

**REPORT ON EXAMINATION AS TO THE CONDITION OF**

**RUTGERS CASUALTY INSURANCE COMPANY**

**CHERRY HILL, NEW JERSEY 08002**

**AS OF DECEMBER 31, 2016**

**N.A.I.C. GROUP CODE 0383**

**N.A.I.C. COMPANY CODE 41378**

**Filed**

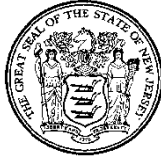
**May 8, 2018**

**Commissioner  
Department of Banking &  
Insurance**

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**State of New Jersey**  
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**April 27, 2018**

**Honorable Marlene Caride**  
**Acting Commissioner of Banking and Insurance**  
**State of New Jersey**  
**20 West State Street**  
**Trenton, New Jersey 08625**

**Commissioner:**

**In accordance with the authority vested in you by the Revised Statutes of New Jersey, an examination has been made of the assets and liabilities, method of conducting business and other affairs of the:**

**Rutgers Casualty Insurance Company**  
**CHERRY HILL, NEW JERSEY**  
**N.A.I.C. GROUP CODE 0383**  
**N.A.I.C. COMPANY CODE 41378**

**a domestic insurer duly authorized to transact the business of insurance in the State of New Jersey. Hereinafter, the Rutgers Casualty Insurance Company will be referred to in this report as the "Company", "Rutgers Casualty" or "RCIC".**

## **SCOPE OF EXAMINATION**

**This risk focused examination was called by the Commissioner of Banking and Insurance of the State of New Jersey pursuant to the authority granted by Section 17:23-22 of the New Jersey Revised Statutes.**

**The examination was made as of December 31, 2016, and addressed the three-year period from January 1, 2014 to December 31, 2016. During this three-year period under examination, the Company's assets decreased from \$24,955,124 to \$22,400,978. Liabilities increased from \$13,905,111 to \$14,393,435 and its capital and surplus decreased from \$11,050,013 to \$8,007,543.**

**The New Jersey Department of Banking and Insurance (NJDOBI) conducted the examination in accordance with the 2016 edition of the National Association of Insurance Commissioners ("NAIC") Financial Condition Examiners Handbook (the "NAIC Handbook"). The NAIC Handbook requires NJDOBI to plan and perform the examination in order to evaluate the financial condition and identify prospective risks of the Company. To meet these objectives NJDOBI obtained information regarding the Company's corporate governance environment, identified and assessed inherent risks to which it is exposed and evaluated the Company's system of internal controls and procedures used to mitigate identified risks. The examination also included assessing the principles used and significant estimates made by management, as well as, evaluating the overall Financial Statement presentation, management's compliance with Statutory Accounting Principles and Annual Statement instructions when applicable to domestic state regulations.**

**According to the NAIC Handbook, "One of the increased benefits of the enhanced risk focused approach is to include ... consideration of other than financial risks that could impact the insurer's future solvency. By utilizing the enhanced approach, the examiner reviewed the "financial" and "enterprise" risks that existed at the examination "as of" date and will be positioned to assess "financial" and "enterprise" risks that extend or commence during the time the examination was conducted and "prospective" risks which are anticipated to arise or extend past the point of examination completion. Using this approach examiners will be better positioned to make recommendations for appropriate future supervisory plans (i.e., earlier statutory exams, limited-scope exams, key areas for financial analysts to monitor, etc.) for each insurer."**

**All accounts and activities of the Company were considered in accordance with the risk focused examination process. The examination report only addresses regulatory information revealed by the examination process in accordance with the NAIC Handbook. All other financial matters were reviewed and determined not to be material for discussion in this report.**

## **COMPLIANCE WITH PRIOR EXAMINATION REPORT RECOMMENDATIONS**

### **Investments**

#### **2013 Examination Recommendation**

It is recommended by this examination that the Company comply with N.J.S.A. 17:24-1(g) and non-admit assets which exceed the basket clause limits at year end.

#### **Company Response**

The company agrees that we were out of compliance with N.J.S.A. 17:24-1(g) as of December 31, 2013. We are taking the steps necessary to comply with the basket clause limitations regarding alternative investments.

#### **2016 Examination Finding**

The Company did not comply with this recommendation for year end 2016 but did comply with this recommendation for year end 2017. Please see NOTE 1 – INVESTMENTS.

### **HISTORY**

Rutgers Casualty Insurance Company was incorporated on September 25, 1981 and its Certificate of Incorporation was approved by the Attorney General of New Jersey on December 14, 1981 and filed with the New Jersey Department of Insurance on December 21, 1981. The Company commenced business on December 21, 1981 with a paid in capital of \$200,000 and paid in surplus of \$100,000. By amendments to the Certificate of Incorporation and transfer of amounts from unassigned funds, the verified capital of the Company had been increased to \$470,000. Additionally, on December 20, 1983, the Company entered into a non-negotiable statutory surplus note in the amount of \$500,000 payable to Employers Reinsurance Corporation at the rate of one-half of one-percent per annum. With the influx of the surplus note, the capital of the Company increased to \$970,000.

On December 31, 1981 the Company, per its Certificate of Authority, was duly authorized to the kinds of insurance specified in paragraph “e” of N.J.S.A. 17:17-1, except that the authority to write employers’ liability insurance and workers’ compensation, is especially excluded. On February 17, 1984 an Amended Certificate of Authority was issued to RCIC that authorized the Company to transact insurance specified in paragraphs “b” and “e” of N.J.S.A. 17:17-1, except that authority granted under paragraph “e” to write employers’ liability insurance and workers’ compensation, is specifically excluded.

On October 29, 1987, the American European Group, Inc. (AEG) made an application for approval of the acquisition of control of Rutgers Casualty Insurance Company. AEG was incorporated in the State of Delaware in 1986 to serve as a holding company for the purpose of making acquisitions for investments. AEG operates specifically as a holding company. The agreement was executed between the parties on December 22, 1988. On January 12, 1989,

**AEG acquired Rutgers Casualty Insurance Company by the purchase of all the issued and outstanding common stock of Rutgers Casualty for \$.001 per share. AEG provided \$2,500,000 in cash representing a \$450,000 increase in capital and paid-in surplus and \$2,050,000 in surplus notes.**

**An amended Certification of Incorporation was approved on January 9, 1989 and filed on January 23, 1989. This amendment authorized the Company to transact additional insurance as specified in paragraph "THIRD", sections "a", "j" and "o-1". Also paragraph "FIFTH" was also amended to read as follows: "The total authorized capital stock of the Company is \$600,000 and the total number of authorized shares of common stock is 300,000 shares with a par value of \$2.00 per share."**

**On January 15, 1993 AEG made an additional \$2,500,000 contribution to RCIC's surplus, pursuant to their December 22, 1988 agreement.**

**In 1994 the Company reduced its gross paid in contributed surplus by \$1,200,000 to fund its increase in capital stock.**

**On February 12, 1998, an amended Certificate of Incorporation was approved. This amendment authorized the Company to transact additional business specified in paragraph "THIRD", sections "f", "g", "i", "k", "l", "m", "n", "o-2" and "o-3". Also, paragraph "FIFTH" was also amended to read as follows: "The total authorized capital stock of the Company is \$ 3,600,000 and the total number of authorized shares of common stock is 300,000 shares with a par value of \$ 12.00 per share."**

**On October 30, 1998, the Company was issued an amended Certificate of Authority which authorized the Company to transact the kinds of insurance authorized by paragraphs "a", "b", "\*e", "f", "\*g", "j", "k", "l", "n", "o-1" and "o-3" of N.J.S.A. 17:17-1 et. seq. \*(Except that authority granted under paragraph "e" shall not include the authority to write workers' compensation and employers' liability insurance and authority granted under paragraph "g" is limited to homeowners' coverage).**

**In November of 2000, the Company commenced writing business in Pennsylvania. In March of 2001, the Company began writing business in the State of New York.**

**On January 1, 2001 the Company entered into an Inter-Company Pooling Arrangement with its former affiliate, Kentucky National Insurance Company. Under this arrangement, all lines of business of both companies are pooled, with Rutgers acting as the lead company and receiving 60% of all premiums and losses and Kentucky National receiving 40% of all premiums and losses. All outside reinsurance agreements are handled by the individual company prior to pooling. Effective November 1, 2003, the parties executed a Commutation and Release Agreement ("Commutation Agreement") whereby the Inter-Company Pooling Arrangement has been terminated, retroactive to January 1, 2003. The Commutation Agreement was submitted to and approved by the New Jersey Department of Banking and Insurance and the Kentucky Department of Insurance. On April 2, 2004 Kentucky National**

**Insurance Company ceased writing all new business and began to run-off its renewal business on August 1, 2004.**

**On June 27, 2001 a special meeting of the Shareholders of the Board of Directors was held to discuss and approve the formation and funding of a subsidiary of Rutgers Casualty Insurance Company. At the meeting, it was resolved to authorize the officers of Rutgers Casualty Insurance Company to form a subsidiary (to be known as "Rutgers Enhanced Insurance Company") and to further invest three million five hundred thousand dollars (\$3,500,000) in this subsidiary. Rutgers Casualty Insurance Company will own 100% of this subsidiary under the terms of the Insurance Holding Company System Regulatory Act N.J.S.A. 17:27A-1. Rutgers Enhanced Insurance Company will issue to Rutgers Casualty Insurance Company 1,200,000 shares of common capital stock at a price of \$3.50 per share, with \$1.2 million being allocated to common stock and \$2.3 million to paid-in capital.**

**On April 27, 2004 the New Jersey Department of Banking and Insurance (NJDOBI) issued Administrative Order No. A04-124 to Rutgers Casualty and Rutgers Enhanced Insurance Companies, which effectively suspends the Companies obligations to issue new private passenger automobile insurance policies to all eligible persons pursuant to N.J.S.A. 17:33B-15. As a condition of this Order, the Companies are required to submit to the NJDOBI monthly financial reports no later than 30 days after the close of each month in a format specified by the NJDOBI.**

**On November 23, 2004 the NJDOBI issued Administrative Order No. A04-155 to Rutgers Casualty and Rutgers Enhanced Insurance Companies granting both Companies deferment of their obligation to pay their portion of the 2004 New Jersey Property Liability Insurance Guaranty Association (NJPLIGA) and New Jersey Unsatisfied Claim and Judgment Fund (NJUCJF) assessments pursuant to the authority of N.J.S.A. 17:1-8.1, 17:1-15e, and 17:30A-1 et seq., and N.J.A.C. 11:1-6, and all powers expressed or implied therein.**

**On August 10, 2005, the New Jersey Department of Banking and Insurance approved the proposed plan of orderly withdrawal by Rutgers Casualty Insurance Company from writing private passenger automobile business in New Jersey pursuant to N.J.S.A. 17:33B and N.J.A.C. 11:2-29 et. seq. and the transfer of this business to their affiliate, Rutgers Enhanced Insurance Company.**

**On May 8, 2006, the NJDOBI issued Administrative Order No. A06-110 in the matter of the application of REIC for relief from its obligation pursuant to N.J.S.A. 17:30A-8a(3). The Order reads as follows:**

- **REIC's payment made on September 9, 2004 for the PLIGA assessments shall be refunded**
- **REIC is exempt from 2002, 2003 and 2004 UCJF assessments**
- **Payment of REIC's 2005 initial UCJF assessment is deferred**
- **Administrative Order No. A04-155 was rescinded**

**On November 9, 2006, the Master Transfer Agreement was made by and among Rutgers Casualty Insurance Company (RCIC), Rutgers Enhanced Insurance Company (REIC) (collectively Rutgers), and Palisades Insurance Company (PIC), Palisades Safety and Insurance Association (the Association) (collectively Palisades) and is effective upon the implementation date specified in Order No. C06-107. Per the Master Transfer Agreement, Palisades assumed the New Jersey private passenger automobile policy obligations of the Rutgers Companies upon renewal and offered replacement coverage to policyholders beginning on February 1, 2007. Palisades paid \$2,000,000 non-refundable commission for this transfer and an additional \$200 per vehicle for all vehicles renewed by Palisades in excess of 9,250 vehicles subject to a maximum additional commission of \$200,000. As a result of this transaction, all policies will be fully transferred to Palisades as of January 31, 2008.**

**On November 27, 2006, NJDOBI issued Consent Order No. A06-107 in the matter of the “Consolidation Transaction” between Palisades and Rutgers; pursuant to N.J.S.A. 17:17-10 and N.J.A.C. 11:2-29. The approval of this Consolidation Transaction will transfer, upon renewal, all of the Rutgers private passenger automobile insurance business to Palisades which is referred to in the Master Transfer Agreement.**

**On March 30, 2007, NJDOBI issued Administrative Order A07-104, whereas, American European Group, Inc. (AEG) purchased 100% of the outstanding common stock of Merchants Group, Inc. (MGI) which includes a subsidiary, “Merchants Insurance Company of New Hampshire, Inc.” (MNH). Simultaneously, AEG sold all of the outstanding common stock of Rutgers Casualty to MNH. This transfer of control was approved by the New Hampshire Insurance Department and New Jersey Department of Banking and Insurance.**

**On May 30, 2007 the New Hampshire Insurance Department approved the name change of “Merchants Insurance Company of New Hampshire, Inc.” (MNH) to “American European Insurance Company” (AEIC). As a result of this name change, Rutgers Casualty's common capital stock is now 100% owned by American European Insurance Company, a property-casualty insurance company domiciled in the State of New Hampshire.**

**A new stock certificate was issued in 2007 to reflect that Rutgers Casualty Insurance Company is owned 100% by American European Insurance Company with authorized shares of 300,000 and a par value of \$12.00 per share.**

**On June 19, 2007 American European Group sold Kentucky National Insurance Company to First Kentucky Insurance Company, LLC. Concurrent with this transaction AEG assumed all of the outstanding loss and loss adjustment expense liabilities of Kentucky National Insurance Company. These losses were then ceded to the RCIC through a “Retroactive Aggregate Excess of Loss Reinsurance Agreement” which was approved by NJDOBI on July 27, 2007.**

**On July 28, 2008, NJDOBI issued Administrative Order No. A08-114 which granted an exemption from the statutory filing and public hearing requirements of the insurance holding company systems act per N.J.S.A. 17:27A-1 et. seq. since the proposed transaction involves an intra-system reorganization that has no effect on the ultimate control or ownership of the**



insurer. Rutgers Enhanced Insurance Company (Rutgers Enhanced) is directly wholly owned by Rutgers Casualty Insurance Company (Rutgers Casualty) and as part of the risk based capital corrective action plan, which was filed with the NJDOBI, Rutgers Enhanced will be merged into Rutgers Casualty, and Rutgers Casualty will be the surviving entity. As of the Board of Directors meeting of February 24, 2009, the Board was advised that NJDOBI has agreed to the Company's request not to merge the two companies; therefore, Rutgers Enhanced will retain their license to do business.

On April 29, 2010, the Company amended their By-laws which were filed with the Department of Banking and Insurance on September 8, 2010. These changes were approved by RCIC's Sole Shareholder, American European Insurance Company. The amendment reflects the following changes: Article 1: The Registered Agent for service of process of the Corporation is Marilyn A. DiDonato and the principal place of business as: 2250 Chapel Ave. West, Cherry Hill, New Jersey 08002. Article 3: The number of Directors shall consist of at least 6, but not more than 9 members and a majority of the entire Board shall constitute a quorum; also the Board's age shall be 18 and shall be residents of the US. Article 4: The President & Secretary -- shall not be the same person and vacancy of an office may be filled by a vote of the Board, at a meeting or may remain vacant until annual meeting.

On September 17, 2010, NJDOBI issued Administrative Order No. A10-118 in the matter of the request of Rutgers Casualty Insurance Company (RCIC) and Rutgers Enhanced Insurance Company (REIC) to vacate Order No. A04-124 and Order No. A06-101. NJDOBI approved both Orders being vacated due to RCIC and REIC having both withdrawn their private passenger automobile insurance rating systems previously filed with the Department pursuant to N.J.S.A. 17:29A-1 et. seq. Neither RCIC or REIC is presently writing private passenger automobile insurance in the State of New Jersey.

A Certificate of Amendment to the Certificate of Incorporation was approved by the Attorney General on December 29, 2009 and filed with NJDOBI on September 30, 2010. The amendments were to paragraph Two: The location of the principal office as well as the registered office, is 2250 Chapel Avenue West, Cherry Hill, New Jersey 08002, and paragraph Twelve: The registered agent in this State for Rutgers Casualty Insurance Company is Marilyn A. DiDonato.

An Amended Certificate of Authority was issued by the Commissioner of Banking and Insurance of the State of New Jersey on September 30, 2010. The town is changed from West Orange, County of Essex, State of New Jersey to Cherry Hill, County of Camden, State of New Jersey; and Rutgers Casualty is duly authorized to transact the kinds of business herein specified: "a", "b", "\*\*e", "f", "\*\*\*g", "J", "k", "l", "n", "o-1" and "o-3" of N.J.S.A. 17:17-1 et. seq. (\*\*Except that authority granted under paragraph "e" shall not include the authority to write workers' compensation and employers' liability insurance, and \*\* authority granted under paragraph "g" is limited to homeowners' coverage).

On August 24, 2011, the Board of Directors and sole shareholder approved that RCIC make a cash contribution to their subsidiary, Rutgers Enhanced Insurance Company, of \$1,200,000 to

increase REIC's common capital stock to \$2,400,000. This transaction was also approved by NJDOBI on November 15, 2011.

On January 11, 2012, NJDOBI approved the Amended Reinsurance Pooling Agreement which is effective on January 1, 2012. This Agreement has deleted in its entirety and replaced the following new article and exhibit: Article XI: Insolvency and Exhibit I: Participation Percentages. The following are the participation percentages as of January 1, 2012: American European Insurance Company 80%, Rutgers Casualty Insurance Company 12%, and Rutgers Enhanced Insurance Company 8%. All other terms and conditions of the Reinsurance Pooling Agreement remain unchanged.

Subsequent to the New Jersey Department of Banking and Insurance approval on October 23, 2015, a tax-free reorganization was executed on October 31, 2015, whereby ownership of Rutgers Enhanced Insurance Company ("REIC") transferred via a dividend from Rutgers Casualty Insurance Company ("RCIC") to American European Insurance Company ("AEIC"), the Direct Parent of RCIC. AEIC made surplus contributions to both RCIC and REIC in the amounts of \$1,500,000 and \$1,000,000, respectively, to comply with the minimum surplus requirements based on each company's certificate of authority per N.J.S.A. 17:17-1.

The Company's main administrative office is located at 2250 West Chapel Avenue, Cherry Hill, New Jersey 08002 and the registered agent upon whom process may be served shall be Barbara J. Welch.

#### **STATUTORY DEPOSIT**

As of December 31, 2016, the Company maintained one security on deposit with the State of New Jersey, in trust for the benefit and security of all of the policyholders of Rutgers Casualty Insurance Company.

| <u>State</u> | <u>Securities</u>                           | <u>Annual Statement Value</u> |
|--------------|---|-------------------------------|
| New Jersey   | U.S. TREASURY BONDS, .125% due MAY 15, 2017 | \$500,522.00                  |
| New Jersey   | TD BANK DEPOSIT SWEEP INCOME HOLDING        | \$316,512.19                  |

#### **TERRITORY AND PLAN OF OPERATION**

Rutgers Casualty Insurance Company is a domestic property and casualty stock insurance company licensed to transact business within the States of New Jersey, New York and Pennsylvania.

The Company focuses on commercial general liability and commercial package policies which target small contractors and owners of small commercial buildings. However, the Company also writes: commercial crime, commercial fire, commercial inland marine, commercial auto

liability, commercial auto physical damage, commercial umbrella and personal homeowners excess umbrella policies.

Effective January 1, 2008, the Company entered into a reinsurance pooling agreement with its parent, American European Insurance Company, and affiliate, Rutgers Enhanced. Effective January 1, 2012, RCIC's reinsurance pooling participation percentage was changed from assuming 22.53% of the pooled business in year 2011 to assuming 12% of the pooled business in 2012.

On November 17, 2009, the Pennsylvania Insurance Department approved the Company's Plan of Partial Withdrawal from writing Pennsylvania private passenger automobile business. The Company's Agents, writing this program, were terminated effective April 1, 2010. Insured's policies were renewed through February 28, 2011 and the Company's last Pennsylvania private passenger automobile policy non-renewed on February 29, 2012. The Company still plans on writing commercial business in Pennsylvania.

The Company currently utilizes approximately 270 active independent brokers and agents in producing its business. The Company utilizes in-house claim adjusters and relies on outside claim investigators.

The Company places reinsurance through one reinsurance intermediary broker, Willis Re., Inc. The Intermediary is authorized to act in the State of New Jersey in accordance with N.J.S.A. 17:22E-2(a).

The Company conducts its accounting, customer service, administrative and claims handling business operations from its main administrative office at 2250 Chapel Avenue West, Cherry Hill, New Jersey 08002. The Company's investment and underwriting business operations are conducted at 605 3rd Avenue, 9th Floor, New York, New York.

## **REINSURANCE**

The Company had the following reinsurance in force as of December 31, 2016:

### **I. Excess of Loss Property Catastrophe**

#### **Retention and Limit**

**First Excess** - Ultimate net loss over \$3,000,000 for each loss occurrence, liability not to exceed \$7,000,000 each loss occurrence.

**Second Excess** - Ultimate net loss over \$10,000,000 for each loss occurrence, not to exceed \$10,000,000 each loss occurrence.

**Third Excess** - Ultimate net loss over \$20,000,000 for each loss occurrence, not to exceed \$25,000,000.

## II. Excess of Loss Multi Line Clash

### Retention and Limit

#### First Excess

- **Section A – Property – Company’s retention of \$2,100,000 each risk, each loss; Limit of Liability to the Reinsurer of \$1,000,000 each risk, each loss and further subject to limits of liability to the Reinsurer of \$1,000,000 each loss occurrence and \$1,000,000 for all acts of terrorism.**
- **Section B – Casualty business - Company’s retention of \$2,100,000 for each loss occurrence; limit of liability to Reinsurer of \$1,000,000 each loss occurrence and \$1,000,000 for all acts of terrorism.**

## III. Excess of Loss Multi Line

### Retention and Limit

#### Section A – Property Business

|  | <u>First Excess</u> | <u>Second Excess</u> |
|--|---------------------|----------------------|
| Company’s Section A Retention,<br>Each Risk, Each Loss | \$375,000           | \$1,000,000          |
| Reinsurer’s Section A Limit,<br>Each Risk, Each Loss   | \$625,000           | \$1,100,000          |
| Reinsurer’s Section A Limit,<br>Each Loss Occurrence   | \$1,875,000         | \$2,200,000          |

#### Section B – Casualty Business

|  | <u>First Excess</u> | <u>Second Excess</u> |
|--|---------------------|----------------------|
| Company’s Section B<br>Retention, Each Loss Occurrence | \$375,000           | \$1,000,000          |
| Reinsurer’s Section B<br>Limit, Each Loss Occurrence   | \$625,000           | \$1,100,000          |

#### Section C – Combined Property and Casualty Business

|  | <u>First Excess</u> | <u>Second Excess</u> |
|--|---------------------|----------------------|
| Company’s Section C Retention,<br>Each Loss Occurrence | \$375,000           | N/A                  |
| Reinsurer’s Section C Limit,<br>Each Loss Occurrence   | \$375,000           | N/A                  |

**IV. Quota Share Commercial Umbrella**

**Retention and Limit**

- The reinsurer shall accept as reinsurance, a 95% share of up to \$1,000,000 of ultimate net loss for each loss occurrence. The reinsurer shall also be liable for each loss occurrence, each Policy, for the ultimate net loss over and above an initial ultimate net loss of \$1,000,000 each loss occurrence, each Policy, subject to an additional limit of liability to the Reinsurer of up to 100% of \$4,000,000 each loss occurrence, each Policy.
- The Reinsurer's proportion of loss adjustment expense in the ratio that the reinsurer's loss payment bears to the total ultimate net loss.

**V. Service Line for Home Systems Protection, Service Line and Identity Recovery**

**Lines**

- Home Systems Protection – 100% up to maximum of \$50,000 per accident, any one policy.
- Service Line Coverage – 100% up to maximum of \$10,000 per service line failure, any one policy.
- Losses covered under an Identity Recovery Coverage Form – 100% not to exceed \$15,000 annual aggregate.

**VI. Service Line for Homeowners**

**Lines**

- Homeowners Insurance – 100% up to maximum of \$10,000 for any one Service Line Failure, any one Policy.

**VII. Black Car Fund**

**Retention and Limit**

- Section A – Black Car Base Station Automobile Non Ownership Business - 10% Quota Share up to \$1,000,000 per occurrence and \$2,000,000 in aggregate per policyholder.
- Section B – Non-Owned Auto coverage – 10% Quota Share up to \$1,000,000 per occurrence and \$2,000,000 in aggregate per policyholder.
- 10% Quota Share up to \$1,000,000 per occurrence and \$2,000,000 in aggregate per policyholder.

## **VIII. Contractors Errors and Omissions**

### **Limit of Liability**

- Liability for loss shall not exceed \$100,000 for each wrongful act.

### **Business Covered**

- Any authorized Contractors Errors and Omissions identified in Contractors E&O Coverage Form.

### **Inter-company Pooling Agreement**

Effective January 1, 2012, RCIC and REIC entered into a reinsurance pooling agreement with its affiliate the American European Insurance Company. Under the Agreement all participants will cede 100% of premiums, losses, loss adjustment expenses and underwriting expenses to the Pool (including business received by AEIC from an External Pooling Agreement with the Merchants Mutual Insurance Company as indicated below) and assume back a percentage of the business ceded as indicated below:

|                                     |     |
|-------------------------------------|-----|
| American European Insurance Company | 80% |
| Rutgers Casualty Insurance Company  | 12% |
| Rutgers Enhanced Insurance Company  | 8%  |

This Intercompany Pooling Agreement is calculated net of reinsurance agreements held by each participating company as well as net of the External Pooling Agreement noted below.

### **External Pooling Agreement**

Effective January 1, 2003, Merchants Mutual Insurance Company ("MMIC"), a former affiliate, and American European Insurance Company (AEIC) agreed to pool underwriting results on their traditional insurance business primarily consisting of commercial and personal coverages underwritten by MMIC (the "Traditional Business"), by means of a reinsurance pooling agreement (the "External Pooling Agreement" or "External Pooled Business"). The External Pooling Agreement does not apply to any endeavor of either MMIC or AEIC outside of their Traditional Business, unless the companies agree otherwise.

The External Pooling Agreement, which initially expired in 2009, provided for AEIC to cede or transfer to MMIC all of its premiums and risks on its Traditional Business during the term of the agreement, and then to assume from MMIC a percentage of all of MMIC and the AEIC's Traditional Business. AEIC assumed 25% and 20% of the External Pooled Business in 2009 and 2010, respectively. AEIC and MMIC have agreed to continue their relationship and have entered into a new agreement, whereby AEIC will assumed 15%, 10%, and 5% of the External Pooled Business in 2011, 2012 and 2013 respectively.

Effective January 1, 2010, a new term was added to the External Pooling Agreement which calls for both MMIC and AEIC to secure, either by a letter of credit or the establishment of a trust account, their obligations as outlined in the agreement for accident year 2009 and later as long as their A.M. Best rating is B++ or lower. As of December 31, 2016, the A.M. Best rating of MMIC was A- and AEIC's rating was B. As of December 31, 2016, AEIC had secured assets through a trust account, for ceded loss reserves and ceded loss adjustment expense reserves, for accident years 2009 through 2013. The fair market value of the trust account, consisting of cash, equities and fixed maturities, as of December 31, 2016 was approximately \$9,578,043.

### **CORPORATE RECORDS**

The Company's By-laws, which were amended on December 12, 2016, stipulate that the annual meeting of the shareholders of the corporation shall be held on the tenth day of the month of April of each year, at 2250 Chapel Avenue West, Cherry Hill, New Jersey 08002, or at such other time and place as shall be specified in the notice of meetings. The President or a majority of the Board of Directors may call a special meeting of the shareholders. Notice of the time, place and purpose of the meeting of each annual shareholders meeting and each special meeting of shareholders shall be held upon not less than ten but not more than sixty days written notice before the date of the meeting.

The Board of Directors governs the business of the Company. Each director shall be elected by the shareholders at each annual meeting and shall hold office until the next annual meeting of shareholders or until the Director's successor shall have been elected and qualified. The Board shall consist of not more than nine Directors or less than six Directors. A majority of the entire Board shall constitute a quorum for the transaction of business.

A review of the minutes of the Board of Directors meetings noted that they were well attended by the Company's Directors', and that the proceedings of the meetings were done in compliance with the Company's Certificate of Incorporation and By-laws. The Board minutes also indicated that the Company's overall transactions and events were adequately supported and approved. A review of the signed affidavits of each member of the Board indicated that they had received and reviewed a copy of the December 31, 2013 financial condition examination report.

### **MANAGEMENT AND CONTROL**

The business, property and affairs of Rutgers Casualty Insurance Company are managed by the President and his delegated officers under the guidance of the Board of Directors.

#### **Directors**

The Board of Directors shall consist of at least six (6), but not more than nine (9), members. Each Director shall be elected by the Shareholders at each annual meeting and shall hold office until the next annual meeting of Shareholders or until the Director's successor shall have been elected and qualified.

The annual meeting of Shareholders of the Corporation shall be held upon not less than ten (10) nor more sixty (60) days written notice of the time, place and purposes of the meeting, at 10:00 o'clock a.m. on the tenth day of the month of April of each year at 2250 Chapel Avenue West, Cherry Hill, New Jersey 08002, or at such other time and place as shall be specified in the notice of meeting, in order to elect Directors and transact such other business as shall come before the meeting. If that date is a legal holiday, the meeting shall be held at the same hour on the next succeeding business day. The presence at a meeting in person or by proxy of the holders of shares entitled to cast a majority of the votes shall constitute a quorum. When a quorum is present it is not broken by the subsequent withdrawal of any Shareholders.

The following were the Directors of the Company as of December 31, 2016:

| <u>Director</u>  | <u>Occupation</u>                            |
|------------------|--|
| Abraham Biderman | Chairman, Eagle Advisors, LLC                |
| David M. Singer  | Officer, Broadway Management                 |
| Nachum J. Stein  | Chairman, American European Insurance Group  |
| Raquel Wolf      | Officer, Hirsch Wolf & Co.                   |
| Steve Klein      | Treasurer, American European Insurance Group |
| Shmuel Levison   | Investment Consultant, Diaco Investments, LP |
| Ari Chitrik      | Officer, Citra Trading Corp.                 |
| Harmon S. Spolan | Principal, Cozen O'Connor                    |

The Company is required to comply with the provisions of N.J.S.A. 17:27A-4(d)(3) which states that “not less than one-third of the directors of a domestic insurer shall be persons who are not officers or employees of that insurer or of any entity controlling, controlled by, or under common control with that insurer and who are not beneficial owners of a controlling interest in the voting securities of that insurer or any such entity”. The Company was determined to be in compliance with the provisions of N.J.S.A. 17:27A-4(d)(3) as of the examination date, as the Board of Directors consists of eight members of which six are outside directors.

#### Committees

The Audit and Risk Committee Charter of American European Insurance Group, Inc. (AEG) (of which Rutgers Casualty Insurance Company is included in this group) indicate that the size of the Committee is set from time to time by the Board, but will always consist of at least two directors and the members of the Committee are appointed by the Board. The Committee



meets not less than once a year. After each meeting, the Committee reviews with the Board any issues that arose with respect to the quality or integrity of the Company's financial statements; the Company's compliance with legal or regulatory requirements; the retention of and the qualifications, independence and performance of the independent auditors; the retention of and the qualifications, independence and performance of the outside actuary.

The following Committee was appointed and serving at December 31, 2016:

**Audit and Risk Committee**

**Abraham Biderman**

**David Singer**

**Harmon Spolan**

The Company is required to comply with the provisions of N.J.S.A. 17:27A-4(d)(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 was determined to be in compliance with the provisions of N.J.S.A. 17:27A-4(d)(4) as of the examination date, as the Audit Committee is comprised solely of outside Directors who performed the functions indicated in this statute.

**Officers**

The Board of Directors has the power to elect the officers of the Corporation which consist of a President, Treasurer and Secretary, and it may elect such other Officers, including one or more Vice Presidents, as it shall deem necessary. All officers shall perform duties in the conduct and management of the business and property of the Company as designated by the By-laws and the Board. One person may hold two or more offices, but the person serving as President may not serve simultaneously as Secretary.

The following officers were elected and serving as at December 31, 2016:

|                          |                                    |
|--------------------------|------------------------------------|
| <b>Nachum J. Stein</b>   | <b>Chairman, President and CEO</b> |
| <b>Shaindy Dembitzer</b> | <b>Secretary</b>                   |
| <b>Steve Klein</b>       | <b>Asst. Secretary Treasurer</b>   |

David Weiner

Chief Financial Officer

Vivalde Couto

SVP, Underwriting

Joseph Francis Kristel

Vice President and Chief Claims Officer

**REGULATION OF INSURANCE HOLDING COMPANY SYSTEMS**

Rutgers Casualty Insurance Company is a member of an insurance holding company system as defined in N.J.S.A. 17:27A-1 and is subject to the registration requirements of N.J.S.A. 17:27A-3. The Company is a wholly owned subsidiary of American European Insurance Company who is owned 100% by American European Group, Inc.

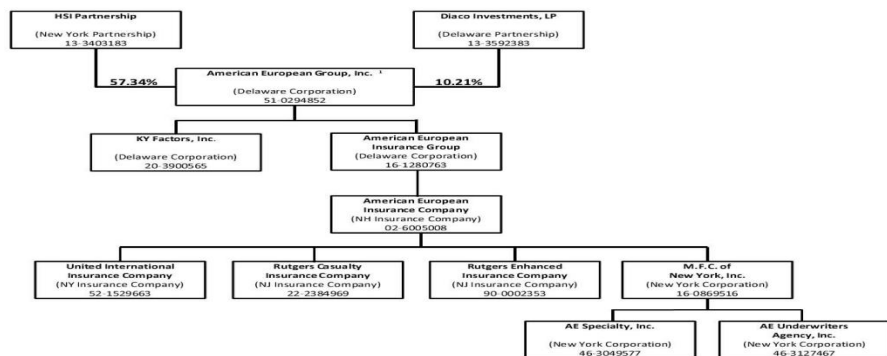
A review indicated that the Company did file the holding company registration statement for the period under examination in compliance with the requirements and standards under N.J.S.A. 17:27A-3.

During 2013, two new entities were formed, AE Specialty, Inc. (AES) and AE Underwriters Agency, Inc. (AEUA), as subsidiaries of American European Insurance Company (AEIC). Also in 2013, all shares of AEUA and AES were transferred from AEIC to MFC of New York, Inc.

As at December 31, 2016, the Company’s Exhibit A to the Form B filing noted the percentage change of ownership, of entities with controlling interest, of the ultimate controlling person, American European Group, Inc. (AEG), during the examination years is as follows: HSI Partnership percentage of AEG increased 4.34% from 54% in 2013 to 57.34% in 2016, and Diaco Investments, LP percentage of AEG decreased 1.79% from 12% in 2013 to 10.21% in 2016.

Below is the Company’s organizational chart as of December 31, 2016.

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<sup>1</sup> No entity or person other than HSI Partnership and Diaco Investments, LP owns more than 10% of the voting securities of American European Group, Inc.

## **INTER-COMPANY AGREEMENTS / RELATED PARTY TRANSACTIONS**

At December 31, 2016, Rutgers Casualty Insurance Company has participated in various inter-company agreements with its ultimate parent, parent and affiliates. These Agreements are as follows:

### **Tax Allocation Agreement**

This agreement, entered on December 31, 2009, is to determine the amount of federal income tax to be allocated to members of the affiliated group and the amount of tax each member will pay to or receive from American European Group, Inc. ("Parent"). This Agreement, which was amended September 1, 2013, is between the Parent, and its wholly-owned Subsidiary(ies) which are listed below:

- American European Insurance Group, Inc.
- American European Insurance Company
- Rutgers Casualty Insurance Company
- Rutgers Enhanced Insurance Company
- United International Insurance Company
- M.F.C. of New York, Inc.
- KY Factors, Inc.
- AE Underwriters Agency, Inc.
- AE Specialty, Inc.

### **General Accounts Payable Agreement**

The General Accounts Payable Agreement (the "Agreement"), effective January 1, 2010, is entered into on March 8, 2010, by and between American European Group, Inc. ("AEG") and Subsidiaries, (hereinafter individually and/or collectively referred to as the "Company").

Whereas, under this Agreement, Accounts Payable shall mean any amounts owed by the Company for goods, services or property purchased, where from a practical standpoint, it is more efficient to have a payment made by AEG or a Company for any other Company, where the paying party will seek reimbursement from the other party for its portion of the goods, services or property purchased.

Now, therefore, in consideration of the premises and mutual covenants and promises contained herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

- AEG and the Company, as parties to this Agreement, agree to reimburse the other for Accounts Payable made by one for the other.
- AEG and the Company agree to pay to the other, on a cost basis that is no greater than that amount which would have been paid directly, and/or AEG and the Company accept payment of, the total Accounts Payable, paid by one party for the other party,

during any calendar month within 15 days of receipt of a remittance report for the preceding month.

#### **Amended and Restated Lease Agreement**

The Lease Agreement (the "Agreement"), effective January 1, 2012, is entered into on July 20, 2012, by and among American European Insurance Group, Inc. ("AEIG") and American European Insurance Company, Rutgers Casualty Insurance Company, Rutgers Enhanced Insurance Company and United International Insurance Company (referred to as the "Companies") in which the Companies agree to pay, and AEIG agrees to accept, a monthly lease payment based upon the external cost paid by AEIG for the development and maintenance of the Policy Administration Software plus 5%, amortized over five (5) years and allocated among the Companies based on American European Insurance Company, Rutgers Casualty Insurance Company, Rutgers Enhanced Insurance Company and United International Insurance Company separate Direct Premiums Written. AEIG absorbed the remaining "Lease" expense beginning in 2013 and ending in 2017. No expense was borne by the insurance companies.

#### **Amended and Restated Services Agreement**

An amended and restated agreement, for the provision of investment advisor services, effective January 1, 2010 (the "Amended Services Agreement"), by and between American European Group, Inc. ("AEG") and Rutgers Casualty Insurance Company and Rutgers Enhanced Insurance Company, (the "Companies"). AEG agrees to serve as Investment Advisor to the Companies. This advice will include, but will not be limited to: reviewing and giving advice concerning all proposed transactions pertaining to the management of bonds, preferred and common stocks, cash investments, real estate investments and any other investments that the Companies intend to make.

Compensation to AEG for services rendered to the Companies during the term of this Agreement shall be in accordance with the following schedule:

- 1) On the first \$100 million of investments as shown on the prior year-end Statutory Annual Statement's Subtotals, cash and invested assets, excluding Parent, Subsidiaries and Affiliate's investments:
  - a. 20 basis points on bonds, cash and cash equivalents, and
  - b. 50 basis points on all other invested assets.
  
- 2) On the excess of \$100 million of investments as shown on the prior year-end Statutory Annual Statement's Subtotals, cash and invested assets, excluding Parent, Subsidiaries and Affiliates' investments:
  - a. 10 basis points on bonds, cash and cash equivalents, and
  - b. 20 basis points on all other invested assets.

The fee shall be payable quarterly on the first business day after the closing of each quarter.

### **Amended and Restated Services Agreement**

Effective January 1, 2012, Rutgers Casualty Insurance Company (the Company) and its Subsidiary, Rutgers Enhanced Insurance Company (REIC), entered into a service agreement whereby the Company provided underwriting, administrative, accounting and certain other services for REIC. The functions to be performed are as follows:

- Underwriting Applications in accordance with REIC underwriting guidelines
- Marketing Services
- Policy Issuance including the use of approved REIC policy forms and rates
- Cancel and non-renew any insurance policies, contracts and endorsements subject to REIC underwriting guidelines and applicable laws and regulations
- Premium Collection and Refunds
- Claims Related Services
- Correspondence with Policyholders and Producers
- Staffing to Perform the above listed services
- Office Facilities
- Data Processing
- Books and Records of premiums, expenses, and other statistical information required
- Determination of Unearned Premium Reserves, loss Reserves and loss adjustment expenses and all other Financial Accounting and Recording
- All other services relevant to the administration of insurance business and specifically described in the Agreement including securing proper reinsurance coverage.

For the services provided, REIC agrees to pay the Company the apportioned pro rata share of incurring expenses in accordance with SSAP 70. Whereas, this compensation methodology has no profit margin incorporated.

### **Administrative Services Agreement**

The Administrative Services Agreement (the "Agreement"), effective January 1, 2008, is made and entered into on October 12, 2010, by and between Rutgers Casualty Insurance Company (the "Company") and American European Group, Inc. ("AEG"). The Company agrees to perform administrative and accounting services to AEG, including but not limited to: typing, filing, maintaining corporate records, accounts payable, accounts receivable, investment accounting, financial reporting and tax compliance.

The Company shall be paid an annual fee of \$600,000 for administrative and accounting services performed for AEG, which is payable \$150,000 quarterly on the first day after the closing of each quarter for the previous quarter.

The Company's fee shall be increased annually based on the Consumer Price Index (CPI) for wage earners and clerical workers for the prior year. The CPI adjustment will be made beginning with the payment due on April 1st.

### **Amended and Restated Services Agreement**

Effective January 1, 2012, Rutgers Casualty Insurance Company (RCIC) entered into a Service Agreement with its Parent, American European Insurance Company (AEIC). Under the Agreement, RCIC will provide all non-pooled business (business non subject to the pooling arrangement with Merchants Mutual Insurance Company) services for AEIC as follows:

- Underwriting Applications utilizing AEIC's filed and approved underwriting guidelines
- Marketing Services
- Policy Issuance including the use of approved AEIC policy forms and rates
- Cancel and non-renew any insurance policies, contracts and endorsements subject to AEIC underwriting guidelines and applicable laws and regulations
- Premium Collection and Refunds
- Claims Related Services
- Correspondence with Policyholders and Producers
- Staffing to Perform the above listed services
- Office Facilities
- Data Processing
- Books and Records of premiums, expenses, and other statistical information required
- Determination of Unearned Premium Reserves (Loss Reserves will be determined by AEIC's Actuary) and all other Financial Accounting and Recording
- All other services relevant to the administration of insurance business and specifically described in the Agreement including securing proper reinsurance coverage.

AEIC agrees to pay RCIC the apportioned pro rata share of other underwriting expenses in accordance with SSAP 70. Whereas, this compensation methodology has no profit margin incorporated.

### **Services Agreement**

Effective December 1, 2013, Rutgers Casualty Insurance Company (RCIC) and its Subsidiary, AE Underwriters Agency, Inc. (AEUA), entered into a services agreement whereas, RCIC provides marketing, underwriting, administrative, accounting and certain other services to AEUA. The functions to be performed are as follows: marketing, underwriting and policy issuance, premium collections and refunds, claims related services, correspondence with claimants, policyholders and producers, staff, office facilities, data processing, books and records, reserves, cooperation, financial accounting and reporting, and other services.

For the services provided, AEUA agrees to pay RCIC the apportioned pro rata share of other underwriting expenses in accordance with SSAP 70. There is no profit margin incorporated into this compensation methodology.

## **Management Agreement**

The Agreement is entered into on April 7, 2009, by and between Nachum Stein ("Stein") and Rutgers Casualty Insurance Company ("Company"). This Agreement specifies the duties and performance of Nachum Stein as follows: Stein agrees to perform his duties as the Chairman, including, but not limited to: a) developing and overseeing the Company's business strategy; b) searching and recommending potential acquisitions for the Company; and, c) advising the Company on investments in its current portfolio, potential investments and investment strategy in general.

As compensation for services rendered to the Company during the term of this Agreement, in whatever capacity rendered, Stein shall have and receive an annual fee up to \$200,000. The compensation for services rendered shall be payable on the 1st day of each month. Compensation for services has been approved by the Board of Directors and the Compensation Committee, which has certified that it is fair and reasonable, and shall be subject to annual reviews by the Board of Directors and the Compensation Committee, but shall not be reduced without Stein's written consent.

## **POLICY ON CONFLICT OF INTEREST**

The Company has a conflict of interest policy and resolution to ensure directors, officers and management employees operate under a code of ethics policy which ensures conflicts or the appearance of conflicts are reviewed by the Audit Committee and presented to the Board of Directors.

A review of the conflict of questionnaires indicated that all Board of Directors and officers completed questionnaires on an annual basis.

## **POLICY FORMS AND UNDERWRITING PRACTICES**

The Company filed its rates, rules and forms with the New Jersey Department of Banking and Insurance for their commercial automobile liability, commercial automobile physical damage, commercial personal peril, commercial crime, commercial fire, commercial general liability and commercial inland marine. The Company uses Insurance Services Office (ISO) forms for all lines of business. All commercial line filings for rates, rules and forms have been determined to be in compliance with N.J.S.A. 17:29AA-1 et. seq. and in accordance with N.J.A.C. 11:13-2.1 et. seq. The Company maintains underwriting guidelines which identify the risks acceptable to the Company.

The Company also filed its rates, rules and forms with the New Jersey Department of Banking and Insurance for their personal homeowners line of business. The Company independently filed their own rates, rules and forms for these personal lines of business. All personal line filings have been determined to be in compliance with N.J.S.A. 17:29A-1 et. seq. and in accordance with N.J.A.C. 11:1-2 et. seq.

## **ADVERTISING AND SALES MATERIAL**

A review of the Company's advertising and sales materials disclosed that the Company is in compliance with N.J.S.A. 17:18-10 and that there were no material inconsistencies between the Company's sales material and the Company's policies.

## **CONTINUITY OF OPERATIONS**

A business continuity plan is necessary to help ensure the Company can adequately recover from a system failure or business interruption in a timely fashion and without the loss of significant data. Management should assess how the Company's reputation and financial status would be impacted in the event of a major processing disruption and, based on this assessment, develop an appropriate continuity plan that would help to ensure the Company can adequately recover from a system failure or business disruption in a timely fashion.

The Company's comprehensive Business Continuity Plan was reviewed by Risk and Regulatory Consulting as part of the New Hampshire Department of Insurance Examination. There were no exceptions noted or recommendations made in the New Hampshire 2016 examination report.

The Company has made provisions for the succession of officers in its By-laws.



**FINANCIAL STATEMENTS AND OTHER EXHIBITS**

**Exhibit A Balance Sheet as at December 31, 2016**

**Exhibit B Summary of Revenue and Expenses for the Three-Year Period Ending  
December 31, 2016**

**Exhibit C Capital and Surplus Account for the Three-Year Period Ending  
December 31, 2016**

RUTGERS CASUALTY INSURANCE COMPANY  
BALANCE SHEET AT DECEMBER 31, 2016

| <u>Assets</u>   | Current<br>Examination<br>at 12/31/2016 | Balance per<br>Company<br>at 12/31/2016 | Examination<br>Change | Note<br>Number |
|---|---|---|-----------------------|----------------|
| Investments   | \$16,874,626                            | \$16,874,626                            | \$0                   | 1              |
| Premiums and Considerations:  |   |   |                       |                |
| In Course of Collection   | 490,606                                 | 490,606                                 | 0                     |                |
| Booked but Deferred and Not Yet Due                                   | 1,612,222                               | 1,612,222                               | 0                     |                |
| Amounts Recoverable from Reinsurer                                    | 995,957                                 | 995,957                                 | 0                     |                |
| Funds Held or Deposited with Reinsurance Companies                    | 1,282,531                               | 1,282,531                               | 0                     |                |
| Net Deferred Tax Asset  | 384,630                                 | 384,630                                 | 0                     |                |
| Electronic Data Processing Equipment                                  | 56,307                                  | 56,307                                  | 0                     |                |
| Aggregate Write-Ins for Other Than Invested Assets                    | 704,099                                 | 704,099                                 | 0                     |                |
| <b>Total Admitted Assets</b>  | <b>\$22,400,978</b>                     | <b>\$22,400,978</b>                     | <b>\$0</b>            |                |
| <u>Liabilities</u>  |   |   |                       |                |
| Loss and Loss Adjustment Expenses                                     | \$7,284,542                             | \$7,284,542                             | \$0                   | 2              |
| Commissions Payable, Contingent Commissions and Other Similar Charges | 797,575                                 | 797,575                                 | 0                     |                |
| Other Expenses  | 1,002,449                               | 1,002,449                               | 0                     |                |
| Unearned Premiums   | 2,369,056                               | 2,369,056                               | 0                     |                |
| Advance Premiums  | 258,616                                 | 258,616                                 | 0                     |                |
| Funds held by Company under Reinsurance Treaties                      | 787,361                                 | 787,361                                 | 0                     |                |
| Payable to Parent, Subsidiaries and Affiliates                        | 1,286,681                               | 1,286,681                               | 0                     |                |
| Aggregate Write-Ins for Liabilities                                   | 607,155                                 | 607,155                                 | 0                     |                |
| <b>Total Liabilities</b>  | <b>\$14,393,435</b>                     | <b>\$14,393,435</b>                     | <b>\$0</b>            |                |
| <u>Surplus and Other Funds</u>  |   |   |                       |                |
| Common Capital Stock  | \$3,600,000                             | \$3,600,000                             | \$0                   |                |
| Gross Paid In and Contributed Surplus                                 | 10,320,000                              | 10,320,000                              | 0                     |                |
| Unassigned Funds (Surplus)  | (5,912,457)                             | (5,912,457)                             | 0                     |                |
| <b>Surplus as Regards Policyholders</b>                               | <b>\$8,007,543</b>                      | <b>\$8,007,543</b>                      | <b>\$0</b>            | 3              |
| <b>Total Liabilities, Surplus and Other Funds</b>                     | <b>\$22,400,978</b>                     | <b>\$22,400,978</b>                     | <b>\$0</b>            |                |

RUTGERS CASUALTY INSURANCE COMPANY  
SUMMARY OF OPERATIONS FOR THE  
THREE-YEAR PERIOD ENDING DECEMBER 31, 2016

| <u>UNDERWRITING INCOME</u>   | <u>2016</u>             | <u>2015</u>                 | <u>2014</u>              |
|--|-------------------------|-----------------------------|--------------------------|
| Premiums Earned  | \$4,159,545             | \$4,490,325                 | \$4,291,663              |
| Deductions:  |                         |                             |                          |
| Losses Incurred  | \$2,012,473             | \$3,218,210                 | \$2,935,391              |
| Loss Adjustment Expenses Incurred  | 756,427                 | 579,005                     | 380,340                  |
| Other Underwriting Expenses Incurred   | 1,622,856               | 1,707,254                   | 1,751,538                |
| Aggregate Write-ins for Underwriting Deductions  | <u>0</u>                | <u>0</u>                    | <u>0</u>                 |
| Total Underwriting Deductions  | <u>\$4,391,756</u>      | <u>\$5,504,469</u>          | <u>\$5,067,269</u>       |
| Net Underwriting Gain or (Loss)  | <u>(\$232,211)</u>      | <u>(\$1,014,144)</u>        | <u>(\$775,606)</u>       |
| <br><u>INVESTMENT INCOME</u>   |                         |                             |                          |
| Net Investment Income Earned   | \$319,313               | \$240,297                   | \$283,720                |
| Net Realized Capital Gains or (Losses)   | <u>71,467</u>           | <u>(662,058)</u>            | <u>525,981</u>           |
| Net Investment Gain or (Loss)  | <u>\$390,780</u>        | <u>(\$421,761)</u>          | <u>\$809,701</u>         |
| <br><u>OTHER INCOME</u>  |                         |                             |                          |
| Net Gain or (Loss) from Agents' Balances Charged Off                                   | (\$12,632)              | \$574                       | (\$79,700)               |
| Finance and Service Charges not Included in Premium                                    | 23,280                  | 25,608                      | 27,822                   |
| Aggregate Write-Ins for Miscellaneous Income   | <u>0</u>                | <u>1,659</u>                | <u>1,462</u>             |
| Total Other Income   | <u>\$10,648</u>         | <u>\$27,841</u>             | <u>(\$50,416)</u>        |
| Net Income Before Dividends to Policyholders and before Federal & Foreign Income Taxes | \$169,217               | (\$1,408,064)               | (\$16,321)               |
| Dividends to Policyholders   | <u>0</u>                | <u>0</u>                    | <u>0</u>                 |
| Net Income Before Federal Income Taxes   | \$169,217               | (\$1,408,064)               | (\$16,321)               |
| Federal Income Taxes Incurred  | <u>0</u>                | <u>0</u>                    | <u>0</u>                 |
| Net Income   | <u><u>\$169,217</u></u> | <u><u>(\$1,408,064)</u></u> | <u><u>(\$16,321)</u></u> |

RUTGERS CASUALTY INSURANCE COMPANY  
 CAPITAL AND SURPLUS ACCOUNT FOR THE  
 THREE-YEAR PERIOD ENDING DECEMBER 31, 2016

|  | <u>2016</u>        | <u>2015</u>          | <u>2014</u>         |
|--|--------------------|----------------------|---------------------|
| NET INCOME   | <u>\$169,217</u>   | <u>(\$1,408,064)</u> | <u>(\$16,321)</u>   |
| <b><u>OTHER SURPLUS GAINS OR (-) LOSSES</u></b>                |                    |                      |                     |
| Change in Net Unrealized Capital Gains or (-) Losses           | (\$20,997)         | \$596,281            | (\$516,598)         |
| Change in Net Deferred Income Tax                              | (124,822)          | (181,068)            | (97,068)            |
| Change in Nonadmitted Assets                                   | (30,436)           | 201,364              | 385,811             |
| Surplus Adjustments:   |                    |                      |                     |
| Paid-In  | 0                  | 1,500,000            | 0                   |
| Dividends to Stockholders                                      | <u>0</u>           | <u>(3,499,769)</u>   | <u>0</u>            |
| Total Other Surplus Gains or (-) Losses                        | (\$176,255)        | (\$1,383,192)        | (\$227,855)         |
| Change in Surplus as Regards<br>Policyholders for the Year     | (\$7,038)          | (\$2,791,256)        | (\$244,176)         |
| Surplus as Regards Policyholders<br>December 31, Previous Year | <u>\$8,014,581</u> | <u>\$10,805,837</u>  | <u>\$11,050,013</u> |
| Surplus as Regards Policyholders<br>December 31, Current Year  | <u>\$8,007,543</u> | <u>\$8,014,581</u>   | <u>\$10,805,837</u> |

## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 1: INVESTMENTS

The Company reported Investments at December 31, 2016 of \$16,874,626, which consisted of bonds and stocks of \$9,086,406, cash on hand and on deposit of \$6,078,389, other invested assets of \$1,661,289 and investment income due and accrued of \$48,542.

It was determined by this examination that the following investments for RCIC do not qualify as permissible investments for insurance companies under N.J.S.A. 17:24-1 and would not be allowed as an admitted asset:

- Investments in foreign securities - N.J.S.A. 17:24-10
- Investments in common stock without a five year dividend history or if the corporation did not earn an amount over the past five years sufficient to pay dividends averaging 4% annually - N.J.S.A. 17:24-1(e)
- Other Invested Assets - Schedule BA Assets that do not qualify as permissible investments for insurance companies under N.J.S.A. 17:24-1

However these items qualify as admitted assets under the basket clause. For further information please see the subsection below titled Investment Basket Clause Provision.

#### Investment Basket Clause Provision

The investment “basket clause” provision allows the Company the flexibility to invest in certain securities that may not otherwise be considered permissible investments under N.J.S.A. 17:24-1. A limitation ranging from a minimum of 5% of prior year total admitted assets to a maximum of 10% of prior year total admitted assets or at some point in between. Specifically, the provision allows loans or investments (not otherwise permitted) not exceeding at any one time in the aggregate the greater of 5% of total admitted assets or 50% of the excess of total admitted assets over the sum of liabilities plus capital and surplus required to transact business but in any event not to exceed 10% of total admitted assets as of the prior year-end. This limitation is placed on the carrying value of investments that can be classified under this “basket clause” provision.

#### Basket Clause Provision:

Basket Clause Limit \$ 1,094,262

Basket Clause assets at December 31, 2016

Investments in foreign securities - N.J.S.A. 17:24-10 64,561

|   |                   |
|---|-------------------|
| Investments in common stock without a five year dividend history or if the corporation did not earn an amount over the past five years sufficient to pay dividends averaging 4% annually - <u>N.J.S.A. 17:24-1(e)</u> | 7,618             |
| Schedule BA Assets that do not qualify as permissible investments for insurance companies under <u>N.J.S.A. 17:24-1</u>   | <u>1,661,289</u>  |
| Sub-total   | 1,733,468         |
| Over Basket Clause Provision  | \$ <u>639,206</u> |

While the Company was not in compliance at December 31, 2016, the Company sold for cash to its parent company American European Insurance Company a scheduled 'BA' Alternative Investment. The purpose of the sale is to be in full compliance with the New Jersey Basket Clause requirements for year end 2017. The sale of Northwoods Townhomes from RCIC to AEIC in the amount of \$780,460 was approved by both the New Hampshire Insurance Department as well as the New Jersey Department of Banking and Insurance and therefore the Company is now in compliance with the New Jersey Basket Clause requirements for year end 2017.

**NOTE 2: LOSSES AND LOSS ADJUSTMENT EXPENSES**

At December 31, 2016, the Company reported a net liability for Losses and Loss Adjustment Expenses of \$7,284,542. The actuarial review of the Loss and Loss Adjustment Expenses Reserves for American European Insurance Group was done by Willis Towers Watson. This review was performed in connection with the New Hampshire Insurance Department's December 31, 2016 risk focus examination of American European Insurance Group.

Willis Towers Watson's Actuarial report was reviewed by the Property and Casualty Actuarial Division of the New Jersey Department of Banking and Insurance.

On the basis of this review, the Company's gross and net reserves were determined to be reasonable and the balance will be accepted as stated. Net loss reserves, as reported by the Company and as determined by this examination, totaled \$5,961,566. Net loss adjustment expense reserves, as reported by the Company and as determined by this examination, totaled \$1,322,976.

**NOTE 3: SURPLUS AS REGARDS POLICYHOLDERS**

**Unassigned Funds (Surplus)**

The Company reported surplus as regards to policyholders at December 31, 2016 of \$8,007,543 which consisted common capital stock of \$3,600,000, gross paid in and contributed surplus of \$10,320,000 and unassigned funds of (\$5,912,457).

## **SUBSEQUENT EVENTS**

**Rutgers Casualty Insurance Company informed the Department of Banking and Insurance – Office of Solvency Regulation - on October 4, 2017 of its intent to expand its business into the State of New Hampshire.**

### **Inter-company Pooling Agreement**

**Effective January 1, 2018, the assigned percentages of the Inter-company pooling agreement changed to the following:**

|  |            |
|--|------------|
| <b>American European Insurance Company</b> | <b>85%</b> |
| <b>Rutgers Casualty Insurance Company</b>  | <b>15%</b> |
| <b>Rutgers Enhanced Insurance Company</b>  | <b>0%</b>  |

**The New Jersey Department of Banking and Insurance Property and Casualty/Life Financial Analysis Unit approved this transaction on December 6, 2017.**

## **SUMMARY OF EXAMINATION RECOMMENDATIONS**

**The full scope risk focused examination of the Company yielded no reportable recommendations.**



**CONCLUSION**

**A regular statutory financial condition examination was conducted by the undersigned with the assistance of fellow examiners of the New Jersey Department of Banking and Insurance examination staff.**

**The examination and audit was conducted at the Rutgers Casualty Insurance Company office in Cherry Hill, New Jersey. The courteous assistance and cooperation of the Company's officers and employees is acknowledged.**

**Respectfully Submitted,**



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**Vinod Manchanda, AFE  
Examiner-in-charge**

**RUTGERS CASUALTY INSURANCE COMPANY**

I, Vinod Manchanda, do solemnly swear that the foregoing report of examination is hereby represented to be a full and true statement of the condition and affairs of the subject insurer as of December 31, 2016 to the best of my information, knowledge and belief.

Respectfully Submitted,

*Vinod Manchanda*

**Vinod Manchanda, AFE  
Insurance Examiner 1  
New Jersey Department of Banking & Insurance  
Office of Solvency Regulation  
Field Examination Unit**

Under the supervision of,

*Vincent Kaighn*

**Vincent Kaighn, CFE  
Certified Financial Examiner  
New Jersey Department of Banking and Insurance  
Office of Solvency Regulation  
Field Examination Unit**

**State of New Jersey  
County of Mercer**

Subscribed and sworn to before me, on this 30<sup>th</sup> day of April 2018.

*Shirley M. T. Kaur*  
\_\_\_\_\_  
Notary Public of New Jersey

My commission expires: July 2020