

REPORT ON EXAMINATION
OF THE
RECOR INSURANCE COMPANY INC.
AS OF
DECEMBER 31, 1999

DATE OF REPORT

JANUARY 5, 2001

EXAMINER

BARRINGTON SCOTT

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

January 10, 2001

Honorable Neil D. Levin
Superintendent of Insurance
Albany, NY 12257

Sir:

Pursuant to instructions contained in Appointment Number 21507, dated March 3, 2000, attached hereto, I have made an examination into the condition and affairs of the ReCor Insurance Company Inc. as of December 31, 1999, and submit the following report thereon.

Where the designations "Company", or "ReCor" appear herein without qualification, they should be understood to indicate the " ReCor Insurance Company Inc."

1. SCOPE OF EXAMINATION

The prior examination was conducted as of December 31, 1993. This examination covered the six year period from January 1, 1994 through December 31, 1999 and 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. A concurrent examination was made of The Insurance Corporation of New York, the parent corporation of ReCor. The examination 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 the Company
- Management and control
- Corporate records
- Fidelity bonds and other insurance
- Territory and plan of operation
- Market conduct activities
- Growth of the Company
- Business in force by states
- Reinsurance
- Accounts and records
- Financial statements

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

This examination was conducted at the home office of the parent Company, located at 1 Canterbury Green, Stamford, Connecticut, 06901.

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 as a stock insurance company under the laws of the State of New York on June 7, 1977, as United Reinsurance Corporation of New York (“United”), with a paid in capital of \$2,500,000 consisting of 2,500 shares common stock with a par value of \$1,000 per share. The Company was licensed on October 20, 1977 and commenced business on November 1, 1977.

On November 12, 1991 The Reinsurance Corporation of New York (“RECO”) submitted an application for acquisition of control of United pursuant to the provisions of Section 1506 of the New York Insurance Law. RECO entered into stock purchase agreements to acquire 1,875 shares representing 75% of United’s stock for \$16,244,166. This application was approved by the Department on December 26, 1991.

On November 12, 1991, the Company also sought the Department’s approval to redeem 1,700 shares of its common stock for \$11,000,000 and retire such stock pursuant to the provisions of Section 1411(d) of the New York Insurance Law. The Department granted its approval for United to redeem 1,700 shares of common stock and retire such stock on January 29, 1992.

As of December 31, 1993, the capital structure of the Company consisted of 800 shares of authorized, issued and outstanding \$3,125 par value per share common capital stock resulting in paid in capital of \$2,500,000.

On December 13, 1995, the Company became a wholly-owned subsidiary of RECO. Effective July 1, 1996, RECO's name was changed to The Insurance Corporation of New York ("INSCORP"). As of December 31, 1999, Chartwell Reinsurance Company owned all outstanding shares of RECO. Prior to December 13, 1995, Piedmont Management Company, Inc. ("Piedmont") owned all outstanding shares of RECO.

On October 25, 1999, the New York State Insurance Department approved the acquisition and control of INSCORP and ReCor by Trenwick Group Inc. The application provided that Chartwell Re Holding Corporation would merge with, and into, Trenwick, with Trenwick as the surviving corporation. The merger was completed on October 27, 1999.

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 thirteen nor more than twenty-one members. The members of the board of directors as of December 31, 1999 were as follows:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Steven Jay Bensinger New York, NY	Executive Vice President, Trenwick America Corporation
Richard Edward Cole Greenwich, CT	Director, Trenwick Group Inc.
Paul Feldsher Trumbull, CT	Executive Vice President and Director, Trenwick America Corporation

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
James Edward Roberts Easton, CT	Chairman and CEO, The Insurance Corporation of New York
Frederick Davis Watkins West Hartford, CT	Director, Trenwick Group Inc.
James Frederick Billet, Jr. Redding, CT	President and CEO, Trenwick Group Inc.
Robert Michael DeMichelle New Canaan, CT 06840	President and CEO, Lexington Global Asset Management, Inc.
Robert Anthony Giambo Cos Cob, CT	Executive Vice President, Trenwick America Corporation
Joseph Denny Sargent West Hartford, CT	Director, Trenwick Group Inc.
Steven Jay Cohen Massapequa Park, NY	Vice President, Trenwick America Corporation
Jeffrey Alan Englander New Rochelle, NY	Senior Vice President, Trenwick America Corporation
Alan Lester Hunter Shelton , CT	Executive Vice President and Chief Financial Officer, Trenwick America Corporation
Michael John Warfield Stamford, CT	President, The Insurance Corporation of New York

A review of the minutes of the eighteen meetings of the board of directors' meetings for the six-year period covered by this examination indicated that attendance was generally good.

The principal officers of the Company at December 31, 1999 were as follows:

<u>Name</u>	<u>Title</u>
James Edward Roberts	Chairman and Chief Executive Officer
Michael John Warfield	President
John Virgilio Del Col	Senior Vice-President and Secretary
Yvonne Martino Poster	Senior Vice-President and Controller

B. Territory and Plan of Operation

The Company is licensed in the states of New York, Texas and Louisiana. It is licensed to transact the kinds of insurance as set forth in the following numbered paragraphs of Section 1113(a) of the New York Insurance Law:

<u>Paragraph</u>	<u>Line of Business</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
20	Inland marine
21	Marine protection and indemnity

The Company is also licensed to write such workers' compensation insurance as may be incident to coverages contemplated under paragraphs 20 and 21 of Section 1113, including insurances described in the Longshoremen's and Harbor Workers' Compensation Act (Public Law No. 803, 69th Congress, as amended; 33 USC Section 901 et seq. as amended).

Based on the lines of business for which the Company is licensed, its current capital structure, and pursuant to the requirements of Articles 13 and 41 of the New York Insurance Law, ReCor is required to maintain a minimum surplus to policyholders in the amount of \$2,200,000.

On January 1, 1992, the Company entered into an assumption retrocession agreement with RECO to transfer 100% of the insurance liabilities of the Company to RECO along with an equal amount of assets. Effective on that date, the Company ceased to do any insurance business as of December 31, 1992.

On September 8, 1993, the Company sought the permission of the Department to resume the business of insurance in accordance with the provisions of Section 1203(b) of the New York Insurance Law. The Department granted its approval on September 15, 1993. It should be noted that the Company has not written or assumed any business as of December 31, 1992.

C. Reinsurance

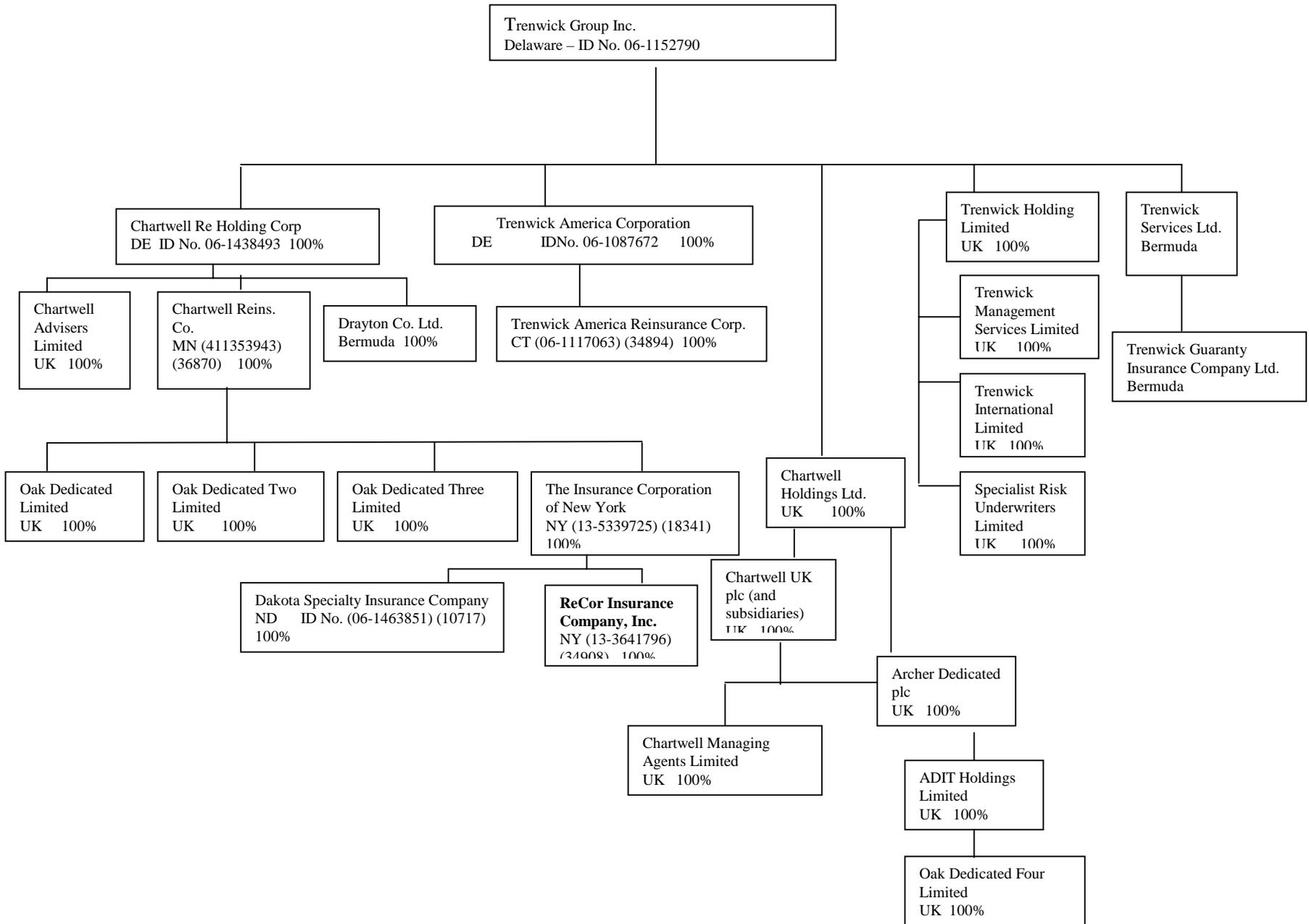
The Company is currently in run off status and has no active reinsurance in force as of the examination date.

D. Holding Company System

The Company is a wholly-owned subsidiary of The Insurance Corporation of New York, a New York domiciled insurer. The Insurance Corporation of New York is wholly-owned by Chartwell Reinsurance Company, a Minnesota domiciled Insurer. Chartwell Reinsurance Company is wholly-owned by Chartwell Re Holding Corporation, a Delaware corporation which is wholly-owned by Trenwick Group Inc., a Delaware Corporation.

A review was made of the filings submitted by the Company pursuant to the requirements of Article 15 of the New York Insurance Law and Department Regulation 52. The filings were in compliance with the statutory requirements.

The following is an organizational chart as of December 31, 1999:



i. Intercompany Agreements

On October 29, 1999, the Company entered into an administrative services agreement with Trenwick Group Inc., (“Trenwick”) a Delaware Corporation and Trenwick America Corporation (“Trenwick America”). Pursuant to the agreement, the two affiliates shall provide certain accounting, management, consulting and other services to the Company on a cost allocation basis, consistent with generally accepted accounting principles and in accordance with New York Regulation 30.

In addition, on October 27, 1999, the Company entered into a tax allocation agreement with Trenwick, which provided that the Company and other affiliates would file consolidated income tax returns. The agreement named Trenwick as the designated agent for the purpose of taking action necessary to filing consolidated returns.

The intercompany agreements described above were filed with this Department in September of 1999.

E. Custodial Agreement

The Company’s custodial agreement was reviewed by the examiner and found to lack various provisions which are deemed by this Department to be representative of good business practices for the content of such agreements. The custodial agreement should provide necessary safeguards and controls. The protective covenants and provisions referred to are listed below.

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. There will be 60 days written notice of any material change in the form or amount of such insurance, or termination of this coverage.

2. The bank will at all times give the securities held hereunder the same care given to its own property of a similar nature.
3. The bank will maintain records sufficient to verify information that the insurer is required to report in Schedule D of the Annual Statement blank of the Insurance Department of the State of New York.
4. The bank will furnish the insurers with the appropriate affidavits in the form as may be acceptable to the New York Insurance Department in order for the securities referred to in such affidavits to be recognized as admitted assets of the Company.
5. Access shall be during regular banking hours and specifying those persons who shall be entitled to examine on your premises securities held by you on your premises and your records regarding securities held, but only upon furnishing you with written instructions to that effect from any specified authorized officer.
6. There should be a provision in the agreement that would give the insurer the opportunity to secure the most recent report on the review of the custodian's system of internal controls, pertaining to the custodian record keeping, issued by internal or independent auditors.

It is recommended that the agreement between the insurer and the custodian should contain, at a minimum, the protective covenants and provisions deemed by this Department to be representative of good business practices for the contents of such agreements.

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as determined by this examination as of December 31, 1999. This statement is the same as the balance sheet filed by the Company in its December 31, 1999 annual statement.

	Ledger <u>Assets</u>	Non-Ledger <u>Assets</u>	Not Admitted <u>Assets</u>	Net Admitted <u>Assets</u>
Assets				
Bonds	\$4,851,290	\$	\$	\$4,851,290
Cash on deposit	1,776,692			1,776,692
Short-term investments	135,355			135,355
Interest, dividends and real estate income due and accrued	<u> </u>	<u>66,809</u>	<u> </u>	<u>66,809</u>
Total Assets	<u>\$6,763,337</u>	<u>\$66,809</u>	<u> </u>	<u>\$6,830,146</u>
Liabilities				
Other expenses				\$ 180
Taxes, licenses and fees				120,549
Federal and foreign income taxes				<u>1,881</u>
Drafts outstanding				
Total liabilities				<u>\$ 122,610</u>
Common capital stock		\$ 2,500,000		
Gross paid in and contributed surplus		2,500,000		
Unassigned funds (surplus)		<u>1,707,536</u>		
Surplus as regards policyholders				\$ 6,707,536
Total liabilities and surplus				<u>\$ 6,830,146</u>

Note: The Internal Revenue Service has not performed any audits of the Company's consolidated federal income tax returns through tax year 1999. 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 increased \$1,463,977 during the four year examination period January 1, 1994 through December 31, 1999, detailed as follows:

Statement of Income

Underwriting Income

Premiums earned		\$
Deductions:		
Losses incurred	\$	
Loss adjustment expenses incurred		
Other underwriting expenses incurred	(25,133)	
Total underwriting deductions		<u>(25,133)</u>
Net underwriting gain		\$ 25,133

Investment Income

Net investment income earned	\$2,019,078	
Net realized capital losses	<u>(128,056)</u>	
Net investment gain		<u>1,891,022</u>
Net income before federal and foreign income taxes		\$1,916,155
Federal and foreign income taxes incurred		<u>683,490</u>
Net income		\$ <u>1,232,665</u>

Capital and Surplus Account

Surplus as regards policyholders,
December 31, 1993, per report on examination \$ 5,243,559

	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income	\$1,232,665	\$	
Net unrealized capital losses		1,146	
Dividends to stockholders	<u>232,458</u>	<u> </u>	
 Total gains and losses	 <u>\$1,465,123</u>	 <u>\$ 1,146</u>	
 Net increase in surplus as regards policyholders			 <u>1,463,977</u>
 Surplus as regards policyholders, December 31, 1999, per report on examination			 <u>\$6,707,536</u>

4. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination contained one comment (page numbers refer to the prior report):

<u>ITEM</u>	<u>PAGE NO.</u>
<p>A. A review of the filed 1993 annual statement, indicated that the Company failed to comply with the minimum capital investment requirements set forth in Section 1402 of the New York Insurance Law. The Company is required to hold minimum capital investments of \$2,200,000 surplus to policyholders. However, it was determined that the Company only held \$900,000 of such qualifying investments as of December 31, 1993.</p>	13-14

When this matter was brought to management's attention, the Company acquired an additional \$1,300,000 in qualifying investments on April 13, 1994 to comply with the minimum capital investment requirements set forth in Section 1402 of the New York Insurance Law.

The Company has complied with this recommendation.

5. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>	<u>PAGE NO.</u>
<p>A. <u>Custodial Agreement</u> It is recommended that the agreement between the insurer and each custodian should contain, at a minimum, the protective covenants and provisions deemed by this Department to be representative of good business practices for the contents of such agreements.</p>	11

Appointment No 21507

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:

Barrington Scott

as proper person to examine into the affairs of

RECOR Insurance Company, Inc.

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 3rd day of March, 2000




NEIL D. LEVIN
Superintendent of Insurance