

REPORT ON EXAMINATION
OF THE
PUTNAM REINSURANCE COMPANY
AS OF
DECEMBER 31, 1999

DATE OF REPORT

APRIL 20, 2001

EXAMINER

MOSES EGBON, C.F.E.

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

April 20, 2001

Honorable Gregory V. Serio
Acting Superintendent of Insurance
Albany, New York 12257

Sir:

Pursuant to instructions contained in Appointment Number 21589 dated September 7, 2000, attached hereto, and in accordance with the New York Insurance Law, I have made an examination into the financial condition and affairs of the Putnam Reinsurance Company as of December 31, 1999 and respectfully submit the following report thereon.

The examination was conducted at the Company's home office located at 80 Pine Street, New York, New York 10005.

Wherever the designation "Company" appears in this report without qualification, it should be understood to indicate the Putnam Reinsurance Company.

In addition, wherever the designation "AIG" appears herein without qualification, it should be understood to indicate the American International Group, Inc., a Delaware corporation.

Whenever the term "Department" appears herein, without qualification, it should be understood to refer to the New York Insurance Department.

1. SCOPE OF EXAMINATION

The previous examination was conducted as of December 31, 1993. This examination covers the six year period from January 1, 1994 through December 31, 1999 and was limited in scope to a review or audit of only those balance sheet items considered by this Department to require analysis, verification or description, including: invested assets, inter-company balances, loss and loss adjustment expense reserves and the provision for reinsurance.

The examination includes a review of income, disbursements and Company records to the extent deemed necessary to accomplish such verification and utilized, to the extent considered appropriate, work performed by the Company's independent certified public accountants. A review or audit was also made of the following items as called for in the Examiners Handbook of the National Association of Insurance Commissioners:

- History of Company
- Management and control
- Corporate records
- Fidelity bonds and other insurance
- Territory and plan of operation
- Market conduct activities
- Growth of Company
- Business in force by states
- Reinsurance
- Accounts and records
- Financial statements

A review was also made to ascertain what action was taken by the Company with regard to recommendations in the prior report on examination.

This report on examination is confined to financial statements and comments on those matters which involve departures from laws, regulations or rules, or which are deemed to require explanation or description.

In addition, Transatlantic Reinsurance Company, an affiliate, was also examined concurrently with the Company.

2. DESCRIPTION OF COMPANY

The Company was incorporated on September 30, 1985, as SAI Industrial Assurance Company ("SAI") as a result of the domestication of the United States Branch of the SAI-Societa Assicuratrice Industrials S.P.A. of Torino, Italy to a New York corporation. It began business with a capital of \$500,000, consisting of 1,000 shares of common stock with a par value of \$500 per share all issued to SAI-Societa Assicuratrice Industrials S.P.A. of Torino, Italy.

On December 12, 1985, AIG purchased the aforementioned 1,000 shares to become the new sole shareholder of SAI.

On February 24, 1986, SAI's authorized capital was increased to \$2,500,000. This increase in authorized capital was composed of 4,000 shares of common stock with a par value of \$500 per share.

On April 29, 1986, SAI's name was changed to Putnam Reinsurance Company, the Company's present corporate title.

On June 30, 1986, 4,000 shares of previously authorized but unissued common stock were sold to AIG for a consideration of \$2,000,000. On the same date, AIG contributed all of its stockholdings in the Company, 5,000 shares, and cash to PREINCO Holdings, Inc. ("PREINCO") in exchange for a 20.01% interest therein. PREINCO was organized on June 10, 1986, in the State of Delaware to become the new holding company and sole stockholder of Putnam.

On April 18, 1990, the name of PREINCO Holdings, Inc. was changed to Transatlantic Holdings, Inc. and it became a public company in June, 1990.

The Company is a wholly-owned subsidiary of Transatlantic Reinsurance Company ("TRC"), which is a wholly-owned subsidiary of Transatlantic Holdings. As of December 31, 1999, AIG beneficially owned approximately 59% of Transatlantic Holdings' outstanding common stock.

A. Management

Pursuant to the Company's charter and by-laws, management is vested in a board of directors consisting of not less than thirteen nor more than twenty-one members.

As of the examination date, the Company had fourteen directors. The board of directors met four times each year during the examination period. The directors as of December 31, 1999 were as follows:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
James Balog Vero Beach, FL	Retired Chairman, 1838 Investment Advisors, L.P.
Paul A. Bonny Surrey, UK	Executive Vice President, Transatlantic Reinsurance Company

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
C. Fred Bergsten Annandale, VA	Director, Institute for International Economics
Ikuo Egashira Tokyo, Japan	Chairman, Nichido Fire and Marine Insurance Company, Limited
Maurice R. Greenberg New York, NY	Chairman and Chief Executive Officer, American International Group, Inc.
John J. Mackowski Ponte Vedra Beach, FL	Retired Chairman and Chief Executive Officer, The Atlantic Mutual Companies
Edward E. Matthews Princeton, NJ	Vice Chairman – Investment & Financial Services, American International Group, Inc.
Michael E. Morrill Stamford, CT	Senior Vice President, Transatlantic Reinsurance Company
Robert V. Mucci Brooklyn, NY	Senior Vice President and Actuary, Transatlantic Reinsurance Company
Robert F. Orlich Manhasset, NY	President and Chief Executive Officer, Transatlantic Holdings, Inc.
Howard I. Smith Woodbury, NY	Executive Vice President and Chief Financial Officer, American International Group, Inc.
Steven S. Skalicky White Plains, NY	Executive Vice President and Chief Financial Officer, Transatlantic Holdings Inc.
Thomas R. Tizzio Middletown, NJ	President, American International Group, Inc.
Javier E. Vijil Miami, FL	Executive Vice President, Transatlantic Holdings Inc.

The minutes of all meetings of the board of directors and committees thereof held during the examination period were reviewed. The meetings were well attended.

The following were the principal officers of the Company at December 31, 1999:

<u>Name</u>	<u>Title</u>
Maurice R. Greenberg	Chairman of the Board
Robert F. Orlich	President/Chief Executive Officer
Robert V. Mucci	Senior Vice President and Actuary
Paul A. Bonny	Executive Vice President
Steven S. Skalicky	Executive Vice President and Chief Financial Officer
Javier E. Vijil	Executive Vice President
Robert Baldrey	Senior Vice President
John Cho	Senior Vice President
Matthew G. Fay	Senior Vice President
Sidney Kahn	Vice President/Treasurer
Glenn E. Gardner	Senior Vice President
Michael C. Sapnar	Senior Vice President
Michael E. Morrill	Senior Vice President
Ari L. Zalkowitz	Senior Vice President
Gary A. Schwartz	Vice President and General Counsel
Elizabeth M. Tuck	Secretary

B. Territory and Plan of Operation

As of the examination date, the Company was licensed to transact business in all states with the exception of Alabama, Connecticut, Kansas, Maine, Massachusetts, New Hampshire, New Jersey, North Carolina, Oregon, Rhode Island, South Dakota, Tennessee, Vermont, Virginia, West Virginia and Wyoming. The Company was authorized as an accredited reinsurer in Connecticut. Credit was allowed for reinsurance in Maine, Massachusetts, New Hampshire, New Jersey, Rhode Island, South Dakota, Vermont, West Virginia and Wyoming.

According to its certificate of authority, the Company was empowered to transact the kinds of business as set forth in the following numbered paragraphs of Section 1113(a) of the New York Insurance Law:

<u>Paragraph</u>	<u>Line of Business</u>
3(i)	Accident and health
4	Fire
5	Miscellaneous property
6	Water damage
7	Burglary and theft

<u>Paragraph</u>	<u>Line of Business</u>
8	Glass
9	Boiler and machinery
10	Elevator
12	Collision
13	Personal injury liability
14	Property damage liability
15	Workers' compensation and employers' liability
16	Fidelity and surety
19	Motor vehicle and aircraft
20	Marine
21	Marine protection and indemnity

The Company is also authorized to transact such workers' compensation insurance as may be incident to coverages contemplated under paragraphs 20 and 21 of Section 1113(a), including insurances described in the Longshoremen's and Harbor Workers' Compensation Act (Public Law No. 803, 69th Congress as amended; 33 USC Section 901 et seq. as amended). The Company is also authorized by Section 4102(c) of the New York Insurance Law to reinsure risks of every kind or description.

Additionally, the Company is licensed to conduct the business of special risk insurance pursuant to Article 63 of the New York Insurance Law.

Based upon the lines of business for which the Company is licensed, and the Company's current capital structure, and pursuant to the requirements of Articles 13, 41 and 63 of the New York Insurance Law, Putnam Reinsurance Company is required to maintain a minimum surplus to policyholders in the amount of \$35,000,000.

C. Reinsurance

The Company and Transatlantic Reinsurance Company (“TRC”), an affiliate, entered into a reinsurance and assumption agreement and a quota share reinsurance agreement at December 31, 1990. Under the reinsurance and assumption agreement, TRC assumed all the liabilities and obligations including losses and loss adjustment expenses on all policies and contracts of insurance and reinsurance entered into by Putnam as of December 31, 1990, and immediately thereafter the Company assumed 33% of TRC’s total assumed reinsurance liabilities, net of retrocessions.

Commencing January 1, 1991, all reinsurance contracts were written by TRC. TRC cedes 33% of its assumed reinsurance business, net of other retrocessions, to Putnam.

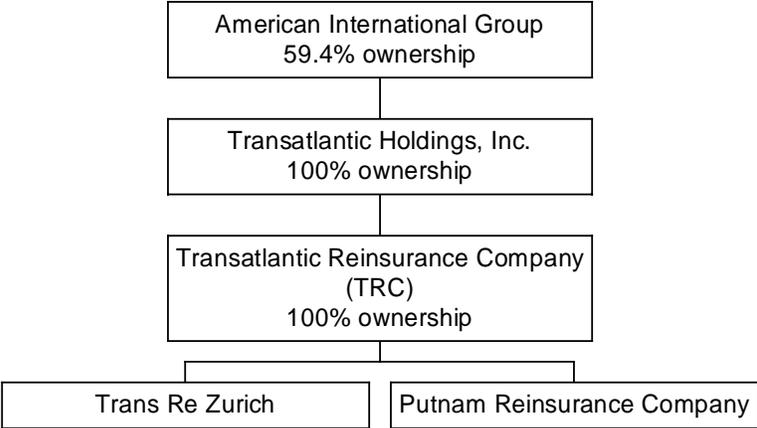
During the examination period, all of the Company’s business results from its participation in the quota share reinsurance agreement with Transatlantic Reinsurance Company. In 1995, the Department approved a revised quota share agreement whereby the Company reduced its percentage of business assumed under this contract from 33% to 5%. It did not cede any of its assumed business during this examination period.

D. Holding Company System

The Company is a wholly-owned subsidiary of TRC, which is a wholly-owned subsidiary of Transatlantic Holdings, Inc. (formerly PREINCO Holdings, Inc.), a Delaware corporation which became a public company in June 1990. At December 31, 1999, American International Group, Inc., a Delaware corporation, beneficially owned approximately 59% of Transatlantic Holdings, Inc.’s outstanding common stock. Subsequent to the date of this examination, this Department determined that AIG was the

ultimate controlling person. The Company has filed annual reports in accordance with the requirements of Article 15 of the New York Insurance Law and Department Regulation 52.

The following is the holding company chart as of December 31, 1999:



As of the examination date, the Company was a party to the following agreements with affiliated entities:

1. Management Agreements with Transatlantic Reinsurance Company and AIG

The Company's operations are managed by Transatlantic Reinsurance Company pursuant to a management agreement effective January 1, 1991. This agreement was approved by this Department on February 7, 1991.

In addition, the Company and Transatlantic Holdings, Inc. are parties to a service and expense agreement with AIG. This agreement was effective July 1, 1986 and was approved by the Department on July 7, 1986. Under the terms of the aforementioned agreements, AIG and/or Transatlantic Reinsurance Company provide essentially all space, services and personnel necessary for the conduct of the Company's business.

2. Investment Management Agreements with AIG Global Investors Inc.

The Company is a party to an investment management agreement with AIG Global Investors, Inc. ("Global"), a wholly-owned AIG subsidiary. Under the terms of the agreement, Global acts as the manager of the Company's investment portfolio. Department approval for this agreement was obtained on August 7, 1986.

In addition, the Company participates in a joint asset agreement with AIG and its subsidiaries for the purpose of pooling excess funds for investments in short-term money market instruments. On May 29, 1987, the Department approved the joint asset agreement.

3. Tax Allocation Agreement

The Company files a consolidated federal income tax return with its parent, Transatlantic Holdings, Inc., and an affiliate, Transatlantic Reinsurance Company. The return is filed pursuant to the provisions of a tax allocation agreement approved by the Department on February 28, 1991.

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 1999, based upon the results of this examination:

Net premiums written in 1999 to Surplus as regards policyholders	.67:1
Liabilities to Liquid assets (cash and invested assets less investment in affiliates)	59.00%
Premiums in course of collection to Surplus as regards policyholders	0.00%

The above ratios fall within the benchmark ranges established by the Insurance Regulatory Information System of the National Association of Insurance Commissioners.

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

	<u>Amounts</u>	<u>Ratios</u>
Losses incurred	\$405,718,113	71.5%
Loss adjustment expenses incurred	36,646,773	6.5
Other underwriting expenses incurred	138,400,905	24.4
Net underwriting loss	<u>(13,186,727)</u>	<u>(2.3)</u>
Premiums earned	<u>\$567,579,064</u>	<u>100.0%</u>

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as determined by this examination as of December 31, 1999. This statement is the same as the balance sheet filed by the

Company:

<u>Assets</u>	<u>Ledger Assets</u>	<u>Non-Ledger Assets</u>	<u>Not-Admitted Assets</u>	<u>Net-Admitted Assets</u>
Bonds	\$239,334,683	\$	\$	\$239,334,683
Common stocks	1,926,780	2,734,500		4,661,280
Short-term investments	26,589			26,589
Other invested assets	3,921,749			3,921,749
Premiums and agents' balances in course of collection	(2,117,131)		4,433	(2,121,564)
Premiums, agents' balances and installments booked but deferred and not yet due	1,299,617			1,299,617
Funds held by or deposited with reinsured companies	3,978,942			3,978,942
Interest, dividends and real estate income due or accrued	_____	<u>3,583,508</u>	_____	<u>3,583,508</u>
Total assets	<u>\$248,371,229</u>	<u>\$6,318,008</u>	<u>\$4,433</u>	<u>\$254,684,804</u>

Liabilities

Losses		\$117,793,492
Loss adjustment expenses		10,870,535
Contingent commissions		531,421
Other expenses		315,968
Federal and foreign income taxes		491,687
Unearned premiums		16,622,519
Payable to parent, subsidiaries and affiliates		623,182
Payable for securities		3,066,670
Aggregate write-ins for liabilities		<u>52,498</u>
Total liabilities		\$150,367,972
Common capital stock	\$2,500,000	
Gross paid in and contributed surplus	90,727,719	
Unassigned funds	<u>11,089,113</u>	
Surplus as regards policyholders		<u>104,316,832</u>
Total liabilities and surplus		<u>\$254,684,804</u>

NOTE: The Internal Revenue Service (IRS) has completed its audits of the consolidated income tax returns filed on behalf of the Company through tax year 1997. The examiner is unaware of any potential exposure of the Company to any future income tax assessment and no liability has been established herein relative to such contingency.

B. Underwriting and Investment Exhibit

Surplus as regards policyholders decreased \$85,165,441 during the six-year examination period, January 1, 1994 through December 31, 1999, detailed as follows:

Statement of Income

Underwriting Income

Premiums earned		\$567,579,064
Deductions:		
Losses incurred	\$405,718,113	
Loss adjustment expenses incurred	36,646,773	
Other underwriting expenses incurred	<u>138,400,905</u>	
Total underwriting deductions		<u>580,765,791</u>
Net underwriting loss		\$(13,186,727)

Investment Income

Net investment income earned	\$167,155,598	
Net realized capital gains	<u>61,508,606</u>	
Net investment gain		228,664,204

Other Income

Net gain/(loss) from premium balances charged off	<u>\$ 10,635</u>	
Total other income		<u>10,635</u>
Net income before dividends to policyholders and federal and foreign income taxes		\$215,488,112
Federal and foreign income taxes incurred		<u>45,793,287</u>
Net income		<u>\$ 169,694,825</u>

Capital and Surplus Account

Surplus as regards policyholders, per report on examination as of December 31, 1993		\$189,482,273
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>
Net income	\$169,694,825	\$
Net unrealized capital losses		3,641,812
Change in non-admitted assets	209,136	
Dividends to stockholders	<u> </u>	<u>251,427,590</u>
Total gains and losses	<u>169,903,961</u>	<u>255,069,402</u>
Net increase in surplus as regards policyholders		<u>(85,165,441)</u>
Surplus as regards policyholders, per report on examination as of December 31, 1999		<u>\$104,316,832</u>

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liabilities of \$117,793,492 and \$10,870,535 respectively, are the same as the amounts reported by the Company as of the examination date. The examination analysis was conducted in accordance with generally accepted actuarial principles and practices and was based on statistical information contained in the Company's internal records and in its filed annual statements.

5. MARKET CONDUCT ACTIVITIES

The Company is a reinsurer and does not have direct contact with insureds or claimants. However, during the course of this examination, a review was made of the manner in which the Company conducts its business practices and fulfills its contractual obligations. No problems were encountered.

6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

<u>ITEM</u>	<u>PAGE NO.</u>
<p>A. Pursuant to the provisions of the tax allocation agreement, it is recommended that an escrow account and an escrow agreement be established.</p> <p>The Company has complied with this recommendation.</p>	<p>10-11</p>
<p>B. It is recommended that the Company establish a written contract with its independent CPA that would fulfill the requirements of Department Regulation 118.</p> <p>The Company has complied with this recommendation.</p>	<p>11-12</p>

7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

There were no comments and/or recommendations in this report on examination.

Respectfully submitted,

_____/S/_____
Moses Egbon, C.F.E.
Senior Insurance Examiner

STATE OF NEW YORK)
)SS.
)
COUNTY OF NEW YORK)

MOSES EGBON, being duly sworn, deposes and says that the foregoing report submitted by him is true to the best of his knowledge and belief.

_____/S/_____
Moses Egbon

Subscribed and sworn to before me

this _____ day of _____ 2001.

STATE OF NEW YORK
INSURANCE DEPARTMENT

I, GREGORY V. SERIO, First Deputy Superintendent of Insurance of the State of New York, pursuant to the provisions of the Insurance Law, do hereby appoint:

Moses Egbon

as proper person to examine into the affairs of the

Putnam Reinsurance Company

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

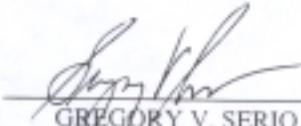
Company

with such other information as he shall deem requisite.

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

this 7th day of September, 2000





GREGORY V. SERIO

First Deputy Superintendent of Insurance