REPORT ON EXAMINATION

OF THE

COUNTRY-WIDE INSURANCE COMPANY

AS OF

SEPTEMBER 30, 2008

DATE OF REPORT	JANUARY 4, 2011
EXAMINER	LAMIN JAMMEH

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

January 4, 2011

Honorable James J. Wrynn
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 30273 dated November 12, 2008, attached hereto, I have made an examination into the condition and affairs of Country-Wide Insurance Company as of September 30, 2008, and submit the following report thereon.

Wherever the designations "the Company" and "Country-Wide" appear herein without qualification, they should be understood to indicate Country-Wide 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 offices located at 40 Wall Street, New York, NY 10005.

This examination has determined that as of September 30, 2008, the Company was insolvent in the amount of $4,330,184 and its required to be maintained surplus of $1,324,132 was impaired in the amount of $5,654,316.

1. SCOPE OF EXAMINATION

This examination covers the period from January 1, 2005 through September 30, 2008, and was limited in scope to those areas deemed necessary for review by the Department. This examination reviewed the Company's loss and loss adjustment expense reserves, its ceded reinsurance program, reinsurance assets and liabilities, related party transactions and the related reinsurance assets and liabilities, corporate matters, and the admitted assets reported by the Company entitled "Territorial credits" and "Take-out credits."

Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

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

Country-Wide Insurance Company was incorporated under the laws of the State of New York on December 23, 1963. It was licensed and commenced business on April 15, 1964.

Paid in capital of $1,324,132 is comprised of 264,826.50 shares of common stock at $5.00 par value per share. Gross paid in and contributed surplus was $365,116.

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 sixteen members. The board met four times during each calendar year. At September 30, 2008, the board of directors was comprised of the following fourteen members:

Name and Residence	Principal Business Affiliation
Cynthia Appelblatt New York, NY	Senior Vice President and General Counsel, Country-Wide Insurance Company
William D. Bierman Closter, NJ	Law Firm of Nowell Amoroso Klein Bierman, P.A.

Alan T. Blutman East Meadow, NY	Law Firm of Costello, Shea and Gaffney LLP
Barbara A. Cheven Sands Point, NY	Vice President and Attorney of Record, Country-Wide Insurance Company
Raymond Cheven Sands Point, NY	Retired
Zachary Cheven Sands Point, NY	Executive Vice President, Country-Wide Insurance Company
Walter J. Convery East Rockaway, NY	Vice President, Country-Wide Insurance Company
Nicholas Filacouris Dix Hills, NY	Senior Vice President and Treasurer, Country-Wide Insurance Company
Dorothy Goldberg Sands Point, NY	Retired
Heidi Jaffe Sands Point, NY	Secretary, Country-Wide Insurance Company
Michael D. Jaffe Sands Point, NY	Chairman and President, Country-Wide Insurance Company
Dr. Edwin C. Rothstein Jamesburg, NJ	Retired
Giselle Weinstein New York, NY	Retired
Alice J. Zuccaire Great Neck, NY	Retired

A review of the minutes of the board of directors' meetings held during the examination period indicated that the meetings were generally well attended and each board member has an acceptable record of attendance.

As of September 30, 2008, the principal officers of the Company were as follows:

Name	Title
Michael D. Jaffe	Chairman and President
Cynthia Appelblatt	Senior Vice President and General Counsel
Nicholas Filacouris	Senior Vice President and Treasurer
Zachary Cheven	Executive Vice President

B. Territory and Plan of Operation

As of September 30, 2008, the Company was licensed to write business in New York only.

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:

Paragraph	Line of Business
4	Fire
5	Miscellaneous property
6	Water damage
7	Burglary and theft
8	Glass
12	Collision
13	Personal injury liability
14	Property damage liability
15	Workers' compensation and employers' liability
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine (inland only)

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 $1,324,132.

The Company primarily writes auto liability and auto physical damage coverage for private passenger automobiles and trucks. The Company's business is concentrated mainly in the five boroughs of New York City and consists mostly of policies written at the minimum liability limits required by the State of New York.

C. Reinsurance

The Company does not assume any reinsurance business.

The Company has structured its ceded reinsurance program as follows:

Type of Contract	Cession
Property Catastrophe Excess of Loss	95% of $1,500,000 in excess of $500,000 each and every loss occurrence.

Type of Contract	Cession
Casualty excess of loss –two layers	$250,000 in excess of $100,000 each loss occurrence.
Private passenger automobile and commercial auto liability.	$650,000 in excess of $350,000 each loss occurrence.
Obligatory Quota Share	
Private passenger automobile and commercial auto liability and physical damage. The property catastrophe excess of loss and the casualty excess of loss treaties inure to the benefit of this treaty.	45% quota share of net retained liability

It is the Company's policy to obtain the appropriate collateral for its cessions to unauthorized reinsurers. Letters of credit obtained by the Company to take credit for cessions to unauthorized reinsurers were reviewed for compliance with Department Regulations 133. No exceptions were noted.

All ceded reinsurance agreements in effect as of the examination date were reviewed and found to contain the required clauses, including an insolvency clause meeting the requirements of Section 1308 of the New York Insurance Law.

Except as noted in item 2Hii of this report, a review of the Schedule F data reported by the Company in its filed annual statement was found to accurately reflect its reinsurance transactions. Additionally, management has represented that all material ceded reinsurance agreements transfer both underwriting and timing risk as set forth in the National Association of Insurance Commissioners ("NAIC") Accounting Practices and Procedures Manual Statement of Statutory Accounting Principles ("SSAP") No. 62. Representations were supported by appropriate risk transfer analysis and an attestation from the Company's chief executive officer pursuant to the NAIC Annual Statement Instructions. Additionally, examination review indicated that the Company was not a party to any finite reinsurance agreements. All ceded reinsurance agreements were accounted for as utilizing reinsurance accounting as set forth in paragraphs 17, 19, 25 and 26 of SSAP No. 62.

D. Third Party Administration Line of Business

Since 2004, the Company has operated as a third party administrator ("TPA") providing claims administrative services to several unaffiliated insurers, for which it receives a fee based on a

percentage of the earned premiums of the business it administers. In correspondence with the examiners, the Company indicated that the TPA business ". . . was a cornerstone of a written remedial plan required by the Property Bureau arising out of a December 31, 1998 examination report. That remedial plan set forth the justification for such action and described why this activity benefited the Company (which had no ready source of capital) by allowing it to begin to restore surplus without incurring additional insurance risk by earning fee-for-service income, while maintaining sufficient claims resources to handle claims incurred on in-force policies. The remedial plan was submitted in response to a directive from the Property Bureau as an alternative to the cessation of writing of new business as set forth therein. . . ."

In 2000, the Company amended its charter, authorizing it to engage in this business. The charter amendment was approved by the Department.

The Company reports the claims administrative fees net of offsetting expenses as other income in the Statement of Income under the caption "Claim Servicing Income (Loss)." During the period from January 1, 2005 through September 30, 2008, the Company reported a net loss on the TPA business in the amount of $12,140,969, as follows:

Year	TPA Income	Direct Claim Expenses	Allocated Expenses	Reimbursement from Law Firms	Claim Servicing Income (Loss)
2005	$ 2,420,208	$ (680,847)	$ (6,985,050)	$ 4,496,411	$ (749,278)
2006	1,384,772	(317,159)	(7,338,481)	3,200,000	(3,070,868)
2007	793,278	(136,581)	(6,442,845)	605,864	(5,180,284)
1/1/2008 – 9/30/2008	722,766	(132,666)	(4,181,179)	450,540	(3,140,539)
Totals	$ 5,321,024	$ (1,267,253)	$ (24,947,555)	$ 8,752,815	$(12,140,969)

The column labeled "Direct Claim Expenses" represents expenses directly attributable to the TPA business; "Allocated Expenses" represents the allocation of a portion of the Company's general overhead expenses to the TPA business; "Reimbursement from Law Firms" represents the amounts that Jaffe & Koumourdous and Cheven, Keely, & Hatzis (the "Law Firms") reimbursed the Company for the use of Country-Wide employees for non-Country-Wide work. The significant losses for the TPA business are not consistent with the risk-free promise in the Company's remediation plan. As the losses result primarily from the large amount of allocated expenses, we must either question the accuracy of this allocation or the viability of the TPA business.

It is noted that the $8,752,815 Reimbursement from Law Firms represents the amounts reimbursed by the Law Firms for the use of Country-Wide employees for all non-Country-Wide work, not just for work on the TPA business. The reimbursement consisted of a calculated amount of $4,087,860 and an additional reimbursement of $4,664,955. The services performed relative to the calculated reimbursements are not related to the TPA income of Country-Wide, and therefore, they are most appropriately classified in the Company's income statement as a reduction to other underwriting expenses.

It is recommended that the Company report the Reimbursements from Law Firms on the appropriate income statement lines.

The additional reimbursement of $4,664,955 was attributed by the Company to the TPA business. The Company stated the following regarding the additional reimbursement:

> Management determined that the law firm reimbursement to the Company during these years should be greater than that provided by the formula utilized pursuant to the allocation agreement which contemplated ordinary business conditions. In the years 2005 and 2006, management acknowledged that the law firm had indeed uniquely utilized Company claim employee assistance to achieve the results which gave rise to the increased income and management believed it would be fair and equitable that the Company be reimbursed for the extra effort it dedicated toward this financial success.

It is noted that had the Company only included the additional reimbursements in the Claim Servicing Income (Loss) calculation, the net loss during the period January 1, 2005 through September 30, 2008 would have been $16,228,829.

The method the Company used to determine the Allocated Expenses was based on the ratio of the number of open claims for the TPA business to the number of open claims for its own business. The $24,947,555 of general expenses allocated to the TPA business during the examination period appears to be excessive given that the income was only $5,321,024. Additionally, the amount of expenses allocated each year does not correspond in any way to the income. For example, in 2005, the Company allocated $6,985,050 of general expenses to the TPA business and had income of $2,420,208. In 2006, allocated expenses increased to $7,338,481, while income decreased to $1,384,772. The Company acknowledged the disparity between income and expenses for the TPA business when questioned about why it would continue this program if it was losing money on it. In correspondence with the examiners concerning the losses of the TPA program, the Company stated:

> The Highlands allocations distort any analysis of the profitability of the TPA programs for two other reasons. In the first place, the allocations for the TPA program had been determined by relying upon claims counts which is certainly a reasonable basis for allocation for the claims programs. However, it should be noted that the Highlands' share was not only affected by its own claims count, which continued to be very large, but also by those associated with other parties involved in the allocation. Consequently, a large closeout of claims in the Country-Wide book of business in 2006 had the effect of increasing the percentage of the total universe of pending cases attributable to Highlands.
>
> The problem also persisted because Highlands claim files, which continue to be in Country-Wide's possession, became largely inactive. Under the circumstances, the Company decided to base allocations on active claims counts beginning in June 2009, thereby eliminating the drag of the Highlands program on overall results. Simply stated, if the Highlands program's negative allocations were removed, the overall program would be profitable.

Highlands Insurance Company went into rehabilitation in November 2003 and it is highly unlikely that the open claim files held by Country-Wide were active until the Company finally changed its allocation method in June 2009.

The following chart shows the income and expenses associated with the Highlands program from 2004 through September 30, 2008:

	Fees	Direct Claim Expenses	Allocated Expenses	Income (loss)
2004	$ 771,460	$379,437	$5,270,062	$(4,878,039)
2005	319,096	239,315	3,986,448	(3,906,667)
2006	104,571	30,079	3,497,546	(3,423,054)
2007	24,009	100,275	3,665,461	(3,741,727)
1/1/2008 – 9/30/2008	15,488	7,675	3,001,228	(2,993,415)
Totals	$1,234,624	$756,781	$19,420,745	$(18,942,902)

The amount of general expenses allocated to the Highlands program appears to be excessive when compared with the amount of fee income generated for this program. It appears that the Company is not utilizing an equitable methodology in allocating its general expenses to its TPA line of business. This is not in accordance with Department Regulation 30, parts 109.3(h)(1) and 109.3(h)(2), which state in part:

> The bases of allocation used shall be appropriate and applicable to the expenses to which such bases are applied. . . .
>
> Any basis of allocation which is found to be inappropriate shall be discontinued.

The over-allocation of general expenses to the TPA business had the effect of distorting the Company's underwriting results by understating the other underwriting expenses and loss adjustment expenses, as further discussed in item 4 of this report.

Given the large amount of net losses reported by the Company for the TPA business, it is recommended that the Company submit to the Department a supplement to its existing plan for engaging in TPA programs consistent with the standards of Section 1610(b) of the New York Insurance Law. The plan should include an equitable methodology for allocating its general expenses to the TPA line of business in conformity with Department Regulation 30 and should address each of the four items noted in Section 1610(b) of the New York Insurance Law.

E. Holding Company System

The Company is part of a holding company system as defined by Section 1501(a)(6) of the New York Insurance Law. Raymond Cheven has been deemed the ultimate controlling person of Country-Wide Insurance Company by reason of his direct (8.70%) and indirect (33.89%) ownership of the Company's common stock. Mr. Cheven's indirect stock ownership consists of stocks in the name of businesses of which he is a co-owner and in the name of various members of his family. The following chart shows the direct and indirect shares controlled by Raymond Cheven and the relationship of each entity to the ultimate controlling person:

	Shareholder	No. of Shares	Percent of Total	Relationship
A.	Raymond Cheven	23,045.00	8.70%	Ultimate controlling person
B.	Barbara Cheven	51,647.00	19.50%	Wife of (A)
C.	Heidi Jaffe joint with	19,130.00	7.22%	Daughter of (A) and (B)
	Michael Jaffe	787.50	0.30%	
D.	Jennifer Kitchner	7,143.00	2.70%	Daughter of (A) and (B)
E.	Zachary Cheven	6125.00	2.31%	Son of (A) and (B)
F.	Adam Cheven	4,274.00	1.61%	Son of (A) and (B)
G.	Michael Jaffe	60.00	0.02%	Husband of (C)
H.	Benjamin Kitchner	475.00	0.18%	Son of (D)
I.	Zachary &Arthur Cheven joint	125.00	0.05%	Sons of (A) and (B)
	Beneficial owners	112,812.00	42.59%	
	Total outstanding shares	264,826.50		

The Company is a party to various expense allocation agreements with members of its holding company system. Pursuant to these agreements, the Company provides office space, facilities, and equipment, as well as the services of the Company's personnel to these entities. All of these agreements have been submitted to and approved by this Department pursuant to the requirements of Section 1505(d) of the New York Insurance Law. The following chart shows the entities that have service agreements and their relationships within the holding company system:

Company	Business	Relation
Jaffe & Koumourdous	Law firm	(G) is partner
National City Service Corp.	Insurance brokerage	Owned by the Company
National City Service Agency	Insurance brokerage	Owned by the Company
United Group Managers	Insurance brokerage	(A) and (B) each own 25%
Cheven, Keely & Hatzis	Law firm	(B) is partner
Ace Insurance Agency	Insurance brokerage	(A) and (B) each own 25% and (G) owns 50%

The Company was party, as of the examination date, to a number of service agreements with members of its holding company system. The following is a list of all such service agreements, with the exception of the agreements with the law firms, which are described in Section E.

1. National City Service Corporation

National City Service Corporation ("NCSC") is a licensed insurance brokerage and a wholly-owned subsidiary of the Company. Raymond Cheven is the president, secretary and chairman of the board of directors, Barbara A. Cheven is vice president and director, and Michael D. Jaffe is executive vice president, treasurer and director. Effective, November 1, 1986, Country-Wide entered into an agreement with NCSC whereby Country-Wide will permit NCSC to share and occupy space in Country-Wide's leased premises as may be necessary for the operation or conduct of NCSC's business. The agreement also stated that Country-Wide will permit its officers and employees to render and perform all the services reasonably required for the proper and efficient operation and conduct of NCSC's business. NCSC is currently inactive.

2. National City Service Agency, Inc.

National City Service Agency ("NCSA") is a licensed insurance brokerage and a wholly-owned subsidiary of the Company. Raymond Cheven is the president, secretary and chairman of the board of directors, Barbara A. Cheven is vice president and director, Michael D. Jaffe is executive

vice president, general counsel, treasurer and director. Effective October 1, 1992, Country-Wide entered into an agreement with NCSA, whereby Country-Wide will permit NCSA to share and occupy space in Country-Wide's leased premises as may be necessary for the operation or conduct of NCSA's business. The agreement also stated that Country-Wide will permit its officers and employees to render and perform all the services reasonably required for the proper and efficient operation and conduct of NCSA's business. NCSA agrees to pay to Country-Wide and Country-Wide agrees to accept, a sum equal to the costs incurred by Country-Wide on behalf of NCSA, calculated by applying the percentage of business written by NCSA to the total business written by Country-Wide to underwriting costs incurred by Country-Wide, less a fair and equitable commission to NCSA.

In 2004, NCSA began operating as a managing general agent ("MGA") providing underwriting services for business produced by outside brokers and written by outside insurers. The Company's resources are used to carry out the subsidiary's operating function as MGA. NCSA reimburses the Company for a percentage of the underwriters expenses incurred in producing the MGA business. Underwriting expenses are allocated based on direct premium written for a particular calendar year. Subsequent to the examination period, the Company changed the basis of allocation from direct premium written to a policy count basis.

3. United Group Managers

United Group Managers ("UGM") is a New York partnership, in which Raymond Cheven and Barbara Ann Cheven are general partners. UGM is engaged in the business of placing workers' compensation insurance with the State Insurance Fund for insureds in the trucking and warehousing industry. Effective, October 1, 1992, Country-Wide entered into an agreement with UGM whereby Country-Wide will permit UGM to share and occupy space in Country-Wide's leased premises as may be necessary for the operation or conduct of UGM's business. The agreement also stated that Country-Wide will permit its officers and employees to render and perform all the services reasonably required for the proper and efficient operation and conduct of UGM's business. The Company indicates that UGM is inactive. In 2008, UGM paid $60 per month to the Company for its share of allocated expenses.

4. Ace Insurance Agency

Ace Insurance Agency ("Ace") is a corporation organized under the laws of the State of New York. Ace is licensed as a property/casualty insurance brokerage. It places its auto, homeowners and other insurance business among several third party insurers and receives a commission. Effective November 24, 1993, Country-Wide entered into an agreement with Ace Insurance Agency whereby Country-Wide will permit Ace to share and occupy space in Country-Wide's leased premises to the extent that such office space is not necessary to accommodate the needs of Country-Wide. The agreement also stated that Country-Wide shall provide and make available its facilities and equipment and the services of its personnel as Ace may require. The agreement was filed and approved by the Department. As per the allocation agreement, Ace does not receive commission on any referrals of insurance business to the Company. Raymond Cheven and Barbara Cheven each have 25% interest in Ace, and Michael Jaffe has a 50% interest in Ace.

5. Tax Allocation Agreement

Effective March 16, 1990, the Company started filing a consolidated federal income tax return with National City Service Agency and National City Service Corp. Pursuant to the tax allocation agreement, the tax charge or tax refund to Country-Wide arising from filing the consolidated tax return shall be the amount that Country-Wide would have paid or received if it had filed a separate income tax return. This agreement was submitted to, and approved by, the Department.

F. Law Firms

i. Allocation Agreements With Law Firms

There are two affiliated law firms that are part of the holding company structure therefore the Company's transactions with these firms are subject to Article 15 of the New York Insurance Law. The firms are Jaffe & Koumourdas ("J&K") and Cheven, Keely, & Hatzis ("CK&H").

Effective July 1, 1989, the Company entered into an allocation agreement with J&K. The agreement provides that J&K will represent the Company in subrogation and collection matters, for which the Company will pay 25% and 30%, respectively, of the amounts recovered on the Company's behalf. The Company indicated that J&K ceased performing collection work for the Company in 2002. Effective March 1, 1993, the Company entered into an allocation agreement

with CK&H, pursuant to which CK&H would represent the Company's insured in civil litigation. The agreement indicates that no fees would be paid by the Company to CK&H or its principal partner Barbara Cheven for these services.

Both allocation agreements indicate that Countrywide will provide segregated office space, the use of office equipment and supplies and the services of the insurer's personnel. The agreements state that the Company will determine the cost of providing such space, equipment, supplies and services and allocate such costs pursuant to the provisions of Department Regulation 30. Expenses that can be allocated directly will be done so, otherwise, allocations will be done on the basis of time usage. The allocation agreement with J&K states that the company will provide the indicated services as J&K did not possess sufficient facilities to undertake the subrogation and collection work specified in the agreement. The CK&H agreement provides for a reimbursement of expenses to Country-Wide where the Company's resources are used in connection with legal work performed by CK&H that does not involve Country-Wide or its insureds.

Although both firms have allocation agreements with Country-Wide, and the agreements were previously submitted to and non-disapproved by the Department, the examination has a number of issues with the way the agreements were implemented. The most significant examination issue with these agreements is that, while they indicate that the law firms will utilize services of the insurer's personnel as they may require, the extent of such utilization of services is not made clear. The examination review indicated that in fact the firms, other than the firm partners, have no employees of their own. All legal work credited to the law firm is performed by employees paid by the Company. Furthermore there is no specific allocation of salary expense from the Company to the law firms.

The Company indicated to the examiners, in writing, that in addition to subrogation work J&K also handled no fault benefit matters for the Company's insureds. The Company further indicated that J&K does not charge the Company for any work outside of the subrogation services.

It is noted that the current allocation agreement with J&K only provides for the provision of Company employees, facilities, equipment and other services to J&K in connection with the subrogation services specified in that agreement. The use of Company personnel by J&K for legal services provided to outside clients not connected with Country-Wide does not comply with Section 1505(d) of the New York Insurance Law, which states in part:

> The following transactions between a domestic controlled insurer and any person in its holding company system may not be entered into unless the insurer has notified the superintendent in writing of its intention to enter into any such transaction at least thirty days prior thereto, or such shorter period as he may permit, and he has not disapproved it within such period:…(3) rendering of services on a regular or systematic basis;. . . .

It is recommended that the Company obtain the Department's non-disapproval pursuant to Section 1505(d) of the New York Insurance Law for an amendment to the J&K agreement to reflect the services provided by the Company to J&K in connection with the law firms outside business.

The current allocation agreement with J&K also needs to be updated for other reasons. The Company's address has changed since the agreement was put into effect; the name and ownership of the law firm has changed since the agreement was put into effect; when this agreement was implemented the name of the law firm was Jaffe and Tanzer. Additionally the current agreement only provides for the Company to provide employees, facilities, equipment, and other services to J&K in connection with the collection and subrogation services that J&K is to provide under the contract; it does not explicitly provide for services to be provided to J&K in connection with outside legal services performed by that firm. Finally the subrogation and collection fees provided for in the current agreement should be eliminated as the payment of these fees does not comply with Section 1505(a) of the New York Insurance Law as noted in E(ii) below.

While it is noted that the allocation agreement with J&K does not provide for the performance of the non-subrogation services it is also noted that these services are performed by Country-Wide employees and there is no payment made from the Company to J&K for the no-fault work. It should also be noted that there would not need to be an allocation of expenses to J&K for the no-fault work the Company states it performs, or for the legal work performed by CK&H as the work is performed by Country-Wide employees and the Company does not reimburse the law firms for these services. A revised agreement should describe the nature and extent of the no-fault work performed by J&K.

The allocation agreement with CK&H needs to be updated as well to reflect the new address of the Company and the new name and ownership of the law firm.

It is recommended that the Company update the allocation agreements with J&K and CK&H.

It is noted that Michael D. Jaffe, the Company's president and chief executive officer ("CEO"), is also the primary partner in J&K.

It is therefore recommended that Mr. Jaffe not sign an amended allocation agreement on behalf of the Company.

ii. Subrogation Services provided by J&K

The Company does pay for the subrogation services provided by J&K as provided for in the allocation agreement between the two companies. The Company paid J&K the amount of $1,273,435 in subrogation fees during the examination period. As previously indicated, J&K does not have its own employees therefore J&K is actually charging for services performed by the Company's employees.

Additionally, the initial examination review indicated that J&K was not reimbursing Country-Wide for the use of its employees engaged in the subrogation work. The initial review included a review of spreadsheets provided by the Company which indicated that all law firm reimbursements were for the use of Country-Wide employees engaged in legal work for the law firms on behalf of Country-Wide's TPA clients. The Company, when questioned on this matter revised their information on law firm reimbursements and indicated that the reimbursements were not in fact all in connection with legal work performed for the TPA clients but also for reimbursements for the use, by the law firms, of Country-Wide employees for outside non-TPA work as well as for the use of Country-Wide employees engaged in subrogation services.

The revised records indicated that J&K reimbursed Country-Wide approximately $394,000, during the examination period, for the use of Country-Wide personnel related to subrogation work billed by the law firm. The Company paid J&K $1,273,435 in subrogation fees during the examination period. Subrogation does not necessarily require a law firm structure and the Company could have paid employees directly and therefore avoid the commission charged by the firm. In fact Country-Wide did pay the employees involved directly. This is not an equitable arrangement as Country-Wide is bearing the overhead risk of maintaining the employees for whose services J&K is billing the Company.

This arrangement does not comply with Section 1505(a) of the New York Insurance Law which states in part:

> Transactions within a holding company system to which a controlled insurer is a party shall be subject to the following:
>
> (1) the terms shall be fair and equitable;

(2) charges or fees for services performed shall be reasonable;…

It is recommended that the Company conduct all transactions with affiliates in accordance with Section 1505(a) of the New York Insurance law.

It is further recommended that the Company no longer pay J&K for subrogation work performed by the Company's own employees.

While these fees were paid under an agreement that was approved by the Department, the agreement did not explicitly state that J&K would be receiving a fee for work performed by employees paid by the Company. It is this examination's contention that the payment of the subrogation fees to J&K under the current circumstances does not comply with Section 1505(a) of the New York Insurance Law.

iii. Methodology for Calculating Law Firm Reimbursements to Country-Wide

Both law firms earned fees for legal work not performed for the Company. They earn fees from insurance companies participating in the Company's TPA/claim servicing business as well as from outside clients not affiliated with the TPA business. These fees are earned through the use of Country-Wide personnel.

The Company indicated that it billed the law firms based on an estimate of the amount of the Company's resources used in providing these legal services. The Company specifically stated the following in writing:

> In addition, many employees also spent time on TPA business-related litigation as well as business conducted by the law firms which is third party business unrelated to the Company. The firm then pays monthly amounts to the Company as reimbursements for said allocated costs and expenses. The monthly amounts are based upon a consideration of the quantitative time and qualitative effort by Company employees assigned to 'CK&H' and 'J&K' on TPA business-related litigation and unrelated third party business, compared to the quantitative time and qualitative effort that they spend on their Bodily Injury and Property Damage defense work on behalf of the insureds of the Company, which constitutes costs and expenses that are equitably allocated to the firm and not the Company.

The Company provided the examiners with calculations supporting the reimbursements provided by the law firms for the use of Country-Wide personnel for legal services performed and billed by the law firms for work not related to Country-Wide.

These calculations are not based on the hours worked by a specific employee. However, the Company used the following steps to determine the calculations:

1. It determines the average hourly salary of all employees designated as assigned to the law firms.

2. It determines the number of hours worked on non-Country-Wide work. This is calculated by taking the income of the law firms and dividing by a billing rate of $150 per hour.

3. The hours worked determined in step 2 is multiplied by the average hourly salary from step 1 to calculate reimbursable salaries.

Similar calculations are performed to determine reimbursable employee benefits and overhead.

This methodology is not acceptable as the average salary of persons assigned to the law firm might be quite different than the salaries of the employees involved in the outside legal work. This methodology is not in compliance with Section 1505(b) of the New York Insurance Law which states:

> The books, accounts, and records of each party to all such transactions shall be so maintained as to clearly and accurately disclose the nature and details of the transactions including such accounting information as is necessary to support the reasonableness of the charges or fees to the respective parties.

The use of average salaries of a department rather than the specific salaries of the employees being utilized lacks the details necessary to evaluate the reasonableness of the reimbursements. The Company needs to use time records for specific employees in order to calculate the appropriate reimbursements.

It is recommended that the Company take the necessary steps to maintain the appropriate documentation supporting the law firm reimbursements in order to be in compliance with Section 1505(b) of the New York Insurance Law.

iv. Law Firm Reimbursements

In addition to the issues noted above, concerning methodology and documentation, there are issues with the documentation and calculations provided to the examination team. The issues that

have led the examination team to question the Company's submissions regarding law firm reimbursements are as follows:

1. The Company's actual reimbursements do not match the amount that should be reimbursed per the Company's methodology. The chart below shows the Company's calculated reimbursements as opposed to actual reimbursements for the examination period:

Year	Actual Reimbursement	Calculated Reimbursement	Difference
2005	$4,496,411	$1,778,937	$2,717,474
2006	3,200,000	1,253,419	1,946,581
2007	605,864	682,581	(76,717)
January 1, 2008 to September 30, 2008	450,540	372,923	77,617
Totals	$8,752,815	$4,087,860	$4,664,955

The Company, in its correspondence with the examination team regarding the reimbursements, stated the following:

> During the years 2005 and 2006, our TPA, Country-Wide Management Services, was extraordinarily busy, handling the voluminous number of claims and the high volume of litigation that arose out of the Highlands Silver Car Program…The Highlands account, for both the TPA and the law firms, was inherited from other vendors, and the program had many troublesome aspects. Therefore, it presented unique challenges and an unusually large amount of work that required extra careful coordination of efforts from both the TPA and the law firms.
>
> There is a strong and unique relationship between the law firms and the Company that is symbiotic in nature, whereby each benefits from the efforts of the other. This reciprocity of interest is precisely the intangible component that makes the Country-Wide TPA model so appealing to its clients and so successful. The Company's TPA services are closely intertwined with the services rendered by the law firms, standing together to fully support client business.
>
> Management determined that the law firm reimbursement to the Company during these years should be greater than that provided by the formula utilized pursuant to the allocation agreement which contemplated ordinary business conditions. In the years 2005 and 2006, management acknowledged that the law firm had indeed uniquely utilized Company claim employee assistance to achieve the results which gave rise to the increased income and management believed it would be fair and equitable that the Company be reimbursed for the extra effort it dedicated toward this financial success.

2. A comparison of the actual income of the law firms that was derived from providing legal services to the Company's TPA clients, to the amount reimbursed by the law firms for use

of Country-Wide personnel in providing services to the TPA clients raises the issue of reasonableness.

Year	Gross Income of Law Firms from TPA Clients	Reimbursement to Country-Wide *
2005	$3,889,824	$3,823,624
2006	$2,726,198	$2,730,134
2007	$ 501,183	$ 87,029
2008	$ 310,358	$ 190,775

* The reimbursement is derived by taking the Company's calculated reimbursement, for the use of Country-Wide personnel in connection with legal services provided to TPA clients, and adding to it the extra reimbursement provided by the law firms. The Company attributed the extra reimbursement to the unique efforts of Country-Wide personnel in servicing the TPA clients.

It is noted that in 2005 the law firms' expense reimbursement was approximately 98% of their entire gross income from TPA clients; in 2006 the expense reimbursement was actually greater than the entire gross income of the law firms.

3. The Company's justifications for the law firms reimbursing amounts significantly above the calculated reimbursements are not borne out by the subsequent decline in the gross income of the law firms from TPA clients.

G. Significant Operating Ratios

The following ratios have been computed as of September 30, 2008, based upon the results of the examination:

*Net premiums written during 2008 to surplus as regards policyholders	N/A
**Liabilities to liquid assets	120.68%
*Premiums in course of collection to surplus as regards policyholders	N/A

*This examination has determined that the Company's surplus as regards policyholders is $(4,330,184); therefore, these ratios have not been calculated.

**The liabilities to liquid assets ratio of 120.68% exceeds the benchmark rate of 105% set forth in the Insurance Regulatory Information System of the National Association of Insurance Commissioners. This was a result of the examination increases to loss and loss adjustment expenses.

H. Accounts and Records

i. Other Items Not Allocated

During the review of the Company's admitted asset "other items not allocated" the Company explained that these items reflect payments on bulk settlements that have not been allocated to specific claims as of end of period. The September 30, 2008 account balance of $1,217,374 is comprised of a gross balance of 4,040,173 and a non-admitted balance of $2,822,799. The Company stated that the admitted balance represents the estimated salvage and subrogation recoverables. Based on the above, the Company is not only understating paid losses, but also the reporting of the salvage and subrogation recoverables is inconsistent with the provisions of Statement of Statutory Accounting Principle ("SSAP") No.55 and the instructions to the annual statement.

Pursuant to SSAP No.55, salvage and subrogation anticipated should be reflected in unpaid losses and loss adjustment expenses. The instructions to the annual statement require that any amount for salvage and subrogation be disclosed in Schedule P, Part 1.

It is recommended that the Company comply with SSAP No. 55 paragraph 12 and the instructions to the annual statement when reporting estimated salvage and subrogation recoverables.

It is further recommended that the Company not defer the recognition of paid losses to future periods.

ii. Schedule F, Part 8

A review of the Company 2007 annual statement revealed that the Company did not complete Schedule F, Part 8-"restatement adjustments" as required by the instructions to the annual statements.

It is recommended that the Company restate balance sheet items in Schedule F, Part 8 to identify the effects of reinsurance on the balance sheet.

iii. Schedule Y, Part 2

A review of the Company's 2007 annual statement revealed that the Company did not complete the 2007 Schedule Y Part 2 "summary of insurer's transactions with any affiliates" as required by the instructions to the annual statements.

It is recommended that the Company in the future complete Schedule Y, Part 2 to identify transactions with its affiliates.

I. Adjuster's License

In order to perform a claim servicing business, a company is required to have an adjuster's license pursuant to Section 2108(a) of the New York Insurance Law, which states:

> Adjusters shall be licensed as independent adjusters or as public adjusters.

The Company, as well as its employees engaged in providing claim servicing services to outside parties, is required to have an independent adjuster's license which is defined by Section 2101(g)(1) as follows:

> The term "independent adjuster" means any person, firm, association or corporation who, or which, for money, commission or any other thing of value, acts in this state on behalf of an insurer in the work of investigating and adjusting claims arising under insurance contracts issued by such insurer and who performs such duties required by such insurer as are incidental to such claims and also includes any person who for compensation or anything of value investigates and adjusts claims on behalf of any independent adjuster. . .

Section 2102(a) of the New York Insurance Law requires the Company as well as its employees engaged in providing claim servicing services to outside parties, to be licensed. Section 2102(a) states:

> No person, firm, association or corporation shall act as an insurance producer or insurance adjuster in this state without having authority to do so by virtue of a license issued and in force pursuant to the provisions of this chapter.

Section 2108(c)(2) indicates that the corporate adjuster's license can only list officers and directors as sub-licensees. The corporate license cannot include employees who are not officers of the corporation. Section 2108(c)(2) states:

> A license issued to a corporation may name as sub-licensees only the officers and directors of such corporation.

The only exception, as far as company employees, to the licensing requirement would be an employee who is also a licensed attorney in New York State as indicated by Section 2101(g)(1)(F).

During the review of the Company's outside programs operations, the examiner requested copies of the Company's license as well as the licenses for its employees who engage in the claim servicing business. The Company was only able to provide a license for itself which showed only one sub-licensee. Based on the volume of the Company's TPA activity it appears that the Company is utilizing more than an individual employee to administer the TPA business.

It is recommended that the Company only utilize licensed independent adjusters in providing claim servicing services to other insurance companies.

3. FINANCIAL STATEMENTS

A Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of September 30, 2008 as determined by this examination and as reported by the Company:

	Examination Net Admitted Assets	Company Net Admitted Assets	Surplus Increase (Decrease)
Bonds	$ 66,772,576	$ 66,772,576	
Common stocks	1,611,651	1,611,651	
Cash and short-term investments	29,016,926	29,016,926	
Investment income due and accrued	963,152	963,152	
Uncollected premiums and agents' balances in course of collection	2,521,056	2,521,056	
Deferred premiums, agents' balances and installments booked but deferred and not yet due	13,358,011	13,358,011	
Amounts recoverable from reinsurers	5,593,370	5,593,370	
Other amounts receivable under reinsurance contracts	693,206	5,033,306	$(4,340,100)
Electronic data processing equipment and software	494,591	494,591	
Receivable from parent, subsidiaries and affiliates	987,375	987,375	
Take out credits	0	300,747	(300,747)
Territorial credits	699,709	1,963,485	(1,263,776)
State premium tax receivable	56,000	56,000	
Miscellaneous receivable	199,124	199,124	
Other items not allocated	1,217,374	1,217,374	0
Total assets	$124,184,121	$130,088,744	$(5,904,623)

Liabilities, Surplus and Other Funds

Liabilities	Examination	Company	Surplus Increase or (Decrease)
Losses and loss adjustment expenses	$ 83,041,353	$ 54,900,353	$(28,141,000)
Commissions payable, contingent commissions and other similar charges	1,762,766	1,762,766	
Other expenses (excluding taxes, licenses and fees)	1,928,523	1,928,523	
Taxes, licenses and fees (excluding federal and foreign income taxes)	172,853	172,853	
Federal income taxes payable	23,190	23,190	
Unearned premiums	27,960,694	27,960,694	
Stockholders dividends (declared and unpaid)	7,217	7,217	
Ceded reinsurance premiums payable	13,206,778	13,206,778	
Funds held by company under reinsurance treaties	410,931	410,931	0
Total liabilities	$128,514,305	$100,373,305	$(28,141,000)
Surplus and Other Funds			
Common capital stock	$ 1,324,132	$ 1,324,132	
Gross paid in and contributed surplus	365,116	365,116	
Unassigned funds (surplus)	(6,019,432)	28,026,191	$(34,045,623)
Surplus as regards policyholders	$ (4,330,184)	$ 29,715,439	$(34,045,623)
Total liabilities, surplus and other funds	$124,184,121	$130,088,744	

NOTE: This examination has determined that as of September 30, 2008, the Company was insolvent in the amount of $4,330,184 and its required to be maintained surplus of $1,324,132 was impaired in the amount of $5,654,316.

NOTE: The Internal Revenue Service has completed its audits of the Company’s Federal Income Tax returns through tax year 1998. The Internal Revenue Service has not audited returns covering tax years 1999 through 2008. The examiner is unaware of any potential exposure of the Company to any tax assessment and no liability has been established herein relative to such contingency.

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of $83,041,353 is $28,141,000 more than the $54,900,353 reported by the Company in its September 30, 2008, filed quarterly statement. The examination has estimated a deficiency in the Company's defense and cost containment reserve of $6.5 million, which is included in the indicated deficiency of $28.1 million for the Company's loss and loss adjustment expense reserves.

The examination analysis of the loss and loss adjustment expense reserves was conducted in accordance with generally accepted actuarial principles and was based on statistical information contained in the Company's internal records and in its filed annual statements.

It should be noted that there were a number of issues with the Company's data, which would have a distortive effect on the paid and outstanding losses and loss adjustment expenses reported in Schedule P of the Company's financial statements, as follows:

a. Other Items Not Allocated – As noted in Item H(i) of this report, the Company reported anticipated salvage and subrogation on bulk settlements that had not been allocated to specific claims as an admitted asset. As a result of the incorrect reporting of other items not allocated, losses paid was understated by $4,040,173, and losses outstanding was overstated by $1,217,374.

   It is recommended that the Company report bulk settlements not allocated to specific claims as losses paid. Additionally, it is recommended that the Company report anticipated salvage and subrogation on bulk settlements as an offset to losses outstanding.

b. Allocation of General Overhead Expenses to TPA Business – As noted in Item D of this report, during the period January 1, 2005 – September 30, 2008, the Company allocated $24,947,555 of general overhead expenses out of underwriting expenses and into other income under the caption "Claim Servicing Income (Loss)." The amount of expenses allocated to the TPA business appears to be excessive as the income on this business was only $5,321,024 during the same period. As a result of the incorrect allocation of general expenses to the TPA business, losses and loss adjustment expenses paid appear to have been understated, which would affect the calculation of incurred but not reported losses and loss adjustment expenses.

c. Unpaid Loss Adjustment Expenses for TPA Business – The TPA contracts require that in the event of contract termination, Country-Wide will administer the existing claims until their ultimate settlement. The Company does not report any liability for its obligations to administer and settle the open TPA claims as of the examination date. The Company stated that it had some fee income due under these contracts to offset the future expenses; however, it was noted that the only fee income that was not recorded as of the examination date was $311,490 from the Ocean Harbor Account. As a result of the failure to accrue for the

administration of the open claims on the TPA business, loss adjustment expenses outstanding has been understated.

It is recommended that the Company establish an appropriate loss adjustment expense reserve for the administration of its TPA business.

d. Unpaid Loss Adjustment Expenses for Services to be Performed by the In-House Law Firms – the Company reports all payments to the in-house law firms for loss adjustment services to the most recent accident year, regardless of the date that the underlying claims are incurred and reports no reserve for unpaid loss adjustment expenses for the administration of the open claims. The Company claims that no reserve is necessary as the in-house law firms have provided a guarantee to administer the open claims at no additional cost and considers the legal fees to be "prepaid" in the year that the accident occurs.

   Upon review of the service agreements between the Company and the law firms, it was noted that no such guarantee is stated in the agreements. Further, a review indicated that the law firms would not have sufficient assets to provide these legal services to the Company if Country-Wide went into runoff and was no longer able to actually pay the salaries of the law firms' personnel.

   It is recommended that the Company allocate payments to the in-house law firms for loss adjustment services to the accident years that the underlying claims are incurred rather than reporting all payments to the most recent accident year. Additionally, it is recommended that the Company cease considering legal expenses for open claims handled by the in-house law firms to be prepaid and establish an adequate loss adjustment expense reserve for the administration of its outstanding claims by its in-house law firms pursuant to the provisions of Section 1303 of the New York Insurance Law and SSAP No. 55.

e. Statistical Reserving – the Company uses a method that it refers to as "statistical reserving" for setting its case reserves. This generally involves setting up a pre-established reserve figure, depending on the type of claim, which is not changed until the claim is about to settle or a determination is made that the Company has no liability. This methodology tends to distort case reserve development and makes loss reserve forecasting more problematic.

   It is recommended that the Company establish a case reserving system where these reserves are regularly updated with the most recent information.

5. OTHER AMOUNTS RECEIVABLE UNDER REINSURANCE CONTRACTS

The examination admitted asset of $693,206 is $4,340,100 less than the $5,033,306 reported by the Company in its September 30, 2009 filed quarterly statement for this asset.

Both the Company's quota share and excess of loss treaties contained profit commission provisions under which the reinsurer would pay a percent of its profits to the Company. The Company reported a receivable of $4,340,100 under its quota share treaties and $693,206 under its excess of loss treaties.

The examination reviewed the $4,340,100 receivable under the quota share treaties and based on the revised loss reserve figures, discussed in Section 4, concluded that the Company would ultimately not receive a profit commission under these contracts.

6. TERRITORIAL AND TAKE OUT CREDITS

The examination admitted asset of $699,709 is $1,564,523 less than the $2,264,232 reported by the Company as of September 30, 2008.

In New York State, private passenger automobile insurers can earn, buy and under certain circumstances sell credits that reduce or offset the amount of assignments required by the New York Automobile Insurance Plan ("NYAIP"). There are three types of credits: territorial credits, youthful operator credits, and take-out credits. The Company writes primarily in the New York City area, and as a result, it earns and receives these credits. The Company indicated that it receives more credits than it actually needs to offset the assignments. In 2002, the Company was approved by the Department to act as a depopulation pool mechanism, which allowed it to sell the excess credits it has accumulated. The admitted asset reported by the Company represents an accrual of the value of the excess credits that the Company has accumulated and that may be sold to credit buyers.

The Company has a contract with one credit buyer, which provides that the buyer will purchase all eligible credits generated by the Company up to the amount required to reduce the buyer's estimated NYAIP final quota to zero. The credits are not finalized until October of the following year, upon receipt of a final quota report from AIPSO. Until the AIPSO report is received, there is no way to determine the number or price of the credits that the Company will ultimately be able to sell to the buyer. The examination admitted asset of $669,709 represents the 2007 territorial credits, which amount was finalized in October 2008 and which the credit buyer was contractually obligated to purchase. The remaining balance reported by the Company represents an estimated accrual for the sale of credits for which it does not have a guaranteed contract and an additional accrual for 2008 territorial credits from the credit buyer with the guaranteed contract, which will not be finalized until the following year. As the remaining balances are either not guaranteed or not determinable at the examination date, these balances do not qualify as admitted assets pursuant to the provisions of Section 1301(a) of the New York Insurance Law.

Based on the above, the remaining receivable in the amount of $1,564,523 should be written off pursuant to Section 1302(b) of the New York Insurance Law which states in part:

> All non-admitted assets and all other assets of doubtful value or character included as ledger or non-ledger assets in any statement by an insurer to the superintendent, or in any examiners report to him, shall also be reported, to the extent of the value disallowed, as deductions from the gross assets of such insurer. . . .

It is recommended that the Company only admit amounts due for the sale of excess credits when the specific amount of credits to be sold and the actual price is known pursuant to Section 1301(a) of the New York Insurance Law.

7. CONCLUSION

The examination has determined that as of September 30, 2008, the Company was insolvent in the amount of $4,330,184 and its required to be maintained surplus of $1,324,132 was impaired in the amount of $5,654,316.

It is additionally noted that the amount of the Company's insolvency may be greater than indicated for the following reasons:

1. The Company did not establish a liability for the expenses that will be needed to settle the claims that the Country-Wide is obligated to service under its TPA contracts (this is noted in Section 4 of this report). The examination has included an estimated liability to service the TPA business; however, it is based on very limited data.

2. The Company may have understated its loss adjustment expenses by over-allocating its general expenses to its TPA line of business as noted in Section 2D and Section 4 of this report). The examinations reliance on the data resulting from this allocation may have resulted in an understatement of the Company's loss and loss adjustment expense liability.

There was insufficient information for the examination to adjust these allocations.

8. SUMMARY OF COMMENTS AND RECOMMENDATIONS

ITEM			PAGE NO.
A.		Insolvency	
		This examination has determined that as of September 30, 2008, the Company was insolvent in the amount of $4,330,184 and it's required to be maintained surplus of $1,324,132 was impaired in the amount of $5,654,316.	1, 24, 28
B.		TPA Line of Business	
	i.	It is recommended that the Company report the Reimbursements from Law Firms on the appropriate income statement lines.	7
	ii.	It is recommended that the Company submit to the Department a supplement to its existing plan for engaging in TPA programs consistent with the standards of Section 1610(b) of the New York Insurance Law. The plan should include an equitable methodology for allocating its general expenses to the TPA line of business in conformity with Department Regulation 30 and should address each of the four items noted in Section 1610(b) of the New York Insurance Law.	9
C.		Law Firms	
	i.	It is recommended that the Company obtain the Department's non-disapproval pursuant to the provisions of Section 1505(d) of the New York Insurance Law for an amendment to the J&K agreement to reflect the services provided by the Company to J&K in connection with the law firms outside business.	14
	ii.	It is recommended that the Company update the allocation agreements with J&K and CK&H.	14
	iii.	It is recommended that Mr. Jaffe not sign an amended allocation agreement on behalf of the Company.	15
	iv.	It is recommended that the Company conduct all transactions with affiliates in accordance with Section 1505(a) of the New York Insurance Law.	16
	v.	It is recommended that the Company no longer pay J&K for subrogation work performed by the Company's own employees.	16
	vii.	It is recommended that the Company take the necessary steps to maintain the appropriate documentation supporting the law firm reimbursements in order to be in compliance with Section 1505(b) of the New York Insurance Law.	17

ITEM			PAGE NO.
D.		Accounts and Records	
	i.	It is recommended that the Company comply with SSAP No. 55 paragraph 12 and the instructions to the annual statement when reporting estimated salvage and subrogation recoverables.	20
	ii.	It is recommended that the Company not defer the recognition of paid losses to future periods.	20
	iii.	It is recommended that the Company restate balance sheet items in Schedule F, Part 8 to identify the effects of reinsurance on the balance sheet.	20
	iv.	It is recommended that the Company in the future complete Schedule Y, Part 2 to identify transactions with its affiliates.	21
	v.	It is recommended that the Company only utilize licensed independent adjustors in providing claim servicing services to other insurance companies.	22
E.		Loss and Loss Adjustment Expenses	
	i.	It is recommended that the Company report bulk settlements not allocated to specific claims as losses paid.	25
	ii.	It is recommended that the Company report anticipated salvage and subrogation on bulk settlements as an offset to losses outstanding.	25
	iii.	It is recommended that the Company establish an appropriate loss adjustment expense reserve for the administration of its TPA business.	26
	iv.	It is recommended that the Company allocate payments to the in-house law firms for loss adjustment services to the accident years that the underlying claims are incurred rather than reporting all payments to the most recent accident year.	26
	v.	It is recommended that the Company cease considering legal expenses for open claims handled by the in-house law firms to be prepaid and set up an adequate loss adjustment expense reserve for the administration of its outstanding claims pursuant to the provisions of Section 1303 of the New York Insurance Law and SSAP No. 55.	26
	vi.	It is recommended that the Company establish a case reserving system where these reserves are regularly updated with the most recent information.	26

ITEM		PAGE NO.
F.	Territorial and Take-Out Credits	
	It is recommended that the Company only admit amounts due for the sale of excess credits when the specific amount of credits to be sold and the actual price is known pursuant to Section 1301(a) of the New York Insurance Law.	28

Respectfully submitted,

/s/
Lamin Jammeh
Senior Insurance Examiner

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

LAMIN JAMMEH, being duly sworn, deposes and says that the foregoing report, subscribed by him, is true to the best of his knowledge and belief.

/s/
Lamin Jammeh

Subscribed and sworn to before me

this_________ day of __________________, 2010.

Appointment No. 30273

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:*

Lamin Jammeh

as proper person to examine into the affairs of the

COUNTRY-WIDE 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 12th *day of* November, *2008*

ERIC R. DINALLO
Superintendent of Insurance