

REPORT ON EXAMINATION

OF THE

UNITED STATES BRANCH OF GLOBAL REINSURANCE CORPORATION

AS OF

DECEMBER 31, 2006

DATE OF REPORT

FEBRUARY 17, 2008

EXAMINER

MARC ALLEN

TABLE OF CONTENTS

<u>ITEM NO.</u>		<u>PAGE NO.</u>
1	Scope of examination	2
2.	Description of Branch	3
	A. Management	3
	B. Territory and plan of operation	4
	C. Reinsurance	5
	D. Holding company system	7
	E. Significant operating ratios	10
	F. Accounts and records	10
3.	Financial statements	12
	A. Balance sheet	12
	B. Trusteed surplus statement	14
4.	Losses and loss adjustment expenses	16
5.	Provision for reinsurance	17
6.	Trusteed surplus statement	18
7.	Conclusion	19
8.	Summary of comments and recommendations	20



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

February 15, 2008

Honorable Eric R. Dinallo
Superintendent of Insurance
Albany, New York 12257

Sir:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 22592 dated February 16, 2007 attached hereto, I have made an examination into the condition and affairs of the United States Branch of Global Reinsurance Corporation as of December 31, 2006, and submit the following report thereon.

Wherever the designation "the Branch" appears herein without qualification, it should be understood to indicate the United States Branch of Global Reinsurance Corporation.

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

The examination was initially conducted at the Branch's home office located at 1345 Avenue of the Americas, New York, NY 10105. The Branch relocated its home office in November, 2008 to Seven Times Square, New York, NY 10036, where the examination continued.

This examination has determined that as of December 31, 2006, the Branch's trusted surplus, as defined in Section 1312(c) of the New York Insurance Law, was insolvent in the amount of \$13,595,680, and its required to be maintained trusted surplus of \$11,100,000 was impaired in the amount of \$24,695,680. It is noted that the Branch's surplus as regards policyholders was impaired, but not insolvent as of December 31, 2006.

Subsequent to the examination date, in January 2008, the Branch received a capital contribution from its home office in the amount of \$10 million, which was deposited into the Branch's non-trusted account. Additionally, the Branch subsequently collected approximately \$13.4 million of reinsurance

recoverables that were in dispute as of December 31, 2006 and, therefore, were not eligible to be included in trustee surplus at that date. Additionally, the Branch had approximately \$5.6 million in non-trustee assets available for the disposition of trustee liabilities at December 31, 2006.

The recognition of the \$13.4 million subsequently collected for reinsurance recoverables in dispute at the examination date, combined with the \$10 million capital contribution and the \$5.6 million in available non-trustee assets was enough to eliminate both the trustee surplus impairment and insolvency at the examination date. While these funds were not transferred to the trustee asset account they have been used to pay down the Branch's liabilities, thereby increasing the trustee surplus of the Branch.

1. SCOPE OF EXAMINATION

The previous filed examination report for the Branch was as of December 31, 1996. In 2003, the Department commenced a financial examination of the Branch as of December 31, 2002. However, the Branch commuted a large number of its assumed reinsurance contracts subsequent to the December 31, 2002 examination date. These commutations had a substantial and material impact on the financial position of the Branch. The Department chose not to file the December 31, 2002 examination report as the subsequent commutations by the Branch rendered the December 31, 2002 report irrelevant and obsolete.

This examination covered the four year period from January 1, 2003 through December 31, 2006. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

The examination comprised a verification of assets and liabilities as of December 31, 2006. The examination included a review of income, disbursements and branch records deemed necessary to accomplish such analysis or verification and utilized, to the extent considered appropriate, work performed by the Branch's independent certified public accountants ("CPA"). 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 ("NAIC"):

- History of Branch
- Management and control
- Corporate records
- Fidelity bond and other insurance
- Territory and plan of operation
- Growth of Branch
- Business in force by states
- Loss experience
- Reinsurance
- Accounts and records
- Financial statements

A review was also made to ascertain what action was taken by the Branch with regard to comments and recommendations contained 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.

2. DESCRIPTION OF BRANCH

The Branch was licensed in the State of New York on January 29, 1963 as the United States Branch of Gerling-Konzern Globale Ruckversicherungs Aktiengesellschaft (now known as Globale Ruckversicherungs Aktiengesellschaft (“Globale Germany”)), an insurer organized under the laws of the Federal Republic of Germany on April 23, 1954. Effective January 1, 1997, the Branch transferred virtually its entire book of business to its affiliate, Constitution Insurance Company (“CIC”) (formerly known as Gerling Global Reinsurance Corporation of America) and went into run-off.

A. Management

The Branch operates under the management of Global U.S. Holdings, Incorporated (“GUSHI”), a New York corporation. GUSHI was formerly known as Gerling Global United States Investments, Incorporated (“GGUSI”). The restated management agreement, effective March 31, 2000, between Globale Germany and GUSHI replaced the agreement dated January 1, 1988 between Globale Germany and Gerling Global Offices, Inc. (“GGO”), a New York corporation, after GGO merged into GGUSI. GGO was originally appointed United States manager on December 13, 1962.

As of December 31, 2006, all of the issued and outstanding shares of GUSHI are owned by Globale Germany, formerly GKG.

Pursuant to the management agreement, GUSHI provides all staff and office accommodations required to run the business of the Branch. The Branch reimburses GUSHI for actual expenses incurred during the year plus a basic fee.

Citibank was appointed as the United States trustee by a deed of trust dated December 13, 1962. This instrument, duly approved by the Superintendent, contains provisions that empower the trustee to purchase and sell securities or other personal property as the Branch may direct, subject to the laws of the State of New York.

The by-laws of GUSHI provide that its corporate powers shall be exercised by a board of directors consisting of not less than three members. At December 31, 2006, the board of directors was comprised of the following five members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Dr. Achim Kann (Chairman) Munich, Germany	External Director
Bard Bunaes Irvington, NY	President and Chief Executive Officer- Global Reinsurance Corporation of America
David Smith Glen Head, NY	Executive Vice President and General Counsel Global Reinsurance Corporation of America
Thomas Freudenstein Alfter, Germany	External Director Globale Ruckversicherungs- AG
Dr. Jan Eickstaedt Cologne, Germany	External Director Globale Ruckversicherungs- AG

As of December 31, 2006, the principal officers of the Branch were as follows:

<u>Name</u>	<u>Title</u>
Bard Bunaes	President & Chief Executive Officer
James Fletcher	Senior Vice President & Chief Actuary
Burton Henry	Executive Vice President & Chief Financial Officer
David Smith	Executive Vice President & General Counsel

B. Territory and Plan of Operation

Effective January 1, 1997, the Branch transferred virtually its entire active book of assumed reinsurance business to its affiliate, Constitution Insurance Company (“CIC”) (formerly known as Gerling Global Reinsurance Corporation of America) and went into run-off.

At December 31, 2006, the Branch was licensed to transact the kinds of insurance as defined in Section 1113(a) of the New York Insurance Law:

<u>Paragraph</u>	<u>Line of Business</u>
3	Accident and health insurance
4	Fire
5	Miscellaneous property
6	Water damage
7	Burglary and theft
8	Glass
9	Boiler and machinery

<u>Paragraph</u>	<u>Line of Business</u>
10	Elevator Insurance
11	Animal Insurance
12	Collision
13	Personal injury liability insurance
14	Property damage liability insurance
15	Workers' compensation and employers' liability insurance
16	Fidelity and surety
17	Credit insurance
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine
21	Marine protection and indemnity
22	Residual value
24	Credit unemployment
26(A)(B)(C)(D)	Gap insurance
27	Prize indemnification
28	Service contract reimbursement
29	Legal services insurance

The Branch is also empowered to transact such workers' compensation insurance as may be incident 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 803, 69th Congress, as amended; 33 USC Section 901 et seq. as amended).

In late 2004, the Branch surrendered its authority to assume reinsurance under Section 4102(c) of the New York Insurance Law.

Based on the lines of business for which the Branch is licensed, and pursuant to the requirements of Article 13 of the New York Insurance Law, the Branch is required to maintain a minimum surplus to policyholders' and a trusteed surplus in the amount of \$11,100,000.

C. Reinsurance

Examination review of the Schedule F data reported by the Branch in its filed annual statement was found to accurately reflect its reinsurance transactions. Additionally, management has represented that all material ceded reinsurance agreements transfer both underwriting and timing risk as set forth in the NAIC Accounting and Procedures Manual, Statements of Statutory Accounting Principles ("SSAP") No. 62. Representations were supported by an attestation from the Branch's chief executive officer pursuant to Department Circular Letter No. 8 (2005).

The Branch's business was to assume risks from other insurance companies, either direct writers or reinsurers. The Company provided property and casualty reinsurance on a treaty as well as on a facultative basis. Effective January 1, 1997, the Branch transferred virtually its entire book of business to its affiliate, Constitution Insurance Company ("CIC") (formerly known as Gerling Global Reinsurance Corporation of America) and went into run-off. The majority of the Branch's loss liability is for assumed contracts written from the 1960's to the early 1980's.

At December 31, 2006, the Branch reported \$181,263,000 in total reinsurance recoverables. The amount of the recoverables due from unaffiliated reinsurers was approximately \$179,739,000. The bulk of these recoverables come from the Branch's ceded facultative reinsurance program which ran from 1963 through 1984.

The Branch had approximately \$57,150,000 in reinsurance recoverables from unauthorized insurance companies. These recoverables were partially collateralized, thereby reducing the provision for reinsurance by \$26,799,000 for letters of credit and \$1,926,000 of other acceptable collateral. The letters of credit were reviewed for compliance with Department Regulation 133. There were no exceptions noted.

The Branch also reduces its provision for reinsurance by \$14,178,000 pursuant to the provisions of Parts 125.4(e) or (f) of Department Regulation 20. Examination review indicated that the Branch maintained the documentation required by the regulation.

Since entering run-off status, the Branch commuted a large number of reinsurance agreements where it was an assuming reinsurer. These commutations resulted in a gain to the Branch's surplus position. The commutation of assumed business is a significant activity for the Branch, as it is in run-off and it is trying to significantly reduce its overhead costs.

It should be noted that at December 31, 2006, the Branch reported \$47,346,503 in reinsurance recoverables on paid losses and approximately \$37,213,000 of this amount was overdue by 90 days or more. The \$37,213,000 includes \$23,404,520 in reinsurance recoverables that were formally put into dispute. A significant portion of the \$23,404,520 in dispute is related to disagreements concerning the allocation of the costs, of assumed contracts commuted by the Branch, to the Branch's ceded contracts. The examination review of the amounts past 90 days due for the non-disputed recoverables indicated that a significant number of these have also not been paid due to disagreements with assuming companies regarding the allocation of the costs of assumed contracts commuted by the Branch.

The examination's review of the over 90 day reinsurance recoverables, other than the \$23,404,520 formally put into dispute, indicated that while assumed commutations make up some of the reason for the delayed payments there are a number of other issues as well including balances owed by the Branch on its assumed reinsurance contracts. The Branch indicated that settlements are being negotiated, and those that cannot be negotiated will move to arbitration or litigation. The likelihood of success or failure of these negotiations is difficult to assess. As the Branch continues to commute assumed reinsurance contracts, there are likely to continue to be issues when these commutation costs are billed out through the Branch's ceded contracts. Other problems that the Branch currently has in collecting its paid recoverables may indicate that there will be future issues as the Branch's case and incurred but not reported ("IBNR") reserves move into paid recoverables.

There is a significant risk that the Branch will continue to experience delays in collecting its reinsurance recoverables. There is also a significant risk that the provision for reinsurance may not fully reflect the amount of recoverables that will prove to be uncollectible.

It is recommended that the Branch carefully monitor its reinsurance collectibles and write-off all recoverables that are of dubious value. This recommendation is based on the materiality of the risk involved in this area rather than on any past failure of the Branch to properly reflect its reinsurance recoverables.

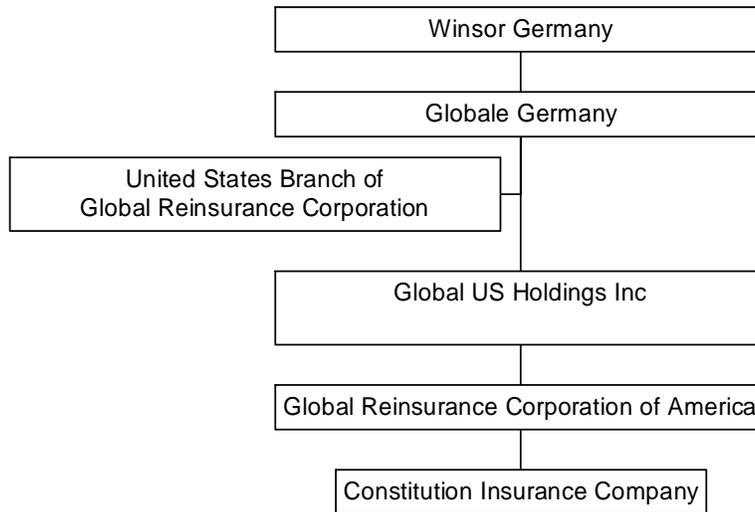
D. Holding Company System

The Branch is a member of the Cologne, Germany holding company, Globale Ruckversicherungs Aktiengesellschaft ("Globale Germany"). Ultimate control is held by the private group of Dr. Gerling. The primary holding company is Winsor Verwaltungs-AG ("Winsor"), formerly known as Gerling Konzern Versicherungs-Beteiligungs Aktiengesellschaft ("GKB") which owns 100% of Globale Germany, the home office of the Branch. Both are located in Cologne, Germany.

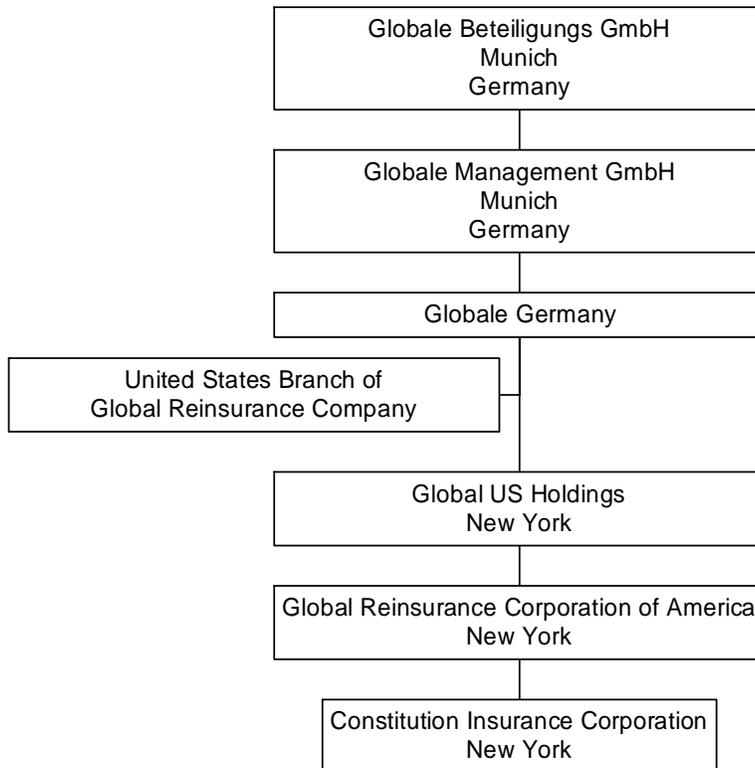
On December 28, 2007, the Department approved a change of control, whereby Globale Beteiligungs GmbH ("GBG") became the ultimate holding company replacing Winsor. Dr. Achim Kann maintains a controlling 51% interest in GBG. At the end of 2007, GBG is the ultimate holding company and is the ultimate owner of Globale Germany, the home office of the Branch.

A review of the holding company registration statements filed with the Department indicated that such filings were complete and were filed in a timely manner pursuant to Article 15 of the New York Insurance Law and Department Regulation 52.

The following is an abbreviated chart of the holding company system at December 31, 2006:



There have been significant changes in the holding company structure after the examination date as described herein. The following is an abridged chart of the holding company system at December 31, 2007:



At December 31, 2006, the Branch was party to the following agreements with other members of its holding company system:

Expense Sharing Agreement

The Branch is party to an expense sharing agreement which was restated at November 1, 2005. The other parties to the agreement are the Branch's United States parent GUSHI, its subsidiary GRCA, GRCA's subsidiary CIC, and an affiliate, Global International Reinsurance Company, Ltd, a Barbados Company. The agreement provides for GRCA to make available to the other companies the employees and facilities necessary for the conduct of their business which include but are not limited to: claims and underwriting services; accounting, legal, and information technology services; assistance with report preparation; assistance with retrocessional programs; and human resource services.

Management Agreement

The Branch has a management agreement with GUSHI. The agreement provides for GUSHI to provide all staff and office accommodations required to run the business of the Branch. The Branch reimburses GUSHI for actual expenses incurred during the year plus a basic fee.

E. Significant Operating Ratios

As the Branch has been in run-off status since mid-2002 many of the standard ratios involving premiums written or premiums earned do not provide relevant information and therefore, have not been provided. The following ratios have been computed as of December 31, 2006, based upon the results of this examination:

Liabilities to liquid assets (cash and invested assets less investment in affiliates)	118.27%
Premiums in course of collection to surplus as regards policyholder	1.46%

The ratio of “Liabilities to liquid assets” of 118.27% exceeds the benchmark rate of 105% set forth in the Insurance Regulatory Information System of the National Association of Insurance Commissioners. This is a result of the examination increase described in the Losses and Loss Adjustment Expenses section of this report.

G. Accounts and Records

Investments

It was noted that, in 2003 and 2006, the Branch failed to invest and maintain amounts equal to the greater of the minimum capital required by law or the minimum surplus to policyholders required to be maintained by law for a domestic stock corporation authorized to transact the same kinds of insurance pursuant to Section 1402(a) of the New York Insurance Law. It was further noted that in 2003, the Branch did not invest a minimum of sixty percent of the aforementioned investments in those types required by Section 1402(b) of the New York Insurance Law.

It is recommended that the Branch take the necessary steps to ensure compliance with Section 1402(a) and Section 1402(b) of the New York Insurance Law.

Loss and loss adjustment expenses

The Branch reinsures long-tail lines of business, including asbestos and environmental. As a result, there may be a lengthy period between when a claim is reported and when it is settled. During the review of case reserves, the examiners encountered a number of cases where it was felt that the Branch may not be sufficiently informed regarding their statuses because supporting documentation was not current.

It is recommended that the Branch establish procedures to ensure that it be sufficiently informed regarding the status of each claim.

3. FINANCIAL STATEMENTS

A Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2006 as determined by this examination and as reported by the Branch:

Assets	<u>Examination</u> <u>Net Admitted</u> <u>Assets</u>	<u>Branch</u> <u>Net Admitted</u> <u>Assets</u>	<u>Increase</u> <u>(Decrease)</u>
Bonds	\$209,124,496	\$209,124,496	
Preferred stocks	96,382	96,382	
Cash, cash equivalents and short-term investments	14,017,273	14,017,273	
Other invested assets	1,380,123	1,380,123	
Receivable for securities	66,180	66,180	
Investment income due and accrued	2,076,610	2,076,610	
Uncollected premiums and agents' balances in the course of collection	266,047	266,047	
Amounts recoverable from reinsurers	47,346,503	47,346,503	
Funds held by or deposited with reinsured companies	297,415	297,415	
Receivables from parent, subsidiaries and affiliates	<u>57,541</u>	<u>57,541</u>	<u>\$ 0</u>
Total assets	<u>\$274,728,571</u>	<u>\$274,728,571</u>	<u>\$ 0</u>

<u>Liabilities, Surplus and Other Funds</u>	<u>Examination</u>	<u>Branch</u>	Surplus Increase <u>(Decrease)</u>
Losses and loss adjustment expenses	\$228,446,000	\$196,517,709	\$(31,928,291)
Reinsurance payable on paid losses and loss adjustment expenses	4,526,973	4,526,973	0
Other expenses (excluding taxes, licenses and fees)	1,580,562	1,580,562	0
Taxes, licenses and fees (excluding federal and foreign income taxes)	329,700	329,700	0
Funds held by company under reinsurance treaties	496,450	496,450	0
Provision for reinsurance	31,115,505	29,296,505	(1,819,000)
Payable to parent, subsidiaries and affiliates	<u>51,726</u>	<u>51,726</u>	<u>0</u>
Total liabilities	<u>\$266,546,916</u>	<u>\$232,799,624</u>	<u>\$(33,747,292)</u>
 <u>Surplus and Other Funds</u>			
Aggregate write-ins for special surplus funds	\$ 4,200,000	\$ 4,200,000	\$ 0
Unassigned funds (surplus)	<u>3,981,655</u>	<u>37,728,947</u>	<u>(33,747,292)</u>
Surplus as regards policyholders	<u>\$ 8,181,655</u>	<u>\$ 41,928,947</u>	<u>(33,747,292)</u>
Total liabilities, surplus and other funds	<u>\$274,728,571</u>	<u>\$274,728,571</u>	

NOTE: The examiner is unaware of any potential exposure of the Branch to any tax assessment and no liability has been established herein relative to such contingency.

B. Trusteed Surplus Statement

The following shows the trustee surplus statement of the Branch at December 31, 2006, as determined by this examination and as reported by the Branch:

<u>Assets</u>	<u>Examination</u>	<u>Branch</u>
Securities deposited with state insurance departments for the protection of all policyholders and creditors within the United States:		
New York	\$4,152,550	\$4,152,550
Ohio	<u>148,305</u>	<u>148,305</u>
	\$4,300,855	\$4,300,855
Vested in and held by United States trustees for the protection of all of the Branch's policyholders and creditors within the United States:		
Bonds	201,111,423	201,111,423
Cash	8,455,878	8,455,878
Accrued Investment Income	2,010,787	2,010,787
Other Invested Assets	1,380,123	1,380,123
Preferred stock	<u>96,382</u>	<u>96,382</u>
Total gross assets	<u>\$217,355,448</u>	<u>\$217,355,448</u>

<u>Liabilities and Trusteed Surplus</u>	<u>Examination</u>	<u>Branch</u>	<u>Trusteed Surplus Increase (Decrease)</u>
Total liabilities	\$ 266,546,916	\$ 232,799,624	\$(33,747,292)
<u>Deductions from Liabilities</u>			
Reinsurance recoverable on paid losses from authorized companies	18,989,255	15,888,831	3,100,424
Reinsurance recoverable on paid losses from unauthorized companies	12,232,904	9,168,042	3,064,862
Special state deposits	3,712,218	3,712,218	
Accrued interest on special state deposits	40,408	40,408	
Agents balances under 90 days	266,047	266,047	
Funds held with reinsured companies	297,415	297,415	
Other assets	<u>57,541</u>	<u>57,541</u>	
Total deductions	<u>\$ 35,595,788</u>	<u>\$ 29,430,502</u>	<u>\$6,165,286</u>
Total adjusted liabilities	\$ 230,951,128	\$ 203,369,122	\$(27,582,006)
Trusteed surplus (Section 1312)	<u>(13,595,680)</u>	<u>13,986,326</u>	<u>\$(27,582,006)</u>
Total adjusted liabilities and trusteed surplus	<u>\$ 217,355,448</u>	<u>\$ 217,355,448</u>	

NOTE: This examination has determined that as of December 31, 2006, the Branch's trusteed surplus was insolvent in the amount of \$13,595,680, and its required to be maintained trusteed surplus of \$11,100,000 was impaired in the amount of \$24,695,680. It is noted that the Branch's surplus as regards policyholders was impaired, but not insolvent as of December 31, 2006.

Subsequent to the examination date, in January 2008, the Branch received a capital contribution from its home office in the amount of \$10 million, which was deposited into the Branch's non-trusteed account. Additionally, the Branch subsequently collected approximately \$13.4 million of reinsurance recoverables that were in dispute as of December 31, 2006 and, therefore, were not eligible to be included in trusteed surplus at that date. Additionally, the Branch had approximately \$5.6 million in non-trusteed assets available for the disposition of trusteed liabilities at December 31, 2006.

The recognition of the \$13.4 million subsequently collected for reinsurance recoverables in dispute at the examination date, combined with the \$10 million capital contribution and the \$5.6 million in available non-trusteed assets was enough to eliminate both the trusteed surplus impairment and insolvency at the examination date. While these funds were not transferred to the trusteed asset account they have been used to pay down the Branch's liabilities, thereby increasing the trusteed surplus of the Branch.

4. **LOSSES AND LOSS ADJUSTMENT EXPENSES**

The examination liability in the amount of \$228,446,000 is 31,928,291 more than the \$196,517,709 reported by the Branch in its December 31, 2006, filed annual statement. The examination analysis of the loss and loss adjustment expense reserves was conducted in accordance with generally accepted actuarial principles and was based on statistical information contained in the Branch's internal records and in its filed annual statements.

It should be noted that as of the examination date almost half of the Branch's net loss reserves were attributable to asbestos, hazardous waste and other toxins claims exposure. The estimation of these claims is unusually difficult for several reasons including a lack of historical data; the uncertain nature of legal interpretations of coverage; regulatory procedures for claim resolution; and the inability to apply standard actuarial techniques to data that is only available by calendar year but represents multiple policy years.

The largest deficiencies in the Branch's reported reserves were found in the hazardous waste business segment.

A revision in the unallocated loss adjustment expense reserve ("ULAE") represented \$13,167,420 of the overall deficiency of \$31,928,291. The ULAE represents a significant component of the Branch's overall loss reserve deficiency.

The ULAE reported by the Branch in its filed 2006 annual statement was \$24,000,000. The examination found this figure to be inadequate given the general expenses reported by the Branch as well as the run-off status of the Branch. This was brought to the attention of the Branch which revised its December 31, 2006 ULAE to \$37,167,420. The Department accepted the Branch's revised ULAE and incorporated it into the overall reserve analysis.

Given the run-off status of the Branch, it is recommended that the Branch closely monitor its unallocated loss adjustment expense reserve and make modifications where appropriate.

5. PROVISION FOR REINSURANCE

The examination liability in the amount of \$31,115,505 is \$1,819,000 more than the \$29,296,505 reported by the Branch in its December 31, 2006 filed annual statement. This increase is comprised of a \$1,413,000 increase in the provision for unauthorized reinsurance and a \$406,000 increase in the provision for overdue authorized reinsurance.

The examination increase was calculated based on increased cessions to reinsurers, which was determined as part of the actuarial review of outstanding losses and loss adjustment expenses as further discussed in Item 4 of this report. The examination determined the gross and net loss and loss adjustment expense reserves as of December 31, 2006 to be \$373,070,000 and \$228,446,000, respectively. Therefore, the examination ceded loss and loss adjustment expense reserves are \$144,624,000, which is \$10,703,000 more than the \$133,921,000 reported by the Branch at December 31, 2006.

The examination increase to the Provision for reinsurance was calculated by taking the percentages of incurred but not reported losses ceded to authorized vs. unauthorized reinsurers, as reported by the Branch in Schedule F Part 3 of its 2006 annual statement and applying those percentages to the \$10,703,000 additional ceded reserves as determined by the examination. The additional ceded unauthorized reserves were applied proportionally to each reinsurer in Schedule F Part 5 and the additional ceded authorized reserves were applied proportionally to each reinsurer in Schedule F Part 7 to determine the estimated additional Provision for reinsurance.

6. TRUSTEED SURPLUS

The examination trusted surplus in the amount of (\$13,595,680) is \$27,582,006 less than the \$13,986,326 reported by the Branch at December 31, 2006. All examination adjustments to the trusted surplus statement were made in accordance with Section 1312(a) of the New York Insurance Law.

The change to trusted surplus was comprised of the following:

Total liabilities:	
Examination change to losses and LAE	\$ 31,928,292
Examination change to provision for reinsurance	<u>1,819,000</u>
Trusted surplus increase/(decrease) to liabilities	<u>\$(33,747,292)</u>
Deductions from liabilities:	
Reinsurance recoverable on paid loss and loss adjustment expenses - authorized companies:	
20% of disputed items included in provision for overdue authorized reinsurance	\$ 3,100,424
Reinsurance recoverable on paid losses and loss adjustment expenses – unauthorized companies	
Provision for unauthorized reinsurance-overdue or in-dispute	2,196,477
Examination change to provision for unauthorized reinsurance	1,413,000
Various errors found in Branch’s calculation	<u>(544,615)</u>
Trusted surplus increase/(decrease) for deductions from liabilities	<u>\$ 6,165,286</u>
Net adjustments to trusted surplus	<u>\$(27,582,006)</u>

The examination increased the Branch’s total liabilities by \$33,747,292. This increase represents the examination changes to losses and loss adjustment expenses and provision for reinsurance, as discussed in items 4 and 5 of this report.

The examination also increased the Branch’s deductions from liabilities by \$6,165,286. This is comprised of a \$544,615 decrease in the deductions, based on various errors in the Branch’s calculation, and \$6,709,901 in examination increases to the deductions from total liabilities. These increases are needed to remove liabilities set up in the Branch’s statutory statement and which are included in the total liabilities number reported on the trusted surplus statement; these liabilities were set up on the statutory statement against assets that are not admitted for purposes of determining the trusted surplus. The non-admitted assets on the trusted surplus statement are paid loss reinsurance recoverables in dispute, and paid loss recoverables from unauthorized reinsurers that are not supported by collateral.

It is recommended that the Branch take credit for liabilities reflected on the statutory filing that were set up as a reserve against assets not admitted on the trustee surplus statement. This credit is taken on the trustee surplus statement as a deduction from reported liabilities.

7. CONCLUSION

The examination has determined that as of December 31, 2006, the Branch's trustee surplus, as defined in Section 1312(c) of the New York Insurance Law, was insolvent in the amount of \$13,595,680 and its required to be maintained trustee surplus of \$11,100,000 was impaired in the amount of \$24,695,680. It is noted that the Branch's surplus as regards policyholders was impaired, but not insolvent as of December 31, 2006.

The examination's statutory surplus of \$8,181,655 is \$21,777,335 more than this examination's trustee surplus of \$(13,595,680). The most significant components of this difference are that trustee surplus statement, as opposed to the statutory financials, does not recognize as admitted assets reinsurance recoverables on paid losses in dispute and reinsurance recoverables on paid losses from unauthorized companies without collateral in place. The trustee surplus statement, prepared by the Branch, disallowed \$15,502,122 in reinsurance recoverables in dispute and \$6,787,508 in paid loss recoverables from unauthorized companies without collateral in place.

Subsequent to the examination date, in January 2008, the Branch received a capital contribution from its home office in the amount of \$10 million, which was deposited into the Branch's non-trustee account. Additionally, the Branch subsequently collected approximately \$13.4 million of reinsurance recoverables that were in dispute as of December 31, 2006 and, therefore, were not eligible to be included in trustee surplus at that date. Additionally, the Branch had approximately \$5.6 million in non-trustee assets available for the disposition of trustee liabilities at December 31, 2006.

The recognition of the \$13.4 million subsequently collected for reinsurance recoverables in dispute at the examination date, combined with the \$10 million capital contribution and the \$5.6 million in available non-trustee assets was enough to eliminate both the trustee surplus impairment and insolvency at the examination date. While these funds were not transferred to the trustee asset account they have been used to pay down the Branch's liabilities, thereby increasing the trustee surplus of the Branch.

8. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>	<u>PAGE NO.</u>
<p>A. <u>Trusteed Surplus Insolvency and Impairment</u></p> <p>The examination has determined that as of December 31, 2006, the Branch's trustee surplus was insolvent in the amount of \$13,595,680 and its required to be maintained trustee surplus of \$11,100,000 was impaired in the amount of \$24,695,680. It is noted that the Branch's surplus as regards policyholders was impaired, but not insolvent as of December 31, 2006.</p> <p>Subsequent to the examination date, in January 2008, the Branch received a capital contribution from its home office in the amount of \$10 million, which was deposited into the Branch's non-trusteed account. Additionally, the Branch subsequently collected approximately \$13.4 million of reinsurance recoverables that were in dispute as of December 31, 2006 and, therefore, were not eligible to be included in trustee surplus at that date. Additionally, the Branch had approximately \$5.6 million in non-trusteed assets available for the disposition of trustee liabilities at December 31, 2006.</p> <p>The recognition of the \$13.4 million subsequently collected for reinsurance recoverables in dispute at the examination date, combined with the \$10 million capital contribution and the \$5.6 million in available non-trusteed assets was enough to eliminate both the trustee surplus impairment and insolvency at the examination date. While these funds were not transferred to the trustee asset account they have been used to pay down the Branch's liabilities, thereby increasing the trustee surplus of the Branch.</p>	<p>1, 15, 19</p>
<p>B. <u>Reinsurance Recoverables</u></p> <p>It is recommended that the Branch carefully monitor its reinsurance collectibles and write-off all recoverables that are of dubious value. This recommendation is based on the materiality of the risk involved in this area rather than on any past failure of the Branch to properly reflect its reinsurance recoverables.</p>	<p>7</p>
<p>C. <u>Investments</u></p> <p>It is recommended that the Branch take the necessary steps to ensure future compliance with Section 1402(a) and Section 1402(b) of the New York Insurance Law.</p>	<p>10</p>
<p>D. <u>Claim Documentation</u></p> <p>It is recommended, that the Branch establish procedures to ensure that it be sufficiently informed regarding the status of each claim.</p>	<p>11</p>

ITEMPAGE NO.E. Adjusting and Other Unpaid Expenses

Given the run-off status of the Branch, it is recommended that the Branch closely monitor its unallocated loss adjustment expense reserve and make modifications, where appropriate.

16

F. Trusted surplus

It is recommended that the Branch take credit, on future trusted surplus statements, for liabilities reflected on the statutory filing that were set up as a reserve against assets not admitted on the trusted surplus statement. This credit is taken on the trusted surplus statement as a deduction from reported liabilities.

19

Respectfully submitted,

_____/s/_____
Marc Allen
Principal Insurance Examiner

STATE OF NEW YORK)
)SS:
)
COUNTY OF NEW YORK)

MARC ALLEN, being duly sworn, deposes and says that the foregoing report, subscribed by him, is true to the best of his knowledge and belief.

_____/s/_____
Marc Allen

Subscribed and sworn to before me
this _____ day of _____, 2009.

Appointment No. .22592

STATE OF NEW YORK
INSURANCE DEPARTMENT

I, Eric R. Dinallo, Acting Superintendent of Insurance of the State of New York, pursuant to the provisions of the Insurance Law, do hereby appoint:

Marc Allen

as proper person to examine into the affairs of the

GLOBAL REINSURANCE CORPORATION

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

Corporation

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 16th day of February, 2007



A handwritten signature in black ink, appearing to read "Eric R. Dinallo", written over a horizontal line.

ERIC R. DINALLO
Acting Superintendent of Insurance