

REPORT ON EXAMINATION  
AS TO THE CONDITION OF  
PRESERVER INSURANCE COMPANY  
PARAMUS, NEW JERSEY  
AS OF DECEMBER 31, 2009  
NAIC GROUP CODE 3703  
NAIC COMPANY CODE 15586

**FILED**

June 28, 2011

Commissioner  
Department of Banking & Insurance

## TABLE OF CONTENTS

Salutation .....	1
Scope of the Examination .....	1
Compliance with Prior and 2007 Target Examination Report Recommendations .....	3
History and Kind of Business .....	4
Territory and Plan of Operation .....	5
Dividends to Stockholders .....	5
Management and Control.....	6
Corporate Records.....	8
Policy on Conflict of Interest .....	8
Affiliated Companies .....	8
Holding Company System.....	9
Inter-Company Agreement .....	10
Fidelity Bond and Other Insurance Coverages.....	11
Statutory Deposits .....	12
Policy Forms and Underwriting Practices .....	12
Advertising .....	12
Treatment of Policyholders.....	13
Reinsurance .....	13
Accounts and Records .....	15
Independent Accountants .....	15
Actuarial Opinion .....	16
Information Systems Control Review .....	16
Financial Exhibits:	
Statement of Assets, Liabilities, Surplus and Other Funds	
At December 31, 2009 (Exhibit A) .....	18
Underwriting and Investment Exhibit for the four year period ending	
December 31, 2009 (Exhibit B) .....	19
Capital and Surplus for the four year period ending	
December 31, 2009 (Exhibit C) .....	20
Schedule of Examination Adjustments .....	21
Notes to Financial Statements .....	21
Loss and Loss Adjustment Expense Reserves-Statement by NJDOBI Actuary.....	21
Subsequent Events.....	22
Summary of Recommendation .....	22
Conclusion .....	23



State of New Jersey

DEPARTMENT OF BANKING AND INSURANCE  
OFFICE OF SOLVENCY REGULATION

PO Box 325  
TRENTON, NJ 08625-0325

TEL (609) 292-5350  
FAX (609) 292-6765

CHRIS CHRISTIE  
*Governor*

KIM GUADAGNO  
*Lt. Governor*

THOMAS B. CONSIDINE  
*Commissioner*

April 21, 2011

Honorable Thomas B. Considine  
Commissioner of Banking and Insurance  
State of New Jersey  
20 West State Street  
Trenton, New Jersey 08625-0325

Commissioner:

Pursuant to instructions and in accordance with N.J.S.A. 17:23-22, an examination as of December 31, 2009 was made of the financial condition and affairs of

**PRESERVER INSURANCE COMPANY**  
**NAIC GROUP CODE 3703 NAIC COMPANY CODE 15586**

Hereinafter referred to as the "Company".

**SCOPE OF THE EXAMINATION**

This financial condition examination was called by the Commissioner of Banking and Insurance of the State of New Jersey pursuant to the authority granted by N.J.S.A. 17:23-22. The examination was a full scope comprehensive examination and was conducted at the Company's home office located at 120 Broadway, New York, 10271. The New York State Insurance Department conducted a concurrent examination of the Tower Insurance Company (TICNY), a New York domiciled insurer and is the lead State in the Tower Pool. (see Reinsurance Section in this report). Other States that participated were: New Hampshire, Illinois, Maine and Massachusetts.

The Company was last examined as of December 31, 2004. The current examination covers the period from January 1, 2005 through December 31, 2009 and was conducted under the NAIC's Lead State approach.

The examination was conducted in accordance with the NAIC Financial Condition Examiners Handbook. The Handbook requires that the examination be planned and performed to evaluate the financial condition and identify prospective risks of the company by obtaining information about the company, including corporate governance, identification and assessment of inherent risks within the company and evaluation of system controls and procedures used to mitigate those risks. An examination also includes assessment of the principles used and significant estimates made by management, as well as evaluation of the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations. The general procedure of the examination followed the rules established by the Financial Condition, Examination and Reporting Committee of the NAIC, and included such other examination procedures as were deemed necessary.

During the course of this examination, consideration was given to work performed by both the Company's Internal Audit Department (IAD) as regards to their oversight of compliance with Sarbanes-Oxley (SOX), risk analysis, documentation, test work, remediation efforts over weaknesses identified, and by the Company's external accounting firm. Certain auditor workpapers have been incorporated into the workpapers of the examiners and have been utilized in determining the scope and areas of emphasis in conducting the examination.

In addition to the review of the Company's operations during the five-year period ending December 31, 2009, and a determination of its financial condition as of the later date, transactions occurring subsequent to the examination date were reviewed and incorporated herein when deemed appropriate. A review was made of the following matters to ascertain the Company's financial condition and its conformity with the insurance laws of the various jurisdictions in which it operates:

- History and Kind of Business
- Territory and Plan of Operation
- Management and Control
- Corporate Records
- Policy on Conflict of Interest
- Affiliated Companies
- Holding Company System
- Inter-company Agreements
- Fidelity Bond and Other Insurance Coverages
- Policy Forms and Underwriting
- Advertising
- Treatment of Policyholders
- Reinsurance
- Accounts and Records

No market conduct examination activities were undertaken. This report is confined to financial statements and comments on matters, which involve departures from

law, regulations, rules, or any other matters, which are deemed to require special explanation or description.

Surplus as regards policyholders determined by the examination, at the examination date, consisted of the following:

Common Capital Stock	\$4,850,000
Gross Paid in and Contributed Surplus	33,160,508
Unassigned Funds	(1,707,956)
Special Surplus Funds	888,654
Surplus as Regards Policyholders	\$37,191,206

**COMPLIANCE WITH PRIOR EXAMINATION REPORT  
RECOMMENDATIONS**

It was recommended that the Company execute all reinsurance contracts on a timely manner.

The Company has complied with this recommendation.

It was recommended that the Company fully populate the business continuity plan and establish a regular and rigorous test regime to help ensure that the plan will function as designed in the event it is needed.

The Company has complied with this recommendation.

It was recommended that the Company update its custodian agreement and include provision stating the obligation of the Custodian in accordance with NAIC guidelines.

The Company has complied with this recommendation.

It was recommended that Schedule P be done correctly so that losses are classified in the correct lines of business in future Annual Statements.

The Company has complied with this recommendation.

## **HISTORY AND KIND OF BUSINESS**

The formation of the Company was made pursuant to the Certificate of Incorporation dated December 8, 1992. Said Certificate of Incorporation was approved by the Attorney General of New Jersey on December 22, 1992 and filed with the New Jersey Department of Banking and Insurance dated December 29, 1992. The authorized capital stock of the Company is Two Million Dollars (\$2,000,000.00) consisting of Two Hundred Thousand (200,000) shares of common stock with a par value of Ten Dollars (\$10.00) each.

An amendment to the Certificate of Incorporation dated June 30, 1995 and filed on August 10, 1995 with the New Jersey Department of Banking and Insurance increased the capital stock of said Company to Two Million Six Hundred Thousand Dollars (\$2,600,000) consisting of Two Hundred Sixty Thousand (260,000) shares of common stock with a par value of Ten Dollars (\$10.00) each.

The Company is authorized through its Certificate of Incorporation to transact the business of insurance as specified in paragraphs "a", "b", "e", "f", "j", "k", "l", "o-1" and "o-3" of N.J.S.A. 17:17-1. An amendment to the Certificate of Incorporation dated May 2, 1996 and filed on June 28, 1996 with the Department of Banking and Insurance, effective said date, changed the place where said Company is to be located and its general business conducted to 95 Route 17 South, Paramus, New Jersey 07653.

On April 10, 2007, Preserver Group, Inc., the parent for the Company, was purchased by Tower Group, Inc (TGI) and Tower Insurance Company of NY (TICNY). The purchase included the Company and its subsidiaries, North East Insurance Company, Mountain Valley Indemnity Company, and North Atlantic Underwriters, Inc. On July 31, 2007, the company amended its certificate of incorporation to add lines "g", "m" and "o", plus Health Insurance, and increased its authorized capital stock to \$5,000,000.00 consisting of 500,000 shares of common stock with a par value of \$10.00 each.

The Company's current statutory home office is located at 95 Route 17 South, Paramus, NJ 07653-0931. The examination was conducted at the Company's home office located at 120 Broadway, New York, NY 10271. The registered agent upon whom process may be served is Corporation Trust Company, 820 Bear Tavern Road, West Trenton, NJ 08628, the Company's statutory home office.

## **TERRITORY AND PLAN OF OPERATION**

At December 31, 2009, the Company was licensed to conduct the business of insurance in 23 states.

The Company wrote \$32,439,157 of direct premiums in 2009 on the following coverages:

<u>Types of Coverage</u>	<u>Direct Premiums Written</u>
Fire	\$323,819
Allied Lines	200,961
Homeowners Multiple Peril	(20,177)
Commercial Multiple Peril	12,447,125
Inland Marine	84,496
Workers' Compensation	10,277,703
Other Liability – Occurrence	835,199
Products Liability – occurrence	682
Commercial Auto Liability	6,855,083
Auto Physical Damage	1,430,793
Fidelity	259
Burglary and theft	1,124
Boiler and Machinery	<u>2,090</u>
Total	\$32,439,157

The Company's direct written business is produced through independent agents and consists of commercial insurance lines with a primary focus on commercial package policies in New Jersey and California.

The Company uses reinsurance intermediary brokers Aon Benfield, Towers Watson and Guy Carpenter to negotiate its reinsurance. These brokers are licensed either in New Jersey or in other accredited states having similar laws to the State of New Jersey.

## **DIVIDENDS TO STOCKHOLDERS**

No dividends to stockholders were paid during the examination period.

## **MANAGEMENT AND CONTROL**

### Stockholders

The by-laws of the Company state that the annual meeting of the stockholders of the Corporation shall be held within or without the State of New Jersey, at such time and on such date (between March 1 and July 1 of each year) as may be fixed by the Board of Directors and shall be designated in the notice of said meeting, for the purpose of electing directors and for the transaction of such other business as may properly be brought before the meeting.

## Board of Directors

The by-laws of the Company, as amended through March 31, 1994, vest the management and corporate powers of the Company in a Board of Directors that shall consist of not more than 25 directors nor less than 5 directors.

The members of the Board of Directors elected and serving at December 31, 2009 were as follows:

<u>Name</u>	<u>Principal Occupation</u>
Charles A. Bryan	Consultant, CAB Consulting, LLC
William W. Fox, Jr.	Director
Michael H. Lee	President & CEO, Tower Group Inc.
William A. Robbie	Self-employed
Steven W. Schuster	Law Partner, McLaughlin & Stern LLP
Robert S. Smith	Self-employed
Jan R. VanGorder	Director
Austin P. Young III	Director

The Company is in compliance with the N.J.S.A. 17:27A-4d(3) which provides that "Not less than one-third of the members of a domestic insurer shall be persons who are not officers or employees of that insurer...". The Audit Committee is in compliance with the above Statute.

The Company is also in compliance with N.J.S.A. 17:27A-4d(4) which states "that the board of directors of a domestic insurer shall establish one or more committees comprised solely of directors who are not officers or employees of the insurer or of any entity controlling, controlled by, or under common control with, the insurer and who are not beneficial owners of a controlling interest in the voting securities of the insurer or any such entity. The committee shall be responsible for recommending the selection of independent certified public accountants, reviewing the insurer's financial condition, the scope and results of the independent audit and any internal audit, nominating candidates for director for election by shareholders or policyholders, evaluating the performance of officers deemed to be principal officers of the insurer and recommending to the board of directors the selection and compensation, including bonuses or other special payments, of the principal officers." The Company is in compliance with this Statute.

## Committees

The by-laws provide that the Board of Director may appoint an Executive Committee and such other Committees, which shall have and may exercise such powers, in conformity with the laws of the State of New Jersey.

The ultimate parent, Tower Group, Inc. has the following committees:

### Audit Committee

Austin P. Young III  
Charles A. Bryan  
William W. Fox, Jr.  
William A. Robbie

### Compensation Committee

Charles A. Bryan  
Steven W. Schuster  
Robert S. Smith  
Jan R. Van Gorder

### Corporate Governance and Nominating Committee

Charles A. Bryan  
Steven W. Schuster  
William W. Fox, Jr.  
Jan R. Van Gorder

### Investment Committee

Robert S. Smith  
William A. Robbie  
Austin P. Young III  
Steven W. Schuster  
This committee was established in early 2009.

## Officers

The by-laws provide that the Board of Directors as soon after the annual meeting of stockholders as possible, shall elect a Chairman of the Board, a President, one or more Executive Vice Presidents, one or more Senior Vice Presidents and Vice Presidents, a Secretary and a Treasurer.

The elected officers of the Company at December 31, 2009 follow:

President & Chief Executive Officer	Michael H. Lee
Managing Vice President, Chief Financial Officer, Treasurer	Michael C. Haines
Senior Vice President, General Counsel, Secretary	Elliot S. Orol
Senior Vice President, Chief Actuary & Strategic Planning	Joel S. Weiner
Senior Vice President & Chief Underwriting Officer	Gary S. Maier

### **CORPORATE RECORDS**

The minutes of the meetings of the Board of Directors were reviewed and found to support adequately the Company transactions and events. There are several key management committees at the parent level which provide governance and serve each company in the Tower Group.

### **POLICY ON CONFLICTS OF INTEREST**

The Company has adopted a Code of Business Conduct and Ethics. This policy states that every employee, officer and director read and understands the Code and its application to the performance of his or her business responsibilities. All employees must sign an acknowledgement that they have received and read a copy of the Code as a condition of employment and may be asked to reaffirm their receipt of the document at the discretion of the Company.

### **AFFILIATED COMPANIES**

On April 10, 2007, Preserver Group, Inc., the parent for the company, was purchased by Tower Group Inc and TICNY. The purchase included the Company and its affiliates North East Insurance Company, Mountain Valley Indemnity Company and Northern Atlantic Underwriters, Inc. The Company had no subsidiaries at December 31, 2009.

A review indicated that holding company filings were made for the period under examination by Preserver Insurance Company as registrant until the April 10, 2007 acquisition of the Company by Tower Group, Inc. and TCINY. After such time, holding company filings were made for the remainder of the period under examination by Tower Group, Inc. as registrant to the requirements and standards under N.J.S.A. 17:27A-3.



## **INTER-COMPANY AGREEMENTS**

The Company has the following significant financial related agreements/transactions with its affiliates:

**Pooling Agreement - Tower Insurance Company of New York** is lead insurance company (See Reinsurance - Intercompany Pooling in this report.)

### **Quota Share Agreement with CastlePoint Reinsurance Company**

Effective July 1, 2009, TICNY, Tower National Insurance Company (TNIC), Preserver Insurance Company (PIC), Mountain Valley Indemnity Company (MVIC), North East Insurance Company (NEIC), CastlePoint Insurance Company (CPIC), Hermitage Insurance Company (HIC), and Kodiak Insurance Company (KIC), (collectively “the Companies”) entered into 50% net quota share reinsurance agreement with CastlePoint Reinsurance Company (CPRC), whereby the Companies cede 50% of their net retained liability to CPRC. The Inter-company Agreement was revised on January 1, 2010, to include SUA.

### **Tax Allocation Agreement with all Tower Companies**

TICNY entered into a tax allocation agreement with Tower Group and each of its subsidiaries to jointly file consolidated federal income tax returns in accordance with the relevant Internal Revenue Service regulations.

The agreement was dated September 12, 2008.

### **Service and Expense Sharing Agreement with Tower Insurance Company of New York**

Effective May 1, 2009, the company entered into a Service & Expense Sharing Agreement with the Tower insurance Company. Under the terms of this agreement, TICNY performs all functions related to the conduct of property and casualty business.

Services:

Underwriting and Marketing

Policy Issuance, Billing and Collection

State Filing

Loss Prevention/Premium Audit

Claims

Legal

Corporate Services: Accounting, Human Resources and MIS

## **Cost Allocation Agreement with Preserver Group Inc. (PGI is a New Jersey Holding Company)**

Certain managerial services are provided by PGI to the Company and PIC through an inter-company service agreement, effective January 1, 2003. These include administrative, operating and information systems services. PGI collects premiums on behalf of the Company. The Company reimburses PGI for expenses allocated to it, including a 5% management fee.

## **FIDELITY BOND AND OTHER INSURANCE COVERAGES**

The Company, in conjunction with its parent and other subsidiaries, is protected against loss or damage by various insurance coverages in amounts deemed sufficient to protect the interest of the Companies. The major insurance coverages at December 31, 2009, are as follows:

### Fidelity Bond Coverage

Insurer: St. Paul Fire and Marine Insurance Company

Financial Institution Bond - insures the Company against possible losses from dishonesty or fraudulent acts committed by an employee. Coverage includes forgery or alteration of Company records, securities, counterfeit currency, servicing contractors/third party administrators or computer systems - limit \$5,000,000 with a \$250,000 deductible per each single occurrence.

The current limit of the Company's fidelity coverage complies with the NAIC suggested minimum requirement.

### Other Insurance Coverages

The Company had the following additional insurance coverages through its ultimate parent, Tower Group, Inc. at December 31, 2009:

Commercial Package Policy

Business Auto

Workers Compensation

Umbrella

Directors and Officers and Company Securities Liability

## **STATUTORY DEPOSITS**

The following is a list of deposits as of December 31, 2009 for the states that require the Company to maintain a deposit for the benefit of all policyholders or the policyholders of the particular state.

The securities held are either US Treasury Notes or a specific security and are in the following amounts and for the indicated states:

<b><u>State</u></b>	<b><u>Statement Value</u></b>
Arizona	\$ 103,199
Arkansas	161,212
California	110,287
Idaho	250,596
Massachusetts	186,324
New Jersey	2,116,074
Oregon	381,836
Total	<u>\$3,309,628</u>

The New Jersey deposit was held for the protection of all policyholders while the other deposits were held for the protection of the policyholders in the named jurisdictions.

## **POLICY FORMS AND UNDERWRITING**

The Company filed its rates and underwriting rules with the New Jersey Department of Banking and Insurance for their Auto liability, Auto physical damage, Commercial property peril, Crime, Fire, General Liability, Glass, Homeowners and Inland Marine lines of business. The rate and underwriting rule filings have been reviewed and approved by the Department and has been determined to be in compliance with N.J.S.A. 17:29A-46 et seq.

The Company uses Insurance Services Office (ISO) forms and independently files their own rates and rules for their Commercial multiple peril – non liability portion, Homeowners multiple peril, Commercial multiple peril – liability portion and Other liability – occurrence lines of business. These line filings have been reviewed and approved by the Department and have been determined to be in compliance with N.J.S.A. 17:29A-1 in accordance with N.J.A.C. 11:1-2 et seq.

## **ADVERTISING**

A review of the Company's advertisements indicated that it is in compliance with N.J.S.A. 17:18-10.

## **TREATMENT OF POLICYHOLDERS**

N.J.S.A. 17:29-B4 (10) requires the maintenance of a complete record of all complaints received by the Company since the date of the prior examination. The complaint register maintained by the Company was reviewed and was determined to be in compliance.

## **REINSURANCE**

### **Inter-company Reinsurance**

Effective January 1, 2008, the TICNY (“Pool Manager”), entered into a pooling agreement with its affiliates Tower National Insurance Company (TNIC), Preserver Insurance Company (PIC), North East Insurance Company (NEIC), and Mountain Valley Indemnity Company (MVIC), collectively referred to as “the Participants”. Pursuant to the terms of the agreement, the Participants cede 100% of all direct and assumed business written net of facultative reinsurance to Pool Manager, and Pool Manager accepts as assumed reinsurance 100% of the net liabilities with respect to policies issued by the Participants. At the same time, Pool Manager retrocedes the net liabilities under all business written or assumed by Pool Manager (including business assumed by the Pool Manager under this agreement), net of ceded reinsurance, (except amounts ceded to Participants), to the Participants according to pre-set percentages.

On February 5, 2009, the Pooling agreement was amended to include CastlePoint Insurance Company (CPIC), as result of the acquisition of CPIC by Tower Group, Inc. (TGI), the Company’s ultimate parent.

On April 1, 2009, the Pooling agreement was amended to include Hermitage Insurance Company (HIC), as result of the acquisition of HIC by TG.

On December 31, 2009, the Pooling agreement was amended to include CastlePoint National Insurance Company (CPNIC) (formerly known as SUA Insurance Company), as result of the acquisition of CPNIC by TG.

The amendments were approved on December 4, 2008, April 28, 2008, April 27, 2009 and May 13, 2010, respectively.

The shares of each participating company since the inception of the Pool in 2008 and the three amendments as of December 31, 2009 are as follows:

Name of Insurer	Participation as of 12/31/2008	Amended Participation percentage 2/5/2009	Amended Participation percentage 4/1/2009	Amended Participation percentage 12/31/2009
Tower Insurance Company of New York ("TICNY")	79%	54%	44%	37%
CastlePoint National Insurance Company ("CPNIC")	0%	0%	0%	18%
CastlePoint Insurance Company ("CPIC")	0%	25%	21%	16%
Hermitage Insurance Company ("HIC")	0%	0%	17%	13%
Preserver Insurance Company ("PIC")	9%	10%	8%	7%
North East Insurance Company ("NEIC")	5%	5%	4%	4%
Mountain Valley Indemnity Company ("MVIC")	3%	3%	3%	3%
Tower National Insurance Company ("TNIC")	4%	3%	3%	2%

According to the agreement, the Pool Manager has to prepare an account showing the apportionment of results of the Pool in accordance with the agreement within 30 days following the last day of each quarter. The balance has to be settled within 15 days after the preparation and receipt of the account report.

#### Assumed Reinsurance

The Company does assume business on a 100% Quota Share basis business written by its affiliate Kodiak Insurance Company. It also assumed business through National Workers Comp Reinsurance Pool, New Jersey Commercial Auto Insurance Procedure, and the New Jersey Fair Plan.

### Reinsurance Ceded

Pursuant to the pooling agreement all of the company's reinsurance is ceded to the lead state in the pool (Tower Insurance Company of New York). Reinsurance ceded contracts in force as of December 31, 2009 of the Tower Insurance Company of New York were reviewed as part of the examination procedures for reinsurance. Reinsurance ceded contracts are designed to manage the company's liability emanating from the exposures covered by the policies issued by the direct writing company.

### ACCOUNTS AND RECORDS

The general books of account and subsidiary records are maintained at the Company's parent office located at 120 Broadway, New York, NY, 10271. The Company utilizes an IBM AS400 mainframe computer which runs Policy Management Systems Corporation's Point software for Premium Processing and Claims Processing.

The general ledger system utilized by the Company is SunGard General Ledger software. The accounts payable system utilized by the Company is SunGard Accounts Payable software.

Since 2007, the Company has utilized the investment management services of Hyperion Brookfield Asset Management Inc. & Standish Mellon Asset Management Company, LLC. The Company maintains a manual reinsurance accounting process.

### Independent Accountants

The Company's financial statements were audited by the firm of Johnson Lambert & Company, of Falls Church, Virginia. The examiners reviewed the audited statutory financial statements for the years ended 2008 and 2009. For those years, the Company was issued an unqualified opinion.

As noted in the "Scope of Examination" section of this report, the examiners reviewed Johnson Lambert & Company's 2009 work papers, and incorporated their work and findings as deemed applicable to the current examination. In 2010 the company retained the services of PricewaterhouseCoopers to perform the independent audit of its financial statements.

### Actuarial Opinion

The Company's loss reserves and related actuarial items were reviewed by Towers-Watson-Perrin, who issued a statement of actuarial opinion based on the financial information presented by the Company. "The opinion stated that the reserves and related actuarial values carried on the balance sheet were computed in accordance with accepted loss reserving standards and principles. Further states, reserves are reasonable in the aggregate for unpaid loss and loss expense obligations and all unearned premium obligations of the Company related to long duration contracts under the terms of its contracts and agreements and met the requirements of the insurance laws of the state of New Jersey."

The loss reserving review was performed by the New York State Insurance Department and reviewed by the New Jersey Department of Banking and Insurance. The findings from the review are discussed in Note 1 of the "Notes to Financial Statements" section of this Report.

### Information Systems Control Review

In conjunction with the statutory examination of Tower Insurance Company of New York and affiliates, the New York Department of Insurance engaged Noble Consulting Services Inc. to perform a review of the Company's Information Technology General Controls (ITGC) and General Application controls (GAC). This was performed as indicated by 2010 NAIC Financial Condition Examiners Handbook (NAIC Handbook). The Company's responses to the Information Technology Planning Questionnaire (NAIC Handbook Exhibit C) which provides a high level overview of the Company's Information Technology environment was reviewed. The NAIC Handbook Exhibit C documentation provided by the Company and Sarbanes Oxley (SOX) documentation along with external auditors testing of SOX were utilized to gain a basic understanding of the Company's control environment. Based on the knowledge gained from the review of the documentation, a work program was developed which identified the scope of the general information technology risks to be reviewed.

Based on the Information Technology (IT) examination, it appears that the Company has effective risk mitigation strategies/internal controls in place related to information system controls. This conclusion is based on the existence and application of policies and procedures in key areas related to Exhibit C, as well as effective risk assessment processes that were in place during the period from January 1, 2009 and until March 2011.

## **FINANCIAL STATEMENTS AND OTHER EXHIBITS**

Financial statements and other exhibits are presented as listed below:

Exhibit A - Comparative Statement of Assets, Liabilities, Surplus and Other Funds at December 31, 2009

Exhibit B – Underwriting and Investment Exhibit for the five year examination period ended December 31, 2009

Exhibit C – Capital and Surplus Account for the five year examination period ended December 31, 2009

Comparative Statement of Assets  
Liabilities, Surplus and Other Funds at  
December 31, 2009 and December 31, 2004

Exhibit A

	Balance per <u>Examination</u>	Balance per <u>Company</u>	<u>Note</u>	<u>Examination Change</u>	Balance per Company as of 12/31/04
<b>Assets:</b>					
Bonds		\$89,500,945			\$90,218,618
Preferred and Common Stocks		1,502,750			0
Cash, Cash Equivalents & Short term investments		659,465			6,634,564
Receivable for Securities		10,248			0
Investment income due and accrued		1,025,210			979,128
Uncollected premium and agents' balances in the course of collection		10,260,230			2,662,445
Deferred premiums, agents' balances and installments booked but deferred and not yet due		9,344,510			13,620,230
Accrued retrospective premiums		218,300			0
Amounts recoverable from reinsurers		16,748,612			5,357,383
Other amounts receivable under reinsurance contracts		8,944,317			0
Current Federal and Foreign income tax recoverable and interest thereon		2,231,318			1,048,187
Net deferred tax asset		3,421,950			3,900,241
Receivable from parent, subsidiaries and affiliates		0			6,472,178
Aggregate write-ins for other than invested assets		1,131,901			232,564
<b>Total Assets</b>		<u>\$144,999,756</u>			<u>\$131,125,538</u>
<b>Liabilities:</b>					
Losses		\$39,365,470	1		\$55,083,607
Reinsurance payable on paid loss and LAE		10,755,033			56,239
Loss adjustment expenses		9,167,271	1		13,871,154
Commission payable, contingent commissions and other similar charges		503,931			577,930
Other expenses		1,140,862			410,461
Taxes, licenses and fees		0			699,561
Current federal and foreign income taxes		100,240			554,839
Unearned premiums		23,693,747			25,348,380
Advance premiums		593,708			0
Ceded reinsurance premium payable		(6,066,029)			(846,067)
Funds held by company under reinsurance treaties		961,600			0
Amounts withheld or retained by company for account of others		649,664			228,987
Provision for reinsurance					135,453
Payable to parent, subsidiaries and affiliates		24,386,168			0
Aggregate write ins for liabilities		2,556,885			0
<b>Total Liabilities</b>		<u>\$107,808,550</u>			<u>\$96,120,544</u>
<b>Capital and Surplus:</b>					
Common capital stock		\$888,654			\$2,600,000
Surplus notes		4,850,000			0
Gross paid in and contributed surplus		33,160,508			33,160,508
Unassigned funds		(1,707,956)			(755,514)
Surplus as regards policyholders		<u>\$37,191,206</u>			<u>\$35,004,994</u>
<b>Total Liabilities and Surplus and Other Funds</b>		<u>\$144,999,756</u>			<u>\$131,125,538</u>

Underwriting and Investment Exhibit  
for the five year period ending December 31, 2009

Exhibit B

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
<u>Underwriting Income</u>					
Premiums earned	\$43,898,216	\$38,880,638	\$36,267,664	\$28,309,589	\$53,584,683
Deductions:					
Losses incurred	16,855,831	12,628,883	18,038,538	10,824,473	27,089,718
Loss adjustment expenses incurred	7,337,682	7,457,299	2,384,211	3,821,983	6,551,346
Other underwriting expenses incurred	19,858,588	19,390,213	14,092,895	10,075,568	19,404,533
Aggregate write-ins for underwriting deductions	0	0	0	0	0
Total underwriting deductions	<u>\$44,052,101</u>	<u>\$39,476,395</u>	<u>\$34,515,644</u>	<u>\$24,722,024</u>	<u>\$53,045,597</u>
Net underwriting gain or loss	<u>(\$153,885)</u>	<u>(\$595,757)</u>	<u>\$1,752,020</u>	<u>\$3,587,565</u>	<u>\$539,086</u>
<u>Investment Income</u>					
Net investment income earned	3,203,365	3,308,264	3,438,066	3,287,418	3,051,197
Net realized capital gains or losses	<u>(4,045)</u>	<u>0</u>	<u>(685,571)</u>	<u>(739,875)</u>	<u>(1,835,093)</u>
Net investment gain or loss	<u>3,199,320</u>	<u>3,308,264</u>	<u>2,752,495</u>	<u>2,547,543</u>	<u>1,216,104</u>
<u>Other income</u>					
Net gain or loss from agents' or premium balances charged off	(240,504)	(276,183)	(361,589)	(6,162)	(242,485)
Finance and service charges not included in premiums	352,654	303,592	288,375	180,372	201,840
Aggregate write-ins for miscellaneous income	<u>529,937</u>	<u>207,617</u>	<u>5,319</u>	<u>0</u>	<u>(63,950)</u>
Total other income	<u>642,087</u>	<u>235,026</u>	<u>(67,895)</u>	<u>174,210</u>	<u>(104,595)</u>
Net income before dividends to policyholders and before federal and foreign income taxes	3,687,522	2,947,532	4,436,620	6,309,318	1,650,695
Less: Federal & foreign income taxes incurred	<u>150,444</u>	<u>281,068</u>	<u>(2,235,812)</u>	<u>4,245,602</u>	<u>2,178,489</u>
Net income	<u>\$3,537,078</u>	<u>\$2,666,464</u>	<u>\$6,672,432</u>	<u>\$2,063,716</u>	<u>(\$527,794)</u>

CAPITAL AND SURPLUS  
for the five year period ending December 31, 2009

Exhibit C

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Gain and losses in surplus					
Net income or (loss)	3,537,078	2,666,464	6,672,432	2,063,716	(527,794)
Change in net unrealized capital gains or losses	(109,257)	107,811	(744,114)	(474,976)	(1,240,187)
Change in net deferred income tax	(1,117,187)	(123,442)	598,882	1,780,337	1,897,244
Change in non-admitted assets	(541,622)	65,066	(604,404)	(3,073,466)	(325,159)
Change in provision for reinsurance	(2,286)	(6,946)	144,685	0	0
Capital changes - Paid in	0	0	2,250,000	0	0
Aggregate write-ins for gains and losses in surplus	(198,275)	0	(11,397,043)	0	888,654
Change in Surplus as regards to policyholders for the year	<u>1,568,451</u>	<u>2,708,953</u>	<u>(3,079,562)</u>	<u>295,611</u>	<u>692,758</u>
Surplus December 31 previous year	<u>35,004,995</u>	<u>36,573,445</u>	<u>39,282,398</u>	<u>36,202,837</u>	<u>36,498,448</u>
Surplus December 31 current year	<u><u>36,573,446</u></u>	<u><u>39,282,398</u></u>	<u><u>36,202,836</u></u>	<u><u>36,498,448</u></u>	<u><u>37,191,206</u></u>

## **SCHEDULE OF EXAMINATION ADJUSTMENTS**

No examination changes were made as a result of this examination.

## **NOTES TO FINANCIAL STATEMENTS**

### **Note 1: LOSSES AND LOSS ADJUSTMENT EXPENSES**

Loss and Loss Adjustment as reported at December 31, 2009 were \$39,365,470 and \$9,167,271 respectively. The reserves were reviewed by the New York State Insurance Department Actuarial Division and found to be adequate. The analysis performed by New York was reviewed by the New Jersey Department of Insurance's actuarial personnel who were in agreement with the assessment.

Data supplied to the actuaries was reconciled with the annual statements for the group without exception. Detail of paid losses and reserves was traced to individual claim files without exception.

### **LOSS AND LOSS ADJUSTMENT EXPENSE RESERVES - STATEMENT BY NEW JERSEY DEPARTMENT OF BANKING AND INSURANCE ACTUARY**

I, Boris Privman, FCAS, MAAA, Managing Property and Casualty Actuary for the New Jersey Department of Banking and Insurance, have reviewed the actuarial analysis performed by New York Department of Insurance Actuaries for reported loss and loss adjustment expense reserves for Preserver Insurance Company. Based upon this review the Company's booked gross and net loss reserves should be accepted without adjustments.

Actuarial findings as stated above and in this examination report are the sole responsibility of the New Jersey Department of Banking and Insurance's Property and Casualty Actuarial Unit of the Office of Solvency Regulation.

\_\_\_\_\_  
/S/  
Boris Privman, FCAS, MAAA

## **SUBSEQUENT EVENTS**

On February 2, 2010, Tower Group Inc. announced that it has acquired the personal lines division of the One Beacon Group, LTD. The transaction involves the acquisition of two insurance companies, two management companies, certain renewal rights and other associated assets. The acquired insurance companies write approximately \$250 million of annual premiums, and the acquired management companies are Attorneys-in-fact and manage approximately \$250 million in annual premium written by two reciprocal insurance companies.

The Companies write and manage private passenger automobile, homeowners and package policies.

## **SUMMARY OF RECOMMENDATIONS**

There were no specific recommendations as a result of this examination. Any recommendations have been made in the Exit Conference Memo.

**CONCLUSION**

I, Nancy Lee Chice, do solemnly swear that the foregoing report of examination is hereby presented to be a full and true statement of the condition and affairs of the Preserver Insurance Company as of December 31, 2009, to the best of my knowledge and belief.

Respectfully submitted,

\_\_\_\_\_  
/S/  
Nancy Lee Chice, CFE  
Examiner-In-Charge

State of New Jersey  
County of Mercer

Subscribed and sworn to before me.  
On this 15<sup>th</sup> day of June, 2011.

\_\_\_\_\_  
/S/  
Linda L. Boone  
Notary Public of New Jersey