

REPORT ON EXAMINATION

OF THE

SWISS REINSURANCE AMERICA CORPORATION

AS OF

DECEMBER 31, 2006

DATE OF REPORT

SEPTEMBER 4, 2008

EXAMINER

GLEND A GALLARDO

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

September 4, 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 22637 dated May 1, 2007 and attached hereto, I have made an examination into the condition and affairs of Swiss Reinsurance America Corporation as of December 31, 2006, and submit the following report thereon.

Wherever the designations "the Company" or "SRA" appears herein without qualification, it should be understood to indicate Swiss Reinsurance America Corporation.

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 home office located at 175 King Street, Armonk, New York 10504.

1. SCOPE OF EXAMINATION

The Department has performed an examination of Swiss Reinsurance America Corporation. The previous examination was conducted as of December 31, 2000. This examination covered the six-year period from January 1, 2001 through December 31, 2006. 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”). The Handbook 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. An 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 NAIC Accounting Practices and Procedures Manual Statements Statutory Accounting Principles (“SSAP”) and annual statement instructions when applicable to domestic state regulations.

All 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 assessment and evaluation based upon the Company’s Sarbanes-Oxley documentation and testing. 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 Financial Condition Examiners Handbook of the 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 Swiss Reinsurance Group began with the organization of the Swiss Reinsurance Company in Switzerland in 1863, which entered the United States in 1910 to transact reinsurance business as the United States Branch of the Swiss Reinsurance Company of Zurich, Switzerland. On July 26, 1940, the Company's predecessor, North America Reinsurance Corporation ("NARe"), was incorporated in the state of New York. It was licensed and commenced business in September of the same year. NARe was a wholly-owned subsidiary of the United States Branch of the European General Reinsurance Company, Ltd., which was absorbed in May 1951 by Swiss Reinsurance Company of Zurich, Switzerland. In 1973, Swiss Re Holding (North America) Inc. was organized to hold stock of the operating companies of the Swiss Reinsurance Group in the United States.

In May 1995, North American Reinsurance Corporation's name was changed to Swiss Reinsurance America Corporation. Simultaneously, its immediate parent also changed its name from Swiss Re Holding (North America) Inc. to Swiss Re America Corporation. This name was later changed to Swiss Re America Holding Corporation ("SRAHC").

Based on a board of directors' resolution, the United States Branch of the Swiss Reinsurance Company of Zurich, Switzerland was domesticated under the laws of New York State and all its assets were absorbed and its liabilities assumed by Swiss Reinsurance America Corporation, effective June 1, 1995. The domestication and the transfer and assumption agreements were approved by the Department.

In June 2006, Swiss Reinsurance Company ("Swiss Re Zurich") and Swiss Re Funding ("SRF") acquired GE Insurance Solutions, ("GEIS"), now known as Swiss Re Solutions Holding

Corporation (“SRSHC”). Swiss Re Zurich transferred its 61% of the common stock of SRSHC to SRAHC; SRF retained the remaining 39% of SRSHC. SRF subsequently merged with SRAHC, with SRAHC being the surviving entity.

On December 29, 2006, SRAHC transferred all of the outstanding shares of the Company to SRSHC.

Effective January 1, 2007, GE Reinsurance Corporation (“GE Re”), an affiliated Illinois-domiciled reinsurer, was merged with and into the Company, with the Company being the surviving entity.

At December 31, 2006, paid in capital was \$6,002,850, consisting of 40,019 shares of \$150 par value per share common stock issued and outstanding; the Company has 60,019 shares authorized. In 2006, pursuant to Department approval, the Company retired and cancelled 19,981 shares of common stock held as treasury shares, which reduced the number of authorized shares from 80,000 to 60,019, and increased the par value per share from \$100 to \$150. Gross paid in and contributed surplus was \$2,376,487,630 at December 31, 2006. Gross paid in and contributed surplus increased by \$903,129,756 during the examination period, as follows:

<u>Year</u>	<u>Description</u>		<u>Amount</u>
1/1/2001	Beginning gross paid in and contributed surplus		\$1,473,357,873
2002	Surplus contribution	\$ 943,150,939	
2003	Surplus contribution	250,000,000	
2004	Surplus contribution	310,000,000	
2006	Surplus adjustment (Treasury stock retirement)	(600,021,183)	
	Total surplus contributions & adjustments		<u>903,129,756</u>
12/31/2006	Ending gross paid in and contributed surplus		<u>\$2,376,487,630</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 twenty-one members. The board met four times during each calendar year during the period covered by this examination. At December 31, 2006, the board of directors was comprised of the following twelve members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Jacques A. Aigrain Kuesnacht, Switzerland	Chief Executive Officer, Swiss Reinsurance Company
David H. Atkins Toronto, Ontario, Canada	Senior Advisor, Lang Michener
Hans A. Beerli Lieli, Switzerland	Chief Operating Officer, Swiss Reinsurance Company
Jacques E. Dubois, Jr. Greenwich, CT	President and Chief Executive Officer, Swiss Re America Holding Corporation
Roger W. Ferguson, Jr. Washington, D.C.	Chairman, Swiss Re America Holding Corporation
Ann F. Godbehere Ruschlikon, Switzerland	Chief Financial Officer, Swiss Reinsurance Company
Philip A. Lotz New Canaan, CT	President and Chief Executive Officer, Swiss Re Financial Products Corporation
Patrick Mailloux Greenwich, CT	President and Chief Operating Officer, Swiss Reinsurance America Corporation
Pierre L. Ozendo Greenwich, CT	Chairman and Chief Executive Officer, Swiss Reinsurance America Corporation
Cosette R. Simon Nyack, NY	Senior Vice President, Swiss Re America Holding Corporation
John C. Sweeney New York, NY	Investment Advisor, Swiss Re Asset Management (Americas) Inc.
Wilson W. Wilson Redding, CT	Chief Executive Officer, Swiss Re Life & Health America, Inc.

It is noted that at December 31, 2006, the board of directors' composition reflected a vacancy due to the death of one of the directors who died in November 2006.

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, 2006, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Pierre Ozendo	Chairman and Chief Executive Officer
Patrick Mailloux	President and Chief Operating Officer
Ann Thompson	Secretary
Daniel Gibson	Treasurer
William Belvin	Chief Reserving Actuary
Paul Licausi	Chief Financial Officer

B. Territory and Plan of Operation

As of December 31, 2006, the Company was licensed to write business in all states, except Wyoming. The Company is also licensed to write business in the District of Columbia and Puerto Rico. 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

The Company may also write such workers' compensation insurance as may be incidental to coverages contemplated under paragraphs 20 and 21 of Section 1113(a) including insurances described in the Longshoremen's and Harbor Workers' Compensation Act (Public Law No. 803, 69th

Congress as amended), and the kinds of insurance and reinsurance as defined in Section 4102(c) of the New York Insurance Law.

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

The Company's current reinsurance business mix is approximately 45% casualty, 30% property, and 25% specialty. Nearly 50% of the business is written on a non-proportional basis, 40% is treaty proportional and 10% is facultative. The Company's specialty book is comprised of aviation, marine, engineering and surety classes. The Company also writes non-traditional reinsurance through Swiss Reinsurance Underwriting Agency (SRUA) and Swiss Re's Financial Services Business Group. The risks assumed by the Company are not concentrated in any geographic area. The majority of business is obtained directly but a growing proportion is coming from reinsurance intermediaries and brokers.

C. Reinsurance

Assumed

The Company does not have any direct business but instead operates as a professional reinsurer. Therefore, all of the Company's business is assumed reinsurance.

Ceded

The Company's reinsurance program has been structured to limit the Company's maximum exposure on any one risk. Reinsurance protection is primarily provided by its ultimate parent company Swiss Re Zurich. As of December 31, 2006, the Company had the following reinsurance contracts in effect with Swiss Re Zurich:

(1) Multiple Line Non-Obligatory Quota Share Agreement

Under the terms of this agreement, the Company has the option to cede to Swiss Re Zurich a variable cession rate of not less than 10% of the ultimate net liability for all policies as respects all lines of business assumed by the Company in force as of January 1, 2006, and all new and renewal policies becoming effective on or after the such date as respects losses occurring during the contract year, running from January 1, 2006 through

December 31, 2006. The cession percentage is documented in an executed cession letter agreed to by both parties. During the examination period the percentage of business ceded was 50%.

(2) Catastrophe Excess of Loss Agreement

With respect to the first property catastrophe excess of loss, the Company retains the first \$75,000,000 of ultimate net loss in respect of each and every loss occurrence resulting from all natural perils covered and subject to two reinstatements; Swiss Re Zurich's liability can not exceed \$900,000,000 (i.e., 90% of \$1,000,000,000) with respect to any one loss occurrence. With respect to the second property catastrophe excess of loss, the contract attaches at \$1,075,000,000 of ultimate loss in respect of each and every loss occurrence resulting from all natural perils covered and subject to two free reinstatements; under the contract Swiss Re Zurich's liability can not exceed \$1,012,500,000 (i.e., 90% of \$1,125,000,000) with respect to any one loss occurrence.

(3) Stop Loss Reinsurance Agreement

In addition to the coverage previously described above, the Company limits its aggregate exposure pursuant to the provisions of a stop loss reinsurance agreement with Swiss Re Zurich. This contract provides coverage for all agreements under which the Company assumes reinsurance. Covered losses under this agreement represent the product of the Company's loss ratio in excess of 70.5% and the subject net earned premium. Coverage is subject to an aggregate limit, which shall be the greater of 40% of the subject net earned premium or \$600,000,000.

(4) Adverse Development Cover

Effective January 1, 2005, the Company entered into a reinsurance agreement (adverse development cover) with Swiss Re Zurich, which covers loss development on reserves outstanding, excluding the impact of non-tabular discount, as of December 31, 2004. The agreement originally had a limit of \$1 billion, with a sub-limit of \$250 million for asbestos and environmental losses. The premium for this coverage is \$200 million, with no adjustment provisions. This agreement was amended in 2006 to increase the limit to \$1.5 billion and remove the asbestos and environmental sub-limit. The premium for this additional coverage was \$150 million. Effective July 1, 2007, the Company submitted to the Department for review and approval an amendment to this agreement whereby the aggregate limit of the coverage was increased by \$1 billion; from \$1.5 billion to \$2.5 billion. The increase resulted in the Company paying an additional premium of \$285 million. When the Department approved this agreement in 2005, it was determined the contract to be retroactive and as such to be accounted pursuant to the requirements of paragraph 28 of SSAP 62.

All above described reinsurance agreements with Swiss Re Zurich were reviewed for compliance with Article 15 of the New York Insurance Law. It was noted that all affiliated reinsurance agreements were filed with the Department pursuant to the provisions of Section 1505(d)(2) of the New York Insurance Law.

Besides the reinsurance program in place with Swiss Re Zurich, the Company also has specific retro-cessions with other affiliated and non-affiliated reinsurers either on an excess of loss, facultative, or quota share basis.

The Company has certain reinsurance contracts, which do not transfer sufficient timing and/or underwriting risk these are accounted for using the deposit method of accounting.

It is the Company's policy to obtain the appropriate collateral for its cessions to unauthorized reinsurers. Letters of credit and trust accounts 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 Company also reduces its provision for reinsurance 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.

It is noted that the Company's cessions during 2006 exceeded 50% of its unearned premiums. Pursuant to Section 1308(e)(1) of the New York Insurance Law, no domestic insurer may cede more than 50% of its unearned premiums without the superintendent's permission. The cessions were all with Swiss Re Zurich and the agreements underlying the cessions were submitted to and approved by the Department pursuant to the provisions of Section 1308(e)(1) of the New York Insurance Law.

All ceded reinsurance agreements in effect as of the examination date were reviewed and found to contain the required 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 SSAP No. 62. Representations were supported by appropriate risk transfer analyses and an attestation from the Company's chief executive officer. 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 paragraphs 42-46 of SSAP No. 62.

D. Holding Company System

The Company is a member of the Swiss Reinsurance Group. The Company is a wholly-owned subsidiary of Swiss Re Solutions Holding Corporation, a Delaware corporation, which is ultimately controlled by Swiss Reinsurance Company, based in Zurich, Switzerland.

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 exhibiting only the Swiss Re Property and Casualty Group:

At December 31, 2006, the Company actively participated in the following agreements with other members of its holding company system:

Tax Allocation Agreement

Swiss Re America Holding Corporation (“SRAHC”) entered into a tax allocation agreement with fifty-one members of its holding company group to jointly file consolidated federal income tax returns. This agreement was amended effective January 1, 2005, to include other affiliates and replaces the prior agreement. In conjunction with the tax allocation agreement, an escrow agreement was established as required by Department Circular Letter No. 33 (1979).

A review of the escrow account revealed that the Company is not in compliance with its agreement, which stipulates that separate escrow accounts are required for each participating insurance company.

The Company's filed tax allocation agreement states, in part:

“ . . . To guarantee the right of any such insurance company to recoup federal income taxes in the event of future net operating losses, Holding shall maintain, in separate escrow accounts for each such insurance company, assets eligible for investment by it equal to the excess of the amount paid by such insurance company to Holding for federal income taxes over the actual payment made by Holding to the Internal Revenue Service. Such assets may be released to Holding from each escrow account when the permissible period to utilize the loss carrybacks of such insurance company for federal income tax purposes has elapsed . . . ”

The Company maintains one escrow account for all companies. It is recommended that the Company establish individual escrow accounts for each insurance company, as required by the filed tax allocation agreement.

Service Agreement with SRAHC

The Company receives administrative and operational services from its parent company pursuant to an agreement dated December 4, 1985. It is noted that this agreement has not been amended since its inception regardless of the several significant structural and corporate changes, (i.e., name changes, mergers and acquisitions) the Company and members of its holding company system have gone through.

The terms of the agreement state that SRAHC will perform services (legal, actuarial, auditing, managerial, personnel, information systems, and administrative) on behalf of the affiliated companies; Holding will prepare invoices of amounts to be charged on a periodic basis, and upon presentation it will be due and payable. The costs incurred for services provided are to be charged using several types of allocation bases.

It was noted that the Company was not allocating its costs in accordance with the terms of the agreement. It is recommended that the Company file a revised service agreement with the Department, which properly reflects the parties to the agreement, the method of allocation of expenses and that it follows such allocation methods.

The Company reimburses SRAHC on a periodic basis for expenses that are budgeted at the beginning of the year. According to the Company, the expenses are then true-up in March, June and September. The examiner was advised that the 2006 true-up adjustment occurred during the first quarter of 2007; however, the true-up settlement for the year did not occur until September 2007. It is recommended that the Company settle its inter company balances within 90 days of billing.

Underwriting Management Agreement

On January 1, 2001, SRA entered into an underwriting management agreement with Swiss Reinsurance Underwriting Agency, Inc (“SRUA”). The agreement gives SRUA the authority to procure, negotiate for, underwrite and bind the Company on contracts of reinsurance, and to renegotiate, cancel and commute contracts of reinsurance. According to the terms of the agreement, the Company will pay for services received by reimbursing SRUA for all costs, including salaries, rent, equipment, employee benefits, and other costs incurred by SRUA in providing services, and that these expenses should be reported and settled on a quarterly basis.

When reviewing the Company settlements to SRUA, it was explained by the Company that payment for services provided by SRUA are done on a “cash-needed” basis. This payment method is not in accordance with the provision of Section 5.04 of the agreement related to the reimbursement for services and which states that:

“all expenses incurred pursuant to the agreement will be reported and settled on a quarterly basis”.

It is recommended that the Company reimburse SRUA as stated in the filed underwriting agreement.

Broker Service Agreement

The Company maintains a broker agreement with Swiss Brokers Mexico, Intermediario De Reaseguro, S.A., dated March 2004, and effective December 31, 2003. According to this agreement, SBM renders brokerage services to the Company on all non-US business in Mexico and South America. This agreement was filed with the Department and replaces the underwriting and claims advisory service agreement with Swiss Re Mexico, which is now dissolved.

Investment Advisory Agreement

The Company maintains an investment advisory agreement with Swiss Re Asset Management (“SRAM”), formerly known as Swiss Re Investors, Inc., effective January 1, 2000. Pursuant to the terms of the agreement, SRAM agreed to provide investment services for SRA and within the parameters established by SRA, assist and advise SRA in the preparation of the quarterly and annual financial statements, provide monthly reports of purchases and sales of investments and verify receipt of income among other things.

As compensation for the service, SRA will pay SRAM a fee for the services provided, computed based upon the annual rate of no more than one tenth of one percent of the market value of the fixed income bonds and no more than one quarter of one percent of the market value of the stocks and other securities. Prior to the second quarter of 2008, settlements between SRA and SRAM were made via the Swiss Re Money Market Fund, which was dissolved after June 2008.

The review of the activities related to the investment function indicates that all investment processes are performed by SRAM. The examiner observed that the services outlined in the agreement are general in nature and do not capture all the work SRAM performs on behalf of the Company.

It is recommended that the Company revise its investment management agreement with SRAM to fully and more extensively describe the scope of the services rendered by SRAM to the Company.

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2006, based upon the results of this examination:

Net premiums written to surplus as regards policyholders	139%
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	118%
Premiums in course of collection to surplus as regards policyholders	9%

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 six year period covered by this examination:

	<u>Amounts</u>	<u>Ratios</u>
Losses and loss adjustment expenses incurred	\$11,412,405,808	107.04%
Other underwriting expenses incurred	3,089,426,195	28.98
Net underwriting loss	<u>(3,840,482,462)</u>	<u>(36.02)</u>
Premiums earned	<u>\$10,661,349,541</u>	<u>100.00%</u>

F. Accounts and Records

(i) Cash call advances

The balance sheet account "Paid loss advances" contained balances related to cash call advances. This classification does not conform to annual statement instructions which state that advances from the reinsurer to the ceding company should be classified as funds held by or deposited with reinsured companies.

It is recommended that the Company comply with the Annual Statement Instructions when reporting its cash call advances.

ii Custodian agreement

The Company's custodian agreement is lacking one of the provisions recommended by the NAIC, which requires the following:

“That if the custodial agreement has been terminated or if 100% of the account assets in any one custody account have been withdrawn, the custodian shall provide written notification, within three business days of termination or withdrawal, to the insurer's domiciliary commissioner.”

It is recommended that the Company revise its custodian agreement to include the provision above cited.

G. Risk Management and Internal Controls

i Investment Function

(a) Securities Lending Transactions

The Company does not have written procedures/controls so that it could effectively monitor security lending transactions performed on their behalf by Swiss Re Asset Management. In the current environment, securities lending can be highly risky if they are not well monitored and examined. It is recommended that the Company establish and implement controls and procedures to verify that security lending transactions are being conducted according to New York requirements.

ii Disaster Recovery Plan

The Company does not have in place a current and formal disaster recovery plan. The disaster recovery plan should clearly identify the tasks to be performed, responsibilities for the tasks, and timing. The recovery strategies developed for critical business operations should drive the strategies in place for the information technology support infrastructure. This should enable the Company to re-evaluate existing technology recovery strategies to ensure that recovery time objectives are consistent with the needs of the business.

It is recommended that the Company establish a written and formal disaster recovery plan.

3. FINANCIAL STATEMENTS

A Balance Sheet

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

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$8,833,551,851	\$ 0	\$8,833,551,851
Preferred stocks	12,908,904	0	12,908,904
Common stocks	298,584,570	0	298,584,570
Cash, cash equivalents and short-term investments	86,373,544	0	86,373,544
Contract loans	0	0	0
Other invested assets	3,991,000	0	3,991,000
Receivable for securities	5,122,921	0	5,122,921
Investment income due and accrued	66,036,287	0	66,036,287
Uncollected premiums and agents' balances in the course of collection	(111,619,293)	3,723,101	(115,342,394)
Deferred premiums, agents' balances and installments booked but deferred and not yet due	788,283,562	0	788,283,562
Accrued retrospective premiums	0	0	0
Amounts recoverable from reinsurers	533,364,181	0	533,364,181
Funds held by or deposited with reinsured companies	424,608,550	0	424,608,550
Net deferred tax asset	305,094,134	222,604,655	82,489,479
Receivables from parent, subsidiaries and affiliates	10,976,440	0	10,976,440
Deposit Accounting asset	2,000,004	0	2,000,004
Other assets	200,129	150,129	50,000
Paid loss advances	<u>336,550,708</u>	<u>0</u>	<u>336,550,708</u>
Total assets	<u>\$11,596,027,492</u>	<u>\$226,477,885</u>	<u>\$11,369,549,607</u>

<u>Liabilities, Surplus and Other Funds</u>	<u>Examination</u>	<u>Company</u>	<u>Surplus Increase (Decrease)</u>
Losses and loss adjustment expenses	\$6,970,312,522	\$ 5,689,312,522	\$(1,281,000,000)
Commissions payable, contingent commissions and other similar charges	15,625,779	15,625,779	
Other expenses (excluding taxes, licenses and fees)	64,104,338	64,104,338	
Current federal and foreign income taxes	36,563,410	36,563,410	
Unearned premiums	657,254,358	657,254,358	
Ceded reinsurance premiums payable (net of ceding commissions)	744,286,498	744,286,498	
Funds held by company under reinsurance treaties	955,536,050	955,536,050	
Amounts withheld or retained by company for account of others	11,425,438	11,425,438	
Provision for reinsurance	78,771,078	78,771,078	
Payable to parent, subsidiaries and affiliates	21,875,709	21,875,709	
Payable for securities	6,525,769	6,525,769	
Reverse repurchase and dollar repurchase agreements	743,495,860	743,495,860	
Liability for deposit accounting, assumed retroactive reinsurance and other	324,385,171	324,385,171	
Recoverable on ceded retroactive reinsurance contract	<u>(1,500,000,000)</u>	<u>(994,371,770)</u>	<u>505,628,230</u>
Total liabilities	<u>\$9,130,161,980</u>	<u>\$ 8,354,790,210</u>	<u>\$ (775,371,770)</u>
 <u>Surplus and Other Funds</u>			
Special surplus funds	\$ 644,371,770	\$ 644,371,770	0
Common capital stock	\$6,002,850	\$6,002,850	\$0
Gross paid in and contributed surplus	2,376,487,630	2,376,487,630	0
Unassigned funds (surplus)	<u>(787,474,625)</u>	<u>(12,102,854)</u>	<u>(775,371,771)</u>
Surplus as regards policyholders	<u>\$2,239,387,625</u>	<u>\$ 3,014,759,396</u>	<u>\$ (775,371,771)</u>
 Total liabilities, surplus and other funds	 <u>\$11,369,549,605</u>	 <u>\$11,369,549,606</u>	

NOTE 1: The Internal Revenue Service has completed its audits of the Company's federal income tax returns through tax year 2001. All material adjustments, if any, made subsequent to the date of examination and arising from said audits, are reflected in the financial statements included in this report. Audits covering tax years 2002-2004 are currently in progress, while those covering tax years 2005 and 2006 have yet to commence. Except for any impact which might result from the examination changes contained in this report, the examiner is unaware of any potential exposure of the Company to any further tax assessment and no liability has been established herein relative to such contingency.

NOTE 2: The examination increase of the Company's loss and loss adjustment expense reserves does not consider potential tax benefits, if any, resulting from the increase in loss and loss adjustment expenses as a result of this examination.

Note 3: Effective July 1, 2007, the Company amended its adverse loss development reinsurance agreement ("ADC") with Swiss Re Zurich to increase the aggregate limit for all covered losses indemnified under this agreement to \$2.5 billion. The \$2.5 billion aggregate limit exceeds the adverse development previously reported by the Company plus the deficiency determined by this examination.

B. Underwriting and Investment Exhibit

Surplus as regards policyholders increased \$886,948,369 during the six-year examination period January 1, 2001 through December 31, 2006, detailed as follows:

Underwriting Income

Premiums earned		\$10,661,349,541
Deductions:		
Losses incurred	\$9,545,090,439	
Loss adjustment expenses incurred	1,867,315,369	
Other underwriting expenses incurred	3,036,362,418	
Aggregate write-ins for underwriting deductions	<u>53,063,777</u>	
Total underwriting deductions		<u>\$14,501,832,003</u>
Net underwriting gain or (loss)		\$(3,840,482,462)

Investment Income

Net investment income earned	\$1,692,106,826	
Net realized capital gain	<u>574,881,227</u>	
Net investment gain or (loss)		2,266,988,053

Other Income

Net deposit accounted contracts	\$ (26,212,612)	
Other	68,605,604	
Retroactive reinsurance loss	16,756,342	
Interest on funds held	(395,240,562)	
Effect of retroactive reinsurance contract and other	<u>1,131,092,377</u>	
Total net gain other income		<u>795,001,149</u>
Net income before dividends to policyholders and before federal and foreign income taxes		\$ (778,493,260)
Federal and foreign income taxes incurred		<u>31,455,512</u>
Net loss		\$ <u>(809,948,772)</u>

C. Capital and Surplus Accounts

Surplus as regards policyholders per report on examination as of December 31, 2000			\$1,352,439,256
	<u>Gains in</u>	<u>Losses in</u>	
	<u>Surplus</u>	<u>Surplus</u>	
Net loss		\$809,948,772	
Net unrealized capital gains or (losses)		79,459,758	
Change in net unrealized foreign exchange capital gain (loss)	\$ 1,427,943		
Change in net deferred income tax	195,741,068		
Change in nonadmitted assets		49,835,968	
Change in provision for reinsurance		32,252,500	
Cumulative effect of changes in accounting principles	153,500,899		
Capital changes paid in	\$2,850		
Surplus adjustments paid in	903,129,756		
Change in treasury stock	600,018,333		
Aggregate write-ins for gains and losses in surplus	<u>4,624,518</u>		
Total gains and losses	<u>\$1,858,445,367</u>	<u>\$971,496,998</u>	
Net increase (decrease) in surplus			<u>886,948,369</u>
Surplus as regards policyholders per report on examination as of December 31, 2006			<u>\$2,239,387,625</u>

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of \$6,970,312,522 is \$1,281,000,000 more than the \$5,689,312,522 reported by the Company in its December 31, 2006, filed annual statement. The examination analysis of the loss and loss adjustment expense reserves was conducted in accordance with generally accepted actuarial principles and was based on statistical information contained in the Company's internal records and in its filed annual statements.

It is noted that the Department considers this increase in the Company's carried reserves as of December 31, 2006 to be materially deficient. It is noted that prior report on examination as of December 31, 2000 also found the Company's reported reserves to be deficient as of that date. Further, the Company has consistently reported material adverse development of its reported loss and loss adjustment expense reserves in its financial statements since 2003. It is also noted that the Company recognized a deficiency of \$789 million for accident year 2006 and prior reserves in its quarterly statement as of June 30, 2008.

Section 1303 of the New York Insurance Law states:

“Every insurer shall...maintain reserves in an amount estimated in the aggregate to provide for the payment of all losses or claims incurred on or prior to the date of statement, whether reported or unreported, which are unpaid as of such date and for which such insurer may be liable, and also reserves in an amount estimated to provide for the expenses of adjustment or settlement of such losses or claims.”

Further, Paragraph 8 of SSAP No. 55 states:

“The liability for claim reserves and claim liabilities, unpaid losses, and loss/claim adjustment expenses shall be based upon the estimated ultimate cost of settling the claims (including the effects of inflation and other societal and economic factors), using past experience adjusted for current trends, and any other factors that would modify past experience.”

It is recommended that the Company address these ongoing reserving inadequacies and increase their carried reserves to an appropriate level, pursuant to the provisions of Section 1303 of the New York Insurance Law and Paragraph 8 of SSAP No. 55.

It is noted that effective July 1, 2007, the Company amended its adverse loss development reinsurance agreement (“ADC”) with Swiss Re Zurich to increase the aggregate limit for all covered losses indemnified under this agreement to \$2.5 billion. The \$2.5 billion aggregate limit exceeds the adverse development previously reported by the Company plus the deficiency determined by this examination.

5. SUBSEQUENT EVENTS

As previously stated in this report, effective January 1, 2007, GE Re, an affiliated Illinois-domiciled reinsurer, merged with and into the Company. This transaction received the prior approvals of the Insurance Departments of California, Illinois, and New York. The net admitted assets, total liabilities, and surplus of GE Re as of December 31, 2006 were \$3.175 million, \$2.328 million and \$847 million, respectively. As a result of the merger, the Company is responsible for the claims liabilities of the former GE Re. These liabilities are not afforded protection under the Company’s adverse loss development reinsurance agreement with Swiss Re Zurich.

6 COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination contained twenty-six recommendations as follows (page numbers refer to the prior report):

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Management</u>	
i. It is recommended that the Company keep minutes of all committees formed by the board of directors.	5
The Company complied with this recommendation.	
ii. It is recommended that an officer of SRA be a member of the investment committee to represent SRA's interests in the management of its investment portfolio.	6
The Company complied with this recommendation.	
B. <u>Reinsurance</u>	
i. It is recommended that the Company obtain executed copies of each agreement by nine months from the effective date of the contract.	8
The Company complied with this recommendation.	
ii. It is also recommended that the Company update its computer system to reflect the current contract status.	8
The Company complied with this recommendation.	
iii. It is recommended that the Company maintain better control of their reinsurance agreements.	8
The Company complied with this recommendation.	
iv. It is also recommended that all ceded reinsurance agreements comply with Section 1308 of the New York Insurance Law and contain the required clauses.	8
The Company complied with this recommendation.	
v. It is recommended that the Company comply with Chapter 22 of the NAIC Accounting Practices and Procedures Manual and classify all reinsurance contracts not signed within nine months as retroactive contracts.	8
The Company complied with this recommendation.	

<u>ITEM</u>	<u>PAGE NO.</u>
vi. It is also recommended that the Company make a greater effort to timely formalize its ceded contracts.	8
The Company complied with this recommendation.	
vii. It is recommended that the Company fully comply with the Department Regulation 20 provisions including the documentation of that compliance when taking the offset credit.	8 – 9
The Company complied with this recommendation.	
viii. A review of the correspondence between the Company and the Department indicated that although reinsurance agreements between the Company and its affiliates were submitted to the Department for review, such submissions were not always on a timely basis. It is recommended that the Company comply with the time frames set forth in Section 1505 of the New York Insurance Law.	10
The Company complied with this recommendation.	
C. <u>Holding Company System</u>	
i. It is recommended that the Company have a service agreement in place with all affiliates that it transacts business with in order to disclose the nature of the intercompany transactions and to support the reasonableness of the charges between the parties.	11
The Company complied with this recommendation.	
ii. It is therefore recommended that the Company comply with Section 1505(b) of the New York Insurance Law and keep supporting documentation for transactions between affiliates.	11
iii. It is recommended that all exhibits to the tax allocation agreement be signed.	11
The Company complied with this recommendation.	
iv. It is recommended that the Company comply with its tax allocation agreement and maintain separate escrow accounts for each company participating in the agreement.	11 – 12
The Company has not complied with this recommendation. A similar recommendation is included in this report.	

<u>ITEM</u>	<u>PAGE NO.</u>
v. It is recommended that the investment guidelines be updated to reflect the New York State Derivative Use Plan requirements that purchases not exceed 3% of admitted assets.	12
The Company complied with this recommendation.	
D. <u>Abandoned Property Law</u>	
It is recommended that the Company retain copies of all abandoned property filings until the examination report for those years has been filed.	14
The Company complied with this recommendation.	
E. <u>Accounts and Records</u>	
i. It is recommended that all securities not held by the Company in its' vault be held by a bank or trust company under a custodial agreement.	14
The Company complied with this recommendation.	
ii. It is recommended that the Company prepare and review bank reconciliations in a timely manner.	14
The Company complied with this recommendation.	
iii. It is recommended that the Company maintain executed copies of all trust agreements and retain them as long as they are in force.	15
The Company complied with this recommendation.	
iv. It is recommended that the Company revise its custodial agreements to include the provisions and guidelines required by the Department.	15
The recommended changes were made.	
v. It is recommended that the Company obtain support quarterly for premium and loss balances from cedents in runoff and liquidation.	15
The Company complied with this recommendation.	
F. <u>Other Invested Assets</u>	
i. It is recommended that loans be classified as other invested assets and not as contingent commissions in future annual statement filings.	21
The Company complied with this recommendation.	

<u>ITEM</u>	<u>PAGE NO.</u>
ii. It is recommended that the Company comply with Section 1411(a) of the New York Insurance Law and have all loan amounts authorized or approved by its board of directors.	21
The Company complied with this recommendation.	
G. <u>Interest</u>	
It is recommended that interest due and accrued on loans be classified as such and not as contingent commissions in future annual statement filings.	22
H. <u>Contingent Commissions</u>	
It is recommended that the Company only classify as contingent commissions those amounts which actually represent such and are called for in the reinsurance agreement.	22
The Company complied with this recommendation.	
I. <u>Losses</u>	
Should management wish to explain any anomalies in its loss data to users of its annual statements, it is recommended that the reasons for such anomalies be set forth in the Company's Notes to Financial Statements or the Schedule P interrogatories of its annual statement.	24
The Company complied with this recommendation.	

7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Holding Company</u>	
i It is recommended that the Company establish individual escrow accounts for each insurance company, as required by the filed tax allocation agreement.	12
ii It is recommended that the Company file a revised service agreement with the Department, which properly reflects the parties to the agreement, the method of allocation of expenses and that it follows such allocation methods.	13
iii It is recommended that the Company settle its inter company balances within 90 days of billing.	13
iv It is recommended that the Company reimburse SRUA as stated in the filed underwriting agreement.	13

<u>ITEM</u>	<u>PAGE NO.</u>	
v	It is recommended that the Company revise its investment management agreement with SRAM to fully and more extensively describe the scope of the services rendered by SRAM to the Company.	14
B.	<u>Accounts and Records</u>	
i	<u>Cash Call Classification</u>	
	It is recommended that the Company comply with the Annual Statement Instructions when reporting its cash call advances.	15
ii	<u>Custodian Agreement</u>	
	It is recommended that the Company revise its custodian agreement to include the provision above cited.	16
C.	<u>Risk Management and Internal Controls</u>	
i	<u>Security Lending Procedures</u>	
	It is recommended that the Company establish and implement controls and procedures to verify that security lending transactions are being conducted according to New York requirements.	16
ii	<u>Disaster Recovery Plan</u>	
	It is recommended that the Company establish a written and formal disaster recovery plan.	16
D.	<u>Loss and Loss Adjustment Expenses</u>	
	It is recommended that the Company address these ongoing reserving inadequacies and increase their carried reserves to an appropriate level, pursuant to the provisions of Section 1303 of the New York Insurance Law and Paragraph 8 of SSAP No. 55.	21
	It is noted that effective July 1, 2007, the Company amended its adverse loss development reinsurance agreement (“ADC”) with Swiss Re Zurich to increase the aggregate limit for all covered losses indemnified under this agreement to \$2.5 billion. The \$2.5 billion aggregate limit exceeds the adverse development previously reported by the Company plus the deficiency determined by this examination.	

Respectfully submitted,

Glenda Gallardo, CFE
Associate Insurance Examiner

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

GLEND A GALLRDO being duly sworn, deposes and says that the foregoing report, subscribed by her, is true to the best of her knowledge and belief.

Glenda Gallardo

Subscribed and sworn to before me

this _____ day of _____, 2008.

Appointment No. 22637

*STATE OF NEW YORK
INSURANCE DEPARTMENT*

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

Glenda Gallardo

as proper person to examine into the affairs of the

SWISS REINSURANCE AMERICA CORPORATION

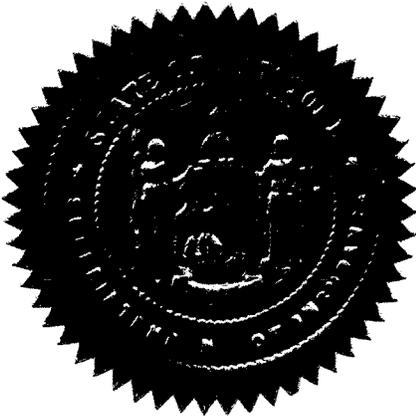
and to make a report to me in writing of the condition of the said

Corporation

with such other information as he shall deem requisite.

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

this 1st day of May, 2007



A handwritten signature in black ink, appearing to read "Eric Dinallo".

ERIC R. DINALLO

Superintendent of Insurance