

REPORT ON EXAMINATION

OF THE

JEFFERSON INSURANCE COMPANY

AS OF

DECEMBER 31, 2009

DATE OF REPORT

MAY 21, 2010

EXAMINER

ADEBOLA AWOFESO

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

May 7, 2010

Honorable James J. Wrynn
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 30380 dated September 24, 2009, attached hereto, I have made an examination into the condition and affairs of Jefferson Insurance Company as of December 31, 2009, and submit the following report thereon.

Wherever the designation "the Company" appears herein without qualification, it should be understood to indicate Jefferson Insurance Company.

Wherever the designation "MAI" appears herein without qualification, it should be understood to indicate Mondial Assistance International AG.

Wherever the designation "WAI" appears herein without qualification, it should be understood to indicate World Access, Inc.

Wherever the designation "WASC" appears herein without qualification, it should be understood to indicate World Access Service Corp.

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

The examination was conducted at the Company's administrative office located at 2805 North Parham Road, Richmond, VA 23294.

1. SCOPE OF EXAMINATION

The Department has performed a multi-state examination of Jefferson Insurance Company. The previous examination was conducted as of December 31, 2005. This examination covered the four year period from January 1, 2006 through December 31, 2009. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

This examination was conducted in accordance with the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners Handbook (“Handbook”), which requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company and evaluating system controls and procedures used to mitigate those risks. This examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management’s compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All financially significant accounts and activities of the company were considered in accordance with the risk-focused examination process. This examination also included a review and evaluation of the Company’s own control environment. The examiners also relied upon audit work performed by the Company’s independent public accountants when appropriate.

This examination report includes a summary of significant findings for the following items as called for in the Handbook:

- Significant subsequent events
- Company history
- Corporate records
- Management and control
- Fidelity bonds and other insurance
- Pensions, stock ownership and insurance plans
- Territory and plan of operation
- Growth of Company
- Loss experience
- Reinsurance
- Accounts and records
- Statutory deposits
- Financial statements
- Summary of recommendations

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

2. DESCRIPTION OF COMPANY

The Company was established under the laws of the State of New York on March 15, 1950, under the name, Jefferson Insurance Company. On February 1, 1952, the corporate name was changed to the Jefferson Insurance Company of New York. On July 28, 1999, the corporate name was changed back to Jefferson Insurance Company.

In January 2007, in preparation for the sale of the Company, the Company received approval from the Department to pay an extraordinary dividend to its parent and sole shareholder, Allianz Global Risks US Insurance Company (“AGRUS”), in the amount of \$33,254,000. Additionally, on March 15, 2007, the Company repurchased from AGRUS, and subsequently retired as treasury stock of the Company, 62,722 shares of its \$100 par value per share common stock pursuant to a stock repurchase agreement dated March 14, 2007.

On April 2, 2007, the Company was acquired by World Access Inc. (“WAI”) pursuant to a Stock Purchase Agreement between WAI and AGRUS, dated January 12, 2007. There was no change to the ultimate controlling person as a result of this transaction as WAI is ultimately controlled by Allianz SE.

At December 31, 2009, capital paid in was \$4,181,500 consisting of 41,815 shares of common stock at \$100 par value per share and Gross paid in and contributed surplus was \$7,725,248. Common capital stock decreased by \$6,272,200 and Gross paid in and contributed surplus decreased by \$33,254,000 during the examination period, as follows:

<u>Date</u>	<u>Description</u>	<u>Common Stock</u>	<u>Gross Paid In and Contributed Surplus</u>
1/1/2006	Beginning balance	\$10,453,700	\$40,979,284
January 2007	Extraordinary dividend		(33,254,000)
3/15/2007	Stock repurchase and retirement	<u>(6,272,200)</u>	<u>0</u>
12/31/2009	Ending balance	<u>\$ 4,181,500</u>	<u>\$ 7,725,248</u>

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 fifteen members. The board meets four times during each calendar year. At December 31, 2009, the board of directors was comprised of the following thirteen members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Jon M. Ansell Richmond, VA	President and Chief Executive Officer, World Access, Inc.
David Bloom Mechanicsville, VA	Vice President and Chief Underwriter Officer, World Access, Inc.
Bill Breckles Toronto, Ontario Canada	President and Chief Executive Officer, World Access Canada, Inc.
Pamela Dufour Richmond, VA	Senior Vice President and Chief Service Officer, World Access, Inc.
Frederick M. Faett Glen Allen, VA	Vice President, Chief Legal Officer & Secretary, World Access, Inc.
Beth Godlin New York, NY	Executive Vice President, World Access, Inc.
Remi Grenier Paris, France	President and Chief Executive Officer of Executive Committee, Mondial Assistance Group
Mark Huntley Glen Allen, VA	Vice President and Chief Financial Officer, World Access, Inc.
Peter Lefkin Washington, DC	Senior Vice President, Allianz of America Inc.
Norbert Lommer Glenview, IL	Chief Financial Officer, Allianz Global Corporate & Specialty North America
Laurence Maurice Paris, France	Financial Director, Mondial Assistance Group
Blake Moore New York, NY	Chief Executive Officer, Allianz Global Investors Fund Management
Carsten Scheffel Chicago, IL	Chief Executive Officer, Allianz Global Corporate & Specialty North America

A review of the minutes of the board of directors' meetings held during the examination period indicated that the meetings were generally well attended and each board member had an acceptable record of attendance.

As of December 31, 2009, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Jon M. Ansell	President
Frederick M. Faett	Secretary and General Counsel
Mark Huntley	Treasurer and Assistant Secretary
David Bloom	Vice President

B. Territory and Plan of Operation

As of December 31, 2009, the Company was licensed to write business in all fifty states and the District of Columbia.

As of the examination date, the Company was authorized to transact the kinds of insurance as defined in the following numbered paragraphs of Section 1113(a) of the New York Insurance Law:

<u>Paragraph</u>	<u>Line of Business</u>
3	Accident & health
4	Fire
5	Miscellaneous property
6	Water damage
7	Burglary and theft
8	Glass
9	Boiler and machinery
12	Collision
13	Personal injury liability
14	Property damage liability
16	Fidelity and surety
17	Credit
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine
21	Marine protection and indemnity

Based on 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, the Company is required to maintain a minimum surplus to policyholders in the amount of \$4,181,500.

The following schedule shows the direct premiums written by the Company both in total and in New York for the period under examination:

DIRECT WRITTEN PREMIUMS

<u>Calendar Year</u>	<u>New York State</u>	<u>Total Premiums</u>	<u>Premiums Written in New York State as a Percentage of Total Premium</u>
2006	\$ 0	\$ 0	0.00%
2007	\$1,000	\$ 6,767,296	0.01%
2008	\$ 0	\$ 89,194,580	0.00%
2009	\$ 0	\$161,620,578	0.00%

The Company offers a wide range of insurance products and services, including travel insurance and financial institution travel-related and bank card enhancement coverages, event ticket protection coverages, and such other coverages as mutually agreed, included on policies, including but not limited to: baggage loss or delay, emergency medical or dental expenses, collision damage insurance, ticket insurance, personal effects, travel accident, travel delay, trip cancellation, inconvenience or interruption, vacation delay, purchase/security insurance, extended warranty, missed connection, vehicle return, evacuation and repatriation coverages, as well as accident/health insurance and such other insurance coverages as the parties agree to from time to time. The Company products are distributed through travel agencies, airlines, resorts and other suppliers of travel, using traditional (mail, telephone, facsimile) and online channels.

C. Reinsurance

Assumed

The Company assumed no business during the examination period.

Ceded

As a condition to the closing of the transactions contemplated under the Stock Purchase Agreement dated January 12, 2007, effective April 2, 2007, the Company entered into a Quota Share Reinsurance Agreement with its former parent, AGRUS, pursuant to which, AGRUS agreed to assume 100% of all policy liabilities on business entered into prior to the closing date of the sale of the Company. Additionally, effective the same date, the Company entered into an Assumption Agreement with AGRUS to assume 100% of all other remaining liabilities or obligations of the Company outstanding as of the closing date of the sale of the Company and arising from events, occurrences and/or conduct of the Company's business prior to the closing date of the sale of the Company.

The Company structured its ceded reinsurance program on its direct business to limit its maximum exposure through various quota share reinsurance treaties. The Company also purchased catastrophe reinsurance covering travel insurance portfolio.

The following is a description of the Company's ceded reinsurance program in effect at December 31, 2009:

<u>Type of treaty</u>	<u>Cession</u>
<u>Travel/Casualty:</u> Quota Share 100% Unauthorized	90% quota share of the travel insurance risks underwritten by the Company.
<u>Travel/Casualty:</u> Group Catastrophe Excess of Loss (on behalf of all affiliated insurers worldwide) 3 Layers. Layers (in (€) Euros) 100% Unauthorized	€2,800,000 excess of €200,000 1st layer, €7,000,000 excess of €3,000,000 2 nd layer and €10,000,000 excess of €10,000,000 3 rd layer. The excess of loss includes an annual aggregate deductible of €1,000,000.

It is the Company's policy to obtain the appropriate collateral for its cessions to unauthorized reinsurers. Letters of credit obtained by the Company to take credit for cessions to unauthorized reinsurers were reviewed for compliance with Department Regulations 133 and 114, respectively. No exceptions were noted.

The ceded reinsurance agreements in effect as of the examination date were reviewed and found to contain the required standard clauses including an insolvency clause meeting the requirements of Section 1308 of the New York Insurance Law.

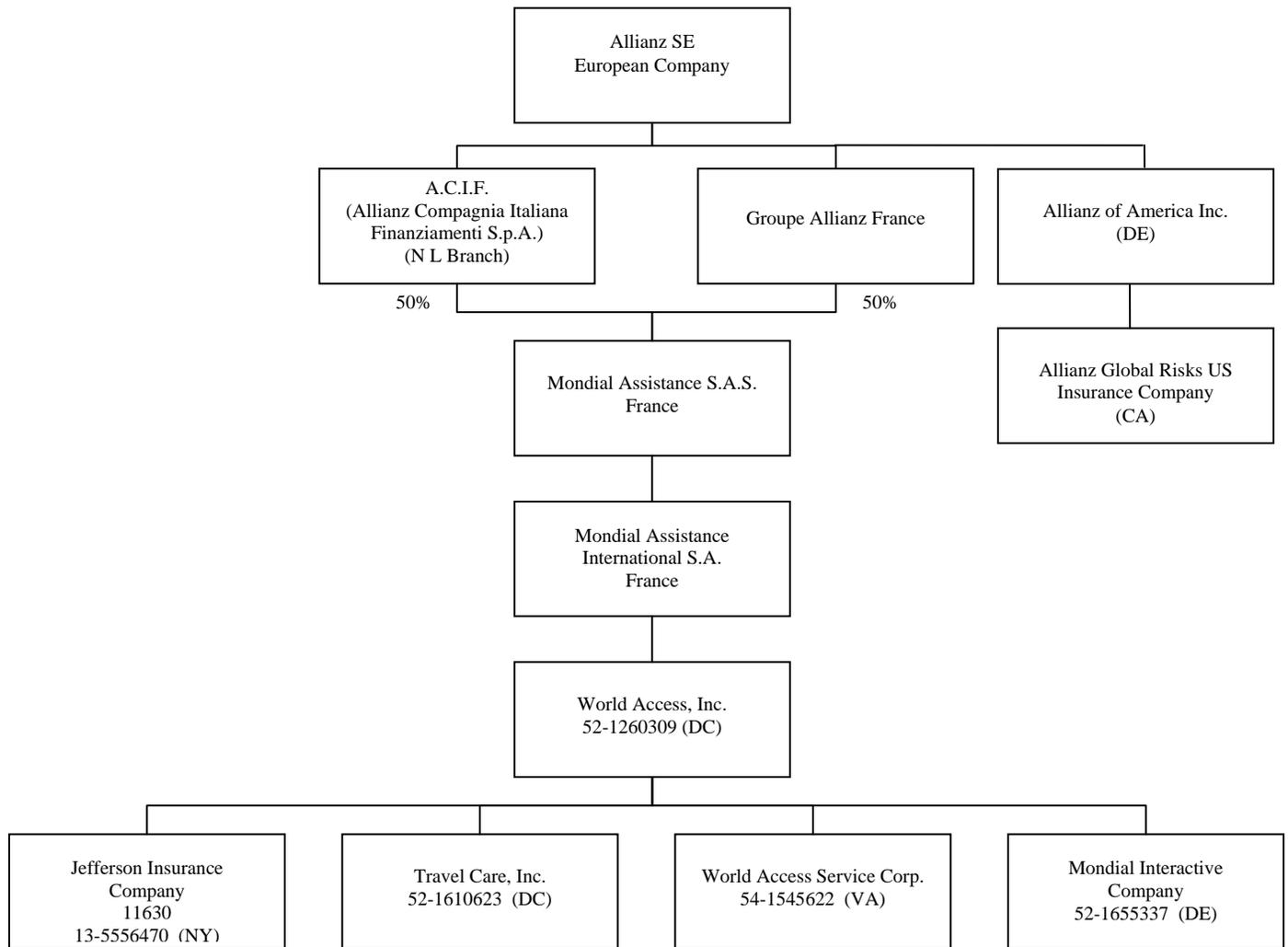
Examination review of the Schedule F data reported by the Company in its filed annual statement was found to accurately reflect its reinsurance transactions. Additionally, management has represented that all material ceded reinsurance agreements transfer both underwriting and timing risk as set forth in NAIC Accounting Practices and Procedures Manual, Statements of Statutory Accounting Principles (“SSAP”) No. 62. Representations were supported by appropriate risk transfer analyses and an attestation from the Company's chief executive officer pursuant to the NAIC annual statement instructions. Additionally, examination review indicated that the Company was not a party to any finite reinsurance agreements. All ceded reinsurance agreements were accounted for utilizing reinsurance accounting as set forth in SSAP No. 62.

D. Holding Company System

The Company is a member of the Allianz Group. The Company is a 100% wholly-owned subsidiary of World Access, Inc. (“WAI”), a District of Columbia holding company, which is ultimately controlled by Allianz SE, a European Company.

A review of the holding company registration statements filed with this 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 a chart of the holding company system at December 31, 2009:



At December 31, 2009, the Company was party to the following agreements with other members of its holding company system:

Quota Share Reinsurance Agreement

Effective April 2, 2007, the Company entered into a quota share reinsurance agreement with AGRUS, whereby the Company ceded to AGRUS 100% of its policy liabilities (pre-sale insurance policies) that existed prior to the effective date of the agreement. The agreement was filed with this Department pursuant to Section 1505(d) of the New York Insurance Law.

Assumption Agreement

Effective April 2, 2007, the Company entered into an assumption agreement with AGRUS, whereby AGRUS agrees to assume and indemnify the Company for 100% of any and all other remaining liabilities or obligations of the Company outstanding as of the closing date. The agreement was filed with this Department pursuant to Section 1505(d) of the New York Insurance Law.

Administrative Service Agreement

Effective April 2, 2007, the Company entered into an administrative agreement with AGRUS, whereby AGRUS provides administrative services with respect to (i) any and all insurance policies effected, bound or issued by the Company prior to the effective date of the sale, which are reinsured by AGRUS; (ii) any and all third party reinsurance agreements of the Company, which are in force as of the closing date of sale applicable to the pre-sale insurance policies and (iii) any and all other liabilities or obligations of the Company arising prior to the closing date of the sale, which have been assigned to and assumed by AGRUS pursuant to the assumption agreement. The agreement was filed with this Department pursuant to Section 1505(d) of the New York Insurance Law.

Investment Management Agreement

Effective April 2, 2007, the Company entered into an investment management agreement with Allianz of America, Inc. (“AZOA”), whereby AZOA would provide investment management services with respect to Company’s invested assets. The agreement was filed with this Department pursuant to Section 1505(d) of the New York Insurance Law.

Quota Share Reinsurance Agreement

Effective June 1, 2007, the Company entered into a quota share reinsurance agreement with Mondial Assistance International AG, whereby Company ceded 90% quota share interest of the liabilities of the Company relating to its travel and casualty insurance, financial institution travel-related and bankcard enhancement lines of business. This agreement was amended and restated effective July 1, 2008. The amended agreement supersedes the original in its entirety. The agreement was filed with this Department pursuant to Section 1505(d) of the New York Insurance Law.

Producer Agreement

Effective June 1, 2007, the Company entered into a producer agreement with World Access Service Corp (“WASC”), whereby WASC provides certain services for the Company, including but not limited to, the underwriting, issuance and administration of insurance products. This agreement was amended and restated effective July 1, 2008. The amended agreement supersedes the original in its entirety. The agreement was filed with this Department pursuant to Section 1505(d) of the New York Insurance Law.

Management Service Agreement

Effective June 1, 2007, the Company entered into a management service agreement with WASC, whereby WASC provides certain administrative and management services for the Company, including but not limited to facilities, management, personnel, claim adjustment and services required for the conduct of business. This agreement was amended and restated effective October 1, 2007. The amended agreement supersedes the original in its entirety. The agreement was filed with this Department pursuant to Section 1505(d) of the New York Insurance Law.

Tax Allocation Agreement

Effective January 1, 2007, the Company entered into a tax allocation agreement with WAI and its subsidiaries and affiliates. Pursuant to the terms of the agreement, the parties will file consolidated federal income tax returns. The tax allocation agreement provides that the Company’s tax liability on a consolidated basis will not exceed the liability had it filed its tax return on a stand-alone basis. The agreement was filed with this Department pursuant to Section 1505(d) of the New York Insurance Law.

Group Catastrophe Excess of Loss Agreement

Effective January 1, 2009, Mondial Assistance International AG, on behalf of all of its direct and indirect subsidiaries, entered into an annual group excess of loss reinsurance agreement with Allianz Re Dublin Ltd., whereby the Company and its affiliates are protected against an aggregation of losses and/or catastrophic events. This agreement was not filed with this Department pursuant to Section 1505(d)(2) of the New York Insurance Law.

It is recommended that the Company file the group catastrophe excess of loss agreement with the Department pursuant to Section 1505(d)(2) of New York Insurance Law.

Allianz Cash Pool, LLC Agreement

Effective June 1, 1997, the Company became a member of the Allianz Cash Pool, LLC (“the Pool”), a Delaware limited liability company, which was established as of January 1, 1996, to more effectively invest the short-term cash of the various affiliated insurance companies (“the Members”) who have joined as participants of the Pool. The Company’s total investment in the Pool as of December 31, 2009 was \$12,361. The agreement was filed with this Department pursuant to Section 1505(d) of the New York Insurance Law.

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2009, based upon the results of this examination:

Net premiums written to surplus as regards policyholders	129%
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	100%
Premiums in course of collection to surplus as regards policyholders	0%

All of the above ratios fall within the benchmark ranges set forth in 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 four-year period covered by this examination:

	<u>Amounts</u>	<u>Ratios</u>
Losses and loss adjustment expenses incurred	\$ 1,244,360	9.37%
Other underwriting expenses incurred	14,774,005	111.19
Net underwriting loss	<u>(2,731,269)</u>	<u>(20.56)</u>
Premiums earned	<u>\$13,287,096</u>	<u>100.00%</u>

F. Accounts and Records

IRIS Ratio

The Company failed the gross premium written to surplus ratio (IRIS Ratio 1) in 2009 as a result of rapid premium volume growth in a short period of time. It is recommended that the Company take action that will cause its gross premium written to surplus ratio (IRIS Ratio 1) to not exceed 9 to 1.

Investment

Section 1409(a) of the New York Insurance Law states:

Except as more specifically provided in this chapter, no domestic insurer shall have more than ten percent of its admitted assets as shown by its last statement on file with the superintendent invested in, or loaned upon, the securities (including for this purpose certificates of deposit, partnership interests and other equity interests) of any one institution.

The Company held securities in a sweep account that exceeded 10 percent of admitted assets in violation of Section 1409(a) of the New York Insurance Law. It is recommended that the Company comply with Section 1409(a) of the New York Insurance Law.

3. FINANCIAL STATEMENTS

A Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2009 as determined by this examination and as reported by the Company:

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$13,282,304	\$ 0	\$13,282,304
Cash, cash equivalents and short-term investments	11,126,994	0	11,126,994
Other invested assets	12,361	0	12,361
Investment income due and accrued	178,265	0	178,265
Uncollected premiums and agents' balances in the course of collection	54,955	0	54,955
Amounts recoverable from reinsurers	3,997,619	0	3,997,619
Other amounts receivable under reinsurance contracts	8,086,619	0	8,086,619
Net deferred tax asset	182,449	0	182,449
Receivables from parent, subsidiaries and affiliates	<u>57,256</u>	<u>0</u>	<u>57,256</u>
Total assets	<u>\$36,978,822</u>	<u>\$ 0</u>	<u>\$36,978,822</u>

Liabilities, Surplus and Other FundsLiabilities

Losses and loss adjustment expenses		\$1,274,416
Commissions payable, contingent commissions and other similar charges		3,782,784
Other expenses (excluding taxes, licenses and fees)		2,146,793
Taxes, licenses and fees (excluding federal and foreign income taxes)		1,748,428
Current federal and foreign income taxes		924,627
Unearned premiums		2,112,357
Ceded reinsurance premiums payable (net of ceding commissions)		11,605,689
Payable to parent, subsidiaries and affiliates		810,253
Sundry liabilities		<u>94,325</u>
Total liabilities		\$24,499,672

Surplus and Other Funds

Common capital stock	\$4,181,500	
Gross paid in and contributed surplus	7,725,248	
Unassigned funds (surplus)	<u>572,402</u>	
Surplus as regards policyholders		<u>12,479,150</u>
Total liabilities, surplus and other funds		<u>\$36,978,822</u>

NOTE: The Internal Revenue Service has not yet begun to audit tax returns covering tax years 2006 through 2009. 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 \$84,065,591 during the four-year examination period January 1, 2006 through December 31, 2009, detailed as follows:

Underwriting Income

Premiums earned		\$13,287,096
Deductions:		
Losses incurred	\$ (138,389)	
Loss adjustment expenses incurred	1,382,749	
Other underwriting expenses incurred	<u>14,774,005</u>	
Total underwriting deductions		<u>16,018,365</u>
Net underwriting loss		\$(2,731,269)

Investment Income

Net investment income earned	\$8,430,840	
Net realized capital gain	<u>890,224</u>	
Net investment gain		9,321,064

Other Income

Total other income		<u>0</u>
Net income after dividends to policyholders but before federal and foreign income taxes		\$ 6,589,795
Federal and foreign income taxes incurred		<u>784,302</u>
Net income		<u>\$ 5,805,493</u>

Surplus as regards policyholders per report on examination as of December 31, 2005			\$ 96,544,741
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income	\$ 5,805,493		
Net unrealized capital gains or (losses)		\$24,930,097	
Change in net deferred income tax		13,057,441	
Change in non-admitted assets	11,851,663		
Change in provision for reinsurance	1,751,339		
Capital changes transferred from surplus (stock dividend)		6,272,200	
Surplus adjustments paid in	906,748		
Dividends to stockholders		60,859,090	
Aggregate write-ins for gains and losses in surplus	<u>737,994</u>	<u> </u>	
Total gains and losses	<u>\$21,053,237</u>	<u>\$105,118,828</u>	
Net increase (decrease) in surplus			<u>(84,065,591)</u>
Surplus as regards policyholders per report on examination as of December 31, 2009			<u>\$ 12,479,150</u>

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of \$1,274,416 is the same as reported by the Company as of December 31, 2009. 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. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The recommendations cited in the prior examination report are not applicable to the current examination due to the change in control that occurred during the current examination period. Therefore, the prior examination recommendations have not been reflected in this report on examination.

6. **SUMMARY OF COMMENTS AND RECOMMENDATIONS**

<u>ITEM</u>		<u>PAGE NO.</u>
A.	<u>Catastrophe Excess of Loss Agreement</u>	
	It is recommended that the Company file the group catastrophe excess of loss agreement with the Department pursuant to Section 1505(d)(2) of New York Insurance Law.	12
B.	<u>Accounts and Records</u>	
i.	<u>IRIS Ratio</u>	
	It is recommended that the Company take action that will cause its gross premium written to surplus ratio (IRIS Ratio 1) to not exceed 9 to 1.	13
ii.	<u>Investment</u>	
	It is recommended that the Company comply with Section 1409(a) of the New York Insurance Law.	13

Respectfully submitted,

_____/s/_____
Adebola Awofeso,
Senior Insurance Examiner

STATE OF NEW YORK)
)ss:
COUNTY OF NEW YORK)

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

_____/s/_____
Adebola Awofeso,

Subscribed and sworn to before me

this _____ day of _____, 2010.

Appointment No. 30380

STATE OF NEW YORK
INSURANCE DEPARTMENT

I, James J. Wrynn Superintendent of Insurance of the State of New York,
pursuant to the provisions of the Insurance Law, do hereby appoint:

Adebola Awofeso

as proper person to examine into the affairs of the

JEFFERSON INSURANCE COMPANY

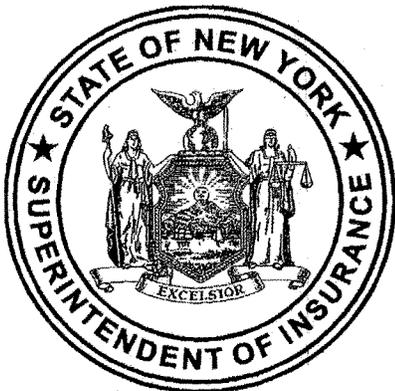
and to make a report to me in writing of the condition of the said

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 24th day of September, 2009



James J. Wrynn

JAMES J. WRYNN
Superintendent of Insurance