

REPORT ON EXAMINATION

OF THE

GLOBAL REINSURANCE CORPORATION OF AMERICA

AS OF

DECEMBER 31, 2014

DATE OF REPORT

APRIL 6, 2016

EXAMINER

SELREY N. DAVID

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NEW YORK STATE
DEPARTMENT *of*
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Maria T. Vullo
Superintendent

April 6, 2016

Honorable Maria T. Vullo
Superintendent
New York State Department of Financial Services
Albany, New York 12257

Madam:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 31375 dated August 17, 2015, attached hereto, I have made an examination into the condition and affairs of GLOBAL Reinsurance Corporation of America as of December 31, 2014, 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 State Department of Financial Services.

The examination was conducted at the Company’s home office located at 125 Broad Street, New York, NY 10004.

1. SCOPE OF EXAMINATION

The Department has performed an individual examination of the Company, a multi-state insurer. The previous examination was conducted as of December 31, 2010. This examination covered the four year period from January 1, 2011 through December 31, 2014. 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 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
- Territory and plan of operation
- 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 that involve departures from laws, regulations, rules or that are deemed to require explanation or description.

2. DESCRIPTION OF COMPANY

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

Effective October 27, 1998, the Company's ultimate parent was acquired by Gerling Global U.S. Investments, Inc., a Delaware investment holding company, which was ultimately controlled by Gerling-Konzern Rueckversicherungs Aktiengesellschaft ("GKG"), of Cologne, Germany. Effective May 1, 1999, the Company changed its name to Gerling Global Reinsurance Company of America. Effective August 5, 2002, GKG announced its voluntary withdrawal from the United States property/casualty reinsurance market. As a result, the Company stopped writing any new business. On November 9, 2005, the Company adopted its current name GLOBAL Reinsurance Corporation of America. Effective December 28, 2007, the Company was acquired by GLOBALE Management, GmbH ("GMG") and its parent company GLOBALE Beteiligungs.

Effective January 1, 2008, the Company entered into an assumption agreement whereby all direct policy obligations of Constitution Insurance Company (CIC), its wholly-owned subsidiary, were transferred to the Company. On May 6, 2009, the Company sold CIC as a "shell" company to an unaffiliated third party.

Effective July 12, 2012, the Department approved the domestication of the United States Branch of Global Reinsurance Corporation ("the Branch"), an affiliate of the Company. The Branch was originally licensed in the State of New York on January 29, 1963 as the United States Branch of Gerling-Konzern Ruckversicherungs Aktiengesellschaft (now known as Globale Germany). Globale Germany, as was the Company, was ultimately owned by GLOBALE Beteiligungs. The Branch had been in run-off

since 1997. Under the domestication of the Branch, its surplus was returned to its parent and the assets and liabilities were transferred into the Company with no net surplus contribution.

Effective May 17, 2013, the Department approved a request to return \$100 million of capital to the Company's parent, Global U.S. Holding, Inc. ("GUSHI"), through the redemption of 29,965 shares of Company stock.

Effective June 12, 2014, the Department approved the acquisition of the Company and its parent, GUSHI, by AXA DBIO S.C.A., an insurance holding company located in Luxembourg.

Effective July 1, 2014, the Department approved the Company's restating of its negative earned surplus of (\$168,116,349) to \$0 by reducing its gross paid-in capital and surplus in accordance with SSAP No. 72. Effective September 30, 2014, the Department approved a request to return \$60 million of capital to the Company's parent, GUSHI, through the redemption of 3,676 shares of stock.

As of the examination date, capital paid in was \$27,895,383 consisting of 8,359 shares of \$3,337.17 par value per share common stock. Gross paid in and contributed surplus was \$121,290,878. Gross paid in and contributed surplus decreased by \$338,878,990 and capital paid in increased by \$23,695,383 during the examination period, as follows:

Gross Paid In and Contributed Surplus and Common Stock

<u>Year</u>	<u>Description</u>	<u>Amount</u>
2011	Beginning balance	\$ 464,369,868
*1 2012	Surplus contribution	12,932,742
*2 2013	Return of capital to parent	(100,000,000)
*2 2014	Return of capital to parent	(60,000,000)
*3 2014	Surplus adjustment from reorganization	<u>(168,116,349)</u>
2014	Ending gross paid in and contributed surplus	<u>\$ 149,186,261</u>

*1. The 2012 surplus contribution of \$12,932,742 was not an actual cash contribution, but rather an accounting entry for the surplus associated with certain liabilities transferred with the merger of the United States Branch of Global Reinsurance Corporation. These liabilities included the provision for reinsurance, unrealized losses, and non-admitted assets.

*2. In 2013 and 2014, there was a reorganization of the Company's capital resulting in a \$160,000,000 return of capital to the Company's parent.

*3. In 2014, the Department approved the re-statement of the Company's negative unassigned surplus of (\$168,116,349) to \$0 by reducing its gross paid-in and contributed surplus in accordance with SSAP No. 72 under a quasi-reorganization.

Subsequent to this examination, effective May 5, 2015, the Department approved a request to return \$36 million of capital to the Company's parent, GUSHI, through the redemption of 2,250 shares of stock.

A. Management

Pursuant to the Company's charter, management of the Company is vested in a board of directors consisting of not less than seven nor more than thirteen members. The board meets three times during each calendar year. As of December 31, 2014, the board of directors was comprised of the following eight members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Burton I. Henry North Caldwell, NJ	Chief Financial Officer and Treasurer, GLOBAL Reinsurance Corporation of America
Barry R. Keogh Hillsdale, NJ	SVP Global Operations, GLOBAL Reinsurance Corporation of America
Cedric de Linares Paris, France	Chief Executive Officer, AXA Liabilities Managers SAS
Roderick E. Perry Paramus, NJ	SVP Claims and Global Audit, GLOBAL Reinsurance Corporation of America
Vincent S. Potts Long Valley, NJ	SVP Commutations, GLOBAL Reinsurance Corporation of America
Thomas J. Taylor Surrey, United Kingdom	President and Chief Executive Officer, GLOBAL Reinsurance Corporation of America
Volker D. Weisbrodt Cologne, Germany	Chairman of the Board, GLOBAL Reinsurance Corporation of America
Susan B. Wilcher New York, NY	General Counsel, GLOBAL Reinsurance Corporation of America

As of December 31, 2014, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Thomas J. Taylor	President & Chief Executive Officer
Susan B. Wilcher	Secretary & General Counsel
Burton I. Henry	Chief Financial Officer

B. Territory and Plan of Operation

As of December 31, 2014, the Company was licensed to write business in 33 states and the District of Columbia, the Company is also qualified to write business in 16 states.

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
10	Elevator
11	Animal
12	Collision
13	Personal injury liability
14	Property damage liability
15	Workers' compensation and employers' liability
16	Fidelity and surety
17	Credit
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine
21	Marine protection and indemnity
22	Residual value
24	Credit unemployment
26	Gap
27	Prize indemnification
28	Service contract reimbursement
29	Legal services

Based on the lines of business for which the Company is licensed, the 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 2002, the Company went into voluntary run-off. There was no new business written during the examination period.

C. Reinsurance

Assumed Reinsurance

The Company voluntarily ceased writing business in 2002. Prior to that time, the Company operated as a property and casualty reinsurer, specializing in providing pro-rata treaties for regional and specialty insurance companies, with an emphasis on non-standard automobile, multi-peril, and general liability lines. Assumed premiums reported by the Company at year end 2014 represent premium adjustments related to its retroactively rated contracts that are part of its legacy business. The Company utilizes reinsurance accounting as defined in Statement of Statutory Accounting Principle ("SSAP") No. 62 for all of its assumed reinsurance business.

The Company is actively pursuing commutations of its outstanding assumed liabilities. During the examination period, commutations of assumed and ceded reinsurance treaties resulted in a net gain to the Company's surplus of \$30,678,961.

Ceded Reinsurance

In early 2002, the Company discontinued writing new business. Consequently, its ceded reinsurance program then in place was not renewed and was terminated on a run-off basis.

The examination review found that the Schedule F data reported by the Company in its filed annual statement accurately reflected its reinsurance transactions. Representations were supported by an attestation from the Company's Chief Executive Officer and Chief Financial Officer pursuant to the NAIC Annual Statement Instructions.

The examination noted that the Company has been slowly collecting the reinsurance recoverable balances, 38% of which was over 120 days past due as of December 31, 2014. It appears that some of

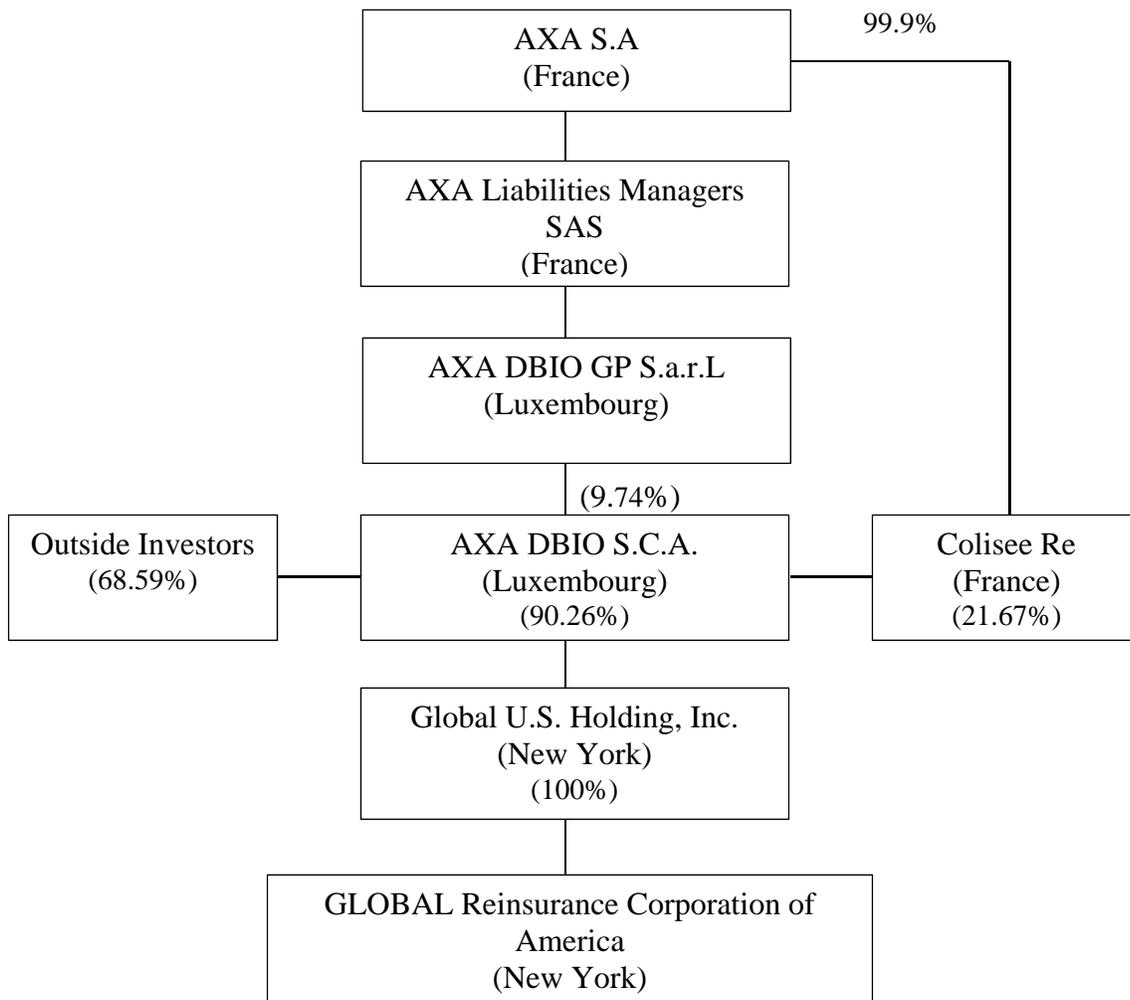
these recoverables have presented collection issues. Although the Company has established a provision for reinsurance for the total reinsurance recoverable reported in the annual statement, such provision may not fully reflect the amount of recoverable that would ultimately prove to be uncollectible.

D. Holding Company System

The Company is a wholly-owned subsidiary of GUSHI, which is a wholly-owned subsidiary of AXA DBIO S.C.A., domiciled in Luxembourg, which is ultimately controlled by AXA S.A., domiciled in France.

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, 2014:



As of December 31, 2014, the Company was party to the following agreements with other members of its holding company system:

1. Investment Management Agreement

Effective April 4, 2014, the Company entered into an Investment Management Agreement with its affiliate, AXA Investment Managers, Inc. (“AXA IM”). Pursuant to the agreement, AXA IM shall manage all assets held in the custodian account in accordance with the custody agreement and such written investment guidelines that are agreed to from time to time by the Company and AXA IM. This agreement was filed with the Department pursuant to Section 1505 of the New York Insurance Law.

2. Tax Allocation Agreement

Effective March 3, 2014, the Company entered into a Tax Allocation Agreement with its parent company, GUSHI. Pursuant to the agreement, the Company and GUSHI elect to allocate the federal income tax liability of the group in the manner provided by the Treasury Department. Also, each party shall compute a separate return tax liability for each taxable year. Tax payments of the Company shall be paid directly to GUSHI. This agreement was filed with the Department pursuant to Section 1505 of the New York Insurance Law.

3. Administration and Services Agreement

Effective January 1, 2015, the Company entered into an Administration and Services Agreement with its affiliate, AXA Liabilities Managers, Inc. (“AXA LM”). Pursuant to the agreement, AXA LM shall provide or arrange for the provision of administrative and other services requested by the Company in connection with its business. This agreement was filed with the Department pursuant to Section 1505 of the New York Insurance Law.

The Company’s employees became employees of AXA LM, and the Company engaged AXA LM to render administration, management, claims and other services relating to the conduct of its business, on January 1, 2015, subsequent to this examination.

3. FINANCIAL STATEMENTS

A Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2014 as reported by the Company:

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$295,793,084	\$ 0	\$295,793,084
Cash, cash equivalents and short-term investments	39,710,209	0	39,710,209
Other invested assets	2,203,666	0	2,203,666
Receivables for securities	722	0	722
Investment income due and accrued	3,368,514	0	3,368,514
Uncollected premiums and agents' balances in the course of collection	370,301	64,456	305,845
Deferred premiums, agents' balances and installments booked but deferred and not yet due	473,819	0	473,819
Accrued retrospective premiums	495,973	0	495,973
Amounts recoverable from reinsurers	1,952,248		1,952,248
Funds held by or deposited with reinsured companies	1,238,727	0	1,238,727
Current federal and foreign income tax recoverable and interest thereon	130,857	0	130,857
Furniture and equipment, including health care delivery assets	15,045	15,045	0
Receivables from parent, subsidiaries and affiliates	76,975	0	76,975
Other assets	1,146,103	1,146,103	0
Accounts receivable miscellaneous	<u>140,754</u>	<u>0</u>	<u>140,754</u>
Total Assets	<u>\$347,116,997</u>	<u>\$1,225,604</u>	<u>\$345,891,393</u>

Liabilities, Surplus and Other FundsLiabilities

Losses and loss adjustment expenses	\$193,526,782
Reinsurance payable on paid losses and loss adjustment expenses	1,539,495
Commissions payable, contingent commissions and other similar charges	115,649
Other expenses (excluding taxes, licenses and fees)	10,899,661
Taxes, licenses and fees (excluding federal and foreign income taxes)	43,125
Ceded reinsurance premiums payable (net of ceding commissions)	19,868
Funds held by company under reinsurance treaties	208,797
Amounts withheld or retained by company for account of others	14,559
Provision for reinsurance	<u>5,820,287</u>
Total liabilities	\$212,188,223

Surplus and Other Funds

Common capital stock	\$ 27,895,383
Gross paid in and contributed surplus	121,290,878
Unassigned funds (surplus)	<u>(15,483,091)</u>
Surplus as regards policyholders	<u>133,703,170</u>
Total liabilities, surplus and other funds	<u>\$345,891,393</u>

Note: The Internal Revenue Service has completed its audits of the Company's consolidated Federal Income Tax returns through tax year 2012 with no adjustments. The Internal Revenue Service has not yet begun to audit tax returns covering tax years 2013 and 2014. 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. Statement of Income

The net income for the examination period was \$108,450,293 as detailed as follows:

Underwriting Income

Premiums earned		\$ 507,420
Deductions:		
Losses and loss adjustment expenses incurred	\$(52,561,239)	
Other underwriting expenses incurred	<u>51,810,294</u>	
Total underwriting deductions		<u>(750,945)</u>
Net underwriting gain		\$ 1,258,365

Investment Income

Net investment income earned	\$61,653,527	
Net realized capital gain	<u>47,984,653</u>	
Net investment gain		109,638,180

Other Income

Net gain or (loss) from agents' or premium balances charged off	\$ (596,264)	
Miscellaneous income (loss)	<u>(205,348)</u>	
Total other income (loss)		<u>(801,612)</u>
Net income before dividends to policyholders and before federal and foreign income taxes		\$110,094,933
Federal and foreign income taxes incurred		<u>1,644,640</u>
Net Income		<u>\$108,450,293</u>

C. Capital and Surplus Account

Surplus as regards policyholders decreased \$28,617,593 during the four-year examination period January 1, 2011 through December 31, 2014, detailed as follows:

Surplus as regards policyholders per report on examination as of December 31, 2010			\$162,320,763
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income	\$108,450,293		
Net unrealized capital gains or (losses)	2,242,935		
Change in net deferred income tax	1,207,733		
Change in nonadmitted assets	1,905,777		
Change in provision for reinsurance	4,642,928		
Capital changes paid in	23,695,383		
Surplus adjustments paid in		338,878,991	
Surplus adjustments transferred from capital	<u>168,116,349</u>	<u>0</u>	
Total gains and losses	\$310,261,398	\$338,878,991	
Net increase (decrease) in surplus			<u>(28,617,593)</u>
Surplus as regards policyholders per report on examination as of December 31, 2014			<u>\$133,703,170</u>

4. **LOSSES AND LOSS ADJUSTMENT EXPENSES**

The examination liability for the captioned items of \$193,526,782 is the same as reported by the Company as of December 31, 2014. The examination analysis of the Loss and loss adjustment expense reserves was conducted in accordance with generally accepted actuarial principles and statutory accounting principles, including the NAIC Accounting Practices & Procedures Manual, Statement of Statutory Accounting Principle No. 55 (“SSAP No. 55”).

5. **COMPLIANCE WITH PRIOR REPORT ON EXAMINATION**

The prior report on examination contained one recommendation as follows (page numbers refer to the prior report):

<u>ITEM</u>	<u>PAGE NO.</u>
<p>A <u>Reinsurance Recoverables</u></p> <p>It was recommended that the Company continue to carefully monitor its reinsurance collectibles and write-off all recoverables that are of doubtful value. This recommendation is based on the materiality of the risk involved in this area rather than on any past failure of the management to properly reflect its reinsurance recoverables.</p> <p>The Company continues to carefully monitor its reinsurance collectibles and write-off all recoverables of doubtful value.</p>	<p>8</p>

6. **SUMMARY OF COMMENTS AND RECOMMENDATIONS**

There are no comments or recommendations resulting from this examination.

APPOINTMENT NO. 31375

NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

I, **ANTHONY ALBANESE**, Acting Superintendent of Financial Services of the State of New York, pursuant to the provisions of the Financial Services Law and the Insurance Law, do hereby appoint:

S'elrey David

as a proper person to examine the affairs of the

Global Reinsurance Corporation of America

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

COMPANY

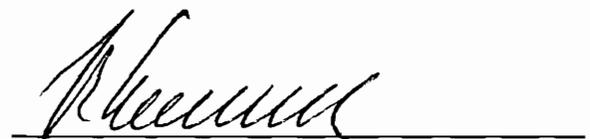
with such other information as he shall deem requisite.

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

this 17th day of August, 2015

ANTHONY ALBANESE
Acting Superintendent of Financial Services

By:



Rolf Kaumann
Deputy Chief Examiner

