

REPORT ON EXAMINATION

OF THE

CASTLEPOINT INSURANCE COMPANY

AS OF

DECEMBER 31, 2006

DATE OF REPORT

JULY 13, 2007

EXAMINER

DILBRINA BELGRAVE

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

July 13, 2007

Honorable Eric R. Dinallo
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 22648 dated May 10, 2007 attached hereto, I have made an examination into the condition and affairs of CastlePoint Insurance Company as of December 31, 2006, and submit the following report thereon.

Wherever the designations "the Company" appears herein without qualification, they should be understood to indicate CastlePoint Insurance Company.

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

The examination was conducted at the Company's home office located at 120 Broadway, 30th Floor, New York, NY 10271.

1. SCOPE OF EXAMINATION

The previous examination was conducted as of December 31, 2001. This examination covered the 5-year period from January 1, 2002 through December 31, 2006. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

The examination comprised a verification of assets and liabilities as of December 31, 2006. The examination included a review of income, disbursements and company records deemed necessary to accomplish such analysis or verification. 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 (“NAIC”):

- History of Company
- Management and control
- Corporate records
- Fidelity bond and other insurance
- Territory and plan of operation
- Accounts and records
- Financial statements

A review was also 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 departures from laws, regulations or rules, or which are deemed to require explanation or description.

2. DESCRIPTION OF COMPANY

The Company was incorporated under the laws of the State of New York on August 28, 1922, as a direct writing co-operative fire insurance company under the name of the Surety Co-operative Fire Insurance Company. During the examination period Christiania Insurance Company (“Christiania”) purchased the Company (last known as Surety Reinsurance Company) and transferred Surety Reinsurance Company’s entire book of business to itself. On January 1, 1997, Folksamerica Reinsurance Company (“Folksamerica”) purchased Christiania Insurance Company (“Christiania”). The entire book of Christiania’s business, including that of Surety Reinsurance Company was transferred to Folksamerica under a transfer and assumption agreement.

On May 29, 1998, Surety Reinsurance Company was purchased by Lawrenceville Holdings, Inc. (“LHI”), a New Jersey corporation ultimately controlled by Medical Inter-Insurance Exchange (“MIIC”) of New Jersey. LHI owns 100% of the outstanding stock of the Company. The Company was then granted permission to change its name to MIIX Insurance Company of New York.

Upon acquisition, the Company had capital paid-in of \$3,000,000 consisting of 75,000 shares of common stock at \$40 par value per share. On April 20, 1999, the Company received permission under Section 1206 of the New York Insurance Law to increase its paid-in capital to \$4,000,000 consisting of 100,000 shares of common stock at \$40 per share. All authorized shares are issued and outstanding.

On September 28, 2004, the New Jersey Department of Banking and Insurance placed MIIX Insurance Company (intermediate parent of LHI) into rehabilitation. On that date, all of the officers and directors of MIIX Insurance Company and MIIC resigned their positions.

On June 29, 2006, Tower Group, Inc. (“TGI”), a Delaware corporation ultimately controlled by Michael Lee, purchased from LHI all of the issued and outstanding stock of MIIX Insurance Company of New York. The Company was then granted permission to change its name to Tower Indemnity Insurance Company of New York.

On December 4, 2006, CastlePoint Management Corp., a Delaware Corporation (“CPM”) purchased from TGI all of the issued and outstanding capital stock of Tower Indemnity Insurance Company of New York. The Company was then granted permission to change its name to CastlePoint Insurance Company.

Gross paid in and contributed surplus is \$2,718,028. As a result of the Company’s purchase, gross paid in and contributed surplus increased by \$198,909 during the examination period as follows:

<u>Year</u>	<u>Description</u>		<u>Amount</u>
2001	Beginning gross paid in and contributed surplus		\$2,519,119
2006	Surplus contribution	\$201,798	
2006	Surplus Adjustment	<u>(2,889)</u>	
	Total surplus contributions		<u>198,909</u>
2006	Ending gross paid in and contributed surplus		<u>\$2,718,028</u>

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 thirteen nor more than twenty-one members. The board meets annually. At December 31, 2006, the board of directors was comprised of the following thirteen members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Joseph P. Beitz Orchard Park, NY	President, CastlePoint Reinsurance Company, Ltd.
Roger A. Brown Wilmington, DE	Assistant Secretary, CastlePoint Holdings, Ltd.
Jennifer L. Caulder Knoxville, TN	Vice President, CastlePoint Reinsurance Company, Ltd.
Gregory T. Doyle Sandy Hook, CT	President, CastlePoint Holdings, Ltd.
James J. Dulligan Massapequa, NY	Vice President & Controller, CastlePoint Management Corp.
Robert W. Hedges Montville, NJ	Senior Vice President, CastlePoint Management Corp.
David P. Lawler Paget, Bermuda	Vice President & Controller, CastlePoint Reinsurance Company, Ltd.
Michael H. Lee New York, NY	President & Chief Executive Officer, CastlePoint Holdings, Ltd.
James W. Parylak Yardley, PA	Vice President & Chief Information Officer, CastlePoint Management Corp.
Edward Y. Pu Freehold, NJ	Assistant Vice President & Assistant Controller, CastlePoint Management Corp.
Josephine D. Sainz-DeViteri Dobbs Ferry, NY	Vice President, CastlePoint Management Corp.
Richard S. Weidman Bethlehem, PA	Vice President & Secretary, CastlePoint Management Corp.
Joel S. Weiner New York, NY	Senior Vice President & Chief Financial Officer, CastlePoint Holdings, Ltd.

A review of the minutes of the board of directors' meetings held during the first two years of the examination period indicated that the meetings were generally well attended and each board member has an acceptable record of attendance. However, on September 28, 2004, all of the Company's officers and directors resigned their positions. The Company's board of directors was reconstituted on December 18, 2006. The first board of directors' meeting was held on January 4, 2007. The attendance was not mentioned in the board of directors' minutes.

As of December 31, 2006, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Gregory T. Doyle	President
James J. Dulligan	Treasurer
Roger A. Brown	Secretary

B. Territory and Plan of Operation

As of December 31, 2006, the Company was licensed to write business in New York.

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>
4	Fire
5	Miscellaneous property damage
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	Worker's compensation and employer's liability
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine

During the examination period, the Company did not write any business. Based on 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 \$4,000,000.

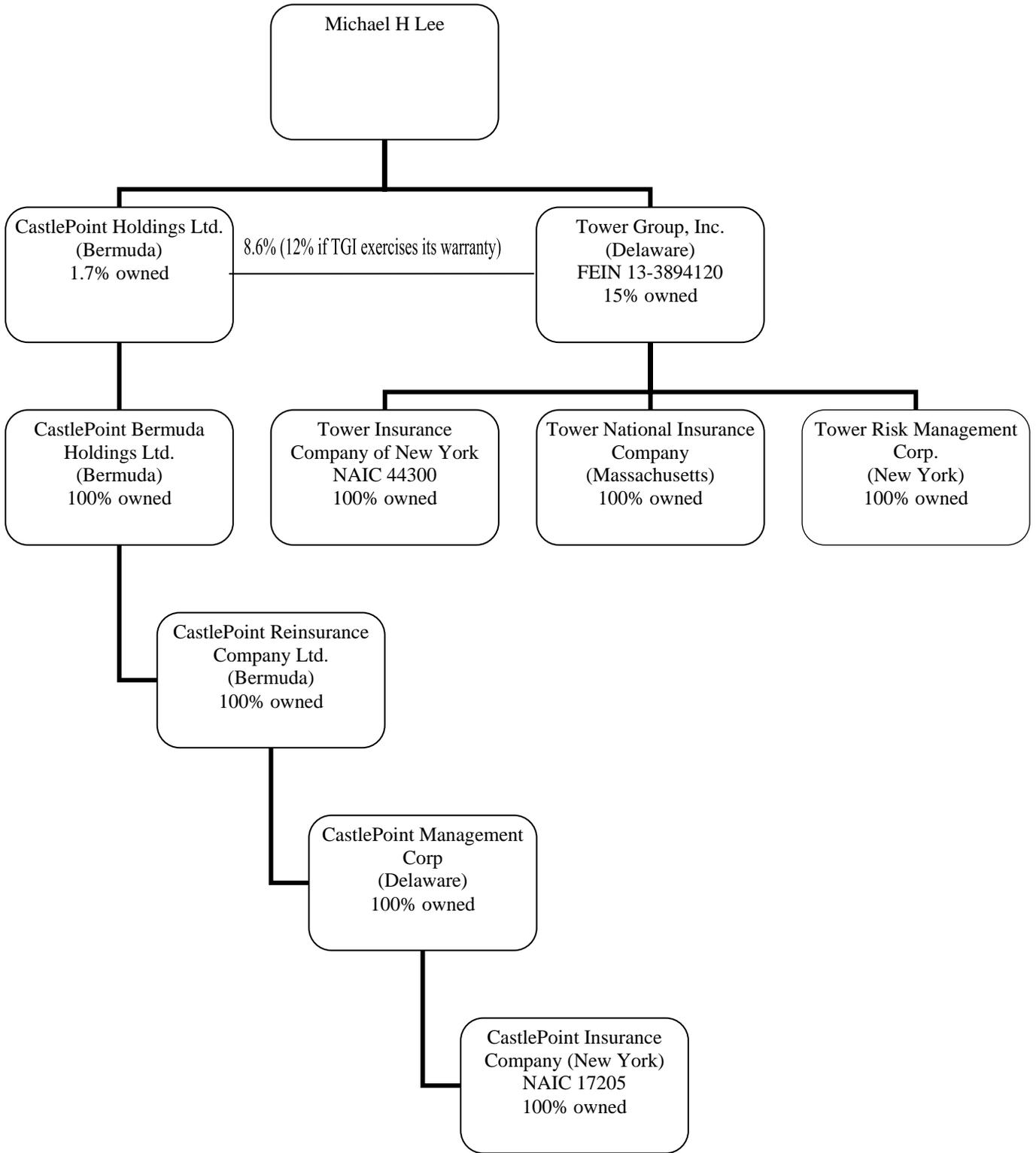
C. Reinsurance

As of December 31, 2006, the Company did not have a reinsurance program in place.

D. Holding Company System

The Company is wholly owned by CastlePoint Management Company Inc., a Delaware company, which is wholly owned by CastlePoint Reinsurance Company, Ltd., a Bermuda company, which is owned by CastlePoint Bermuda Holdings Ltd. which is wholly owned by CastlePoint Holdings, Ltd., the ultimate parent.

The following is a chart of the holding company system at December 31, 2006:



At December 31, 2006, the Company was party to the following informal arrangements with other members of its holding company system:

Informal Tax Reimbursement Arrangements

The Company had informal tax reimbursement arrangements with both TGI (an affiliate) and CastlePoint Management (“CPM”) (its parent) in which TGI and CPM paid the estimated taxes for the Company and the Company would reimburse TGI and CPM at a later date.

It is recommended that the Company finalize a written tax allocation agreement with its parent or any member in its holding company system and file it with the Department pursuant to the provisions of Department Circular Letter 33 (1979).

Informal Service Arrangement

The Company and CPM were party to an informal business services arrangement in which CPM provided the office space, general administrative and business services to the Company.

It is recommended that the Company draft and file a written business services agreement with the Department pursuant to Section 1505(d)(3) of the New York Insurance Law.

G. Accounts and Records

It was noted that when completing the Company’s Annual Statement Blank, the Company failed to classify certain balance sheets items in accordance with the NAIC Annual Statement Instructions. The examiners noted this condition relative to items such as cash equivalents and other expenses.

The Company reported its money market fund in Schedule E Part 2. However, according to the NAIC Annual Statement Instructions, shares of all mutual funds should be reported as common stock, except exempt money market funds and class one money market funds which are reported in Schedule D or Schedule DA if short-term.

The company reported on page 3 of its annual statement a liability classified as “Other expenses” in the amount of \$66,553. This amount was comprised of a payable to Tower Group Inc. for settlement of federal income taxes as of December 1, 2006 and the settlement of inter-company custody fees. However, according to the NAIC Annual Statement Instructions, this account should be reported as a “Payable to parent, subsidiaries and affiliates.”

It is recommended that the Company adhere to the NAIC Annual Statement Instructions by classifying balance sheet items under their proper line item and completing all required schedules.

3. FINANCIAL STATEMENTS

A Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2006 as determined by this examination and as reported by the Company:

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$2,445,000	\$0	\$2,445,000
Cash, cash equivalents and short-term investments	6,045,606	0	6,045,606
Miscellaneous Assets	<u>2,653</u>	<u>0</u>	<u>2,653</u>
Total assets	<u>\$8,493,259</u>	<u>\$ 0</u>	<u>\$8,493,259</u>

Liabilities, Surplus and Other Funds

Liabilities

Other expenses (excluding taxes, licenses and fees)	\$ 66,553
Current federal and foreign income taxes	<u>1,929</u>
Total liabilities	\$ 68,482

Surplus and Other Funds

Common capital stock	\$4,000,000	
Gross paid in and contributed surplus	2,718,028	
Unassigned funds (surplus)	<u>1,706,749</u>	
Surplus as regards policyholders		<u>8,424,777</u>
Total liabilities, surplus and other funds		<u>\$8,493,259</u>

NOTE: The Company indicated that the Internal Revenue Service has not performed an audit of the Company's federal income tax returns for any year covered by this examination. With the exception of any impact that might be caused from any examination changes contained in this report, the examiner is unaware of any potential exposure of the Company to any further tax assessments and no liability has been established herein relative to such contingency.

B. Underwriting and Investment Exhibit

Surplus as regards policyholders increased \$1,099,200 during the five-year examination period January 1, 2002 through December 31, 2006, detailed as follows:

Statement of Income

Underwriting Income

Premiums earned		\$	0
Deductions:			
Other underwriting expenses incurred		\$	<u>129,600</u>
Total underwriting deductions			<u>129,600</u>
Net underwriting gain or (loss)			\$(129,600)

Investment Income

Net investment income earned		\$ <u>1,439,344</u>	
Net investment gain or (loss)			<u>1,439,344</u>
Net income before dividends to policyholders and before federal and foreign income taxes			\$1,309,744
Federal and foreign income taxes incurred			<u>345,382</u>
Net income			<u>\$ 964,362</u>

Capital and Surplus Account

Surplus as regards policyholders per report on examination as of December 31, 2001			\$7,325,577
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income	\$ 964,362		
Change in nonadmitted assets		\$ 66,960	
Surplus adjustments paid in	<u>201,798</u>	_____	
Total gains and losses	<u>\$1,166,160</u>	<u>\$ 66,960</u>	
Net increase (decrease) in surplus			<u>\$1,099,200</u>
Surplus as regards policyholders per report on examination as of December 31, 2006			<u>\$8,424,777</u>

4. SUBSEQUENT EVENT

On January 16, 2007, the Company submitted to this Department for our non-disapproval various pooling agreements between itself and Tower Insurance Company of New York (“TICNY”). On February 8, 2007, the pooling agreements were disapproved because the Company was not licensed for the same lines of business as TICNY.

On February 28, 2007, the Company submitted a request to amend its license to add the lines of business it needed so that it would be licensed for the same lines of business as TICNY. The Company was advised that its reported surplus as regards policyholders as of December 31, 2006 was insufficient to add those lines by approximately \$1 million. On March 19, 2007, the Company received a capital contribution from its parent CastlePoint Management Corporation in the amount of \$80,422,065 and the license amendment was subsequently approved.

The Company subsequently withdrew its request to enter into the pooling agreements with TICNY.

5. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

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

<u>ITEM</u>	<u>PAGE NO.</u>
<p>A. <u>Board of Directors</u></p> <p>It is recommended that the Company elect another board member that resides within New York State in accordance with Section 1201(a)(5)(b)(vi) of the New York Insurance Law.</p> <p>The Company has complied with this recommendation.</p>	<p>5</p>
<p>B. <u>Accounts and Records</u></p> <p>It is recommended that management update the signatory information for its cash accounts.</p> <p>As of this examination, this recommendation was not applicable.</p>	<p>9</p>

6. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>		<u>PAGE NO.</u>
A.	<u>Holding Company System</u>	
i.	It is recommended that the Company finalize a written tax allocation agreement with its parent or any member in its holding company system and file it with the Department pursuant to Department Circular Letter No 33 (1979).	8
ii.	It is recommended that the Company draft and file a written business service agreement with the Department pursuant to Section 1505 of the New York Insurance Law.	8
B.	<u>Accounts and Records</u>	
	It is recommended that the Company adhere to the NAIC Annual Statement Instructions by classifying balance sheet items under their proper line item and completing all required schedules.	9

Respectfully submitted,

/S/
Dilbrina Belgrave
Senior Insurance Examiner

STATE OF NEW YORK)
)SS:
)
COUNTY OF NEW YORK)

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

/S/
Dilbrina Belgrave

Subscribed and sworn to before me

this _____ day of _____, 2007.

Appointment No. 22648

**STATE OF NEW YORK
INSURANCE DEPARTMENT**

*I, Eric R. Dinallo, Superintendent of Insurance of the State of New York,
pursuant to the provisions of the Insurance Law, do hereby appoint:*

Dilbrina Belgrave

as proper person to examine into the affairs of the

CASTLEPOINT INSURANCE COMPANY

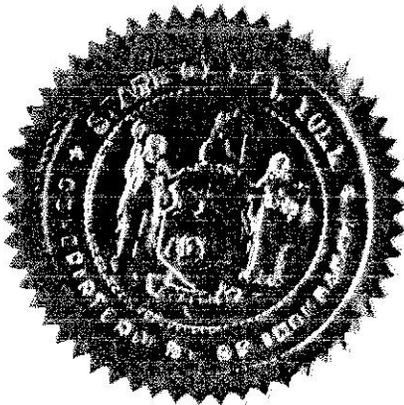
and to make a report to me in writing of the condition of the said

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 10th day of May, 2007



A handwritten signature in black ink, appearing to read "Eric R. Dinallo", written over a horizontal line.

ERIC R. DINALLO
Superintendent of Insurance