

REPORT ON EXAMINATION
OF THE
LONG ISLAND INSURANCE COMPANY
AS OF
JUNE 30, 2000

REPORT DATE:

JANUARY 19, 2001

EXAMINER:

ALFRED BLOOMER, JR.

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

January 19, 2001

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

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 21582 dated September 7, 2000, attached hereto, I have made an examination into the condition and affairs of the Long Island Insurance Company as of June 30, 2000 and submit the following report thereon.

The examination was conducted at the Company's home office located at 425 Broadhollow Road, Melville, NY, 11747.

Wherever the designations "the Company" or "LIIC" appear herein without qualification, they should be understood to indicate the Long Island Insurance Company.

Wherever the designation "the Department" appears herein without qualification, it should be understood to mean the New York State Insurance Department.

1. SCOPE OF EXAMINATION

The prior examination was conducted on the organization of Long Island Insurance Company as of March 5, 1999. This examination covered the period March 6, 1999 through June 30, 2000. Where deemed appropriate, transactions subsequent to the examination period were reviewed.

The examination comprised a complete verification of assets and liabilities as of June 30, 2000, a review of income and disbursements deemed necessary to accomplish such verification and utilized, to the extent considered appropriate, work performed by the Company's independent certified 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 the Company
- Management and control
- Corporate records
- Fidelity bonds and other insurance
- Territory and plan of operation
- Growth of the company
- Loss experience
- Reinsurance
- Accounts and records

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

2. DESCRIPTION OF COMPANY

Long Island Insurance Company was incorporated on July 14, 1998. The declaration of intention and charter was approved by the Attorney General of the State of New York and filed with the Department on the same date. The Company's principal office is located at 425 Broadhollow Road, Melville, New York, 11747.

The Company was organized and chartered as a multi-line insurer but is licensed to write automobile insurance only.

A. Management

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 13 nor more than 19 members. As of the examination date the board of directors was comprised of 15 members. The board met two times during each calendar year. During the period under examination the board met five times. The directors as of June 30, 2000 were as follows:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
George Buck Wilton, CT	Self-employed, Computer sales
John Campo Hicksville, NY	Owner, Phoenix Brokerage Limited
Frank Donohue Plainview, NY	Retired
James Gherardi Douglaston Manor, NY	Owner, Dedicated Property Managers

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
J. Stephen Kaufman Oyster Bay, NY	Sr. Vice President and Chief Operating Officer and Secretary, Long Island Insurance Company
Mitchell Kaufman Woodbury, NY	Law Secretary, State of New York Supreme Court
Norman Kelapire Floral Park, NY	Owner, Helen Andrews, Inc.
John E. Koerner Hauppauge, NY	President and Chief Executive Officer, Long Island Insurance Company
Robert Koerner Patchogue, NY	Vice President, Long Island Insurance Company
John Maloney Brightwaters, NY	Vice President and Chief Financial Officer, Long Island Insurance Company
Joseph Michaels Woodcliff Lakes, NJ	Certified Public Accountant, Shapiro & Lieberman
Joseph Morrow Greenwich, CT	Owner, Morrow & Company
Frederick Parola Wantagh, NY	Controller, Nassau County, New York
Donald Radcliff Little Falls, NJ	Owner, Radcliff & Associates, Inc.
Steven Schweber Brookville, NY	Retired

The minutes of all meetings of the board of directors and committees thereof held during the examination period were reviewed. The meetings were well attended with all of the board members attending at least 75% of the meetings.

It is the duty of the board of directors to oversee the operation of an insurance company. Review of the minutes determined that the board of directors were negligent in their fiduciary duties to the

Company's shareholders through lack of direct supervision of the Company's management. This lack of supervision is as follows:

i. Directors' Fees and Officers' Salaries

Article III, Section 3, of the Company's by-laws states, in part:

"The board of directors may from time to time, *by resolution*, authorize the payment of fees and/or other forms of compensation to the directors and/or officers for services as such to the corporation, including, but not limited to, fees for attendance at all meetings of the board or of the executive or other committees, and determine the amount of such fees and compensation and other perquisites." (emphasis added.)

It was noted that the minutes of the board of directors meetings did not reflect any resolution by the members authorizing the payment of any directors' fees. Instead, in the minutes of the executive committee meeting held May 13, 1999, it was noted that "...the Director's fees will be increased to \$800, \$400 for American Agents and \$400 for Long Island Insurance Company."

Members of the board of directors were paid \$800 per meeting to serve on the boards of the Company, its parent company, U.S. Agents Holding Corporation, and an affiliate, American Agents Insurance Company.

The fee was allocated among the three entities as follows:

Long Island Insurance Company	\$400
American Agents Insurance Company	\$400
U.S. Agents Holding Corporation	\$0

The allocation set forth above does not appear to be fair and equitable to the Company, as none of the directors' fees are allocated to the parent company. It is recommended that a portion of the directors' fees be allocated to U.S. Agents Holding Corporation. It is further recommended that the balance of those fees be allocated in accordance with the expense sharing agreement described in Section 2(d) herein, which called for expenses to be allocated between American Agents Insurance Company and the Company on a 90%/10% basis.

It is recommended that the Company comply with its by-laws relative to directors' fees. It is recommended that the Company comply with its expense allocation agreement.

Article IV, Section 4 of the Company's by-laws provided as follows:

"The compensation of the chairman of the board, president, senior vice president, secretary, treasurer, and any other officer, shall be fixed by the board and or the executive committee."

It was noted that the minutes of both the board of directors and executive committee meetings did not reflect any resolution by the members setting the salaries of the officers. It was recommended that the Company comply with its by-laws relative to officers' salaries.

ii. Interested Directors

Article III, Section 11 of the Company's by-laws, entitled "Interested Directors," states in part that:

"No contract or transaction between the corporation and one or more of its directors or officers, or between the corporation and any other corporation, partnership, association, or other organization in which one or more than one of its directors or officers are directors or officers, or have a financial interest, shall be void or voidable solely for this reason . . .if:

i – the material facts as to his or their relationship or interest and as to the contract or transaction are disclosed or are known to the board of directors or the committee, and the board of directors or committee in good faith authorizes the contract or transaction by the affirmative votes or a majority of the disinterested directors, even though the disinterested directors be less than a quorum; or

ii – the material facts as to his or their relationship or interest and as to the contract or transaction are disclosed or are known to the stockholders entitled to vote thereon, and the contract or transaction is specifically approved in good faith by vote of the stockholders; or

iii – the contract or transaction is fair as to the corporation as of the time it is authorized, approved, or ratified, by the board of directors, a committee thereof or the stockholders. Common or interested directors may be counted in determining the presence of a quorum at a meeting of the board of directors, or a committee, which authorizes the contract or transaction.

The board of directors has a responsibility to ensure that the assets of the Company are protected and that even the appearance of fiscal impropriety does not exist. To avoid the appearance of impropriety, the board of directors is required by the Company's by-laws to ensure that the disclosure of any material transactions between the officers and board members and the Company is made.

The Company transacts substantial business with shareholders of the Company. Management could not provide proof that competitive bids were solicited. To avoid the appearance of impropriety, the board should establish a policy whereas the officers of the Company report annually to the board, in writing, listing all contracts or transactions with shareholders of the Company exceeding a specified dollar limit.

In the Company's December 31, 1999 filed annual statement, the Company indicated that it had in place a conflict of interest policy. The Company could not produce a copy of the aforementioned policy when requested on examination.

It is recommended that the company comply with the requirements of the Department and develop a conflict of interest policy. It is further recommended that the Company exhibit greater care when completing the general interrogatories.

iii. Committees of the Board of Directors

Article III, Section 6, of the Company's by-laws entitled, "Other committees" authorizes the board of directors to "provide for the formation of any other committee it deems necessary." The Company formed, and has in operation, four committees: the executive committee; the claims committee; the underwriting and forms committee; and the finance committee. The executive committee is authorized by

Article III, Section 5, of the Company's by-laws to act on behalf of the board of directors. The formation of all other committees requires approval of either the board of directors or the executive committee acting in its stead. Review of the minutes of the board of directors and the executive committee did not contain any action indicating formal approval of the other three committees. On examination, the Company management acknowledged that neither the board of directors nor the executive committee had officially approved the formation of the other three committees. Instead, members of these committees were appointed by the president of the Company.

It is recommended that the board of directors determine which committees are necessary and pass the requisite authorization for the approved committee's formation.

iv. Approval of Investments

Section 1411(a) of the New York Insurance Law requires approval of any loan or investment of an insurer "by its board or directors or a committee thereof". In response to General Interrogatory 25 of its filed Annual Statement dated December 31, 1999, the Company indicated in the affirmative that the purchase or sale of all investments of the Company had been passed upon by either the board of directors or a subordinate committee thereof. There is no record in the minutes of either the board or its committees that these investment transactions have been approved.

It is recommended that the Company comply with Section 1411(a) of the New York Insurance Law.

The following is a listing of the principal officers of the Company and their respective titles, as of June 30, 2000:

<u>Name</u>	<u>Title</u>
John E. Koerner	President and Chief Executive Officer
J. Steven Kaufman	Senior Vice-President, Chief Operating Officer and Secretary
Robert Koerner	Vice-President
John Maloney	Vice-President and Chief Financial Officer

B. Territory and Plan of Operation

As of the examination date, the Company was authorized solely in New York State 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>
13	Personal injury liability
14	Property damage liability
19	Motor vehicle and aircraft physical damage

Based upon the kinds of insurance 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 \$700,000.

C. Reinsurance

Pursuant to the terms of a quota share reinsurance agreement, the Company cedes, through a quota share treaty, 80% of its loss and allocated loss adjustment expenses. The maximum cession is \$480,000.

As of June 30, 2000, the Company had the following excess of loss reinsurance program in place:

<u>Type</u>	<u>Cession</u>
1 st Layer	\$ 850,000 excess of \$ 150,000 per occurrence
2 nd Layer	\$1,000,000 excess of \$1,000,000 per occurrence

The Company is permitted one automatic reinstatement. All reinsurance is with authorized companies.

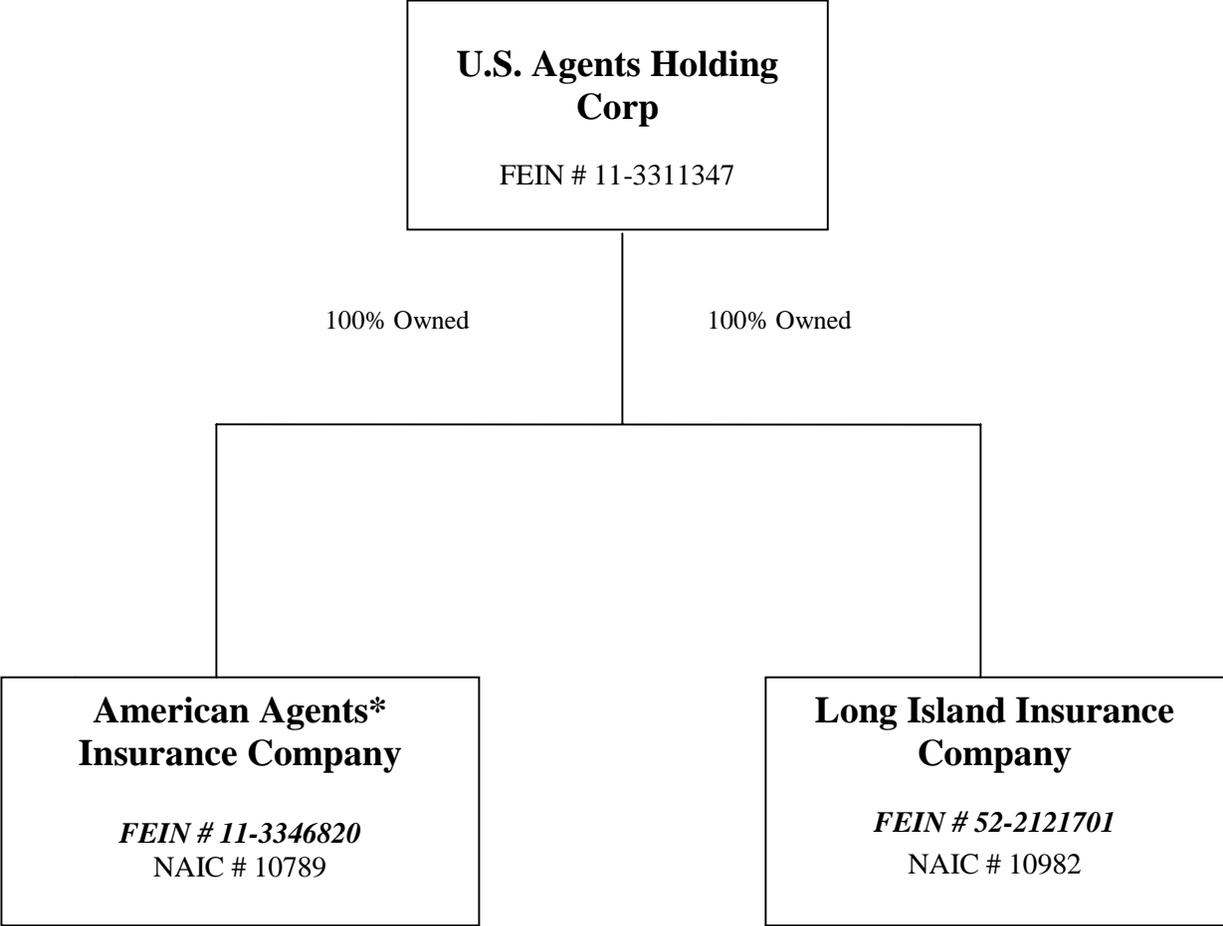
Chapter 22 of the NAIC'S Property and Casualty Accounting Practices and Procedures Manual requires that reinsurance agreements transfer both underwriting and loss risk. Management could not provide any documentation that indicate that its reinsurance agreements provided elements of both underwriting and timing risk.

It is recommended that the Company maintain documentation which demonstrates that its reinsurance agreements transfer both underwriting and timing risk.

Subsequent to the examination date, the Company's quota share and excess of loss treaties have been cancelled effective December 31, 2000.

D. Holding Company System

As of June 30, 2000, the Company was a wholly owned subsidiary of U.S. Agents Holding Corporation. The Company made all the requisite filings pursuant to Article 15 of the New York Insurance Law, timely. The following is an organizational chart as of June 30, 2000:



*Subsequent to the examination date, American Agents Insurance Company voluntarily agreed to be rehabilitated by the Liquidation Bureau of this Department.

The Company maintains two inter-company agreements: a tax sharing agreement and an expense sharing agreement. Both agreements were non-disapproved by this Department upon organization of the Company.

The Company's expense sharing agreement specifies in Sections 8 & 9 that, "the amount due will be determined by a pro rata calculation of premium writings, employee head count, square footage of floor space, and other prorations, in a manner consistent with the provisions of New York Insurance Department Regulation 30 (11NYCRR 105-109), using management's best judgement in order to equitably distribute between them their common operating expenses."

Section 106.2 of Regulation 30 specifies how each item of joint expenses are to be allocated. The Company based the allocation of all of its joint expenses on the basis of direct premiums written. However, Section 109.3(d) of Regulation 30 states that "Premiums shall be used as a basis of allocation except when specifically noted as a permissible basis or when the expense is incurred as a percentage of premiums...or when the expenses are logically allocable on the basis of premiums."

It is recommended that the Company allocate its expenses in a manner consistent with the methodologies listed in Regulation 30.

E. Significant Operating Ratios

The following ratios have been computed as of June 30, 2000, based upon the results of this examination:

Net Premiums Written in 2000 to Surplus as regards policy holders	.08:1
Liabilities to Liquid Assets (cash and invested assets less investment in affiliates)	15.4%
Premiums in course of collection to Surplus as regards policyholders	15.2%

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

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

	<u>Amounts</u>	<u>Ratios</u>
Losses and loss adjustment expenses incurred	\$163,528	108.3%
Other underwriting expenses incurred	216,186	143.2%
Net operating loss	<u>(228,699)</u>	<u>(151.4%)</u>
Premiums earned	<u>\$151,014</u>	<u>100.0%</u>

F. Abandoned Property Law

Section 1316 of the New York State Abandoned Property Law requires that certain unclaimed insurance proceeds be reported to the State of New York by April 1 of each year. This section requires that a report be submitted to the New York State Controller's Office whether or not the Company holds any unclaimed insurance proceeds. The Company has not filed such report.

It is recommended that the Company comply with Section 1316 of the New York Abandoned Property Law and file the required report by April 1, of each year.

G. Accounts and Records

i. Custody of Assets

As of the examination date, the Company maintained its short-term investments with a brokerage firm. It is the policy of this Department that only banks and trust companies licensed in the State of New York act as authorized custodians of the Company's invested assets.

Subsequent to the examination date the Company complied with Department policy and moved the assets into accounts of an approved institution. The custodial agreement contained the necessary safeguards and provisions indicative of sound business practices.

ii. Agents' Balances and Uncollected Premiums

Section 1301(a)(11) in its definition of admitted assets, states in part;

"Premiums in course of collection, other than life insurance premiums, not more than ninety days past due, less commissions payable thereon."

The Company failed to list the balances over 90 days past due of \$7,705, as a non-admitted asset. Since the difference did not materially affect the Company's balance sheet, no examination change was made.

It is recommended that the Company comply with Section 1301(a)(11) of the New York Insurance Law and list all uncollected premium balances over 90 days past due as not-admitted assets on its filed Annual Statement.

iii. Internal Controls

In the course of the examination, the Company's internal controls were reviewed. Through this review, it was determined that the Company did not have adequate control of the data contained in the Company's electronic repository. The data is retained in a database owned and maintained by the Company's third party administrator (TPA.) The TPA is MYND, which is responsible for the issuance of policies and the collection of premiums as well as the maintenance of the Company's databases.

To determine the accuracy of the Company's reported unearned premium reserve and losses and loss adjustment expenses, the examiners requested a file layout for these databases. The file layout is a listing of fields contained in each database. The file layout is used, on examination, to determine which fields will be requested in electronic format to recalculate the items reported in the quarterly statements. The aforementioned, is routinely provided by regulated insurers. MYND refused to provide the examiners a file layout without a signed non-disclosure statement.

When the file layout was requested from the Company, they could not provide it. Further, when specific files were requested, the Company was unable to provide them in a specific format. Although the Company had access to the data they were unable to request the data directly from the database. No one on the Company's staff had been trained to access the data contained in these databases. The inability on the part of the Company to access their data through MYND's system is a serious internal control deficiency.

Further, data reconciled from the databases to the annual statement was not always accurate. The amount calculated on examination for the unearned premium reserve differed from that reported to the Company by MYND. The Company was unable to reconcile its paid losses as reported by MYND to the

amounts recorded in the Company's check register. Although the amounts are immaterial, the fact that the Company cannot access the data to perform its own analysis is another internal control deficiency.

It is recommended that the Company train its personnel to produce reports from the data maintained in MYND's database. It is further recommended that the Company require that MYND provide them with a file layout of each database.

It is recommended that the Company test the reports provided by MYND for accuracy and statutory compliance.

It is recommended that the Company perform internal audits of all third party administrators.

2. **FINANCIAL STATEMENTS**

A. **Balance Sheet**

The following shows the assets, liabilities and surplus as regards policyholders as determined by this examination and is the same as that reported by the Company in its filed June 30, 2000 quarterly statement:

<u>Assets</u>	Ledger <u>Assets</u>	Non-Ledger <u>Assets</u>	Net Admitted <u>Assets</u>
Bonds	\$505,726		\$505,726
Cash	1,830,706		1,830,706
Agents' balances or uncollected premiums	26,128		26,128
Interest, dividends and real estate income due and accrued		13,151	13,151
Receivable from parent, subsidiaries and affiliates	238		238
	<hr/>	<hr/>	<hr/>
Total Assets	<u>\$2,362,798</u>	<u>\$13,151</u>	<u>\$2,375,949</u>

Liabilities, Surplus and Other Funds

	<u>Examination</u>
Losses	\$55,905
Loss adjustment expenses	19,345
Other expenses	123,969
Taxes, licenses and fees	12,577
Unearned premiums	98,898
Funds held by company under reinsurance treaties	26,202
Payable to parent, subsidiaries and affiliates	<u>23,552</u>
Total liabilities	<u>\$360,448</u>
Common capital stock	\$700,000
Gross paid in and contributed surplus	1,406,975
Unassigned funds	<u>(91,474)</u>
Surplus as regards policyholders	<u>\$2,015,501</u>
Total liabilities, surplus and other funds	<u>\$2,375,949</u>

Note: The Internal Revenue Service has not audited the Company's Federal income tax returns through tax year 1999. All material adjustments, if any, made subsequent to the date of examination and arising from said audits, are reflected in the financial statements included in this report. Except for any impact which might result from the examination changes contained in this report, the examiner is unaware of any potential exposure of the Company to any further tax assessment and no liability has been established herein relative to such contingency.

B. Underwriting and Investment Exhibit

Surplus as regards policyholders decreased \$91,474 during the sixteen-month examination period, March 6, 1999 through June 30, 2000 detailed as follows:

Statement of Income

Underwriting Income

Premiums earned		\$151,014
Deductions:		
Losses incurred	\$118,870	
Loss adjustment expenses incurred	44,657	
Other underwriting expenses incurred	216,186	
	<hr/>	
Total underwriting deductions		379,713
		<hr/>
Net underwriting loss		\$(228,699)

Investment Income

Net investment income earned	\$128,562	
	<hr/>	
Net investment gain		128,562

Other Income

Net gain or (loss) from agents' or premium balances charged	\$(71)	
Finance and service charges not included in premiums	8,734	
	<hr/>	
Total other income		8,663
		<hr/>
Net income after dividends to policyholders but before federal and foreign income taxes		\$(91,474)
		<hr/>
Federal and foreign income tax incurred		0
		<hr/>
Net loss		<u>\$(91,474)</u>

Capital and Surplus Account

Surplus as regards policyholders per report on examination, as of March 6, 1999		\$2,106,975
	Loss in <u>Surplus</u>	
Net Loss	<u>\$(91,474)</u>	
Total loss	<u>\$(91,474)</u>	
Net decrease in surplus		<u>(91,474)</u>
Surplus as regards policyholders per report on examination, as of June 30, 2000		<u>\$2,015,501</u>

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liabilities of \$55,905 and \$19,345 respectively, are the same as the amount 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.

A three month development of the Company's loss and loss adjustment expense reserves indicated that such reserves were deficient by \$145,765 on a gross basis, or 52% of the gross reserves reported by the Company as of the examination date. On a net basis, the deficiency was \$39,210, which is 52% of the reserves reported by the Company in its June 30, 2000, filed quarterly statement. While this deficiency was not material relative to the surplus reported by the Company in its filed quarterly statement, it is

material relative to the liabilities reported.

A review of these loss reserves indicated the Company engaged in step-reserving its losses. In this procedure, the Company establishes a basic reserve upon reporting the claim and then, increases the reserve only when a claim for payment is approved above the case reserve.

Section 1303 of the New York Insurance Law requires an insurer to "...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 the statement..."

It is recommended that the Company comply with Section 1303 of the New York Insurance Law and establish adequate loss and loss adjustment expense reserves to settle its claims to the ultimate loss.

5. MARKET CONDUCT ACTIVITIES

In the course of this examination, a review was made of the manner in which the Company conducts its business practices 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:

- A. Sales and advertising materials
- B. Underwriting
- C. Rating
- D. Claims and complaints handling

During the period under examination, the examination revealed one complaint from the Department for a claim on a loss during the period under examination. The Company replied to the Departments' letter indicating that the claim had been paid and that the check was lost. However, the check was voided by the Company and another check had not been issued.

The Company's response to the Department's complaint letter did not reflect the events as they occurred. It is essential to the regulatory process that companies respond to consumer complaints in an accurate and forthright manner.

It is recommended that the Company ensure that all responses to department complaint letters accurately reflect the resolution of the claim as it occurred.

6. COMPLIANCE WITH PRIOR REPORT

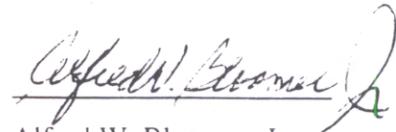
There were no comments or recommendations in the Report on Organization.

7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Management</u>	
i. It is recommended that a portion of the directors' fees be allocated to U.S. Agents Holding Corporation.	5
ii. It is further recommended that the balance of those fees be allocated in accordance with the expense sharing agreement described in Section 2(d) herein, which called for expenses to be allocated between American Agents Insurance Company and the Company on a 90%/10% basis.	6
iii. It is recommended that the Company comply with its by-laws relative to directors' fees. It is also recommended that the Company comply with its expense allocation agreement.	6
iv. It is recommended that the Company comply with its by-laws relative to officer's salaries.	6
v. It is recommended that the company comply with the requirements of the Department and develop a conflict of interest policy. It is further recommended that the Company exhibit greater care when completing the general interrogatories.	7
vi. It is recommended that the board of directors determine which committees are necessary and pass the requisite authorization for the approved committee's formation.	8
vii. It is recommended that the Company comply with Section 1411(a) of the New York Insurance Law.	8
B. <u>Reinsurance</u>	
It is recommended that the Company maintain documentation which demonstrates that its reinsurance agreements transfer both underwriting and timing risk.	10
Subsequent to the examination date, the Company's quota share and excess of loss treaties have been cancelled.	10

<u>ITEM</u>	<u>PAGE NO.</u>
C. <u>Holding Company</u>	
i. Subsequent to the examination date, American Agents Insurance Company voluntarily agreed to be rehabilitated by the Liquidation Bureau of this Department.	11
ii. It is recommended that the Company allocate its expenses in a manner consistent with the methodologies listed in Regulation 30.	12
D. <u>Abandoned Property</u>	
It is recommended that the Company comply with Section 1316 of the Abandoned Property Law and file the required report by April 1, of each year.	13
E. <u>Accounts and Records</u>	
i. <u>Agents' Balances and Uncollected Premiums</u>	
It is recommended that the Company comply with Section 1301(a)(11) of the New York Insurance Law and list uncollected premium balances over 90 days past due as not-admitted assets on its filed Annual Statement .	14
ii. <u>Internal Controls</u>	
(a) It is recommended that the Company train its personnel to produce reports from the data maintained in MYND's database. It is further recommended that the Company require that MYND provide them with a file layout of each database.	16
(b) It is recommended that the Company test the reports provided by MYND for accuracy and statutory compliance.	16
(c) It is recommended that the Company perform internal audits of all third party administrators.	16
F. <u>Losses and Loss Adjustment Expenses</u>	
It is recommended that the Company comply with Section 1303 of the New York Insurance Law and establish adequate loss and loss adjustment expense reserves to settle its claims to the ultimate loss.	21
G. <u>Market Conduct Activities</u>	
It is recommended that the Company ensure that all responses to department complaint letters accurately reflect the resolution of the claim as it occurred.	22

Respectfully submitted.

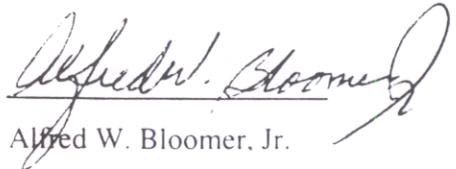


Alfred W. Bloomer, Jr.

Senior Insurance Examiner

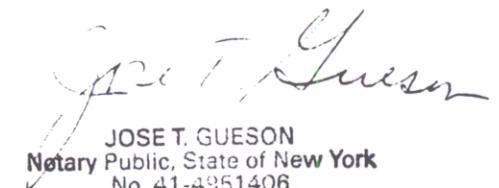
STATE OF NEW YORK)
)
)SS.
)
)
COUNTY OF NEW YORK)

Alfred W. Bloomer, Jr., being duly sworn, deposes and says that the foregoing report submitted by him is true to the best of his knowledge and belief.


Alfred W. Bloomer, Jr.

Subscribed and sworn to before me

This 26th day of January 2001.


JOSE T. GUESON
Notary Public, State of New York
No. 41-4951406
Qualified in Queens County
Commission Expires May 22, 192001

STATE OF NEW YORK
INSURANCE DEPARTMENT

I, GREGORY V. SERIO, *First Deputy Superintendent of Insurance of the State of New York*, pursuant to the provisions of the Insurance Law, do hereby appoint:

Alfred Bloomer

as proper person to examine into the affairs of the

Long Island Insurance Company

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

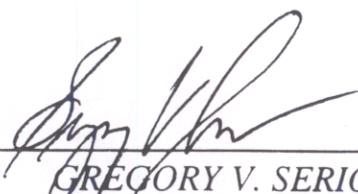
Company

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 7th day of September, 2000





GREGORY V. SERIO
First Deputy Superintendent of Insurance