

REPORT ON EXAMINATION  
OF THE  
AXA GLOBAL RISKS US INSURANCE COMPANY  
AS OF  
DECEMBER 31, 1998

DATE OF REPORT

MAY 24, 2000

EXAMINER

VERONICA DUNCAN-BLACK

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STATE OF NEW YORK  
INSURANCE DEPARTMENT  
25 BEAVER STREET  
NEW YORK, NEW YORK 10004

May 24, 2000

Honorable Neil D. Levin  
Superintendent of Insurance  
Albany New York 12257

Sir:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 21213 dated January 26, 1998, attached hereto, I have made an examination into the condition and affairs of the AXA Global U.S Risks Insurance Company as of December 31, 1998 and respectively submit the following report thereon.

The examination was conducted at the Company's home office located at 199 Water Street, New York, New York 10038.

Wherever the designations "the Company" or "AXA" appear herein without qualification, they should be understood to indicate the AXA Global Risks US Insurance Company.

## 1. SCOPE OF EXAMINATION

The prior examination was conducted as of December 31, 1992. The examination was originally designed to cover the five year period January 1, 1993 through December 31, 1997, but was updated to reflect the Company's financial condition at December 31, 1998. The examination was limited in its scope to a review or audit of only those balance sheet items considered by this Department to require analysis, verification or description, including: invested assets, inter-company balances, loss and loss adjustment expense reserves and the provision for reinsurance, and included a review of income, disbursements and company records deemed necessary to accomplish such analysis or verification and utilized, to the extent considered appropriate, work performed by the Company's independent public accountants. A review or audit was also made of the following items as called for in the Examiners Handbook of the National Association of Insurance Commissioners:

- History of Company
- Management and control
- Corporate records
- Fidelity bond and other insurance
- Territory and plan of operation
- Market conduct activities
- Growth of Company
- Business in force by states
- Reinsurance
- Accounts and records
- Financial statements

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

This report on examination is confined to financial statements and comments on those matters which involve departure from laws, regulation or rules, or which are deemed to require explanation or description.

## 2. DESCRIPTION OF THE COMPANY

The Colonia Insurance Company was established in 1839 in Cologne, Germany and its United States Branch was established under the laws of the State of New York on July 23, 1975. The Branch commenced business on July 23, 1976. On November 23, 1990, the United States Branch of Colonia Insurance Company domesticated under the laws of the State of New York, as a United States stock corporation and became Colonia Insurance Company and then commenced business on January 1, 1991.

The ultimate parent of the Company has been Union des Assurances de Paris (“UAP”) since December 31, 1993 at which time the former parent, Compagnie Financiere de Suez, sold its interest in the Company to UAP. UAP was privatized in 1994. On November 12, 1996 the Company’s parent, UAP and the AXA Group merged.

On October 31, 1997, AXA Global Risks S.A. acquired a 51% interest in Colonia Holdings, Inc., the Company’s immediate parent, (now known as AXA Global Risks US Holdings). The remainder of the interest in the holding company (49%) is by held Colonia Versicherung AG (now known as AXA Colonia Versicherung AG). Effective December 30, 1998, through the efforts of capital infusions, AXA Global Risks S.A. increased its interest in AXA Global Risks US Holdings, Inc., from 51% to 96.4%. Consequently, AXA Colonia Versicherung AG interest was decreased from 49% to 3.6%.

All of the issued and outstanding capital stock of the Company, which consists of 100 shares of common stock with a par value of \$50,000 per share, is owned by AXA Global Risks US Holdings, Inc.

The Company owns 100% of its subsidiary, AXA Global Risks Underwriters Insurance Company. Effective January 1, 1998, the Company changed its name to AXA Global US Risks Insurance Company.

A. Management

Administration of the Company's affairs has been under the management of Associated Insurance Management Corporation ("AIM"), a subsidiary of AXA Global Risks US Holdings Inc. and Nordstern Holdings Inc.

Pursuant to the Company's charter, management of the Company is vested in a board of directors consisting of not less than thirteen nor more than twenty-one members. The exact number of directors is determined from time to time in accordance with the provisions of the Company's by-laws. As of the examination date, the board of directors was comprised of the following thirteen members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Guenther K. Dreschsler Fall Village, CT.	Retired
Alexander T. Ercklentz New York, NY	Partner, Brown Brothers Harriman & Co.
Claas Kleyboldt Cologne, Germany	Chief Financial Officer, Colonia Konzern Aktiengesellschaft
Klaus-Dieter Laessker Cologne, Germany	Chairman of Management Board, Colonia Versicherung AG
Kenneth J. LeStrange Greenwich, CT	Retired
Robert J. Lynch Jr. New York, NY	President, American & Foreign Enterprises Inc.
Thurston J. Millet New York, NY	Vice President & Assistant Secretary, AXA Global Risks US Insurance Company

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
James Morgan Mayfield, East Sussex, UK	President and CEO, AXA Global Risks UK Ltd. & AXA Global Risks US Insurance Company
Claude Louis Guy Tendil Paris la Defensa, France	General Manager, AXA France Assurance
Timotheus R. Pohl New York, NY	President & Chief Financial Officer, Daimler-Benz North America Corporation
Marc M. Tact Roslyn, NY	Partner, Rosenman & Colin, LLP
Charles-Francois Walckenaer Paris Cedex, France	Chairman and CEO, AXA Global Risks UK Ltd.
Kurt J. Wolfgruber New Canaan, CT	Managing Director, J.P. Morgan Investment Management Inc.

The minutes of all meetings of the board of directors held during the examination period were reviewed. A review of such minutes shows that all of the meetings were generally well attended. It was noted, however, that Mr. Claas Kleyblot, Mr. Claude Louis Guy Tendil, and Mr. Kurt John Wolfgruber attended less than half of the board meetings that they were eligible to attend. Members of the board have a fiduciary responsibility and must evince an on-going interest in the affairs of the insurers. It is essential that board members attend meetings consistently to set forth their views on relevant matters. Individuals who fail to attend at least one-half of the board's regular meetings, unless appropriately excused, do not fulfill such criteria.

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

As of December 31, 1998, the officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
James D. Morgan	President
Thurston J. Millet	Executive Vice-President & Assistant Secretary
John B. Gallagher	Senior Vice President, Corporate and International Underwriting
Thomas R. Gervasio	Vice-President-Claims
Tanneguy Rerolle	Vice-President and Treasurer
William J. Kelleher, Jr.	Vice-President and General Counsel
Mauro Guerrini	Vice-President-Marketing
Willard B. Wallen	Vice-President-Domestic Property
Siegrid Marton	Vice-President, Human Resources and Administration
Debra L. Waxman	Vice-President & Secretary

B. Territory and Plan of Operation

The Company is authorized to transact business in all states, except for California where it is a surplus line insurer. It is also licensed in the District of Columbia. The following schedule shows the direct premiums written (in thousands) by the Company in New York State and country wide for the calendar years during the examination period, and the percentages which the New York premiums bear to the countrywide premiums:

<u>Calendar Year</u>	<u>Direct Premiums Written</u> <u>(000 Omitted)</u>		<u>Percentage of U.S.</u> <u>Premiums</u> <u>Written in New York</u>
	<u>New York State</u>	<u>Total United States</u>	
1993	\$28,021	\$ 90,734	30.88%
1994	\$28,006	\$100,117	27.97%
1995	\$32,440	\$ 99,189	32.71%
1996	\$30,380	\$ 97,981	31.01%
1997	\$28,373	\$ 92,596	30.64%
1998	\$20,077	\$ 83,985	23.91%

As of December 31, 1998, 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>Kind of Insurance</u>
3	Accident and health
4	Fire
5	Miscellaneous property
6	Water damage
7	Burglary and theft
8	Glass
9	Boiler and machinery
10	Elevator
11	Animal
12	Collision
13	Personal injury liability
14	Property damage liability
15	Workers' compensation and employers' liability
16	Fidelity and surety
17	Credit
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine
21	Marine protection and indemnity

The Company is also empowered to transact such workers' compensation as may be incident to coverages contemplated under paragraphs 20 and 21 and Section 1113(a), including insurances described in the Longshoremen's and Harbor Workers' Compensation Act (Public Law No. 803. 69th Congress as amended; 33 U.S. Section 901 et seq. as amended). Effective August 26, 1998, the Company received approval from this Department to amend its license to add reinsurance as defined in Section 4102(c) of the New York Insurance Law.

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, 41 and 63 of the New York Insurance Law, the Company is required to maintain a minimum surplus to policyholders in the amount of \$35,000,000.

The Company is a multiple line insurance organization that handles all forms of property/casualty insurance and reinsurance coverage. At present, the Company's emphasis is on writing commercial insurance business including US exposures of multinational European companies. The Company's main book of business consists primarily of the following: auto liability, marine, aviation, energy, surety and multiple peril and other lines. The Company's business is produced through a network of independent managing general agents and brokers.

As a result of an adverse development reported for accident years 1997 and prior, the Company evaluated its books of business. The Company discontinued and restricted certain segments of its business (contractor liability and habitational risks) that contributed to the unfavorable development, as well as cancelled several of its poorly performing agents contracts.

C. Reinsurance

The Schedule F data as contained in the Company's annual statements filed for the years within the examination period were found to accurately reflect all of the Company's reinsurance transactions, except for certain transactions described herein and in Accounts and Records, Item I.

As of December 31, 1998, the Company's assumed business was generated primarily from its participation in various voluntary pools and facultative arrangements.

Effective September 30, 1998, the Company entered into an Assumption and Assignment agreement with an affiliate, La Reunion Francaise – U.S. Branch (“U.S. Branch”). Pursuant to the terms of the agreement, the Company agreed to accept 100% of the U.S. Branch’s liability for known and unknown losses for a consideration equal to the amount of reserves transferred. This agreement was submitted to this Department pursuant to the requirements Section 1505(d) of the New York Insurance Law.

This type of agreement should have been accounted for by the Company as a loss portfolio transfer pursuant to the provisions of Department Regulation 108. It is recommended that the Company comply with the reporting requirements of this regulation in future filed statements.

In 1998, the Company’s assumed business represented approximately 8.6% of its total premium writings. During the period covered by this examination the Company’s assumed business, as a ratio of its total writings remained relatively constant at about 3% for years 1993 to 1995 and 1997. It increased to 5% and 9% for years 1996 and 1998, respectively.

All ceded treaty reinsurance contracts effected during the examination period were reviewed. A review of such contracts showed that all but two contracts (obligatory energy quota share and excess of loss reinsurance – clash cover) appeared to be complete agreements. Both of the agreements failed to meet the requirements of Section 1308(a)(2)(A)(I) of the New York Insurance Law, in that they did not contain the required insolvency clause. These transactions were not considered material and did not warrant an examination change in this report.

The prior report on examination recommended that the Company amend its reinsurance contracts to meet the provisions of Section 1308(a)(2)(A)(I) of the New York Insurance. It is again recommended that the Company comply with such sections of the New York Insurance Law.

It was further noted that some of the contracts (directors & officers employment practices and energy contracts) that were placed through intermediaries did not include the required intermediary clause that is necessary to protect the ceding company from possible insolvency or fraud of the intermediary.

It is recommended that the Company include a proper intermediary clause in its reinsurance contracts as required by Regulation, No. 98.

A review of the contracts also shows that all of the energy agreements (quota share and excess of loss contracts) were not signed by any of the participating reinsurers to the contract. Chapter 22 of the National Association of Insurance Commissioners Accounting Practices and Procedures Manual states the following: "...if a contract entered into, renewed or amended on or after January 1, 1994 has not been finalized, reduced to a written form and signed by the parties within nine months after the commencement of the policy period covered by the reinsurance arrangement, then the arrangement is presumed to be retroactive and must be accounted for as a retroactive reinsurance contract." A review of the Company's 1998 ceded premiums and losses in regard to its energy business shows that the amounts involved in restating the accounting of the contracts were not materially significant to warrant an examination change in this report.

It is, however, recommended in the future that the Company comply with Chapter 22 of the National Association of Insurance Commissioners Accounting Practices and Procedures Manual and record its reinsurance transactions accordingly.

As of the examination date, the Company had the following general excess of loss reinsurance and quota share program in place:

<u>Type</u>	<u>Limit and Retention</u>
<u>Domestic Property &amp; Casualty</u>	
<u>Property &amp; Casualty Excess of Loss</u> 100% Authorized	<p><u>Section A: Automobile Liability</u> Limit of \$500,000 excess of \$500,000, ultimate net loss each loss and any one loss occurrence.</p> <p><u>Section B: All other Liability</u> Limit of \$5,000,000 excess of \$1,000,000, ultimate net loss each loss and any one loss occurrence.</p> <p><u>Section C: Property</u> Limit of \$4,000,000 excess of \$1,000,000, ultimate net each loss, each risk and any one loss occurrence and any one risk subject to a maximum aggregate limit of \$12,000,000 any one occurrence.</p> <p>Note: The reinsurer's aggregate limit in any one loss occurrence shall not exceed \$12,000,000.</p> <p><u>Section D: Retention Cover</u> Limit of \$1,000,000 excess of \$1,000,000, ultimate net loss each loss occurrence and any one loss occurrence, in the event Section B and C is involved in the same occurrence.</p> <p>100% placed</p>

TypeLimit and RetentionInternational Property & CasualtyEuro-Link Property and Casualty

90% Authorized

10% Unauthorized

Section A: Casualty Excess of Loss

Limit of \$5,000,000 excess \$1,000,000, ultimate net loss on each loss occurrence, and or/or claims made policy where the Company maintains an underlying primary policy.

Limit of \$4,000,000 excess of \$1,000,000, ultimate net loss each loss occurrence and any one loss occurrence as respect to workers' compensation coverage. Note: the Company does not provide any workers' compensation insurance.

Section B: Excess Quota Share

80% quota share subject to a maximum policy limit of \$5,000,000, each loss occurrence, and/or claims made.

Section C: Property Excess of Loss

Limit of \$4,000,000 excess of \$1,000,000, ultimate net each loss, each risk and any one loss occurrence and any one risk subject to a maximum aggregate limit of \$12,000,000 any one occurrence.

Section D: Retention Cover

Limit of \$1,000,000 excess of \$1,000,000, ultimate net loss, each loss occurrence and any one loss occurrence, in the event Section A and B are involved in the same occurrence as Section C. Note: the Company does not provide coverage under this section.

100% placed

The property and casualty treaties provide excess coverage for all of the Company's domestic and international business classified as fire, inland marine, automobile, general liability, umbrella liability and following form excess liability. The international property and casualty coverage (Euro-Link Property & Casualty) also provides protection for the Company's products liability exposure.

In addition to the excess of loss covers, the Company maintains the following catastrophe coverage on an occurrence basis for its property lines of business:

Catastrophe Coverage

Property Catastrophe Excess of Loss

2 layers	Limit of \$4,000,000 excess of \$1,000,000, ultimate net loss each and every loss occurrence. 10% retained.
69% Authorized	
31% Unauthorized	

Effective January 1, 1998, the Company had the following energy reinsurance program in place:

Type of Contract

Coverage

Energy

Excess of Loss Reinsurance

Layers 1 100% Unauthorized	Limit of \$39,000,000 excess of \$100,000, each and every loss and/or occurrence and/or calamity and/or catastrophe and/or series arising out of one event subject to annual deductible of \$1,200,000.
Layer 6 100% Authorized	

Layers 2, 3, 4, 5, 7 and 8	70% placed (subject to obligatory quota share treaty).
Minimum of 5.48% and maximum of 28.14% authorized	
Minimum 71.86% and maximum of 94.52% unauthorized	

Obligatory energy quota share

10% Authorized	30% of \$40,000,000, any one unit and/or item and any one interest, and one assured combined single limit. 70% retained (subject to excess of loss protection).
90% Unauthorized	

Type of ContractCoverageReinstatement Premium Protection Agreement

100% Unauthorized

Agreement provides for payment of the reinstatement premium in respect of the energy account and related liabilities business.

Excess of Loss (clash cover)

35.65% Authorized

64.35% Unauthorized

Limit of \$18,666,66 excess of \$9,333,333, ultimate net loss any one and/or occurrence and/or series of losses and/or occurrences arising out of one event.

In addition to the captioned energy program, the Company participated in an energy quota share agreement with its parent company, AXA Global, S.A. for all risks assumed by the Company pursuant to its novation of the energy risk of La Reunion Francaise for all underwriting years prior to 1998. Under this arrangement, the Company agreed to the limit of 100% of the reassureds retained USD share on any one unit and/or item and any one interest, any one assured combined single unit. The Department approved this agreement.

The Company maintained the following reinsurance program for its surety business written through First Indemnity of American/ Financial Services Group (“FIA/FSG”). This business is written pursuant to a management/administrative agreement between the Company and FIA/FSG dated July 1, 1991.

Type of ContractCoverageSuretyQuota Share Treaty

100% Unauthorized

Quota share of 66.66% (\$400,000), part of 100% on each bond.

33.33 % retained.

Surety Excess of Loss

52.13 % Authorized

47.87% Unauthorized

Limit of \$900,000 excess \$600,000, any one bond.

100% placed.

Per Principal Surety Excess of Loss

52.13 % Authorized

47.87% Unauthorized

Limit of \$5,000,000 excess \$1,000,000, ultimate net loss any one principal

100% placed.

The Company provided two quota share reinsurance agreements for its directors & officers and employment practices program. This business is underwritten and managed by the AUSCO Inc., pursuant to an Agency Agreement dated January 1, 1987. The quota share agreements are as follows:

Type of ContractCoverageEmployment Practices LiabilityQuota Share Treaty

100% Authorized

76% of \$5,000,000, with regard to category 2, any one assured each policy year.

24% retained.

Directors & OfficersQuota Share Treaty

100% Authorized

76% of \$10,00,000, with regard to category 1, any one assured each policy year.

24% retained.

The Company maintains facultative arrangements with both affiliated and non-affiliated companies. It was noted that the Company provides the AXA Group with insurance arrangements for the Group's non-US clients that have exposure in the United States. A review of the affiliated agreements indicated that the Company did not notify the Superintendent in writing of its intention before engaging in any of the affiliated reinsurance transactions pursuant to Section 1505(d)(2) of the New York Insurance Law. This section of the Law states the following:

“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 in any such transaction at least thirty days prior thereto, or such shorter period as he may permit, and he has not disapproved it within such period: ... (2) reinsurance treaties or agreements...”

It is recommended that the Company comply with the provisions of Section 1505(d)(2) of the New York Insurance Law prior to entering in any reinsurance transactions with its affiliate.

In reviewing the reinsurance cycle (reinsurance recoverable on loss and loss adjustment expense payments) it was noted that the Company was not able to properly offset cash receipts for each individual Lloyds underwriters. The Company's management indicated that due to the complexity of its agency/underwriting arrangement with AUSCO, Inc., (“AUSCO”) and the participating parties therein, cash receipt payments were received in lump sum for the Lloyds members. Management also indicated that the Company's system was not able to set up to distinguish or separate receipts applicable to each Lloyds member. The examiner noted that this recording contributed to the inaccuracy of the Company's Schedule F-Part 4 reporting – “Aging of Ceded Reinsurance.”

It is recommended that the Company exercise greater care in the preparation of its Schedule F in its future filed annual statements.

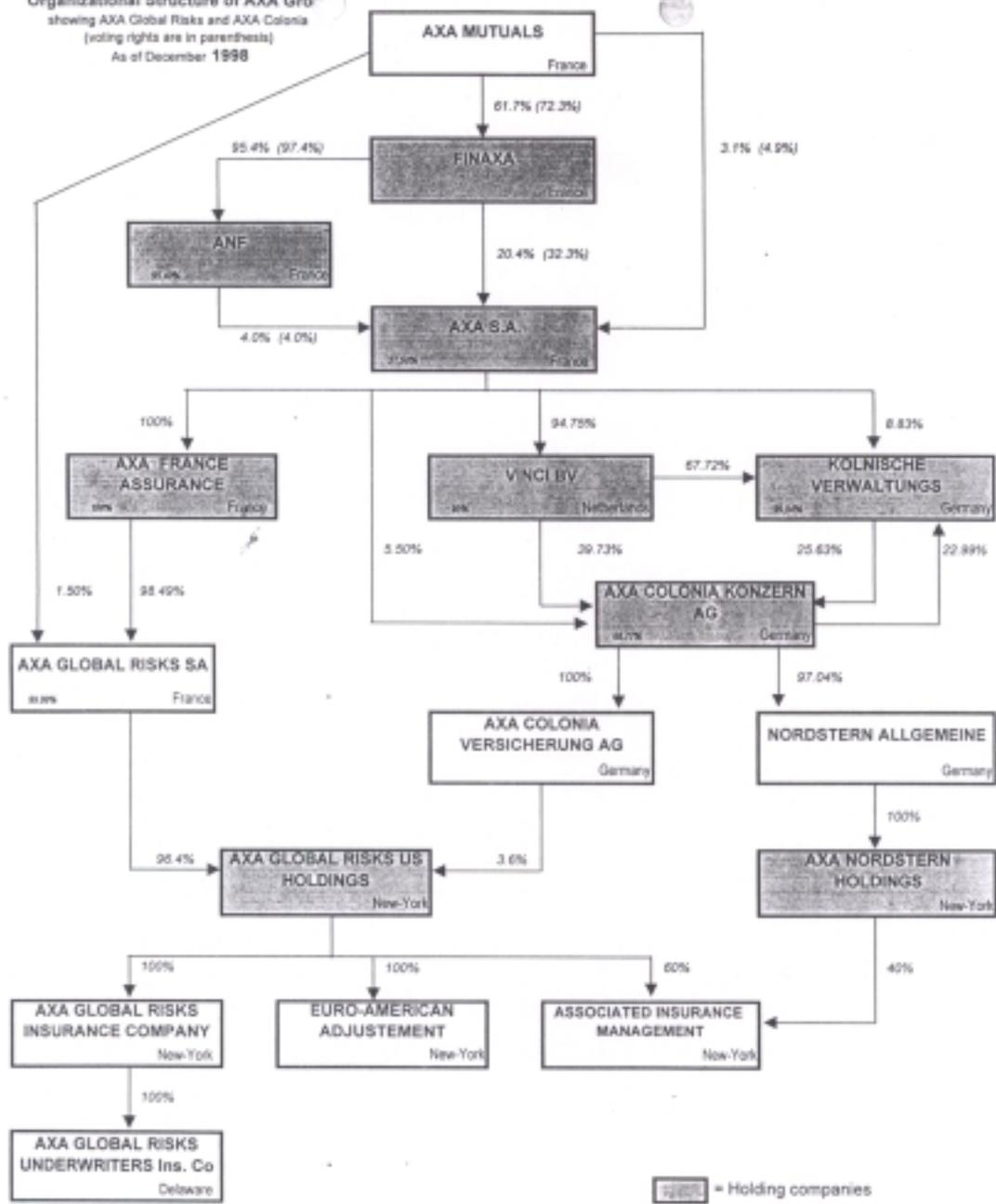
D. Holding Company System

The Company is a wholly-owned subsidiary of AXA Global Risks US Holdings, Inc., a New York Corporation which is a subsidiary of AXA Global Risks S.A. (96.4%) and AXA Colonia Versicherung AG (3.64%). As of December 31, 1998, AXA Global Risks S.A. acquired 96.4% of AXA Global Risks US Holdings, Inc. The company owns 100% of its subsidiary, AXA Global Risks Underwriters Insurance Company.

As a member of a holding company system, the Company files registration statements pursuant to the requirements of Article 15 of the New York Insurance Law and Department Regulation 52.

The following is the chart of the Holding Company System as of the examination date:

Organizational Structure of AXA Group showing AXA Global Risks and AXA Colonia (voting rights are in parenthesis) As of December 1998



### Inter-company Agreements

The Company entered into the following agreements with members of its holding company system, all of which have been approved by the Department pursuant to the provisions of Section 1505 of the New York Insurance Law.

1. Service Agreement with Associated Insurance Management

Pursuant to an agreement dated January 1, 1991, Associated Insurance Management Corporation (“AIM”), an affiliate, acts as manager for the Company. Under the terms of the agreement, AIM manages the insurance and reinsurance business of the Company. AIM provides all services for the Company including but not limited to, underwriting, claims, investments, policyholder services, and accounting.

A review of the Company’s inter-company accounts with AIM shows that the Company did not settle any of its balances with AIM. The Company was not able to provide the examiner with any supporting documentation to demonstrate payment for such services. The management agreement specifically provides that the Company shall pay the manager compensation for its services an amount equal to all wages, salaries and other compensation of its officers and employees all expenses of conducting the business entrusted to the manager. It is recommended that the Company settle its inter-company balances in a timely manner.

2. Service Agreement with Nordstern Insurance Company

Effective September 11, 1991, the Company entered in to an expense sharing agreement with its affiliate, Nordstern Insurance Company of America, to share certain office space and other common areas. As of December 31, 1998, the Company and its affiliates no longer occupied the same office space and shared only one common area (off-site storage area).

During the review of the inter-company accounts, it was also noted that the Company shared office space and provided services to another affiliate, Euro-American Adjustment (“Euro”). It was explained to the examiner that this entity has not transacted business since 1993 and has remained dormant until February 1999. At this time, the Company established new initiatives for Euro, which included alternative or capital market transactions solely for AXA Global Risks S.A. Euro-American Adjustment changed its name to AXA FIRST on March 4, 1999. It appears that the Company entered into a service arrangement Euro without notifying the superintendent in writing as required by Section 1505(d)(3) of the New York Insurance Law. It should be noted that the Company is not currently providing any service to AXA FIRST.

It is recommended that the Company comply with the provisions of Section 1505(d)(3) of the New York Insurance Law.

3. Tax Allocation Agreement

The Company is currently a party to a tax allocation agreement with its immediate parent, AXA Global Risks US Holdings, Inc., and its affiliate, Euro-American Adjustment. Under the terms of the tax allocation agreement, the Company agrees to file a consolidated Federal income tax return with its immediate parent and affiliate. The tax liability or refund under the agreement is the amount the Company would pay or receive if it had filed a separate return with the Internal Revenue Service.

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 1998, based upon the results of this examination:

Net premiums written in 1998 to Surplus as regards policyholders	.87 to 1
Liabilities to Liquid assets (cash and invested assets less investment in affiliates)	101.3%
Premiums in course of collection to Surplus as regards policyholders	.06%

The above ratios fall within the benchmark ranges set forth in the Insurance Regulatory Information System of the National Association of Insurance Commissioners (NAIC).

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

	<u>Amounts</u>	<u>Ratios</u>
Loss and loss adjustment expenses	\$ 368,902,357	103.80%
Other underwriting expenses	137,041,152	38.50
Net underwriting gain (loss)	<u>(150,729,988)</u>	<u>(40.30)</u>
Premiums earned	<u>\$ 355,213,521</u>	<u>100%</u>

F. Abandoned Property Law

Section 1316 of the Abandoned Property Law requires insurance companies to report to the Office of the State Comptroller annually on or before April 1, any property that is deemed abandoned and has been unclaimed for a three-year period. This filing is required by all companies regardless of whether they have any abandoned property to report.

A review of the Company's records reveal that the Company made the appropriate filings during the examination period. However, it was noted that the Company did not have any written follow-up procedures in place for the examiners to review.

It is recommended that the Company provide and maintain proper follow-up procedures for its abandoned property account.

G. Custodian Agreement

As of the examination date, the Company's securities were held with a bank pursuant to a custodial agreement. This Department maintains that a custodial agreement must contain certain provisions in order to ensure that an insurer's assets are properly safeguarded. A review of the Company's custodian agreement shows that the agreement was lacking one protective covenant that is necessary for the safeguard of the Company's assets. Such provision is as follows:

1. The bank shall have in force, for its own protection, Bankers Blanket Bond Insurance of the broadest form available for commercial banks and will continue to maintain such insurance. The bank will give the insurer 60 days written notice of any material change in the form or amount of such insurance termination of this coverage.

It is recommended that the Company amend its custodian agreement to include the above provision in order to protect its assets.

H. Accounts and records

1. Investments

It was noted that the Company valued its wholly-owned subsidiary, AXA Global Risks US Underwriting Insurance Company, at its September 30, 1998 statutory surplus value. The stock should have been valued at its December 31, 1998 statutory surplus value. The difference between the surplus at the two reporting dates was \$235,654. No changes have been made to the financial statements continued herein. However, it is recommended that the Company value its subsidiary at its statutory surplus as of December 31.

It was indicated in the Notes to Financial Statements that the Company's financial statements are prepared in conformity with accounting principles prescribed or permitted by the National Association of Insurance Commissioners. In the review of the investment cycle (common stock), it was determined that the Company did not follow the NAIC Securities Valuation Manual ("SVO") guidelines for valuing securities for which there was no price available. The manual provides that where a unit price for a security cannot be obtained from a public source, the reporting entity insurance company shall provide the SVO with at least two price quotes from financial institutions acceptable to the SVO. It should also be noted that Section 1414(g) of the New York Insurance Law gives the Company the authority with the permission of the Superintendent to value its securities in accordance with any applicable method approved by the National Association of Insurance Commissioners.

It is recommended that the Company comply with Section 1414(g) of the New York Insurance Law and value its securities in accordance with the guidelines established by National Association of Insurance Commissioners.

The Company receives performance information for its investments from its investment manager and holdings reports from its custodian. The investment manager provides the custodian with a detailed listing of all investment transactions for a stated period. The Company relies solely upon information provided by the custodian for the purpose of accounting and financial reporting. It should be noted that the Company does not reconcile its custodian reports to its investment manager's reports. Hence, the Company may be at risk should there be any discrepancies resulting from miscommunications between the investment manager and the custodian.

It is recommended that the Company implement monthly reconciliation procedures for all investment information obtained, to ensure that the information being relied upon is accurately reported.

2. Regulation 30

A review of the Company's compliance with the Department Regulation 30 was performed as part of this examination. In such regulation, Part 107.3 states that the composition of each expense group shall be categorized under investment expenses, loss adjustment expenses, taxes, general expenses, and acquisition, field and collection expenses. In addition, Part 107.4(e)(1) of such regulation also states the following:

“The method and bases followed in allocation to expense groups shall be described, kept and supported.”

Based on the examiner's review, it appears that the expenses are not properly allocated pursuant Department Regulation 30. It is recommended that the Company do a study to determine the proper amounts to allocate between expenses classified pursuant to Department Regulation 30.

I. Section 310 of the New York Insurance Law

During the examination, the Company's conduct was inconsistent with Section 310 of the New York Insurance Law. Section 310(a)(3) states:

“The officer and agents of such insurer or other person shall facilitate such examination and aid such examiners in conducting the same so far as it is in their power to do so.”

It should be noted that the examiner experienced delays in receiving information from the Company. In one instance, the Company took as long as 108 business days to respond to the examiner's

request. It took the Company an average of 57 business days to respond to a number of the examiners' memoranda. Such delays impeded the progress of the examination.

In addition, in another instance, the examiner was provided with inaccurate information. The Company indicated in a memorandum to the examiner that the funds held balance for a reinsurer was the same for years 1997 and 1998. Upon review of the Company's annual statement, it was determined that the information provided to the examiner was inaccurate.

It is recommended that in the future that the Company comply with the provisions of Section 310(a)(3) of the New York Insurance Law and provide accurate and timely information.

### 3. FINANCIAL STATEMENTS

#### A. Balance Sheet

The following shows the assets, liabilities and surplus as determined by this examination as of

December 31, 1998 and as reported by the Company:

<u>Assets</u>	<u>EXAMINATION</u>			<u>COMPANY</u>		<u>Surplus Increase (Decrease)</u>
	<u>Ledger Assets</u>	<u>Non- Ledger Assets</u>	<u>Not- Admitted Assets</u>	<u>Admitted Assets</u>	<u>Admitted Assets</u>	
Bonds	\$194,159,206			\$194,159,206	\$194,159,206	
Preferred stocks	12,462,874		\$335,988	12,126,886	12,126,886	
Common stocks	42,812,212	\$2,195,599		45,007,811	45,007,811	
Cash on hand and deposit & short-term investments	46,607,971			46,607,971	46,607,971	
Other invested assets	251,295			251,295	251,295	
Receivable for securities	14,383			14,383	14,383	
Agents' balances or uncollected premiums	(1,180,731)		2,848,558	(4,029,289)	(4,029,289)	
Reinsurance recoverable on loss payments	11,562,632			11,562,632	11,562,632	
Federal income tax recoverable and interest thereon	875,000		875,000		875,000	\$(875,000)
Interest, dividends and real estate income due & accrued	<u>                    </u>	<u>2,586,547</u>	<u>                    </u>	<u>2,586,547</u>	<u>2,586,547</u>	<u>                    </u>
Total assets	<u>\$307,564,842</u>	<u>\$4,782,146</u>	<u>\$4,059,546</u>	<u>\$308,287,442</u>	<u>\$309,162,442</u>	<u>\$(875,000)</u>

<u>Liabilities</u>	<u>Examination</u>	<u>Company</u>	<u>Surplus Increase (Decrease)</u>
Losses and loss adjustment expenses	\$ 184,355,618	\$ 176,881,674	\$ (7,473,944)
Other expenses	759,019	759,019	
Taxes, licenses and fees	2,016,805	2,016,805	
Unearned premiums	18,060,427	18,060,427	
Funds held by company under reinsurance treaties	6,945,308	6,945,308	
Provision for reinsurance	12,802,560	236,694	(12,565,866)
Drafts outstanding	2,453,266	2,453,266	
Payables to parent, subsidiaries and affiliates	642,449	642,449	
Payable for securities	<u>15,833,727</u>	<u>15,833,727</u>	<u>                    </u>
Total Liabilities	<u>\$ 243,869,189</u>	<u>\$ 223,829,379</u>	<u>\$ (20,039,810)</u>
 <u>Surplus</u>			
Common capital stock	\$ 5,000,000	\$ 5,000,000	
Surplus Notes	26,000,000	26,000,000	
Gross paid in and contributed surplus	113,377,188	113,377,188	
Unassigned funds (surplus)	<u>(79,958,935)</u>	<u>(59,044,125)</u>	<u>\$(20,914,810)</u>
Surplus as regards policyholders	<u>\$ 64,418,253</u>	<u>\$ 85,333,063</u>	<u>(20,914,810)</u>
Total liabilities and surplus	<u>\$ 308,287,442</u>	<u>\$ 309,162,442</u>	

NOTE: The Internal Revenue Service has audited the consolidated tax returns filed on behalf of the Company through December 31, 1993, but the examination after such date is yet to commence. Any potential exposure of the Company to any income tax assessment that may arise as a result of an IRS audit has not been established herein.

B. Underwriting and Investment Exhibit

Surplus as regards policyholders increased \$5,731,064 during the six-year examination period, January 1, 1993 through December 31, 1998, detailed as follows:

Statement of Income

Underwriting Income

Premiums earned		\$	355,213,521
Deductions:			
Loss and loss adjustment expense incurred	\$	368,902,357	
Other underwriting expense incurred		<u>137,041,152</u>	
Total underwriting deductions			<u>505,943,509</u>
Net underwriting (loss)	\$		(150,729,988)

Investment Income

Net investment income earned	\$	58,319,464	
Net realized capital gains (loss)		<u>26,286,817</u>	
Net investment gain			84,606,281

Other Income

Net gain or (loss) from agent' balances previously charged off	\$	(2,097,774)	
Deferred credit		(297,752)	
Retro reinsurance reserve ceded		<u>3,472,707</u>	
Total other income			<u>1,077,181</u>
Net Income before federal income taxes	\$		(65,046,526)
Federal income taxes incurred			<u>3,858,766</u>
Net Income	\$		<u><u>(68,905,292)</u></u>

Capital and Surplus Account

Surplus as regards policyholders, per report on examination as of December 31, 1992			\$ 58,687,189
	<u>Gain in Surplus</u>	<u>Loss in Surplus</u>	
Net income (loss)		\$ 68,905,292	
Net unrealized capital gains	\$ 921,919		
Change in not-admitted assets		2,726,024	
Change in provision for reinsurance		12,489,539	
Surplus paid in	102,500,000		
Dividends to stockholders		10,600,000	
Prior year adjustment		<u>2,970,000</u>	
Total gains and losses	<u>\$ 103,421,919</u>	<u>\$ 97,690,855</u>	
Net gain in surplus			<u>5,731,064</u>
Surplus as regards policyholders, per report on examination as of December 31, 1998			<u>\$ 64,418,253</u>

**4. FEDERAL INCOME TAX RECOVERABLE AND INTEREST THEREON**

The Company reported an admitted asset in the amount of \$875,000 as of the examination date. Pursuant to this examination, the admitted asset has been eliminated. This asset represented a tax refund for amended filings for tax years 1996 and 1997 as well as a receivable for the current tax year (1998). The Company indicated in a memorandum that as of May 1, 2000 it had not received any monies or tax refund from the Internal Revenue Service. Circular Letter 1975-15 dated November 12, 1975 provides that any refund due from the Treasury should be collected within a brief period after the statement date, in order to be considered as an admitted asset. In addition, any balance due as a result of participation in a consolidated tax return should be paid over promptly by the parent. Pursuant to this Circular Letter, this asset was not admitted.

It is recommended that the Company be reimbursed by its parent in a timely manner, pursuant to Circular Letter 15(1975).

**5. LOSSES AND LOSS ADJUSTMENT EXPENSES**

The examination liability for losses of \$184,355,618 is \$7,473,944 more than the \$176,881,674 reported by the Company as of the examination date. The examination analysis was conducted in accordance with generally accepted actuarial principles and practices and was based on statistical information contained in the Company's internal records and in its filed annual statements, as verified by the examiner.

A review of the Company's loss and loss adjustment expense reserves by this Department shows that the Company was deficient in its reserves by \$7,473,944. The deficiency was attributable primarily to the Company's domestic casualty, trucking and surety lines of business.

**6. PROVISION FOR REINSURANCE**

The examination liability of \$12,802,560 is \$12,565,866 more than the \$236,694 reported by the Company as of December 31, 1998.

An examination change of \$12,565,866 was made to due the Company's lack of supporting documentation for the existence of letters of credit. The Company reported in its Schedule F for the 1998 annual statement that there were 33 letters of credit available for the benefit of the Company. The

Company, however, was only able to substantiate nine of the thirty-three letters of credit. Thus, the remaining twenty-four letters of credit were disallowed.

An additional examination increase of \$3,255,160 was made to this liability due to the examination change to the Company's reserve for loss. It was determined that the reserving deficiency was attributable to several lines of business including the surety line. Since the surety line of business was a cession to unauthorized reinsurers, the provision for reinsurance was adjustment accordingly to reflect the proper penalty for unauthorized reinsurance.

With regard to the Company's Schedule F reporting, it is recommended that the Company maintain the appropriate records to support the letters of credit reported in its filed annual statement.

## **7. MARKET CONDUCT ACTIVITIES**

In the course of this examination, a review was made of the manner in which the Company conducts its business and fulfills its contractual obligations to policyholders and claimants. The review was general in nature and is not to be construed to encompass the more precise scope of a market conduct investigation, which is the responsibility of the Market Conduct Unit of the Property Bureau of this Department.

The general review was directed at practices of the Company in the following major areas:

- 1) Sales and advertising
- 2) Underwriting
- 3) Rating
- 4) Treatment of policyholders and claimants.

No problem areas were encountered. It should also be noted that at the present time the Company does not have any advertising or sales material. Most of the Company's business is produced through selected agents and brokers.

## **8. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION**

The prior report on examination contained nine recommendations and comments. The current status of these matters is as follows (page numbers refer to the prior report):

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Reinsurance</u>	
i. It is recommended that the Company amend its reinsurance contracts to comply with provisions of Sections 1308 and 7427 of the New York Insurance Law.	9
The Company complied with Section 7427 but did not comply with Section 1308 of the New York Insurance Law.	
ii. It is against public policy in the State of New York to reinsure extra contractual obligations coverage providing for reimbursements of punitive damages. Accordingly, it is recommended that the Company exclude coverage for extra contractual obligations in its contracts.	10
The Company has complied with recommendation by deleting any reference its contracts for providing reimbursement of punitive damages.	
iii. It is recommend that the Company comply with Section 1308(e)(I)(A) of the New York Insurance Law.	12
The Company did not comply with this recommendation and it is reiterated in this report.	
B. <u>Holding Company</u>	
i. It is recommended that the Company comply with Section 1408(b) of the New York Insurance Law.	13-14
The Company has complied with this recommendation.	

<u>ITEM</u>	<u>PAGE NO.</u>
ii. It is recommended that the Company comply with Section 1505(d)(2) of the New York Insurance Law.  The Company has not complied with this recommendation. A similar recommendation is included in this report.	14
C. <u>Abandoned Property Law</u>	
i. It is recommended that the Company maintain proper records in order to determine if any amounts are due under the captioned law, and that the proper filings can be made.  The Company has not complied with this recommendation and it is reiterated in this report.	16-17
D. <u>Accounts and Records</u>	
i. It is recommended that the Company comply with the Annual Statement instructions in completing its annual statement filed with this Department.  The Company has complied with this recommendation.	18
E. <u>Loss Adjustment Expenses</u>	
i. It is recommended that the Company establish reserves for its unallocated loss adjustment expenses as required by Section 1303 of the New York Insurance Law.  The Company has complied with this recommendation.	25-26
F. <u>Treatment of Policyholders and Claimants</u>	
i. It is recommended that the Company establish and maintain a complaint log as required by Circular Letter 11(1978).  The Company has complied with this recommendation.	28

## 9. SUMMARY COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Management</u>	
i.    It is recommended that the board members who are unable or unwilling to attend meetings consistently should resign or be replaced.	5
B. <u>Reinsurance</u>	
i    It is recommended that the Company comply with Department Regulation 108 in future statements filed with this Department.	9
ii.   It is recommended that the Company amend its reinsurance contracts to comply with the provisions of Section 1308(a)(2)(A)(I) of the New York Insurance Law.	10
iii.  It is also recommended that the Company include a proper intermediary clause in its reinsurance contracts as required by Regulation No. 98.	10
iv.  It is recommended that the Company comply with Chapter 22 of the National Association of Insurance Commissioners Accounting Practices and Procedures Manual and record its reinsurance transactions accordingly.	11
v.    It is recommended that the Company comply with provisions of Section 1505(d)(2) of the New York Insurance Law prior to entering in to any reinsurance transactions with its affiliate.	16
vi.  It is recommended that the Company exercise greater care in the preparation of its Schedule F in its future filed annual statements.	16
C. <u>Holding Company System</u>	
i.    It is recommended that the Company settle its inter-company balances in a timely manner.	19
ii.  It is recommended that the Company comply with the provisions of Section 1505(d)(3) of the New York Insurance Law.	20
D. <u>Abandoned Property Law</u>	
i.    It is recommended that the Company provide and maintain proper follow-up procedures for abandoned property.	22

<u>ITEM</u>	<u>PAGE NO.</u>
E. <u>Custodian Agreement</u>	
It is recommended that the Company amend its custodian agreement to include the provision as provided in Section 2H herein in order to protect its assets.	22
F. <u>Accounts and Records</u>	
i. It is recommended that the Company value its subsidiary at its statutory surplus as of December 31.	22
ii. It is recommended that the Company comply with Section 1414(g) of the New York Insurance Law and value its securities in accordance with the guidelines established by National Association of Insurance Commissioners.	23
iii. It is recommended that the Company implement monthly reconciliation procedures for all investment information obtained, to ensure that the information being relied upon is accurately reported.	24
iv. It is recommended that the Company do a study to determine the proper amounts to allocate between expenses classified pursuant to Department Regulation 30.	24
G. <u>Section 310 of the New York Insurance Law</u>	
It is recommended in the future that the Company comply with the provisions of Section 310(a)(3) of the New York Insurance Law and provide the examiner with accurate and timely information.	25
H. <u>Federal Income Tax Recoverable Interest Thereon</u>	
It is recommended that the Company be reimbursed by its parent in a timely manner, pursuant to Circular Letter 15(1975).	30
I. <u>Provision for Reinsurance</u>	
It is recommended that the Company maintain the appropriate records to support the letters of credit reported in Schedule F of the annual statement.	31





Appointment No. 21213

STATE OF NEW YORK  
INSURANCE DEPARTMENT

I, NEIL D. LEVIN, Superintendent of Insurance of the State of New York,  
pursuant to the provisions of the Insurance Law, do hereby appoint:

Veronica Duncan-Black

as proper person to examine into the affairs of the

**AXA GLOBAL RISK US INSURANCE COMPANY**

and to make a report to me in writing of the condition of the said

**Company**

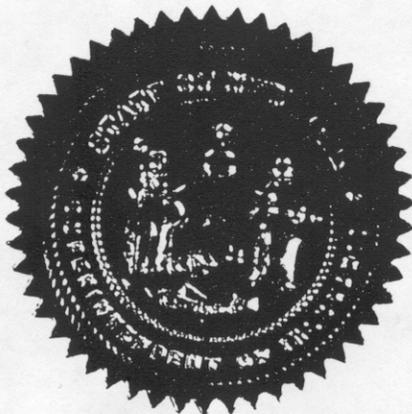
with such other information as he shall deem requisite.

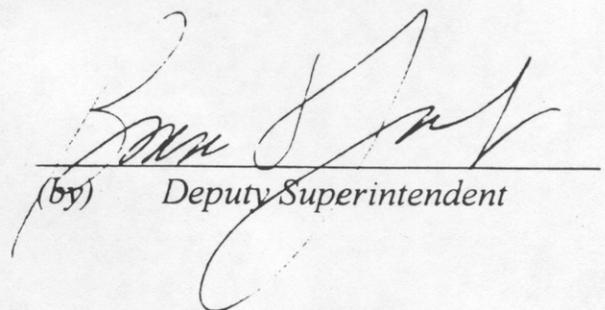
In Witness Whereof, I have hereunto subscribed by the  
name and affixed the official Seal of this Department, at  
the City of New York,

this 26th day of January 1998

NEIL D. LEVIN

Superintendent of Insurance



  
(by) Deputy Superintendent