REPORT ON EXAMINATION

OF

GENERAL SECURITY INSURANCE COMPANY

AS OF

DECEMBER 31, 2001

DATE OF REPORT	JUNE 20, 2005
EXAMINER	JAINARINE TILAKDHARRY

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

June 20, 2005

Honorable Howard Mills
Superintendent of Insurance
Albany, New York 12257

Sir:

Pursuant to the instructions contained in Appointment Number 21848, dated March 7, 2002 attached hereto, I have made an examination into the condition and affairs of the General Security Insurance Company as of December 31, 2001, and respectfully submit the following report thereon.

The examination was conducted at the Company's home office located at 199 Water Street, New York, New York 10038.

Whenever the designations "Company" or "GSIC" appear herein without qualification, they should be understood to indicate the General Security Insurance Company.

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

1. SCOPE OF EXAMINATION

The previous examination was conducted as of December 31, 1998. This examination covers the three-year period from January 1, 1999 through December 31, 2001. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

The examination comprised a complete verification of assets and liabilities as of December 31, 2001, a review of income and disbursements 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 the Company
Management and control
Corporate records
Fidelity bond and other insurance
Territory and plan of operation
Growth of the Company
Business in force
Reinsurance
Loss experience
Market conduct activities
Accounts and records
Financial statements

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.

Concurrent examinations were made of the Company’s parent, SCOR Reinsurance Company (“SCOR”), and its affiliates, General Security Indemnity Company, General Security Property & Casualty Company, and General Security National Insurance Company, all four being New York domestic insurers. Separate reports have been rendered thereon for each insurer.

2. DESCRIPTION OF COMPANY

General Security Insurance Company was incorporated on October 15, 1996 under the laws of the State of New York, to serve as a vehicle for the redomestication of the Company from Maryland to New York. Effective December 31, 1996, this Company merged with its predecessor, General Security Insurance Company, Rockville, Maryland. Concurrent with the 1996 merger, the surviving entity adopted its present name. The predecessor company was incorporated April 22, 1936 under the laws of Maryland and began business on the same date as The International Insurance Company of Takoma Park, Maryland (“IIC”). On December 4, 1992, IIC was purchased by SCOR Reinsurance Company and changed its name to General Security Insurance Company on January 12, 1993.

Pursuant to its charter, the Company’s paid-up capital of $5,000,000 consists of 5,000 shares of common stock at par value of $1,000 per share. All authorized shares are issued and outstanding.

A. Management

Pursuant to the Company’s charter and by-laws, management of the Company is vested in a board of directors consisting of not less than thirteen nor more than twenty-one members. As of the examination date, the board of directors was comprised of thirteen members. The board met four times during each calendar year. The directors as of December 31, 2001 were as follows:

Name and Residence	Principal Business Affiliation
Jacques Patrick Blondeau Paris, France	Chairman and Chief Executive Officer, SCOR Paris
Allan Melville Chapin New York, NY	Senior Partner, Sullivan & Cromwell
John Roger Cox Roseland, NJ	Retired
Robert Thomas Faber Sleepy Hollow, IL	Senior Vice President, SCOR Reinsurance Company
Jerome Faure Larchmont, NY	Executive Vice President, SCOR U.S. Corporation
William T Harris, Jr. Basking Ridge, NJ	Executive Vice President, Commercial Risk Reinsurance Company
Jerome Karter New York, NY	President and Chief Executive Officer, SCOR U.S. Corporation
Serge Michel Phillippe Osouf Paris, France	President and Chief Operations Officer, SCOR Paris
Patrick Peugeot Paris, France	President, La Mondiale
Graham Pewter Pembroke, Bermuda	President and Chief Executive Officer, Commercial Risk Partners Limited
Francois Reach Paris, France	Group Senior Vice President, SCOR Paris
David J. Sherwood Amelia Island, FL	Consultant
Ellen Elizabeth Thrower New York, NY	Executive Director, The College of Risk Management, Insurance and Actuarial Science

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

The following were the principal officers of the Company on December 31, 2001:

Name	Title
Jerome Faure	President and Chief Executive Officer
John F. Verbich	Senior Vice President and Chief Financial Officer
John T. Andrews, Jr.	Senior Vice President and Secretary
Kudret Oztap	Senior Vice President
John Petroccione	Senior Vice President

B. Territory and Plan of Operation

As of the examination date, the Company was licensed in all states except Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, and Vermont. It was also licensed in Guam and the U.S. Virgin Islands. Approximately 73% of the Company's direct writings in 2001 were concentrated in California, Florida, and New York.

The following schedule shows the Company's direct premiums written during the period of the examination, 1999 to 2001, in New York State and countrywide and the percentage which the New York State premiums bear to the countrywide premiums:

DIRECT WRITTEN PREMIUMS

	1999	2000	2001
New York	$21,324,929	$ 15,355,173	$ 10,735,056
Countrywide	$83,917,405	$107,743,059	$112,753,145
% New York to Countrywide	25.41%	14.25%	9.52%

As of December 31, 2001 the Company is licensed to transact the kinds of insurance as set forth in the following numbered paragraphs of Section 1113(a) of the New York Insurance Law:

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

The Company may also write such workers' compensation insurance as may be incidental to coverages contemplated under paragraphs 20 and 21 of Section 1113(a) of the New York Insurance Law including insurances described in the Longshoremen's and Harbor Workers' Compensation Act (Public Law No. 803, 69th Congress as amended). 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 and 41 of the New York Insurance Law, GSIC is required to maintain a minimum surplus to policyholders of $4,400,000.

The Company is a direct writer and the majority of its business is produced by program administrators (“PA”). Its claims settlements are handled by third party administrators (“TPA”).

C. Reinsurance

Effective December 31, 1996, SCOR and its subsidiaries General Security Insurance Company, General Security Property and Casualty Company, and General Security Indemnity Company entered into a quota share reinsurance agreement ("quota share agreement"). Pursuant to the quota share agreement, SCOR assumes 90% of all business underwritten by its subsidiaries on or after January 1, 1997. Prior to the effective date of the quota share agreement, the Company and its subsidiaries participated in an intercompany pooling agreement for underwriting years 1991 through 1996.

The Schedule F data as contained in the Company's annual statements filed for the years within the examination period was found to accurately reflect its reinsurance transactions.

All ceded reinsurance contracts effected during the examination period were reviewed. These contracts all contained the required standard clauses including insolvency clauses meeting the requirements of Section 1308 of the New York Insurance Law.

The Company had in effect the following reinsurance ceded contracts at December 31, 2001:

Type of Contract	Cession
Facultative Property Per Risk:	
Excess of Loss (4 Layers) (Covering all business written in the Facultative Property Department) Unauthorized – 100%	$50,000,000 excess of $20,000,000 ultimate net loss, any one risk.
Property Catastrophe:	
Underlying Excess of Loss Unauthorized – 100.00%	$25,000,000 excess of $5,000,000 net loss, each occurrence.
Excess of Loss (3 Layers) Unauthorized – 100%	95% of $220,000,000 excess of $30,000,000 net loss, each occurrence.

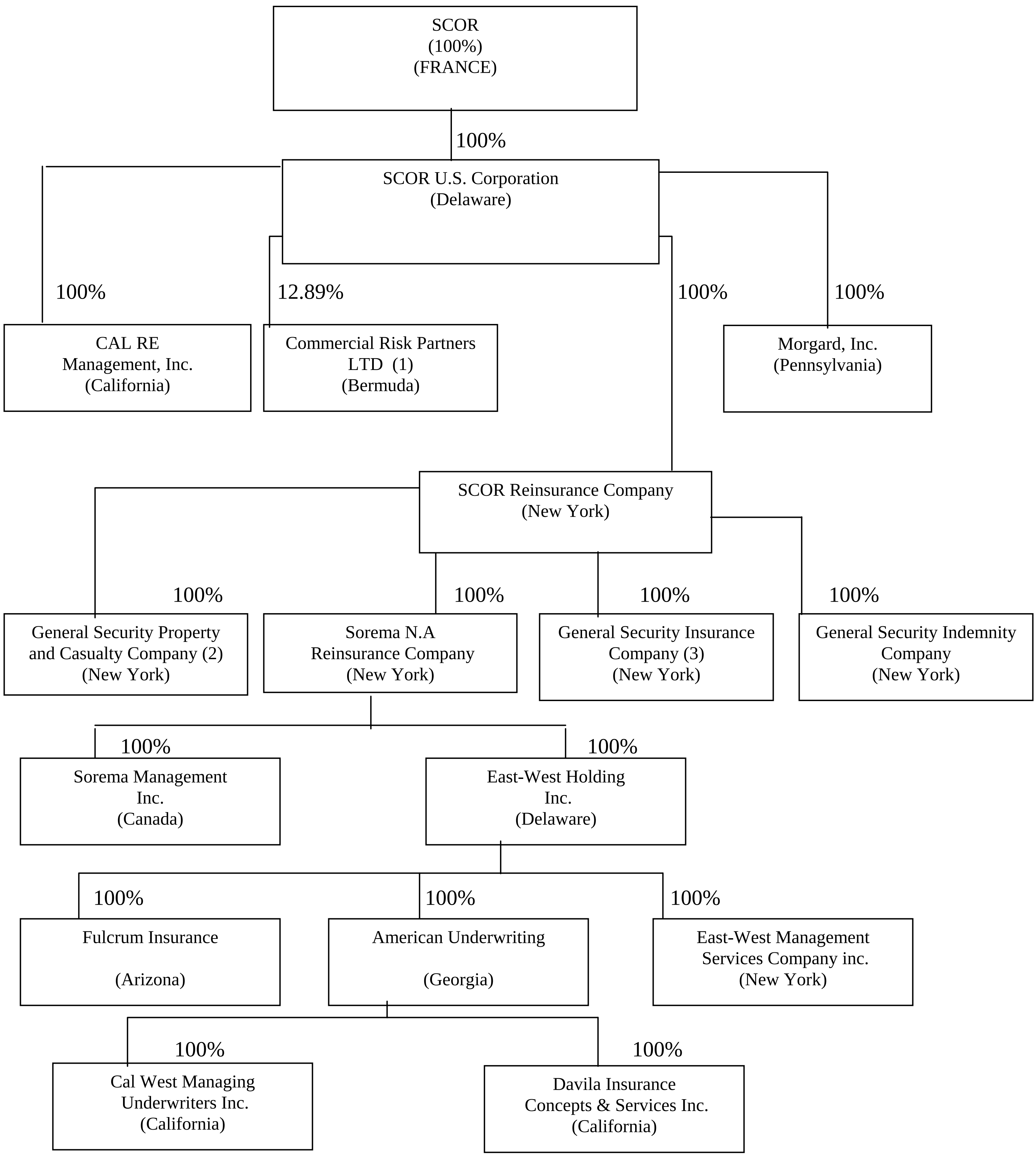
Type of Contract	Cession
Casualty:	
"SBS" Excess of Loss Unauthorized – 100%	$15,000,000 excess of $5,000,000, ultimate net loss, any one claim, any one risk written in accordance with the "SBS" underwriting delegations and procedures.
"Non-SBS" Excess of Loss Unauthorized – 100%	$6,000,000 excess of $5,000,000, ultimate net loss, any one claim, any one risk for regional treaty and facultative business written on an individual client.
Clash Excess of Loss Unauthorized – 100%	$25,000,000 excess of $7,500,000, ultimate net loss, per occurrence when two or more treaty and facultative risks are involved for at least $2,500,000 each in the same loss occurrence.
Workers Compensation:	
Per Claimant Excess of Loss Authorized – 100%	61% of $5,000,000 excess of $5,000,000 each loss occurrence, each claimant, each underlying reinsurance program. Aggregate limit of $25,000,000 any one underlying reinsurance program.
Per Occurrence Excess of Loss Unauthorized –78% Authorized 22%	91% of $65,000,000 excess of $5,000,000 each loss occurrence, each underlying reinsurance program. Aggregate limit of $195,000,000 any one underlying reinsurance program.

D. Holding Company System

The Company is a controlled insurer owned directly by SCOR Reinsurance Company, a New York corporation. SCOR Reinsurance Company is 100% controlled by SCOR U.S. Corporation, a Delaware corporation, which is 100% owned by SCOR, a French reinsurance company. Accordingly, the Company has made the appropriate filings as required by Article 15 of the New York Insurance Law and Department Regulation 52.

The following chart depicts the Company's position in the holding company system.

SCOR U.S. GROUP
HOLDING COMPANY CHART



At December 31, 2001, the Company had the following service agreements in effect with its parent:

1. Expense Allocation Agreement

Pursuant to the terms of this agreement, which was effective January 1, 1991 and approved by the Department on April 19, 1991, SCOR Reinsurance Company, SCOR U.S. Corporation, Scor Services Inc., Bind Inc., NARG Inc., California Reinsurance Management Corporation, General Security Property & Casualty Company (formerly Unity Fire and General Insurance Company), Morgard Inc., Morgard Partners Inc., Unistrat Corporation of America, General Security Indemnity Company, General Security Insurance Company, and Sorema N.A. Holding Corporation agree to provide and make available to each other the services of their personnel, office space, equipment and other services. The agreement was amended on December 11, 1992, May 5, 1994, January 6, 1995, January 1, 1996, and August 1, 2001. The Department approved these amendments.

2. Tax Allocation Agreement

Pursuant to an agreement, the Company filed a consolidated federal income tax return with its parent company, SCOR U.S Corporation and its affiliates. The agreement was approved by the Department on April 19, 1991 and became effective on August 2, 1991. The agreement was amended on December 11, 1992, on May 5, 1994, and on August 1, 2001. The Department approved these amendments.

E. Commutation Agreement

During 2001, the SCOR Reinsurance Company and its subsidiaries entered into a commutation and aggregate excess of loss contingent coverage agreement with its parent, SCOR, Paris, which effectively commuted a series of retrocession arrangements related to 1997 and prior underwriting years.

Under this agreement, the Company and its affiliates received consideration of $68,340,149 for full satisfaction of reinsurance recoverables due from SCOR. No gain or loss resulted from this transaction.

The consideration received from SCOR was in form of a promissory note, which bears an interest rate equal to the five year U.S. Treasury bill rate. The promissory note is fully collateralized by an irrevocable letter of credit. The commutation agreement, as well as the accounting treatment of the promissory note, approved by the Department.

F. Significant Operating Ratios

The following ratios have been computed as of December 31, 2001 based upon the results of this examination:

Net premiums written in 2001 to surplus as regards policyholders.	.16:1
*Liabilities to liquid assets (cash and invested assets less investment in affiliates)	268.24%
*Premiums in course of collection to surplus as regards policyholders	90.33%

*The above ratios fall outside the benchmark ranges of the Insurance Regulatory Information System of the National Association of Insurance Commissioners and is due to the Company's significant reinsurance recoverable on paid losses due from its parent company.

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

	Amounts	Ratios
Losses incurred	$20,549,370	81.61%
Loss adjustment expenses incurred	4,056,134	16.11
Other underwriting expenses incurred	10,450,485	41.51
Net underwriting loss	(9,878,363)	(39.23)
Premiums earned	$25,177,626	100.00%

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and surplus as determined by this examination as of December 31, 2001:

Assets	Ledger Assets	Not Admitted Assets	Net Admitted Assets
Bonds	$ 7,879,436	$ 0	$7,879,436
Cash on hand and on deposit	9,639,013		9,639,013
Agents' balances	26,024,182		26,024,182
Reinsurance recoverables on loss and loss adjustment expense payments	27,464,593		27,464,593
Federal and foreign income taxes recoverable and interest thereon	107,077		107,077
Interest, dividends and real estate income due and accrued	133,878		133,878
Receivable from parent, subsidiaries and affiliates	2,661,635		2,661,635
Aggregate write-ins for other than invested assets	2,251,086		2,251,086
Total assets	$76,160,900	$ 0	$76,160,900

Liabilities

Losses	$19,415,452
Reinsurance payable	82,952
Loss adjustment expenses	1,661,917
Other expenses	503,821
Taxes, licenses and fees	1,320,533
Unearned premiums	9.606
Ceded reinsurance premiums payable	19,016,319
Provision for reinsurance	2,168,267
Payable to parent, subsidiaries and affiliates	2,633,795
Aggregate write-ins for liabilities	537,115
Total liabilities	$ 47,350,077

Surplus and other funds

Common capital stock	$5,000,000	
Gross paid in and contributed surplus	31,800,000	
Unassigned funds (surplus)	(7,989,177)	
Surplus as regards policyholders		28,810,823
Total liabilities and surplus		$76,160,900

Note: The Internal Revenue Service has completed its audits of the consolidated federal income tax returns filed on behalf of the Company through the tax year ended 1997. All material adjustments, if any, made subsequent to the examination date and arising from said audits, are reflected in the financial statements included in this report. Audits covering the tax years ended 1998 to 2001 are in progress. Except from any impact that might result from the examination change in this report, the examiner is unaware of any potential exposure of the Company to any tax assessment and no liability has been established herein relative to such contingency.

B. Underwriting and Investment Exhibit

Surplus as regards policyholders decreased $13,619,262 during the three-year examination period, January 1, 1999 through December 31, 2001 detailed as follows:

Statement of Income

Underwriting Income		
Premiums earned		$25,177,626
Deductions:		
Losses incurred	$20,549,370	
Loss adjustment expenses incurred	4,056,134	
Other underwriting expenses incurred	10,450,485	
Total underwriting deductions		35,055,989
Net underwriting (loss)		$(9,878,363)
Investment Income		
Net investment income earned	$5,122,366	
Net realized capital gains	(390,071)	
Net investment gain		4,732,295
Other Income		
Retroactive reinsurance	$(8,456,078)	
Other income	(25,749)	
Total other income		(8,481,827)
Net income before federal and foreign income taxes		$(13,627,895)
Federal and foreign income taxes incurred		(2,031,897)
Net income		$(11,595,998)

Capital and Surplus Account

	Gains in Surplus	Losses in Surplus	
Surplus as regards policyholders, December 31, 1998, report on examination			$42,430,085
Net income		$11,595,998	
Change in non-admitted assets	$145,000		
Change in provision for reinsurance		2,168,264	
Total gains and losses	$145,000	$13,764,262	
Net decrease in surplus			13,619,262
Surplus as regards policyholders, December 31, 2001, per report on examination			$28,810,823

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liabilities of $19,415,452 and $1,661,917 for losses and loss adjustment expense reserves, respectively, are the same as the amounts reported by the Company in its December 31, 2001 filed annual statement. The examination analysis was conducted in accordance with generally accepted actuarial principles and was based on statistical information contained in the Company's internal records and its filed annual statements verified by the examiner.

5. MARKET CONDUCT ACTIVITIES

In the course of this examination, a review was made of the manner in which the Company conducts its business practices and fulfils its contractual obligations to policyholders and claimants. The review was general in nature is not to be construed as to encompass the more precise scope of a market conduct investigation which is performed by the Market Conduct Unit of the Property Bureau of this Department.

The general review was directed at practices of the Company in the following areas:

1. Sales and advertising
2. Underwriting
3. Rating
4. Claims

To accomplish this review, the Company's advertising material, application, policy forms, correspondence files, rates, and claims registers were examined.

No problem areas were encountered.

6. SUBSEQUENT EVENTS

It is noted that subsequent to the examination date, the Company was sold to Unitrin, Inc., a Delaware corporation effective December 31, 2002. Additionally, all of the Company's outstanding reserves were transferred to General Security National Insurance Company effective October 1, 2002, pursuant to an "indemnity and assumption reinsurance agreement". Both the sale of the Company and the indemnity and assumption reinsurance agreement were approved by the Department.

7. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

ITEM		PAGE NO.
A.	Abandoned Property Law	
	It is recommended that the Company make the appropriate filings with the State Comptroller annually, pursuant to Sections 1315 and 1316 of the New York Abandoned Property Law.	12
	The Company has complied with this recommendation.	

8. SUMMARY OF COMMENTS AND RECOMMENDATIONS

There are no material comments and recommendations warranted based on the results of this examination.

Respectfully submitted,

/S/

____

Jainarine Tilakdharry
Senior Insurance Examiner

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

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

/S/

Jainarine Tilakdharry

Subscribed and sworn to before me

this _____ day of __________ 2005.

Appointment No. 21848

STATE OF NEW YORK
INSURANCE DEPARTMENT

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

Jainarine Tilakdharry

as proper person to examine into the affairs of the

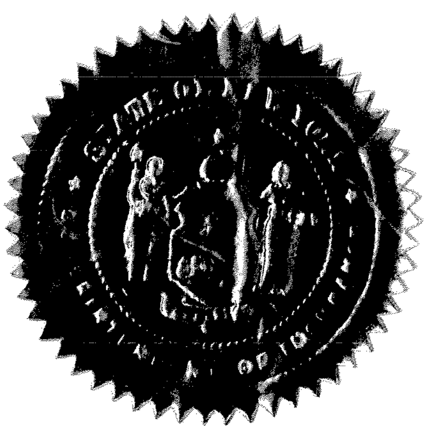
GENERAL SECURITY INSURANCE COMPANY

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* *March, 2002*

GREGORY V. SERIO
Superintendent of Insurance