

REPORT ON EXAMINATION

OF

ROCHDALE INSURANCE COMPANY

AS OF

DECEMBER 31, 2017

DATE OF REPORT

MAY 28, 2019

EXAMINER

JOSEPH REVERS, CFE

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## Department of Financial Services

ANDREW M. CUOMO  
Governor

LINDA A. LACEWELL  
Acting Superintendent

May 28, 2019

Honorable Linda A. Lacewell  
Acting Superintendent  
New York State Department of Financial Services  
Albany, New York 12257

Madam:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 31763 dated May 10, 2018, attached hereto, I have made an examination into the condition and affairs of Rochdale Insurance Company as of December 31, 2017, and submit the following report thereon.

Wherever the designation “the Company” appears herein without qualification, it should be understood to indicate Rochdale Insurance Company.

Wherever the term “Department” appears herein without qualification, it should be understood to mean the New York State Department of Financial Services.

The examination was conducted at the Company’s administrative office located at 200 Hudson Street, Suite 800, Jersey City, New Jersey 07311.

## 1. SCOPE OF EXAMINATION

The Department has performed an examination of the Company, a multi-state insurer. The previous examination was conducted as of December 31, 2014. This examination covered the three-year period from January 1, 2015 through December 31, 2017. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

The examination was conducted in conjunction with the State of Delaware, which was the lead state of the AmTrust Group (“Group”). The examination was performed concurrently with the examination of the following insurers:

<u>Company</u>	<u>State of Domicile</u>
AmTrust Insurance Company of Kansas, Inc.	Kansas
AmTrust Title Insurance Company	New York
ARI Casualty Company	New Jersey
ARI Insurance Company	Pennsylvania
Associated Industries Insurance Company, Inc.	Florida
CorePointe Insurance Company	Delaware
Developers Surety and Indemnity Company	California
First Nonprofit Insurance Company	Delaware
Heritage Indemnity Company	California
Indemnity Company of California	California
Milford Casualty Insurance Company	Delaware
Security National Insurance Company	Delaware
Sequoia Indemnity Company	Nevada
Sequoia Insurance Company	California
Southern Underwriters Insurance Company	Oklahoma
Republic Fire and Casualty Insurance Company	Oklahoma
Republic Lloyds	Texas
Republic Underwriters Insurance Company	Texas
Republic-Vanguard Insurance Company	Arizona
Southern County Mutual Insurance Company	Texas
Southern Insurance Company	Texas
Technology Insurance Company, Inc.	Delaware
Wesco Insurance Company	Delaware

Other states participating in this examination were Arizona, California, Florida, Kansas, Oklahoma, Pennsylvania, Nevada, New Jersey, and Texas.

This examination was conducted in accordance with the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners Handbook (“Handbook”), which requires that we plan and perform the examination to evaluate the financial condition and identify current and prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company and evaluating system controls and procedures used to mitigate those risks. This examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management’s compliance with New York laws, statutory accounting principles, and annual statement instructions.

This examination report includes, but is not limited to, the following:

- Company history
- Management and control
- Territory and plan of operation
- Holding company description
- Reinsurance
- Loss review and analysis
- Financial statement presentation
- Significant subsequent events
- Summary of recommendations

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 that involve departures from laws, regulations or rules, or that are deemed to require explanation or description.

## **2. DESCRIPTION OF COMPANY**

Rochdale Insurance Company was incorporated under the laws of the State of New York on June 29, 1955 and began business on September 14, 1955. Duncanson & Holt, Inc., a New York underwriting management firm, acquired sole ownership of the Company on December 22, 1976. Following the Department’s approval dated July 20, 1992, the Company’s ownership was transferred to Rochdale Capital Corporation, a privately-held company incorporated in the State of New York.

On October 19, 1999, because the Company's surplus level went below the minimum amount required by Section 4103 of the New York Insurance Law, the Company was served with a court order of rehabilitation and went under the control of the New York Insurance Department Liquidation Bureau.

On June 5, 2000, AmTrust Financial Services, Inc. ("AFSI") acquired all of the Company's issued and outstanding stock. In addition to the purchase price of the Company, AFSI contributed \$2,730,923 to the Company's capital and paid in surplus, increasing the Company's surplus to the minimum amount required by the Department. The Superintendent was discharged as rehabilitator of the Company on June 8, 2000.

On December 29, 2000, Technology Insurance Company, Inc. ("TIC"), a wholly-owned subsidiary of AFSI, acquired all of the Company's issued and outstanding common stock from AFSI in satisfaction of indebtedness from AFSI. On October 1, 2012, TIC sold 100% of the issued and outstanding stock of the Company to AmTrust Equity Solutions, Ltd., an affiliate.

A. Corporate Governance

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 seven nor more than 13 members. At December 31, 2017, the board of directors was comprised of the following seven members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Donald Thomas DeCarlo Douglaston, NY	Attorney, Self-employed
Susan Carol Fisch San Francisco, CA	Retired
Stuart Dov Hollander Monsey, NY	President, North American Special Risk Division, AmTrust Financial Services, Inc.
Adam Zev Karkowsky Great Neck, NY	Executive Vice President and Chief Financial Officer, AmTrust Financial Services, Inc.
Harry Schlachter Lawrence, NY	Assistant Treasurer, AmTrust Financial Services, Inc.

Name and ResidencePrincipal Business Affiliation

Eli Tisser  
Brooklyn, NY

Chief Financial Officer,  
Normandy Harbor Insurance Company

Stephen Barry Ungar  
North Hills, NY

General Counsel and Secretary,  
AmTrust Financial Services, Inc.

As of December 31, 2017, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Jeffrey Paul Leo	President
Stephen Barry Ungar	Secretary
Harry Schlachter	Treasurer

B. Territory and Plan of Operation

As of December 31, 2017, the Company was licensed to write business in 16 states and the District of Columbia.

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>
3	Accident & health
4	Fire
5	Miscellaneous property
6	Water damage
7	Burglary and theft
8	Glass
9	Boiler and machinery
10	Elevator
11	Animal
12	Collision
13	Personal injury liability
14	Property damage liability
15	Workers' compensation and employers' liability
16	Fidelity and surety
17	Credit
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine
21	Marine protection and indemnity
24	Credit unemployment

26	Gap (A)(B)(C)(D)
28	Service contract reimbursement
29	Legal services
30	Involuntary unemployment

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

Based upon the lines of business for which the Company is licensed and the Company's current capital structure, and pursuant to the requirements of Articles 13 and 41 of the New York Insurance Law, the Company is required to maintain a minimum surplus to policyholders in the amount of \$5,800,000.

The following schedule shows the direct and assumed premiums written by the Company for the period under examination:

<u>Calendar Year</u>	<u>Direct Premiums</u>	<u>Assumed Premiums</u>	<u>Total Gross Premiums</u>
2015	\$299,662,344	\$96,065,094	\$395,727,438
2016	\$156,211,244	\$99,798,345	\$256,009,589
2017	\$ 4,969,820	\$28,175,152	\$ 33,144,972

Approximately 87% of the Company's direct writings in 2017 were concentrated in New York. The major lines of business written and assumed during 2017 were workers' compensation and commercial multiple peril, which accounted for 79.80% and 23.85% of direct written premiums, respectively. Effective October 1, 2017, the Company transitioned into run-off and ceased to write business as a result of the AmTrust Group's structural changes.

#### C. Reinsurance Ceded

##### Inter-company Pooling Agreement

Effective October 1, 2017, the Company entered into an inter-company reinsurance pooling agreement which includes TIC, as reinsurer, and 15 other U.S. property and casualty affiliated insurers. Pursuant to the terms of the agreement, the following companies cede 100% of all underwriting assets, liabilities and expenses, as well as underwriting income and losses, net of applicable reinsurance, to TIC:

AmTrust Insurance Company of Kansas, Inc.  
ARI Insurance Company  
ARI Casualty Insurance Company  
Associated Industries Insurance Company, Inc.  
CorePointe Insurance Company  
Developers Surety and Indemnity Company  
First Nonprofit Insurance Company  
Heritage Indemnity Company  
Indemnity Company of California  
Milford Casualty Insurance Company  
Rochdale Insurance Company  
Republic Underwriters Insurance Company  
Security National Insurance Company  
Sequoia Indemnity Company  
Sequoia Insurance Company  
Wesco Insurance Company

TIC retains 55% of the net pool and retrocedes the remaining 45% to the following pool participants:

Developers Surety and Indemnity Company (10%)  
Security National Insurance Company (10%)  
Wesco Insurance Company (25%)

Prior to the effective date of the pool, the Company had multiple inter-company reinsurance agreements in effect with AmTrust International Insurance, Ltd. (“AAIL”) and TIC. In connection with the pooling agreement, the Company entered into a commutation and release agreement (“Commutation Agreement”) to terminate the current inter-company reinsurance structure. The Commutation Agreement primarily involved inter-company reinsurance agreements where AAIL and TIC were acting as the reinsurers. Under the Commutation Agreement, all property and casualty insurance affiliates agreed to fully and finally settle and commute their respective past, present and future rights, obligations and liabilities (whether known or unknown) as of October 1, 2017. The Company identified businesses that should not be included in pooling, which included third party reinsurance that will remain on the individual pool participants books.

The Company ceded \$1,695,000 of premiums and has a reinsurance recoverable of \$344,867,000 from its affiliate, TIC, as reported in the Company’s Annual Statement Schedule F as of December 31, 2017. The ceded business from the pooling agreement is collateralized by a trust, pursuant to Department Regulation 114.

As of December 31, 2017, the vast majority of the recoverable amounts reported on Schedule F – Part 3 are due from TIC, an affiliated authorized insurer. It is noted that the reinsurance recoverables from TIC (394% of surplus) is the Company’s most significant financial item. TIC was examined concurrently with the Company and there were no financial adjustments that impacted the surplus of TIC as a result of the examination.

All affiliated reinsurance agreements were filed with the Department pursuant to the provisions of Section 1505(d)(2) of the New York Insurance Law.

Examination review found that the Schedule F data reported by the Company in its filed annual statement accurately reflected its reinsurance transactions. Additionally, management has represented that all material ceded reinsurance agreements transfer both underwriting and timing risk as set forth in the NAIC Accounting Practices and Procedures Manual, Statement of Statutory Accounting Principle (“SSAP”) No. 62R. Representations were supported by an attestation from the Company's Chief Executive Officer and Chief Financial Officer pursuant to the NAIC annual statement instructions. Additionally, examination review indicated that the Company was not a party to any finite reinsurance agreements.

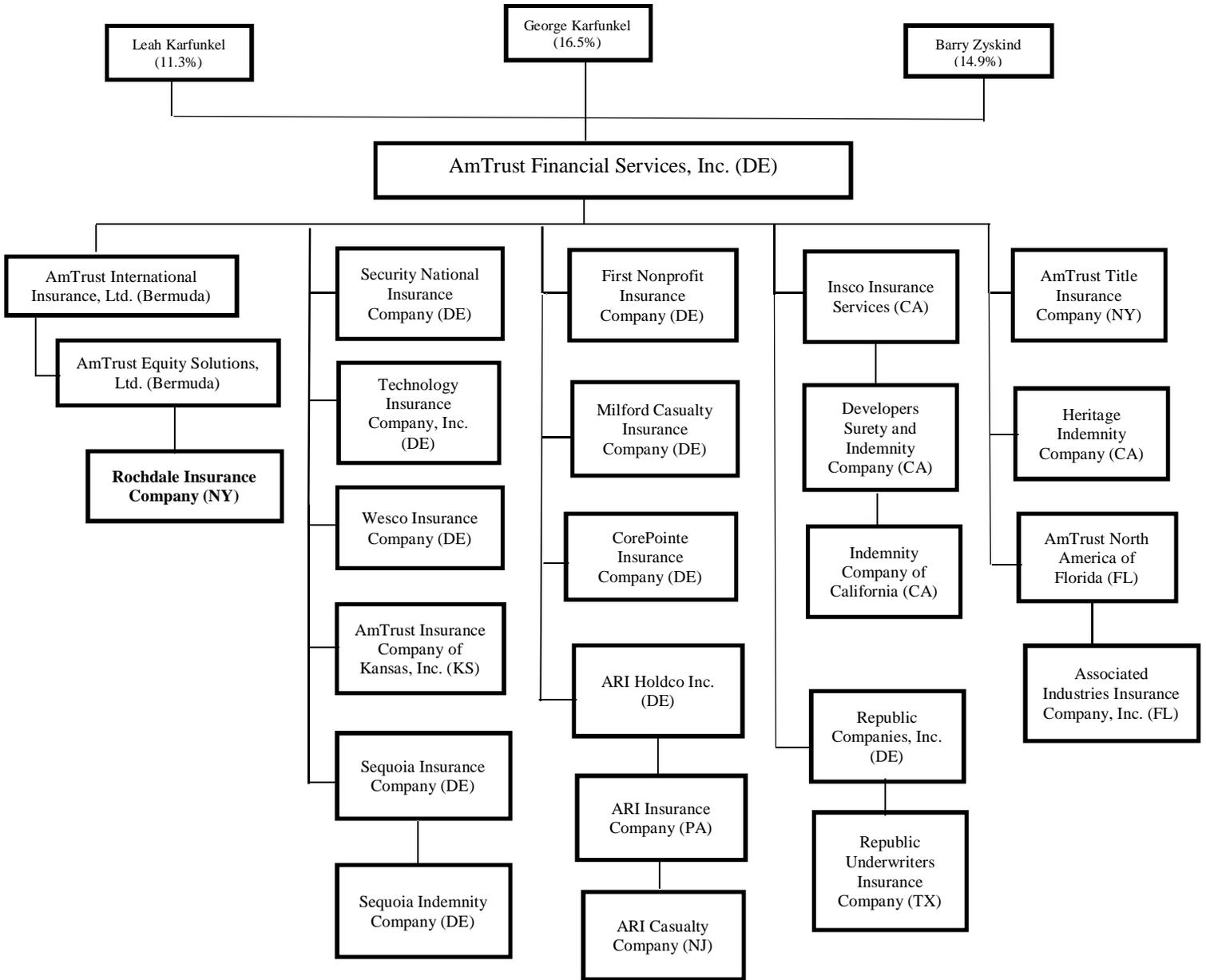
During the period covered by this examination, the Company commuted various reinsurance agreements where it was a ceding and assuming reinsurer. These commutations were neutral to the Company's surplus position.

#### D. Holding Company System

The Company is a member of the AmTrust Group. The Company is wholly-owned by AmTrust Equity Solutions, Ltd., a Bermuda affiliate, which is an indirect subsidiary of AFSI, a Delaware corporation that is publicly-traded on the NASDAQ global exchange. The ultimate controlling parties of AFSI are Leah Karfunkel, George Karfunkel and Barry Zyskind, who beneficially own directly and indirectly an aggregate of 42.7% of the issued and outstanding shares of common stock of AFSI (Leah Karfunkel 11.3%, George Karfunkel 16.5% and Barry Zyskind 14.9%, collectively, the “Karfunkel-Zyskind Family”) based on 196,053,133 shares of AFSI common stock outstanding as of December 31, 2017.

A review of the holding company registration statements filed with this Department indicated that such filings were complete and were filed in a timely manner pursuant to Article 15 of the New York Insurance Law and Department Regulation 52.

The following is an abridged chart of the holding company system at December 31, 2017:



At December 31, 2017, the Company was party to the following agreements with other members of its holding company system:

#### Management Agreement

Effective January 1, 2001, AFSI provides management services to the Company and TIC. Pursuant to the agreement, AFSI provides all required financial, administrative, underwriting and accounting services including premium collections and refunds for the Company and TIC. The Company and TIC each pay AFSI a fee equal to the lesser of 2% of their respective written premiums or \$500,000.

The management agreement was approved by the Department pursuant to Section 1505(d) of the New York Insurance Law.

#### General Agency Agreement

Effective July 1, 2002, the Company entered into a general agency and services agreement with TIC and AmTrust North America, Inc. (“ANA”), whereby ANA performs the underwriting functions, marketing and administrative services with regard to all policies issued by the Company. Furthermore, ANA and its agents solicit and accept applications for policies and perform certain processing functions in full conformance with all laws and regulations pertaining to the appointment of general agents. On January 1, 2008, this agreement was amended to provide that ANA is also responsible for providing and overseeing the claims administration for the Company. On August 21, 2009, the agreement was amended to provide that ANA is responsible for all costs, expenses, assessments and fines relating to servicing carrier contracts.

The general agency and services agreement and the amendments were approved by the Department pursuant to Section 1505(d) of the New York Insurance Law.

#### Claim Service Agreement

Effective April 8, 2002, the Company entered into a claim service agreement with AFSI, whereby AFSI administers the run-off of the business written by the Company prior to June 8, 2000, as well as certain types of specialty products and surety bonds written by the Company thereafter. The Company retains compromise and settlement authority over claims subject to this agreement and has ultimate control and supervision over the entire claim process.

The claim service agreement was approved by the Department pursuant to Section 1505(d) of the New York Insurance Law.

E. Significant Ratios

The Company's operating ratios, computed as of December 31, 2017, fall within the benchmark ranges set forth in the Insurance Regulatory Information System of the NAIC, except for the "two-year overall operating" ratio\* as noted below.

<u>Operating Ratios</u>	<u>Result</u>
Net premiums written to surplus as regards policyholders	36%
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	66%
Two-year overall operating	108%*

The "two-year overall operating" ratio of 108% falls outside the benchmark ranges set forth in the Insurance Regulatory Information System of the NAIC and is primarily due to the Company's poor underwriting performance.

Underwriting Ratios

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

	<u>Amounts</u>	<u>Ratios</u>
Losses and loss adjustment expenses incurred	\$262,859,975	73.96%
Other underwriting expenses incurred	93,486,488	26.30
Net underwriting loss	<u>(942,101)</u>	<u>(0.27)</u>
Premiums earned	<u>\$355,404,362</u>	<u>100.00%</u>

The Company's reported risk-based capital score ("RBC") was 2,000.8% at December 31, 2017. The RBC is a measure of the minimum amount of capital appropriate for a reporting entity to support its overall business operations in consideration of its size and risk profile. An RBC of 200 or below can result in regulatory action. There were no financial adjustments in this report that impacted the Company's RBC score.

### 3. FINANCIAL STATEMENTS

#### A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2017, as reported by the Company:

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$204,137,596	\$0	\$204,137,596
Cash, cash equivalents and short-term investments	2,821,636		2,821,636
Other invested assets	885,837		885,837
Investment income due and accrued	1,920,780		1,920,780
Amounts recoverable from reinsurers	516,838		516,838
Funds held by or deposited with reinsured companies	37,180		37,180
Current federal and foreign income tax recoverable and interest thereon	<u>14,349,759</u>	<u>0</u>	<u>14,349,759</u>
Total assets	<u>\$224,669,626</u>	<u>\$0</u>	<u>\$224,669,626</u>

Liabilities, Surplus and Other FundsLiabilities

Losses and loss adjustment expenses	\$ (14)
Reinsurance payable on paid losses and loss adjustment expenses	704,440
Other expenses (excluding taxes, licenses and fees)	135,225
Net deferred tax liability	320,870
Ceded reinsurance premiums payable (net of ceding commissions)	(1,310,387)
Funds held by company under reinsurance treaties	491,170
Provision for reinsurance	2,281,963
Payable to parent, subsidiaries and affiliates	<u>134,501,915</u>
 Total liabilities	 137,125,182

Surplus and Other Funds

Common capital stock	\$ 3,000,000
Gross paid in and contributed surplus	32,274,247
Unassigned funds (surplus)	<u>52,270,197</u>
Surplus as regards policyholders	<u>87,544,444</u>
 Total liabilities, surplus and other funds	 <u>\$224,669,626</u>

Note: The Internal Revenue Service has not audited tax returns covering tax years 2015 through 2017. 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.

## B. Statement of Income

The net income for the examination period, as reported by the Company, was \$14,932,856 as detailed below:

### Underwriting Income

Premiums earned		\$355,404,362
Deductions:		
Losses and loss adjustment expenses incurred	\$262,859,975	
Other underwriting expenses incurred	<u>93,486,488</u>	
Total underwriting deductions		<u>356,346,463</u>
Net underwriting gain or (loss)		\$ (942,101)

### Investment Income

Net investment income earned	\$ 17,389,628	
Net realized capital gain	<u>2,476,552</u>	
Net investment gain or (loss)		\$ 19,866,180

### Other Income

Net gain or (loss) from agents' or premium balances charged off	\$ (3,532,298)	
Finance and service charges not included in premiums	(4,611)	
Miscellaneous income or (loss)	<u>(57,115)</u>	
Total other income (loss)		<u>(3,594,024)</u>
Net income before dividends to policyholders and before federal and foreign income taxes		\$ 15,330,055
Dividends to policyholders		<u>452,966</u>
Net income after dividends to policyholders but before federal and foreign income taxes		\$ 14,877,089
Federal and foreign income taxes incurred		<u>(55,767)</u>
Net income		\$ <u>14,932,856</u>

C. Capital and Surplus

Surplus as regards policyholders increased \$5,194,370 during the three-year examination period January 1, 2015 through December 31, 2017, as reported by the Company, detailed as follows:

Surplus as regards policyholders, as reported by the Company as of December 31, 2014			\$82,350,074
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income	\$14,932,856		
Net unrealized capital gains or (losses)	285,043		
Change in net unrealized foreign exchange capital gain or (loss)	8,175		
Change in net deferred income tax		\$ 3,670,763	
Change in nonadmitted assets	2,232,808		
Change in provision for reinsurance		2,181,163	
Cumulative effect of changes in accounting principles	5,095,711		
Pooling adjustment		11,093,556	
Audit adjustment	<u>                    </u>	<u>414,741</u>	
Total gains and losses	\$22,554,593	\$17,360,223	
Net increase (decrease) in surplus			<u>5,194,370</u>
Surplus as regards policyholders, as reported by the Company as of December 31, 2017			<u>\$87,544,444</u>

No adjustments were made to surplus as a result of this examination.

Capital paid in is \$3,000,000 consisting of 300 shares of \$100 par value per share common stock. Gross paid in and contributed surplus is \$32,274,247. Gross paid in and contributed surplus and capital paid in remained the same during the examination period.

#### **4. LOSSES AND LOSS ADJUSTMENT EXPENSES**

The examination liability for the captioned items of \$(14) is the same as reported by the Company as of December 31, 2017. This is due to the commutation of various reinsurance agreements during the examination period and the Company's decision to stop writing business effective October 1, 2017.

#### **5. SUBSEQUENT EVENTS**

At a special meeting of stockholders of AFSI held on June 21, 2018, it was determined that AFSI would "go-private". Effective November 29, 2018, Evergreen Parent, LP (Evergreen), an entity formed by the Karfunkel-Zyskind Family and other related parties, acquired approximately 45.0% of AFSI's issued and outstanding common shares.

On November 15, 2018, the Department approved the privatization and the application for acquisition of control of the Company pursuant to the requirements of Section 1506 of the New York Insurance Law and Department Regulation 52.

Subsequent to the privatization, George Karfunkel, Barry Zyskind, and Leah Karfunkel remain the ultimate controlling persons of AFSI and the Company.

**6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION**

The prior report on examination contained one recommendation as follows (page number refers to the prior report):

<u>ITEM</u>	<u>PAGE NO.</u>
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A. <u>Reinsurance</u>	
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It was recommended that the trust agreement be amended to comply with the required provisions set forth in Department Regulation No. 114.	9
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The Company has complied with this recommendation.

**7. SUMMARY OF COMMENTS AND RECOMMENDATIONS**

This report on examination contains no comments or recommendations.

Respectfully submitted,

\_\_\_\_\_/S/  
Joseph Revers, CFE  
Associate Insurance Examiner

STATE OF NEW YORK     )  
  )ss:  
COUNTY OF NEW YORK )

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

\_\_\_\_\_/S/  
Joseph Revers

Subscribed and sworn to before me

this \_\_\_\_\_ day of \_\_\_\_\_, 2019.

APPOINTMENT NO. 31763

**NEW YORK STATE**

**DEPARTMENT OF FINANCIAL SERVICES**

I, Maria T. Vullo, Superintendent of Financial Services of the State of New York, pursuant to the provisions of the Financial Services Law and the Insurance Law, do hereby appoint:

**Joseph Revers**

as a proper person to examine the affairs of the

**Rochdale Insurance Company**

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

**COMPANY**

with such other information as he shall deem requisite.

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

this 10th day of May, 2018

**MARIA T. VULLO**  
Superintendent of Financial Services



By:

*Joan P. Riddell*

Joan Riddell  
Deputy Bureau Chief