

Greater New York Group

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Greater New York Group

Major Rating Factors

Strengths:

- Strong competitive position in commercial multiperil products.
- Strong capital adequacy.
- Strong operating performance.

Weaknesses:

- Substantial concentration in New York and New Jersey.
- A limited product portfolio.
- A highly concentrated book of business, potentially exposing the company to catastrophe loss shocks.

Operating Companies Covered By This Report

Financial Strength Rating

Local Currency

A/Stable/--

Rationale

The insurer financial strength ratings on Greater New York Mutual Insurance Co., Insurance Co. of Greater NY, Strathmore Insurance Co., and GNY Custom Insurance Co., which are the members of the Greater New York Group (combined, GNY), reflect the group's continued strong competitive position in the tri-state region (New York, New Jersey, and Connecticut), strong capital adequacy, and strong operating performance. These positive rating factors are mitigated in part by the company's significant business concentration in New York and New Jersey; its concentration in a single line of business, commercial multiperil (CMP), which exposes it to various economic, legislative, and legal risks; and its high aggregate catastrophe exposure relative to surplus.

Outlook

The stable outlook reflects Standard & Poor's Ratings Services' expectation that GNY will continue to maintain its market position in New York and New Jersey and further develop its competitive position in its other smaller, but key, markets (although we believe this development will take place at a modest pace for the next five or more years). The outlook also reflects Standard & Poor's expectation that GNY will continue to generate the greatest share of its underwriting profits in its top two states, deriving incremental profits from its newer regions.

Further, we expect the company to maintain its strong capital adequacy and manage its aggregate property catastrophe exposures at prudent levels, with limited risk to its capital strength. We anticipate that the company's overall underwriting and earnings, measured by the combined ratio and pretax return on revenue, will fall into the ranges of 96%-98% and 10%-15%, respectively, during 2010. A decline in earnings or weakening of the combined ratio (which we do not expect) could cause Standard & Poor's to consider revising the outlook. We also do not expect to raise the rating in the intermediate term, primarily because of the group's geographic concentration and limited product diversification.

Competitive Position: Strong And Sustainable In The Commercial Multiperil Business

We believe that GNY has a strong competitive position in its niche CMP business in the tri-state region--especially in New York and New Jersey, where it has been a leading provider of such products for multiple decades and has a history of better-than-average retention among its customers. (The company has maintained retention levels in the mid-80% to low-90% range.) Standard & Poor's views the company as having expertise in providing insurance coverage for small-to-midsize businesses, with package, habitational, light industrial, and office-building coverage. GNY has maintained its position as the sixth-largest provider of CMP products in New York, and it is the fifth-largest in New Jersey, as measured by its direct written premiums in 2008. In our view, the company should be able to sustain its competitive position in its core CMP business through disciplined underwriting and a measured growth strategy, while keeping underwriting profitability as its primary focus. Nevertheless, Standard & Poor's believes that ongoing competition could reduce GNY's top-line growth in 2010.

Table 1

Greater New York Group/Selected Statistics					
	--Year ended Dec. 31--				
(Mil. \$)	2009	2008	2007	2006	2005
Total revenue	247.8	254.1	267.1	282.8	259.0
Net income	27.3	33.0	34.1	27.2	14.2
Combined ratio (%)	98.3	95.7	95.4	94.9	99.7
Return on revenue (%)	14.7	16.4	16.7	14.7	8.5
Total assets	926.4	895.9	897.5	851.9	784.6
Statutory surplus	390.9	357.1	324.5	292.1	262.6

Table 2

Greater New York Group/Business Statistics					
	--Year ended Dec. 31--				
(Mil. \$)	2009	2008	2007	2006	2005
Commercial multiple peril liability	97.8	101.8	107.9	113.2	109.5
Commercial multiple peril nonliability	105.9	100.9	98.9	106.6	90.0
Workers' compensation	6.7	7.0	15.7	27.3	29.5
Commercial auto liability	1.8	2.2	2.8	3.3	4.6
Commercial auto physical damage	0.8	1.0	1.1	1.3	1.6
Other liability	0.4	0.9	1.0	1.6	2.7
Other premiums	1.9	1.7	1.9	1.7	1.6
Total net premiums written	215.3	215.6	229.4	255.1	239.7
Total change in net premiums written (%)	(0.0)	(6.0)	(10.1)	6.4	1.7

Underwriting

GNY's underwriting functions are centralized, regardless of the origin of business produced. The company carefully monitors each risk through an in-house price-monitoring system and by inspecting every building prior to providing any coverage. GNY focuses its business strategy on achieving sustainable and profitable growth in any market cycle.

The company's pricing remains competitive, especially in suburban and rural regions (rather than metropolitan areas).

Diversification

Because it is a New York-based regional writer, GNY is susceptible to potential terrorism and natural catastrophe losses. With respect to natural catastrophes, we note that in the company's 90-year history, it has never had a catastrophe loss of more than \$2 million on a gross basis. The largest such losses were from Hurricanes Gloria and Hugo in 1985 and 1989, respectively. However, the threat of natural catastrophes is real, and the company is actively addressing this issue.

Although the volume of business the company produces from New York City is lower than historical levels, it still accounts for about 51% of overall direct written premiums through year-end 2009. In addition, CMP constituted about 94% of GNY's total premiums written in 2009, exposing the company to the vagaries of this sector. To address this issue, management has implemented a diversification strategy, expanding its niche CMP business to Pennsylvania, Maryland, Massachusetts, Delaware, Virginia, and Illinois. The company has also opened a branch office in Albany, N.Y., as well as in Maryland and Massachusetts, to underwrite businesses in these new territories. Although we view this strategy as modestly favorable, we will not know for some time whether the diversification into these newer areas will be successful in the long term. So far, the newer states or regions have been profitable, with reported combined ratios of between 94% and 98% in 2009.

GNY employs a well-diversified producer base; the top 25 producers generated a significant 56% of its 2009 direct written premiums. Most of these producers have been with the company for more than 25 years. In 2007, GNY formed an excess and surplus (E&S) company, GNY Custom Insurance Co. GNY Custom targets various property and casualty lines, including habitation, restaurants, and manufacturing, which represent low-hazard, small-to-midsize risks. The business currently accounts for a small piece of GNY's book, with reported net premiums written of \$1.6 million as of Sept. 31, 2009. The reported combined ratio for GNY Custom during that same time period was 99.4%, up from the 95.7% reported at year-end 2008.

Prospective

We believe that despite the current volatile economy, GNY will sustain its competitive position in its core CMP business in the tri-state area. Further, because the company studies potential new markets before it enters them, we expect that its CMP book in the newer regions will show profitable growth. GNY is being cautious in writing new business through GNY Custom, given the unknown nature of these risks, and it is in the process of acquiring underwriting expertise for this specialized business.

Management And Corporate Strategy: Focused On Underwriting Profitability

We view GNY's management team as strong. The company has a strict underwriting culture that it has developed over many decades. GNY has had a strong track record of executing its corporate strategy, which is to be a leading provider of CMP insurance in the tri-state area, as well as an opportunistic player in the workers' compensation and E&S businesses. Further, the company seeks to sustain its market niche in the CMP business without having to depend on market cyclicality. Management is maintaining a strategy of modest growth, with a focus on growing the company's CMP business in the newer regions and limiting or declining workers' compensation writings, given that

pricing remains inadequate.

Operational management

GNY's strives to deliver consistent profitability and superior growth by focusing on its core CMP business in the New York tri-state region and looking for opportunities to divest its workers' compensation business. The company separates its claims operation between CMP and workers' compensation. We believe that GNY's workers' compensation business is likely to remain opportunistic in the long term and serve as an accommodation line of business along with its CMP operations.

Financial management

We view GNY's capital management position as conservative, and we believe this conservative position is evident in several of its financial strategies, including asset allocation. The company also has a conservative investment philosophy; it had less than 1% of equity holdings and no real estate or speculative-grade exposures in its investment portfolio as of year-end 2009. In addition, GNY uses reinsurance judiciously, including additional terrorism coverage to protect its surplus from being hurt by catastrophic events (manmade or otherwise). We expect GNY to maintain this prudent financial discipline and to build on its capital structure through retained earnings and steady investment income, but we are still concerned about its aggregate catastrophe exposures (both manmade and natural). However, we note that management has been addressing these issues by significantly increasing its property catastrophe reinsurance coverage (for both manmade and natural perils), controlling its exposure in coastal areas, and taking various measures to limit its coverage of buildings close to potential terrorist targets.

Enterprise Risk Management: Adequate

We view GNY's enterprise risk management (ERM) as adequate. The company benefits from its relatively small infrastructure as compared with larger and more-complex organizations, as this facilitates communications within the organization. GNY's risk culture is shared all across the company. Each risk is classified as low, medium, or high, based on exposures, and is then compared with the company's overall risk profile. GNY has centralized internal audit controls and underwriting controls to manage business across all of its product lines at the branch offices. The company also has good corporate oversight in terms of its day-to-day business activities. GNY conducts semiannual audits for all branches, including monthly data reviews with each branch and online underwriting guidelines.

GNY is developing its overall ERM process slowly through improved risk controls throughout the organization. However, it is highly unlikely that its ERM process will reach a greater level of sophistication in the near future, simply because of its small-company structure and less-complex business structure.

Terrorism-related events are a material risk for the company, given its presence in New York. However, to control these exposures, GNY geocodes 90% of the property risks to the street-level address. It further manages this exposure by not providing coverage close to target buildings, utilizing its mapping software, and employing strict underwriting guidelines and vendor model results.

We consider GNY's investment control as average. An outside firm manages and advises GNY on the management of its investment portfolio.

Corporate governance is strong. The board is composed of 11 outsiders and two insiders, and it meets at least once every quarter to discuss corporate strategies and approve material transactions. The company has centralized internal audit controls and underwriting controls to manage business across all of its product lines at the branch offices.

Accounting

GNY reports its financial statements based on U.S. statutory accounting. Ernst & Young LLP, its independent auditor, assesses the company's accounting principles and the significant estimates management makes, evaluates GNY's overall financial statements, and audits its financials.

For GNY, the areas most subjected to significant management judgments include reserves for property/casualty losses and loss-adjustment expenses. The company has not made material changes in the actuarial assumption or in the method it uses to establish recorded reserves versus those used in the previous period.

GNY is subject to proceedings, lawsuits, and claims in the normal course of business, and its ability to appropriately estimate its loss and loss-adjustment-expense reserves directly affects its financial strength. Standard & Poor's often adjusts an insurer's Standard & Poor's capital model to reflect our view with regard to reserve redundancy, adequacy, or deficiency. We view GNY's reserves as adequate, and thus, we did not adjust its capital model for reserve adequacy. Moreover, we made no other material accounting adjustment affecting our view of GNY'S earnings or capital strength. Standard & Poor's views GNY's accounting as appropriate and containing no unusual practices that could materially affect the rating.

Operating Performance: Remains Strong, Dominated By Underwriting Profitability In The CMP Business

We consider GNY's operating performance to be strong, supported by steady and consistent investment income from its high-quality investment portfolio. The CMP business has been the key engine of GNY's historical profitability. This business generated a very profitable average combined ratio of around 90% over the past five years, compared with an industry average of 97.7% during the same period. In addition, as of year-end 2009, GNY's five-year average combined ratio for all lines was a profitable 96.9%. The company's expense ratio averaged about 32% over the past five years, which was in line with the industry. At times (as was seen last year), this ratio does rise, due to changes in premium volume and expenses related to geographic expansion plans. Nevertheless, in our view, this ratio has remained good when considered with the company's business model.

Table 3

Greater New York Group/Operating Statistics					
	--Year ended Dec. 31--				
(Mil. \$)	2009	2008	2007	2006	2005
Total revenues	247.8	254.1	267.1	282.8	259.0
Pretax operating income (excluding realized gains)	36.4	43.8	44.5	41.5	22.1
Net income	27.3	33.0	34.1	27.2	14.2
Return on revenue (%)	14.7	16.4	16.7	14.7	8.5

Table 3

Greater New York Group/Operating Statistics (cont.)					
Return on assets (%)	2.8	3.1	3.9	3.3	1.9
Return on statutory surplus (%)	7.3	7.7	11.1	9.8	5.5
Loss ratio (%)	63.8	62.5	62.9	64.3	67.6
Expense ratio (%)	34.4	32.9	31.9	30.1	31.2
Policyholders' dividend ratio (%)	0.1	0.3	0.6	0.5	0.9
Combined ratio (%)	98.3	95.7	95.4	94.9	99.7
Operating ratio (%)	16.4	18.6	18.0	16.9	11.7
Portfolio performance					
Net investment income	31.7	31.6	31.5	30.1	27.2
Net yield (%)	4.0	3.2	4.1	4.3	4.3
Net capital gain or loss	0.0	(0.4)	0.0	0.1	0.0
Portfolio composition					
Cash and short-term investments (%)	8.5	7.5	10.0	8.4	7.4
Bonds (%)	91.3	92.3	89.8	91.3	92.3
Preferred and common stock (%)	0.2	0.2	0.2	0.2	0.2
Other invested assets (%)	0.0	0.0	0.0	0.0	0.1
Invested assets to total assets (%)	87.2	88.7	88.1	86.7	85.4
Average maturity of bond portfolio (years)	6.3	6.2	6.2	6.1	5.8

Current performance

GNY's statutory pretax income, on a consolidated basis, declined by 16.5%, to \$36.6 million, through Dec. 31, 2009 (compared with \$43.8 million for the same period of 2008). The statutory combined ratio weakened as well, to 98.3% through Dec. 31, 2009 (compared with 95.7% for the same period in 2008). While the combined ratio may have weakened somewhat, it still falls within our expectations for this company. In 2009, conservative investment and stable underwriting income continued to support a strong pretax return on revenue (ROR) of 14.5%, despite a volatile economic environment. (The company reported a ROR of 17.2% in 2008.)

Prospective

We expect GNY's operating performance to remain strong as a result of disciplined underwriting and careful risk selection. We expect its statutory combined ratio to be 96%-98%, and its pretax ROR to be 10%-15%, for the next two years. In addition, we anticipate that the company's expense ratio will remain close to its five-year average of 32% as it opens branch offices in new territories as part of its geographic diversification strategy. We expect GNY's overall premium volume to decline modestly as price competition intensifies in the next couple of years. However, there could be some incremental premium growth resulting from GNY's strategic expansion in the newer regions and states. In addition, although we believe that competition may hurt the company's top line, we do not expect GNY to loosen its underwriting criteria, and its bottom line should not be materially affected.

Investments And Liquidity: A High-Quality Investment Portfolio Generates Steady Investment Income

GNY has a conservative investment philosophy, as demonstrated by the asset mix in its investment portfolio. In addition, we view the quality of the portfolio's fixed-income assets as very good. As of year-end 2009, GNY's invested asset portfolio consisted of 89% bonds, 10% cash and short-term securities, and 0.2% common stocks. The fixed-income portfolio is very conservative and of high quality, as 93.9% of this portfolio consists of government and municipal bonds. (The remaining 8.2% consists of corporate and industrial bonds.)

During the past five years (2005-2009), the company's fixed-income portfolio had an average maturity of 6.1 years and an average yield of 4.0%. GNY has no exposure to junk bonds, real estate, or derivative instruments, which enhances the quality of its invested assets. GNY's liquidity has historically been strong.

Prospective

In our view, GNY's investment strategy will likely remain conservative, and its underlying asset mix is unlikely to change materially over the next few years. We also expect that GNY's cash flow will grow at a modest pace as price competition intensifies and premium volume declines.

Capitalization: Capital Adequacy Is A Ratings Strength

Historically, GNY's capital adequacy has been strong, as measured by Standard & Poor's capital adequacy model. On a risk-adjusted basis, we expect capital adequacy to remain strong and comfortably above the rating category. The quality of capital is also good, supported by strong earnings and an improved overall reserve position. During the past five years, GNY's statutory surplus grew by an average of 9.4% as a result of the company's strong earnings.

Table 4

Greater New York Group/Financial Statistics					
	--Year ended Dec. 31--				
(Mil. \$)	2009	2008	2007	2006	2005
Total assets	926.4	895.9	897.5	851.9	784.6
Statutory surplus	390.9	357.1	324.5	292.1	262.6
Loss and loss adjustment expense reserves/statutory surplus (x)	1.0	0.9	1.2	1.3	1.4
Common stock to surplus (%)	0.4	0.4	0.6	0.6	0.6
Reinsurance utilization ratio (%)	16.3	23.4	22.9	18.7	19.8
Reinsurance recoverables to surplus (%)	29.7	36.9	38.5	41.6	45.7
Underwriting cash flow ratio (%)	101.0	100.8	108.1	125.0	124.3
Operating cash flow ratio (%)	110.8	118.8	127.9	145.3	140.8

The strength of GNY's capital is mitigated somewhat by its business concentration in the Northeast, which exposes it to both manmade and natural catastrophe losses. Although GNY's natural catastrophe losses from the Northeast have been minimal over many decades, the potential for natural catastrophe losses is real. The company is actively addressing and managing this issue by reducing its building exposures, distancing itself from coastal areas,

increasing windstorm deductibles, and significantly increasing its reinsurance limits from previous years. In terms of potential terrorism-related events, the company protects its balance sheet by utilizing stand-alone terrorism reinsurance coverage for its share of the TRIPRA deductible and managing its modeled exposures to within these reinsurance coverages.

Prospective

We expect GNY's capital adequacy to remain strong for the rating over the next few years. Although workers' compensation reserves had been a modest drag on GNY's overall reserves, the magnitude of such deficiencies has lessened, as the workers' compensation book has decreased.

Reserves

We believe that GNY's overall reserves are adequate. Historically, the company had experienced adverse reserve developments in its workers' compensation business. However, redundant reserves in the CMP lines largely offset the adverse developments in workers' compensation. The recent results in prior-year reserve developments indicate a trend of improvement over the past few years. GNY has implemented increased case reserving requirements for its workers' compensation claims handling, as well as additional improved technology to mitigate any potential adverse reserve developments in the future. GNY's loss reserve-to-surplus ratio was 1.0x at year-end 2009, compared with a five-year average of 1.2x. In addition, GNY's invested assets at Dec. 31, 2009, totaled \$820 million, exceeding its loss reserves by a significant cushion of \$438 million. The company has never been required to liquidate a bond holding to pay a claim.

Reinsurance

GNY has maintained reinsurance coverage from highly rated reinsurers. The company manages its terrorism exposures for both property and casualty lines through a combination of terrorism underwriting guidelines and the purchase of reinsurance, including stand-alone terrorism coverage. GNY has a variety of reinsurance programs. For property excess exposures, the reinsurance program protects GNY in a series of layers in excess of \$500,000 retention to a \$70 million limit. The company's current property catastrophe program protects its losses up to \$240 million in excess of \$15 million per occurrence. For casualty exposures, GNY's excess reinsurance program protects its casualty losses in excess of \$500,000 retention, with a limit of \$50 million. In addition, GNY has purchased stand-alone terrorism coverage that, when combined with TRIPRA, protects its losses up to \$280 million in excess of \$20 million per occurrence. The company has modeled its catastrophe exposures for both manmade and natural catastrophes.

Financial Flexibility: Mutual Structure Limits Access To Capital Markets

We view GNY's financial flexibility as good, but limited. The company's mutual structure prevents it from directly accessing the capital market, except for the issuance of surplus notes if needed. In addition, GNY maintains strong reinsurance relationships that could provide surplus relief in the form of quota share treaties. However, GNY's strong capital base and conservative investment portfolio limit the need for additional funding. The company's underwriting and operating cash flow ratios at year-end 2009 were strong, at 101% and 110.8%, respectively, although they were below the five-year averages of 111.8% and 128.7%, respectively.

Ratings Detail (As Of March 11, 2010)***Operating Companies Covered By This Report****Greater New York Mutual Insurance Co.**

Financial Strength Rating

Local Currency

A/Stable/--

Counterparty Credit Rating

Local Currency

A/Stable/--

GNY Custom Insurance Co.

Financial Strength Rating

Local Currency

A/Stable/--

Issuer Credit Rating

Local Currency

A/Stable/--

Insurance Co. of Greater NY

Financial Strength Rating

Local Currency

A/Stable/--

Issuer Credit Rating

Local Currency

A/Stable/--

Strathmore Insurance Co.

Financial Strength Rating

Local Currency

A/Stable/--

Issuer Credit Rating

Local Currency

A/Stable/--

Domicile

New York

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