal and foreign income taxes incurred		<u>3,502,911</u>
Net income		<u>\$24,401,760</u>

C. Capital and Surplus

Surplus as regards policyholders increased \$17,057,485 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, 2016			\$31,016,151
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income	\$24,401,760	\$ 0	
Net unrealized capital gains or (losses)	1,646,618		
Change in net deferred income tax	91,000		
Change in nonadmitted assets		681,893	
Dividends to stockholders	<u>0</u>	<u>8,400,000</u>	
Total gains and losses	\$26,139,378	\$9,081,893	
Net increase (decrease) in surplus			<u>17,057,485</u>
Surplus as regards policyholders as reported by the Company as of December 31, 2021			<u>\$48,073,636</u>

Capital paid in is \$2,100,000 consisting of \$2,100,000 shares of \$1.00 par value per share common stock. Gross paid in and contributed surplus is \$725,200. Capital paid in and gross paid in and contributed surplus did not change during the examination period.

D. Analysis of Changes to Surplus

Surplus as regards policyholders as of December 31, 2021, as reported by the Company		\$48,073,636
Decrease in surplus due to examination change to loss and loss adjustment expense reserves (refer to section 4)		\$12,200,000
Decrease in surplus due to examination change to net deferred tax asset (refer to section 5)		<u>3,450,000</u>
Total decrease in surplus		<u>(15,650,000)</u>
Surplus as regards policyholders as of December 31, 2021, per report on examination		<u>\$32,423,636</u>



E. Analysis of Changes to Income

Net income for the examination period, as reported by the Company			\$24,401,760
	<u>Income Increase</u>	<u>Income Decrease</u>	
Reversal of examination change at December 31, 2016 of loss and loss adjustment expenses	\$14,493,000		
Examination change in losses and loss adjustment expense reserve		\$12,200,000	
Reversal of prior period adjustment of federal income tax expense reflected through surplus	<u>576,000</u>	<u>0</u>	
Total increase (decrease)	\$15,069,000	\$12,200,000	
Net increase or (decrease) in income			<u>2,869,000</u>
Net income (loss) for the examination period, after examination changes			<u>\$27,270,760</u>

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of \$217.2 million is \$12.2 million greater than the \$205.0 million reported by the Company in its filed annual statement as of December 31, 2021. It is noted that if the Company's losses materialize to the extent of the Department's estimates, the impact may be offset by a reduced federal income tax expense. 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. The Company's reserves are mostly concentrated in commercial automobile liability.

The Company does not agree with the Department's conclusion as to the adequacy of its loss and loss adjustment expense reserves. The disagreement primarily relates to the selection of appropriate actuarial methods and assumptions for the internal Defense and Cost Containment ("DCC") and the Adjusting and Other ("A&O") expense reserves. The Company's 2021 actuarial opinion concluded that the Company's reported net loss and loss adjustment expense liabilities were reasonable and computed in accordance with actuarial standards. Additionally, the Company engaged an independent actuarial firm to review the Department's conclusion regarding the internal DCC and A&O expense reserves. They

concluded that the Department's and the Company's internal DCC and A&O expenses fall within the independent actuarial firm's reasonable range of estimates.

Section 1303 of the New York Insurance Law states, in part:

“Every insurer shall . . . maintain reserves in an amount estimated in the aggregate to provide for the payment of all losses or claims incurred on or prior to the date of statement, whether reported or unreported, which are unpaid as of such date and for which such insurer may be liable, and also reserves in an amount estimated to provide for the expenses of adjustment or settlement of such losses or claims.”

Section 4117 of the New York Insurance Law states, in part:

“In determining the financial condition of any property/casualty insurance company for the purpose of applying the provisions of this chapter, and in any financial statement or report of any such company, there shall be included in the liabilities of such company loss reserves and loss expense reserves at least equal to the amounts required under the provisions of this section.”

Further, Paragraph 10 of SSAP No. 55 states, in part:

“The liability for claim reserves and claim liabilities, unpaid losses, and loss/claim adjustment expenses shall be based upon the estimated ultimate cost of settling the claims (including the effects of inflation and other societal and economic factors), using past experience adjusted for current trends, and any other factors that would modify past experience . . .”

It is strongly recommended that the Company ensure its reserves are adequate, as required by Sections 1303 and 4117 of the New York Insurance Law and SSAP No. 55.

## **5. NET DEFERRED TAX ASSET**

The Company reported an admitted asset under this caption in the amount of \$3,450,000 as of December 31, 2021. Paragraph 11(b) of SSAP No. 101 states that a reporting entity with an RBC score lower than 200% should not admit certain components of the net deferred tax asset. As a result of this examination (refer to sections 3D and 4), the Company's RBC score is below 200%. Accordingly, the captioned asset of \$3,450,000 has been non-admitted in its entirety.

## 6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination contained 11 recommendations as follows (page numbers refer to the prior report):

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Corporate governance</u>	
i. It was recommended that the Company comply with Article III, Section 10 of its by-laws and have at least three board meetings during each calendar year following the regularly scheduled annual meeting.	4
The Company has complied with this recommendation.	
ii. It was recommended that the Company comply with Article 7, Section A of its Amended and Restated Declaration and Charter and Article II, Section 2 of its by-laws and consistently hold its annual shareholders' meeting on the last Thursday of July each year.	5
The Company has complied with this recommendation.	
iii. It was recommended that the Company comply with Article III, Section 13 of its by-laws and have a minimum membership of three directors on its audit committee.	5
The Company has complied with this recommendation.	
B. <u>Reinsurance</u>	
i. It was recommended that the Company revise its commercial automobile liability Per Policy Excess of Loss Reinsurance Agreement to comply with SSAP No. 62R, paragraph 8(d).	8
The Company has complied with this recommendation.	
ii. It was recommended that the Company take the necessary steps to complete Schedule F, Part 4 accurately and in accordance with the NAIC Annual Statement Instructions, to reflect the proper aging of the reinsurance recoverables balances for the paid losses and loss adjustment expenses.	9
The Company has not complied with this recommendation. A similar recommendation will be included in the current report.	
iii. It was recommended that the Company complete Schedule F, Parts 7 and 8 to show any necessary penalties for the overdue reinsurance recoverable	9

balances with authorized reinsurers as required by the NAIC Annual Statement Instructions.

The Company has complied with this recommendation.

C. Holding company system

It was recommended that the Company file its controlling producer report in a timely manner pursuant to the provisions of Part 80-2.2 of Department Regulation 52-A. 10

The Company has complied with this recommendation.

D. Losses and loss adjustment expenses

- i. 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. 20

A similar recommendation is included in this report.

- ii. It was recommended that the Company enhance its loss ratio selections by year approach to be quantitative and supportive and allocate its loss reserve liabilities accurately by accident year. 20

The Company has complied with this recommendation.

- iii. It was recommended that the Company review its formula to determine the appropriate allocation of the portion of DCC which comprises claims department and other related expenses between current and prior accident years. 20

The Company has complied with this recommendation.

- iv. It was recommended that the Company put in place a manual reconciliation process to ensure the proper reconciliation of the U&I exhibits and Schedule P, Part 3 for net paid expenses. 20

The Company has complied with this recommendation.

## 7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Corporate governance</u>	
i. The Company is directed to comply with Section 1411(a) of the New York Insurance Law and have the board of directors authorize or approve investment transactions and document such approval in the board minutes.	4
ii. The Company is directed to comply with Section 89.12(e) of Department Regulation 118 and provide written notification to the Superintendent within 30 days of any change in audit committee membership.	4
iii. The Company is directed to comply with Department Regulation 152 and maintain its records for six calendar years from its creation or until after the filing of the report on examination in which the record was subject to review, whichever is longer.	5
B. <u>Reinsurance ceded</u>	
The Company is directed to take the necessary steps to complete Schedule F - Part 3 accurately, in accordance with the NAIC annual statement instructions, and report the proper aging of the reinsurance recoverables on paid losses and loss adjustment expenses.	7
C. <u>Holding company system</u>	
The Company is directed to implement controls to ensure that agreements with affiliates are timely filed in accordance with Section 1505(d)(3) of the New York Insurance Law.	10
D. <u>Losses and loss adjustment expenses</u>	
It is strongly recommended that the Company ensure its reserves are adequate, as required by Sections 1303 and 4117 of the New York Insurance Law and SSAP No. 55.	17

Respectfully submitted,

\_\_\_\_\_/S/\_\_\_\_\_  
Teena Varghese  
Financial Services Examiner 3

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

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

\_\_\_\_\_/S/\_\_\_\_\_  
Teena Varghese

Subscribed and sworn to before me

this \_\_\_\_\_ day of \_\_\_\_\_, 2024.

*APPOINTMENT NO. 32411*

*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:*

***Teena Varghese***

*as a proper person to examine the affairs of the*

***Hereford 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 18th day of May, 2022*

***ADRIENNE A. HARRIS***  
*Superintendent of Financial Services*

By:

*Joan Riddell*

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*Joan Riddell*  
*Deputy Bureau Chief*

