

REPORT ON EXAMINATION

OF THE

GLOBAL REINSURANCE CORPORATION OF AMERICA

AS OF

DECEMBER 31, 2006

DATE OF REPORT

FEBRUARY 15, 2008

EXAMINER

MARC ALLEN

TABLE OF CONTENTS

<u>ITEM NO.</u>		<u>PAGE NO.</u>
1	Scope of examination	2
2.	Description of Company	3
	A. Management	5
	B. Territory and plan of operation	7
	C. Reinsurance	8
	D. Holding company system	11
	E. Significant operating ratios	13
	F. Subsequent events	13
3.	Balance sheet	15
4.	Cash and short-term investments	17
5.	Common stocks	17
6.	Funds held or deposited with reinsured companies	18
7.	Current federal tax recoverable and interest thereon	18
8.	Losses and loss adjustment expenses	19
9.	Provision for reinsurance	20
10.	Conclusion	20
11.	Summary of comments and recommendations	21



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

November 24, 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 22591 dated February 16, 2007 attached hereto, I have made an examination into the condition and affairs of Global Reinsurance Corporation of America as of December 31, 2006, and submit the following report thereon.

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

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 Company's home office located at 1345 Avenue of the Americas, New York, NY 10105. In November 2007, the Company relocated its home office to Seven Times Square, New York, NY 10036, where the examination was completed.

This examination has determined that as of December 31, 2006 the Company's required to be maintained surplus of \$35,000,000 was impaired in the amount of \$10,840,693. It is noted that the examination non-admitted \$15,234,349 of the Company's investment in its insurance subsidiary, Constitution Insurance Company ("CIC"). This amount was in excess of the limits prescribed in Section 1408(b) of the New York Insurance Law. Subsequent, to the examination date the Company redeemed 3,690,291 shares of its CIC shares for \$30,407,998. The share redemption, if recognized at the examination date, would have eliminated the Section 1408(b) penalty and the Company's surplus impairment that existed as of December 31, 2006.

1. SCOPE OF EXAMINATION

The previous filed examination report for the Company was as of December 31, 1995. In 2003, the Department commenced a financial examination of the Company as of December 31, 2002. Subsequent to the December 31, 2002 examination date, the Company commuted a large number of its assumed reinsurance contracts. These commutations had a substantial and material impact on the financial position of the Company. The Department chose not to file the December 31, 2002 examination report as the subsequent commutations by the Company 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 company records deemed necessary to accomplish such analysis or verification and utilized, to the extent considered appropriate, work performed by the Company'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"):

- 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

A review was also made to ascertain what action was taken by the Company 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 COMPANY

The Company was incorporated on August 7, 1940, as the Constitution Reinsurance Corporation of New York. The Company commenced operations on September 5, 1940. The Company's name was changed on March 26, 1951 to the Constitution Insurance Corporation of New York. On March 6, 1970, the Company changed its name to Constitution Reinsurance Corporation.

On October 27, 1998, Gerling Global U.S. Investments Inc. ("GGUSI") acquired EXOR-CRC Inc. (later renamed Gerling Global Holdings Inc. ("GGHI")), a Delaware investment holding company, which owned Constitution Holding Inc. ("CHI"), a United States insurance holding company, which in turn owned the Company. GGUSI was owned by Gerling Konzern Rueckversicherungs Aktiengesellschaft ("GKG"), of Cologne, Germany (now known as Globale Ruckversicherungs-AG ("Globale")). GKG was owned by Gerling Konzern Versicherungs-Beteiligungs ("GKB") of Cologne, Germany (now known as Winsor Vermaltungs-AG ("Winsor")), which at the time was owned 70% by the private group of Dr. Rolf Gerling and 30% by Deutsche Bank. Since 1963, GKG conducted reinsurance operations in the United States through its United States branch, Gerling Global Reinsurance Corporation-United States Branch (now known as the United States Branch of Global Reinsurance Company ("US Branch")). GKG also owned Gerling Global Reinsurance Corporation of America ("GGRCA", now known as Constitution Insurance Company), which it acquired in July 1996.

The Gerling Group intended to integrate the operations of the Company with the operations of GGRCA. To that end, the Company entered into an assumption agreement with GGRCA, whereby GGRCA transferred all of its policy obligations to the Company. Simultaneously, the Company entered into a quota share agreement with GGRCA in which the Company ceded 3% of all its policies in force, issued or renewed to GGRCA.

In connection with the restructuring of Gerling's United States operations, GGRCA was renamed Constitution Insurance Company ("CIC"). Simultaneously, CRC was renamed Gerling Global Reinsurance Corporation of America ("GGRCA"). The name changes were effective May 21, 1999.

Subsequently, on September 22, 1999, the Department approved a stock redemption plan whereby the shares of CIC (formerly GGRCA) were redeemed with the proceeds of the stock redemption ultimately contributed to the Company (now GGRCA, formerly CRC) as a capital contribution from its parent, CHI. This stock redemption took place in the third quarter of 1999. The net effect was an increase in the Company's gross paid in and contributed capital by \$158,449,469.

The Company issued a surplus note on December 31, 1999, in the amount of \$60,000,000, to GGHI in exchange for \$60,000,000. The note was payable on demand and bore an interest rate of 7.5% per annum, payable semi-annually.

In 2001 a capital contribution of \$153,914,591 was contributed to the Company. This contribution consisted of the following:

1. The contribution of the stock of CIC by GGHI at 12/31/01 valued at \$47,083,932.
2. The contribution of the stock of Rex Re Insurance Ltd, of Bermuda, by GKG, through the holding company, valued at \$56,830,659.
3. A \$50,000,000 cash contribution.

This increased the gross paid in and contributed surplus to \$400,169,868 from \$246,255,277. On October 1, 2002 the \$60,000,000 in surplus notes issued on December 31, 1999 was contributed to the Company's surplus bringing the gross paid in and contributed surplus to \$460,169,868.

In the third quarter of 2002, the Company voluntarily went into run-off and ceased writing new or renewal business as did its subsidiary CIC. In addition the Company's parent reinsurance Company GKG ceased writing business in the fourth quarter of 2002.

In December 2003, the Company began liquidating its position in its subsidiary Rex Re receiving \$30,199,992, as a return of capital. In 2004, the Company received \$15,868,887 from Rex Re consisting of a return of capital of \$13,668,997 and \$2,200,000 in dividends. On November 29, 2005, the Company received \$12,575,114 consisting of \$11,681,413 as a return of capital invested and \$893,701 as dividend income distribution. In 2006, the Company completed the liquidation of its Bermuda subsidiary receiving \$1,280,367 and \$112,958 in dividends. At December 31, 2006, there was no reported value for Rex Re on the annual statement. Rex Re was voluntarily dissolved on January 16, 2007.

On January 20, 2004, GKG changed its name from Gerling-Konzern Globale Ruckversicherungs-AG to Globale Ruckversicherungs-AG ("Globale"). Also in 2004, Globale merged GGUSI, GGHI, and CHI with GGUSI being the surviving entity. Subsequent to the mergers,

the name of GGUSI was changed to Global U.S. Holdings, Incorporated (“GUSHI”). At the close of 2004, GKB owned Globale, which owned GUSHI which owned the Company.

In February of 2004, the Company, with the permission of the Department, contributed \$3,217,974 to the surplus of its 100% owned subsidiary CIC. This was reflected on the books of CIC at December 31, 2003, as a receivable from the Company.

On November 9, 2005, the Company changed its name to Global Reinsurance Corporation of America (GRCA). The Department approved the name change on November 15, 2005.

On May 3, 2006 GKB, the ultimate holding company, changed its name to WINSOR Verwaltungs-AG (“Winsor”).

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.

Capital paid in at December 31, 2006, was \$4,200,000, consisting of 42,000 shares of \$100 par value per share common stock. Gross paid in and contributed surplus was \$460,169,868. There was no change in the gross paid in and contributed surplus during the examination period.

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. The board meets four times during each calendar year. At December 31, 2006, the board of directors was comprised of the following thirteen members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Michael Bluzer Bayside, NY	Vice President and Actuary, Global Reinsurance Corporation of America
Bard Bunaes Irvington, NY	President and Chief Executive Officer, Global Reinsurance Corporation of America
Wei Chez Brooklyn, NY	Vice President and Corporate Accounting Manager, Global Reinsurance Corporation of America
Dr. Jan Eickstaedt Cologne, Germany	External Director, Globale Ruckversicherungs- AG

Name and ResidencePrincipal Business Affiliation

James Fletcher Darien, CT	Senior Vice President and Chief Actuary, Global Reinsurance Corporation of America
Thomas Freudenstein Alfter, Germany	External Director, Globale Ruckversicherungs- AG
Burton Henry North Caldwell, NJ	Executive Vice President and Chief Financial Officer, Global Reinsurance Corporation of America
Thomas Hill Monmouth Junction, NJ	Senior Vice President-Human Resources/Administration, Global Reinsurance Corporation of America
Dr. Achim Kann Munich, Germany	Chairman, Globale Ruckversicherungs- AG
Barry Keogh Hillsdale, NJ	Senior Vice President-Claims, Global Reinsurance Corporation of America
Vincent Potts Long Valley, NJ	Senior Vice President-Underwriting, Global Reinsurance Corporation of America
James Ready Syosset, NY	VP and Investment Accounting Manager, Global Reinsurance Corporation of America
David Smith Glen Head, NY	Executive Vice President and General Counsel, Global Reinsurance Corporation of 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 has an acceptable record of attendance.

As of December 31, 2006, the principal officers of the Company 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

As of December 31, 2006, the Company was licensed to write business in thirty-three 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>
4	Fire
5	Miscellaneous property
6	Water damage
7	Burglary and theft
8	Glass
9	Boiler and machinery
12	Collision
16	Fidelity and surety
19	Motor vehicle and aircraft physical damage
20	Marine and inland 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) 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; 33 USC Section 901 et seq. as amended), and as authorized by Section 4102(c) of the New York Insurance Law, insurance of every kind or description outside of the United States and reinsurance of every kind or description to the extent permitted by certified copy of its charter on file with the Insurance Department.

Based on the lines of business for which the Company is licensed and its 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 \$35,000,000.

In August 2002, the Company went into voluntary run-off. There was no new business written during the examination period.

C. Reinsurance

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 the NAIC Accounting Practices and Procedures Manual Statement of Statutory Accounting Principles No. 62. Representations were supported by an attestation from the Company's chief executive officer pursuant to Department Circular Letter No. 8 (2005).

The Company's business was to assume risks from other insurance companies, either direct writers or reinsurers. The property and casualty reinsurance was provided on a treaty as well as on a facultative basis.

At December 31, 2006, the Company reported \$113,769,000 in total reinsurance recoverables. Of that amount, approximately \$88,967,000 was due from unaffiliated reinsurers. Approximately \$79,000,000 of the \$88,967,000 represents the amount due from the Company's external ceded treaty reinsurance program, which covered the period from 1970 through 1985. These treaties cover the Company's casualty facultative business. The balance represents amounts due from various treaties written between 1981 and 1983, which covers the facultative surplus business with various limits being reinsured.

Regarding the Company's ceded program covering its casualty facultative business, its reinsurance had limits up to two million dollars. The Company's retention went from \$50,000 in the early 1970's to \$100,000 in the 1980's.

Approximately \$24,800,000 of the reinsurance recoverable represents amounts due from affiliated companies. This is comprised of approximately \$18,600,000 due from the Company's German insurance parent currently known as Globale Ruckversicherungs-AG ("GR"). The balance of \$6,200,000 is due from the Company's 100 percent owned subsidiary, Constitution Insurance Corporation ("CIC").

The Company had two agreements in place with CIC as of the examination date. In January 1999, a quota share agreement was entered into whereby the Company ceded 3% of its net assumed business to CIC. Effective January 2000 an additional quota share agreement was entered into whereby the Company assumed 97% of CIC's net direct written business.

The agreements in runoff with Globale Ruckversicherungs-AG (GR) include:

<u>Type of Treaty</u>	<u>Cessions</u>
Aggregate Stop Loss January 1, 1999 to June 30, 2002	100% of excess of statutory losses booked greater than 110% of net earned premiums and net investment income but not exceeding 15% of net earned premiums.
Property Catastrophe Program Excess of Loss April 1, 1999 to April 1, 2003	\$230 million excess of loss of \$20 million per occurrence. 7 layers
Property Facultative Excess of Loss January 1, 2000 to December 31, 2002	\$45 million excess of loss of \$5 million per occurrence. 4 layers
Casualty Facultative Excess of Loss January 1, 2000 to December 31, 2002	\$5 million excess of loss of \$5 million per occurrence. 1 layer
Surety, Fidelity, Credit Excess of Loss January 1, 1997 to December 31, 2001	\$8 million excess of loss of \$2 million per occurrence. 1 layer
Multi-line Excess of Loss July 1, 1997 to June 30, 2001	Property: \$8 million excess of loss of \$2 million per risk. Casualty: \$13 million excess of loss of \$2 million per risk. Marine: \$8 million excess of loss of \$2 million per risk.

The Company reported approximately \$34.4 million in reinsurance recoverables from unauthorized insurance companies including approximately \$18.6 million from its German insurance parent, GR. The provision for reinsurance for balances due from GR was offset by funds held in the amount of \$17.3 million and ceded balances payable in the amount of \$1.3 million, thereby eliminating the provision for reinsurance for balances due from GR. Documentation supporting the \$17.3 million of funds held was reviewed.

The remaining \$15.8 million in reinsurance recoverables from non-affiliated unauthorized companies was partially collateralized, thereby reducing the provision for reinsurance by \$3,806,000 in letters of credit, \$257,000 in funds held, and \$474,000 in other allowed offset items. The letters of credit were reviewed for compliance with Department Regulation 133. There were no exceptions noted.

The Company also reduced its provision for reinsurance, by \$4,422,000, pursuant to the provisions of Parts 125.4(e) or (f) of Department Regulation 20. Examination review indicated that the Company maintained the documentation required by the regulation.

The commutation of assumed business is a significant activity for the Company as it is in run-off and it is trying to significantly reduce its overhead costs. Since entering run-off status, it has commuted a large number of assumed reinsurance agreements, which resulted in a gain to its surplus position. As indicated in the loss section of this report, the examination took into account commutations that took place in 2007 in evaluating the Company's loss liabilities at December 31, 2006.

It should be noted that at December 31, 2006, the Company reported \$24,752,985 in reinsurance recoverables on paid losses, approximately \$22,521,000 of which was overdue by 90 days or more. The overdue amount includes \$6,634,237 in reinsurance recoverables formally put into dispute. A significant portion of the amount in dispute is related to disagreements concerning the allocation of the costs of assumed contracts commuted by the Company to its ceded contracts. The examination review of the amounts past 90 days due for the non-disputed recoverables indicate 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 Company.

The examination's review of the over 90 day reinsurance recoverables, other than the \$6,634,237 formally put into dispute, indicate 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 Company and its affiliate, the United States ("US") Branch, on other reinsurance contracts. The Company 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 at this time. As the Company continues to commute assumed reinsurance contracts there are likely to continue to be issues when these commutation costs are billed out through the Company's ceded contracts.

The examination revealed that there are other problems that the Company currently has in collecting its paid recoverables which may indicate that there will be future issues as the Company's case and incurred but not reported reserves move into paid recoverables. There is a risk that the Company will continue to experience significant delays in collecting its reinsurance recoverables. There is also a risk that the provision for reinsurance may not fully reflect a significant amount of recoverables that will prove to be uncollectible.

It is recommended that the Company carefully monitor its reinsurance collectibles and write-off all recoverables that are of dubious value.

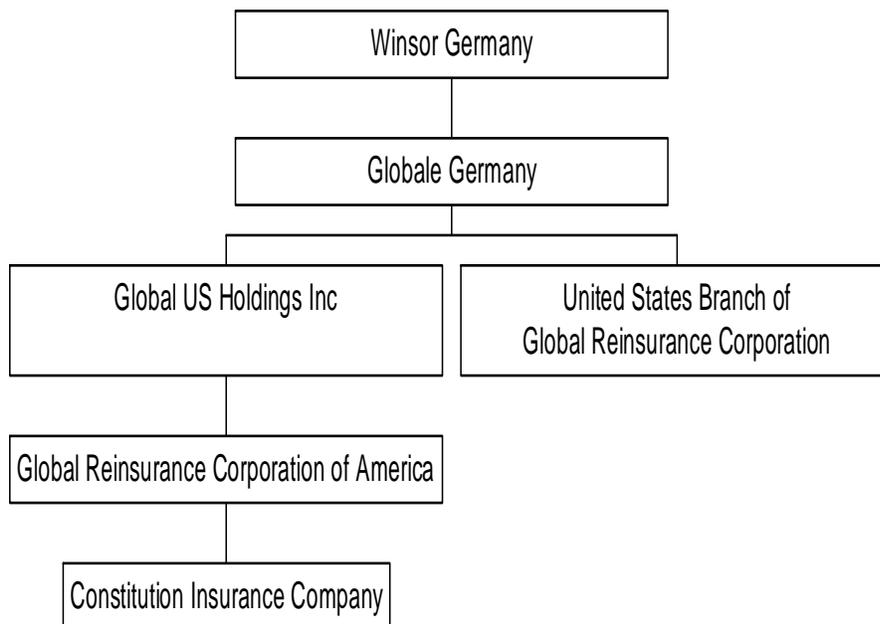
D. Holding Company System

The Company is a member of a German holding company system known as the Globale Group. The group is comprised of a large number of related entities in Germany, as well as throughout the world. At December 31, 2006, ultimate control was held by the private group of Dr. Rolf Gerling. As of December 31, 2006, the primary holding company was Winsor Vermaltungs-AG (“Winsor”). Winsor owns Globale Ruckversicherungs-AG (“Globale”). Both are located in Cologne, Germany.

Globale in turn owned Global U.S. Holdings, Incorporated (“GUSHI”). GUSHI served as the holding company for the group’s United States reinsurance operations and is the direct parent of the 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 an abridged chart of the holding company system at December 31, 2006:



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

Investment Service Agreement

The Company and its subsidiary, CIC are party to an investment service agreement with Global U.S. Holdings, Incorporated (“GUSHI”). GUSHI is a New York corporation and the direct United States Parent of the Company. Under the terms of the agreement, GUSHI provides investment management services to the Company and CIC.

Expense Sharing Agreements

The Company is party to an expense sharing agreement which was restated at November 1, 2005. The other parties to the agreement are the Company’s United States parent, GUSHI, its subsidiary CIC, and affiliates, the US branch and 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 is not limited to: claims and underwriting services; accounting, legal, and IT services; assistance with report preparation; assistance with retrocessional programs; and human resource services.

At December 31, 2006, the Company was also party to an expense sharing agreement with its former affiliate, Gerling America Insurance Company (“GAIC”). This agreement was also restated at November 1, 2005 and provided for GRCA to make available to GAIC assistance with human resources, personnel, benefits and payroll functions. GAIC was sold on April 30, 2006 ending its affiliation with the Company. Certain services continued to be provided under the contract at December 31, 2006.

Tax Sharing Agreement

The Company is party to a tax sharing agreement with its parent GUSHI and subsidiary CIC. The agreement became effective August 3, 1999.

E. Significant Operating Ratios

As the Company 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)	114.46%
Premiums in course of collection to surplus as regards policyholders	22.34%

The ratio of “Liabilities to liquid assets” is 114.46% and 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 to loss and loss adjustment expenses.

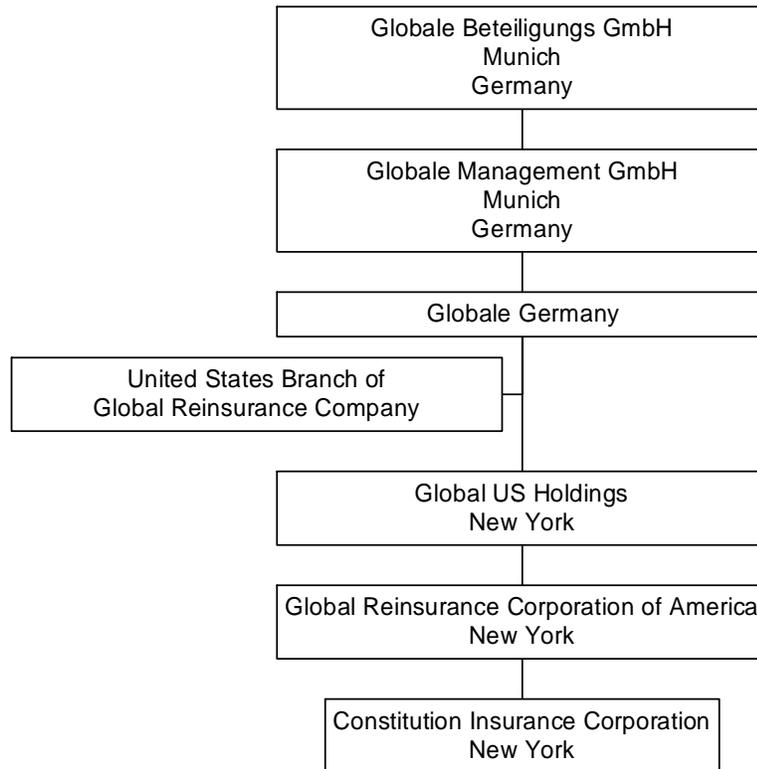
F. Subsequent Events

There were significant events that have taken place subsequent to the examination period. A summary of these events is presented below:

1. On December 28, 2007, the Department approved a change of control, whereby Globale Beteiligungs GmbH (“GBG”) became the Company’s ultimate parent replacing Winsor. Dr. Achim Kann maintains a controlling 51% interest in GBG.
2. The quota share agreement, effective January 1, 2000 whereby the Company assumed 97 percent of CIC’s net direct business was amended with the assuming percentage adjusted to 100 percent. In effect all of the net direct business written by CIC has now been assumed by GRCA. This amendment took effect on January 1, 2007 and was approved by the Department in May 2007.
3. The quota share agreement, effective January 1, 1999, whereby CIC assumed three percent of the Company’s net assumed business was cancelled. All business assumed by CIC under this treaty was retroactively transferred back to GRCA.
4. In March 2008 the Company received approval for an assumption agreement whereby GRCA would directly assume CIC’s direct business. It should be noted that the assumption of any particular policy will not take place if it is objected to by any former policyholder with an open claim.
5. In January, 2009 the Company redeemed 3,690,291 shares of its CIC shares for \$30,407,998.

The overall purpose in altering the quota share agreements and implementing the assumption agreement is to reduce CIC to shell status in order to facilitate the sale of CIC by the Company.

The following is an abridged chart of the holding company system at December 31, 2007.



3. 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 Company:

Assets	Examination		Company	Surplus Increase (Decrease)
	<u>Assets</u>	Nonadmitted <u>Assets</u>	Net Admitted <u>Assets</u>	
Bonds	\$506,990,459		\$506,990,459	
Preferred stocks	195,764		195,764	
Common Stocks	38,652,959	\$17,286,974	21,365,985	\$(17,286,974)
Cash and short-term investments	40,702,166		40,702,166	10,674,634
Other invested assets	17,111,228		17,111,228	
Receivable for securities	666,577		666,577	
Investment income due and accrued	5,373,294		5,373,294	
Uncollected premiums	10,184,348	1,383,173	8,801,175	
Deferred Premiums	4,197,535		4,197,535	
Accrued retrospective premiums	1,812,735	1,600	1,811,135	
Amounts recoverable from reinsurers	24,752,985		24,752,985	
Funds held by or deposited with reinsured companies	10,824,613	8,709,000	2,115,613	(8,709,000)
Current federal income taxes recoverable & interest	15,489,753		15,489,753	14,984,095
Net deferred tax asset	238,451,638	238,451,638		
Electronic data processing equipment and software	82,737		82,737	
Furniture and equipment	57,982	57,982		
Receivables from parent, subsidiaries and affiliates	341,361		341,361	
Other assets - prepaid and advances	2,059,388	2,059,388		
Leasehold improvements	12,162	12,162		
Accounts receivable-miscellaneous	<u>340,774</u>	<u>174,991</u>	<u>165,783</u>	<u>0</u>
Total assets	<u>\$918,300,458</u>	<u>\$268,136,908</u>	<u>\$650,163,550</u>	<u>\$650,500,795</u> <u>\$(337,245)</u>

Liabilities, Surplus and Other Funds

	<u>Examination</u>	<u>Company</u>	Surplus Increase (Decrease)
Loss and loss adjustment expenses	\$ 525,724,000	\$ 436,529,860	\$ (89,194,140)
Reinsurance payable on paid losses and loss adjustment expenses	46,757,896	46,757,896	
Commissions payable, contingent commissions and other similar charges	916,401	916,401	
Other expenses (excluding taxes, licenses and fees)	6,357,055	6,357,055	
Taxes, licenses and fees (excluding federal and foreign income taxes)	537,539	537,539	
Unearned premiums	1,656,460	1,656,460	
Ceded reinsurance premiums payable	3,582,857	3,582,857	
Funds held by company under reinsurance treaties	17,694,270	17,694,270	
Amounts withheld or retained by company for account of others	10,718	10,719	
Provision for reinsurance	22,252,575	19,859,476	(2,393,099)
Payable to parent, subsidiaries and affiliates	504,849	504,849	
Accounts Payable-miscellaneous	<u>9,623</u>	<u>9,623</u>	
Total liabilities	<u>\$ 626,004,243</u>	<u>\$ 534,417,005</u>	<u>\$ (91,587,238)</u>

Surplus and Other Funds

Common capital stock	\$ 4,200,000	\$ 4,200,000	
Gross paid in and contributed surplus	460,169,868	460,169,868	
Unassigned funds (surplus)	<u>(440,210,561)</u>	<u>(348,286,078)</u>	<u>\$ (91,924,483)</u>
Surplus as regards policyholders	<u>\$ 24,159,307</u>	<u>\$ 116,083,790</u>	<u>\$ (91,924,483)</u>
Total liabilities and surplus	<u>\$ 650,163,550</u>	<u>\$ 650,500,795</u>	

NOTE 1: 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.

NOTE 2: This examination has determined that as of December 31, 2006 the Company's required to be maintained surplus of \$35,000,000 was impaired in the amount of \$10,840,693. It is noted that the examination non-admitted \$15,234,349 of the Company's investment in its insurance subsidiary, Constitution Insurance Company ("CIC"). This amount was in excess of the limits prescribed in Section 1408(b) of the New York Insurance Law. Subsequent, to the examination date the Company redeemed 3,690,291 shares of its CIC shares for \$30,407,998. The share redemption, if recognized at the examination date, would have eliminated the Section 1408(b) penalty and the Company's surplus impairment that existed as of December 31, 2006.

4. CASH AND SHORT-TERM INVESTMENTS

The examination asset for cash and short-term investments of \$40,702,166 is \$10,674,634 greater than the \$30,027,532 reported by the Company in its filed 2006 annual statement. The Company erroneously classified \$8,709,000, of the \$10,674,634 as a funds held asset and failed to record \$1,965,634 in investment income. A further explanation of this classification error is noted below in the sub-section entitled Funds Held or Deposited with Reinsured Companies.

5. COMMON STOCKS

The examination admitted asset of \$21,365,985 is \$17,286,974 less than the \$38,652,959 reported by the Company in its 2006 filed annual statement. The Company's reported asset is comprised entirely of the value of its wholly-owned subsidiary, Constitution Insurance Company ("CIC").

The examination change is comprised of a reduction in CIC's reported policyholder's surplus in the amount of \$2,302,417 due to an examination increase to its outstanding loss and loss adjustment expense reserves and a disallowance in the amount of \$15,234,349, representing the investment value of CIC in excess of the limits prescribed in Section 1408(b) of the New York Insurance Law. Pursuant to Section 1408(b), the admitted asset for insurance company stock is limited to the greater of 50% of the Company's surplus to policyholders or 60% of its surplus over liabilities and capital.

The remaining difference of \$249,792 represents a reclassification of an item reported by the Company under the caption "Funds held by or deposited with reinsurance companies" to Common stocks, as more fully described in item 6 of this report.

6. FUNDS HELD BY OR DEPOSITED WITH REINSURANCE COMPANIES

The examination admitted asset of \$2,115,613 is \$8,709,000 less than the \$10,824,613 reported by the Company. The Company reported \$8,709,000 as being held by American National P&C Insurance Company in Schedule F – Part 1 of its annual statement. The funds represent premiums collected by the Company for assumed warranty business. It was noted that the auto warranty business has been in run-off and by December 1, 2007 all of the underlying vehicle service contracts had expired.

Upon further review, it was noted that the funds were actually being held in the name of the Company for the benefit of various auto dealerships. The Company should have reclassified these funds as invested assets at the time the money was put under the Company's name. The Company also failed to reflect interest and dividend income earned on these funds over the years. The \$8,709,000 funds asset reported by the Company at December 31, 2006 had actually grown to \$10,924,426. The examination balance sheet reflects the reclassification of \$10,674,634 to Cash and invested assets and \$249,792 to Common stocks.

It is recommended that the Company properly classify the funds held in its name as invested assets and report them as a restricted asset on Schedule E of the annual statement.

It is also recommended that the Company reflect all of the unrecorded investment income from previous years as an adjustment to surplus.

It is further recommended that in the future the Company reflect all of the investment income earned on these funds on its income statement.

The Company subsequently complied with this examination's recommendation and correctly classified the subject funds as invested assets on its 2007 annual statement. The Company also started closing these accounts in 2007.

7. CURRENT FEDERAL TAX RECOVERABLE AND INTEREST THEREON

The examination admitted asset of \$15,995,412 is \$15,489,754 greater than the \$505,658 reported by the Company in its filed 2006 annual statement. As of December 31, 2006, the Company non-admitted a federal income tax receivable of \$12,742,328 resulting from a September 2005 filing

of an amended consolidated 1998 return. On September 24, 2007, the Company received the \$12,742,328 plus interest of \$2,747,426 for a total of \$15,489,754.

It was determined that it would be appropriate to admit the recoverable as of December 31, 2006, in accordance with Section 1301(a)(21) of the New York State Insurance Law and NAIC Accounting Practices and Procedures Manual, Statement of Statutory Accounting Principles (“SSAP”) 10.10. Section 1301 of the New York Insurance Law which in defining what an admitted asset is states the following in paragraph 21:

“Other assets, not inconsistent with the foregoing provisions, deemed by the superintendent available for the payment of losses and claims, at values determined by him.”

SSAP 10, paragraph 10 states the following:

“Current income tax recoverables shall include all current income taxes, including interest, reasonably expected to be recovered in a subsequent accounting period, whether or not a return or claim has been filed with the taxing authorities. Current income tax recoverables are reasonably expected to be recovered if the refund is attributable to overpayment of estimated tax payments, errors, carrybacks, as defined in paragraph 289 of FAS 109, or items for which the reporting entity has substantial authority, as that term is defined in Federal Income Tax Regulations.”

8. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of \$525,724,000 is \$89,194,000 more than the \$446,530,000 reported by the Company in its December 31, 2006, filed annual statement. This was based on an actuarial analysis conducted in accordance with generally accepted actuarial principles and which utilized statistical information contained in the Company’s filed annual statements, as well as its internal records including the impact of commutations effected by the Company through October 31, 2007 for losses incurred December 31, 2006 and prior.

The largest deficiencies in the Company’s reported reserves were found in the general liability (including professional liability) and workers’ compensation excess of loss business segments.

As stated earlier, GRCA commuted several contracts from January 1, 2007 through October 31, 2007. Before consideration of the 2007 commutations, the examination’s estimate of the Company’s loss and loss adjustment expenses (“LAE”) deficiency was \$126,214,000. The consideration of the 2007 commutations resulted in lowering the estimated deficiency by \$37,020,000.

The examination liability includes unallocated loss adjustment expenses (“ULAE”) in the amount of \$37,313,000, which is \$23,094,000 more than the \$14,219,000 reported by the Company as of December 31, 2006. Upon review, the examiners found the Company’s reported ULAE liability to be inadequate given the general expenses reported by the Company, as well as the Company’s run-off status. Upon being advised of this, the Company increased its December 31, 2006 ULAE reserves to \$37,313,000. The Department accepted the Company’s revised ULAE and incorporated it into the overall reserve analysis.

It should be noted that, as a reinsurer in run-off, the ultimate development of the Company’s reserves may be different than what might have occurred if it continued to assume business. The Company is actively engaged in commuting assumed business, which will more than likely have a material impact on the Company’s loss reserves.

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

9. PROVISION FOR REINSURANCE

The examination liability of \$22,252,575 is \$2,393,099 more than the \$19,859,476 reported by the Company in its filed 2006 annual statement. A review of Schedule F-Part 7 indicated that the Company took credit in column 9, “other allowed offset items”, for collateral in the form of paid and case loss reserves assumed by it on other reinsurance contracts involving the same company. The examination’s review indicated that there was no such collateral. The Company agreed and acknowledged their error and indicated that there was some confusion as to who held the assumed and ceded business in question.

It is recommended that the Company exercise greater care and ensure that all collateral offsets reducing the provision for reinsurance are accurate and appropriate.

10. CONCLUSION

This examination has determined that as of December 31, 2006 the Company’s required to be maintained surplus of \$35,000,000 was impaired in the amount of \$10,840,693. It is noted that the examination non-admitted \$15,234,349 of the Company’s investment in its insurance subsidiary,

Constitution Insurance Company (“CIC”). This amount was in excess of the limits prescribed in Section 1408(b) of the New York Insurance Law. Subsequent, to the examination date the Company redeemed 3,690,291 shares of its CIC shares for \$30,407,998. The share redemption, if recognized at the examination date, would have eliminated the Section 1408(b) penalty and the Company’s surplus impairment that existed as of December 31, 2006.

11. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Surplus Impairment</u>	1, 16, 20
<p>This examination has determined that as of December 31, 2006 the Company’s required to be maintained surplus of \$35,000,000 was impaired in the amount of \$10,840,693. It is noted that the examination non-admitted \$15,234,349 of the Company’s investment in its insurance subsidiary, Constitution Insurance Company (“CIC”). This amount was in excess of the limits prescribed in Section 1408(b) of the New York Insurance Law. Subsequent, to the examination date the Company redeemed 3,690,291 shares of its CIC shares for \$30,407,998. The share redemption, if recognized at the examination date, would have eliminated the Section 1408(b) penalty and the Company’s surplus impairment that existed as of December 31, 2006.</p>	
B. <u>Reinsurance Recoverables</u>	
It is recommended that the Company carefully monitor its reinsurance collectibles and write-off all recoverables that are of dubious value.	11
C. <u>Funds Held by or Deposited with Reinsurance Companies</u>	
i. It is recommended that the Company properly classify the funds held in its name as invested assets and report them as a restricted asset on Schedule E of the annual statement.	18
<p>The Company subsequently complied with this recommendation in its 2007 annual statement.</p>	
ii. It is recommended that the Company reflect all of the unrecorded investment income from previous years as an adjustment to surplus. The Company subsequently complied with this recommendation.	18
iii. It is further recommended that in the future the Company reflect all of the investment income earned on these funds through its income statement.	18

ITEMPAGE NO.

The Company subsequently complied with this recommendation in its 2007 annual statement.

D. Adjusting and Other Unpaid Expenses

Given the run-off status of the Company, it is recommended that the Company closely monitor its adjusting and other unpaid expense reserve, referred to in the text as the unallocated loss adjustment expense reserve, and make modifications, where appropriate. 20

E. Provision For Reinsurance

- i. It is recommended that the Company exercise greater care and ensure that all collateral offsets reducing the provision for reinsurance are accurate and appropriate. 20

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.

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 OF AMERICA

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