

REPORT ON EXAMINATION
OF
GENERAL SECURITY PROPERTY AND CASUALTY COMPANY
AS OF
DECEMBER 31, 2001

DATE OF REPORT

JUNE 20, 2005

EXAMINER

JAINARINE TILAKDHARRY

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

June 20, 2005

Honorable Howard Mills
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 21850, dated March 7, 2002 attached hereto, I have made an examination into the condition and affairs of General Security Property and Casualty Company as of December 31, 2001, and submit the following report thereon.

The examination was conducted at the Company's home office located at 199 Water Street, New York, New York 10038.

Whenever the designations "Company" or "GSP&C" appear herein without qualification, they should be understood to indicate General Security Property and Casualty Company.

Whenever the designation "Department" appears herein without qualification, it should be understood to indicate the New York Insurance Department.

1. SCOPE OF EXAMINATION

The previous examination was conducted as of December 31, 1998. This examination covers the three-year period from January 1, 1999 through December 31, 2001. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

The examination comprised a complete verification of assets and liabilities as of December 31, 2001, a review of income and disbursements deemed necessary to accomplish such verification and utilized, to the extent considered appropriate, work performed by the Company's independent certified public accountants. 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:

- History of the Company
- Management and control
- Corporate records
- Fidelity bond and other insurance
- Territory and plan of operation
- Growth of the Company
- Business in force
- Loss experience
- Reinsurance
- Market conduct activities
- Accounts and records
- Financial statements

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

Concurrent examinations were made of the Company's parent, SCOR Reinsurance Company ("SCOR"), and its affiliates, General Security Indemnity Company, General Security Insurance Company, and Sorema North America Reinsurance Company (now known as General Security National Insurance Company), all four being New York domestic insurers. Separate reports have been rendered thereon.

2. DESCRIPTION OF COMPANY

General Security Property & Casualty Company was incorporated on September 28, 1942 under the laws of the State of New York and was formed as the successor to the United States branch of the Union Fire, Accident & General Insurance Company of Paris, France. It was licensed and commenced business on October 13, 1942 under the title the Unity Fire Insurance Corporation. In 1950, it adopted the name, "Unity Fire and General Insurance Company".

On July 25, 1956, one hundred percent ownership of the Company was acquired by the Rockleigh Management Corporation of Wilmington, Delaware. Effective July 3, 1990, SCOR U. S. Corporation absorbed by merger Rockleigh Management Corporation, the parent of Unity Group of Insurance Companies, the Unity Fire and General Insurance Company ("Unity Fire") and General Security Assurance Corporation of New York. The Unity Group was reorganized with the business of the former Unity Fire being assumed by General Security Assurance Corporation of New York and Unity Fire becoming a subsidiary of General Security Assurance Corporation of New York. Effective January 1, 1994, General Security Assurance Corporation of New York merged into SCOR, being the surviving corporation, and retaining its name, and becoming the parent of Unity Fire. On April 8, 1996, Unity Fire changed its name to its current title, "General Security Property and Casualty Company".

Pursuant to its charter, the Company's paid up capital of \$5,000,000 consists of 20,000 shares of common stock at \$250.00 par value per share. All of the issued and outstanding stock is owned by SCOR Reinsurance Company, a New York corporation.

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. As of the examination date, the board of directors was comprised of thirteen members. The board met four times during each calendar year. The directors as of December 31, 2001 were as follows:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Jacques Patrick Blondeau Paris, France	Chairman and Chief Executive Officer, SCOR Paris
Allan Melville Chapin New York, NY	Senior Partner, Sullivan & Cromwell
John Roger Cox Roseland, NJ	Retired
Robert Thomas Faber Sleepy Hollow, IL	Senior Vice President, SCOR Reinsurance Company
Jerome Faure Larchmont, NY	Executive Vice President, SCOR U.S. Corporation
William T Harris, Jr. Basking Ridge, NJ	Executive Vice President, Commercial Risk Reinsurance Company
Jerome Karter New York, NY	President and Chief Executive Officer, SCOR U.S. Corporation
Serge Michel Phillippe Osouf Paris, France	President and Chief Operations Officer, SCOR Paris
Patrick Peugeot Paris, France	President, La Mondiale
Graham Pewter Pembroke, Bermuda	President and Chief Executive Officer, Commercial Risk Partners Limited

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
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Francois Reach Paris, France	Group Senior Vice President, SCOR Paris
David J. Sherwood Amelia Island, FL	Consultant
Ellen Elizabeth Thrower New York, NY	Executive Director, The College of Risk Management, Insurance and Actuarial Science

The minutes of all meetings of the board of directors and committees thereof held during the examination were period reviewed. All meetings were satisfactorily attended.

The following were the principal officers of the Company on December 31, 2001:

<u>Name</u>	<u>Title</u>
Jerome Faure	President and Chief Executive Officer
John Verbich	Senior Vice President and Chief Financial Officer
John T. Andrews, Jr.	Senior Vice President, & Corporate Secretary
Kudret Oztap	Senior Vice President
John Petoccone	Senior Vice President

B. Territory and Plan of Operation

As of the examination date, the Company was licensed in Connecticut, the District of Columbia, Idaho, Illinois, Indiana, Iowa, Kentucky, Louisiana, Michigan, Missouri, Nebraska, New Hampshire, New Jersey, New York, Ohio, Pennsylvania, South Carolina, Texas, West Virginia, and Wisconsin. It is also registered in Canada. Approximately 84% of the Company's direct writings in 2001 were concentrated in New Jersey.

The following schedule shows the Company's direct premiums written during the period of the examination, 1999 to 2001, in New York State and countrywide and the percentage, which the New York State premiums bear to the countrywide premiums:

Direct Written Premiums

	<u>1999</u>	<u>2000</u>	<u>2001</u>
New York	\$ 3,168,262	\$ 5,951,661	\$ 3,636,032
Countrywide	\$26,791,210	\$32,465,165	\$27,121,425
% New York to Countrywide	11.83%	18.33%	13.41%

As of December 31, 2001 the Company is licensed to transact the kinds of insurance as set forth in the following numbered paragraphs of Section 1113(a) of the New York Insurance Law:

<u>Paragraph</u>	<u>Line of Insurance</u>
3	Accident and 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
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) 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). Additionally, the Company is licensed to conduct the business of special risk insurance pursuant to Article 63 of the New York Insurance Law.

Based upon the lines of business for which the Company is licensed, and the Company's current capital structure, and pursuant to the requirements of Articles 13 and 41 of the New York Insurance Law, GSP&C is required to maintain a minimum surplus to policyholders of \$4,400,000.

The Company is a direct writer and the majority of its business is produced through program administrators ("PA"). The Company pays its claims through third party administrators ("TPA").

C. Reinsurance

Effective December 31, 1996, SCOR and its subsidiaries General Security Insurance Company, General Security Property and Casualty Company, and General Security Indemnity Company entered into a quota share reinsurance agreement ("quota share agreement"). Pursuant to the quota share agreement, SCOR assumes 90% of all business underwritten by its subsidiaries on or after January 1, 1997.

The Schedule F data as contained in the Company's annual statements filed for the years within the examination period was found to accurately reflect its reinsurance transactions.

All ceded reinsurance contracts effected during the examination period were reviewed. These contracts all contained the required standard clauses including insolvency clauses meeting the requirements of Section 1308 of the New York Insurance Law.

The following is a summary of the Company's ceded reinsurance program at December 31, 2001.

Type of Contract

Cession

Facultative Property Per Risk:

Excess of Loss (4 Layers)
(Covering all business written in the
Facultative Property Department)
Unauthorized – 100%

\$50,000,000 excess of \$20,000,000 ultimate net
loss, any one risk.

Property Catastrophe:

Underlying Excess of Loss
Unauthorized – 100.00%

\$25,000,000 excess of \$5,000,000 net loss, each
occurrence.

Excess of Loss (3 Layers)
Unauthorized – 100%

95% of \$220,000,000 excess of \$30,000,000 net
loss, each occurrence.

Casualty:

“SBS” Excess of Loss
Unauthorized – 100%

\$15,000,000 excess of \$5,000,000, ultimate net
loss, any one claim, any one risk written in
accordance with the “SBS” underwriting
delegations and procedures.

“Non-SBS” Excess of Loss
Unauthorized – 100%

\$6,000,000 excess of \$5,000,000, ultimate net
loss, any one claim, any one risk for regional
treaty and facultative business written on an
individual client.

Clash Excess of Loss
Unauthorized – 100%

\$25,000,000 excess of \$7,500,000, ultimate net
loss, per occurrence when two or more treaty
and facultative risks are involved for at least
\$2,500,000 each in the same loss occurrence.

Workers Compensation:

Per Claimant Excess of Loss
Authorized – 100%

61% of \$5,000,000 excess of \$5,000,000 each
loss occurrence, each claimant, each underlying
reinsurance program. Aggregate limit of
\$25,000,000 any one underlying reinsurance
program.

Per Occurrence Excess of Loss
Unauthorized – 78%
Authorized 22%

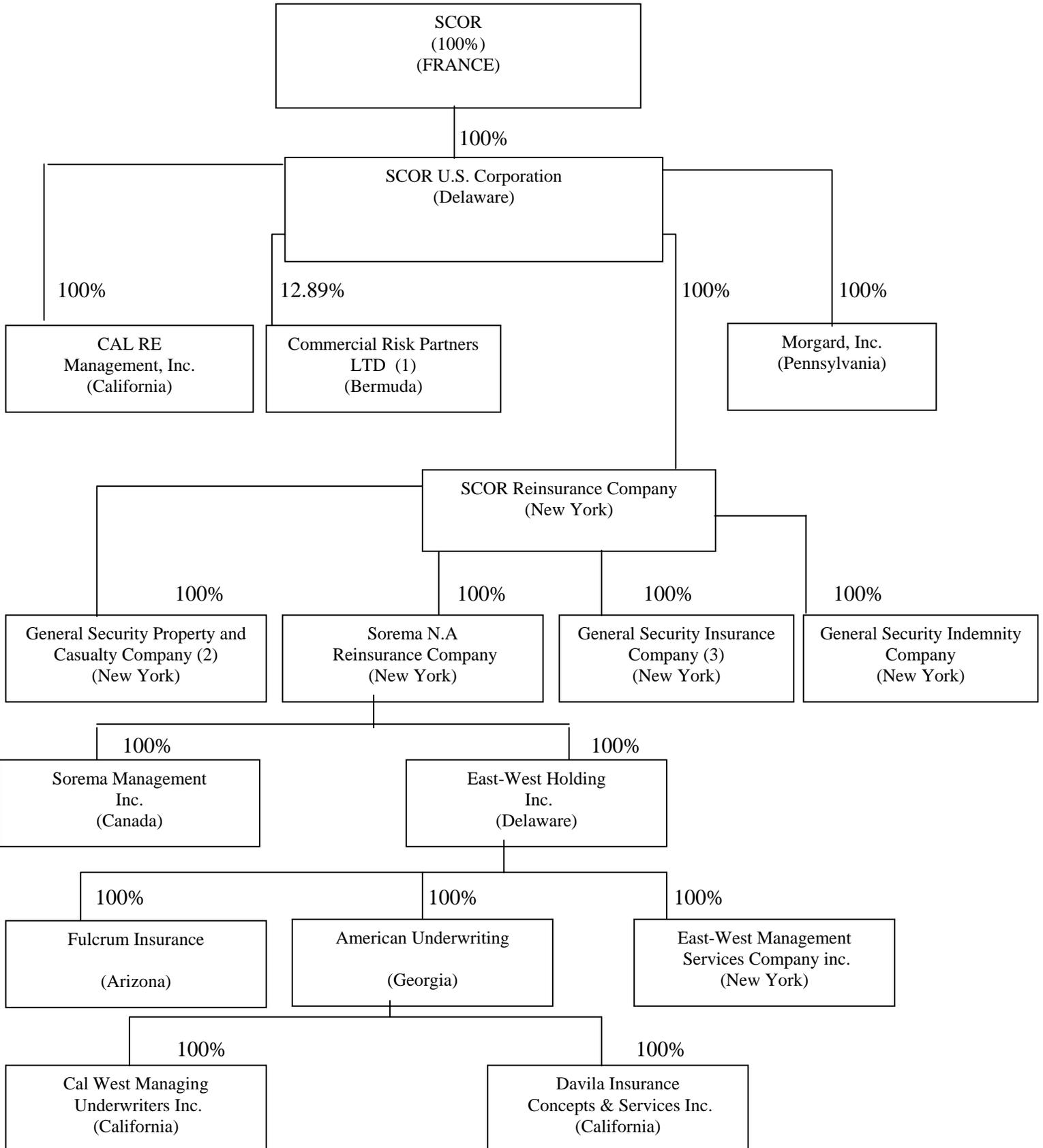
91% of \$65,000,000 excess of \$5,000,000 each
loss occurrence, each underlying reinsurance
program. Aggregate limit of \$195,000,000 any
one underlying reinsurance program.

D. Holding Company System

The Company is a controlled insurer owned directly by SCOR Reinsurance Company, a New York corporation. SCOR Reinsurance Company is 100% controlled by SCOR U.S. Corporation, a Delaware corporation, which is 100% owned by SCOR, a French reinsurance company. Accordingly, the Company has made the appropriate filings required by Article 15 of the New York Insurance Law and Department Regulation 52.

The following chart depicts the Company's position in the holding company system:

SCOR U.S. GROUP
HOLDING COMPANY CHART



At December 31, 2001, the Company had the following service agreements in effect with its parent:

1. Expense Allocation Agreement

Pursuant to the terms of this agreement, which was effective January 1, 1991 and approved by the Department on April 19, 1991, SCOR Reinsurance Company, SCOR U.S. Corporation, Scor Services Inc., Bind Inc., NARG Inc., California Reinsurance Management Corporation, General Security Property & Casualty Company (formerly Unity Fire and General Insurance Company), Morgard Inc., Morgard Partners Inc., Unistrat Corporation of America, General Security Indemnity Company, General Security Insurance Company, and Sorema N.A. Holding Corporation agree to provide and make available to each other the services of their personnel, office space, equipment and other services. The agreement was amended on December 11, 1992, May 5, 1994, January 6, 1995, January 1, 1996, and August 1, 2001. The Department approved these amendments.

2. Tax Allocation Agreement

Pursuant to an agreement, the Company filed a consolidated federal income tax return with its parent company, SCOR U.S Corporation and its affiliates. The agreement was approved by the Department on April 19, 1991 and became effective on August 2, 1991. The agreement was amended on December 11, 1992, on May 5, 1994, and on August 1, 2001. The Department approved these amendments.

E. Commutation Agreement

During 2001, the Company and its subsidiaries entered into a commutation and aggregate excess of loss contingent coverage agreement with its parent, SCOR, Paris, which effectively commuted a series of retrocession arrangements related to 1997 and prior underwriting years. Under this agreement, the Company and its affiliates received consideration of \$68,340,149 for full satisfaction of reinsurance recoverables due from SCOR. No gain or loss resulted from this transaction.

The consideration received from SCOR was in the form of a promissory note, which bears an interest rate equal to the five year U.S. Treasury bill rate. The promissory note is fully collateralized by an irrevocable letter of credit. The commutation agreement and the accounting therefore were approved by the Department.

F. Significant Operating Ratios

The following ratios have been computed as of December 31, 2001 based upon the results of this examination:

Net premiums written in 2001 to surplus as regards policyholders.	.06.1
Liabilities to liquid assets (cash and invested assets less investment in affiliates)	68.61%
Premiums in course of collection to surplus as regards policyholders	4.00%

All of the above ratios fall within the benchmark ranges of 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 three-year period covered by this examination:

	<u>Amounts</u>	<u>Ratios</u>
Losses incurred	\$5,485,906	81.27%
Loss adjustment expenses incurred	1,499,695	22.22
Other underwriting expenses incurred	3,101,277	45.94
Net underwriting loss	<u>(3,336,510)</u>	<u>(49.43)</u>
Premiums earned	<u>\$6,750,368</u>	<u>100.00%</u>

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and surplus as determined by this examination as of December 31, 2001:

<u>Assets</u>	<u>Assets</u>	Not Admitted <u>Assets</u>	Admitted <u>Assets</u>
		\$ 0	
Bonds	\$ 6,060,578		\$6,060,578
Cash on hand and on deposit	9,504,653		9,504,653
Short-term investments	2,499,872		2,499,872
Agents' balances	706,566		706,566
Reinsurance recoverable on loss and loss adjustment	9,104,211		9,104,211
Federal and Foreign income tax recoverable interest thereon	17,703		17,703
Interest dividends and real estate income due and accrued	107,685		107,685
Receivables from parent, subsidiaries and affiliates	332,161		332,161
Aggregate write-ins for other than invested assets	<u>609,800</u>		<u>609,800</u>
Total assets	<u>\$28,943,229</u>	<u>\$ 0</u>	<u>\$28,943,229</u>

Liabilities

Losses		\$4,363,020
Reinsurance payable on paid losses and loss adjustment expenses		171,345
Loss adjustment expenses		477,417
Other expenses (excluding taxes, licenses and fees)		145,381
Taxes, licenses and fees (excluding federal and foreign income taxes)		473,876
Unearned premiums		15,515
Ceded reinsurance premiums payable (net of ceding commissions)		6,524,548
Net adjustment in assets and liabilities due to foreign exchange rates		<u>297,222</u>
Total liabilities		\$12,468,324

Surplus and Other Funds

Common capital stock	\$5,000,000	
Gross paid in and contributed surplus	13,557,655	
Unassigned funds (surplus)	<u>(2,082,750)</u>	
Surplus as regards policyholders		<u>16,474,905</u>
Total liabilities and surplus		<u>\$28,943,229</u>

Note: The Internal Revenue Service has completed its audits of the consolidated federal income tax returns filed on behalf of the Company through the tax year ended 1997. All material adjustments, if any, made subsequent to the examination date and arising from said audits, are reflected in the financial statements included in this report. Audits covering the tax years ended 1998 to 2001 are in progress. Except from any impact that might result from the examination change in this report, the examiner is unaware of any potential exposure of the Company to any tax assessment and no liability has been established herein relative to such contingency.

B. Underwriting and Investment Exhibit

Surplus as regards policyholders decreased \$31,173 during the three-year examination period, January 1, 1999 through December 31, 2001 detailed as follows:

Statement of Income

Underwriting Income

Premiums earned		\$6,750,368
Deductions		
Losses incurred	\$5,485,906	
Loss adjustment expenses incurred	1,499,695	
Other underwriting expenses incurred	<u>3,101,277</u>	
Total underwriting deductions		<u>10,086,878</u>
Net gain from underwriting		\$(3,336,510)

Investment Income

Net investment income earned	\$3,349,157	
Net realized capital gains	<u>30,100</u>	
Net investment gain		3,379,257

Other Income

Loss on foreign exchange rates	\$(410,341)	
Retroactive reinsurance	(968,159)	
Miscellaneous income	<u>(22)</u>	
Total other income		<u>(1,378,522)</u>
Net income before federal and foreign income taxes		\$(1,335,775)
Federal and foreign income taxes incurred		<u>226,027</u>
Net income		<u>\$(1,561,802)</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 1998 per report on examination			\$16,506,077
	<u>Gains in</u> <u>Surplus</u>	<u>Losses in</u> <u>Surplus</u>	
Net income			\$1,561,802
Change in provision for in reinsurance	\$712,778		
Change in net unrealized foreign exchange gain	403,826		
Change in excess statutory reserves over statement reserves	317,510		
Cumulative effect of change in accounting principles	<u>96,515</u>	_____	
Total gains and losses	<u>\$1,530,629</u>	<u>\$1,561,802</u>	
Net decrease in surplus			<u>31,173</u>
Surplus as regards policyholders December 31, 2001 per report on examination			<u>\$16,474,904</u>

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liabilities of \$4,363,020 and \$171,345 for losses and loss adjustment expense reserves respectively are the same amounts reported by the Company in its December 31, 2001 filed annual statement. The examination analysis was conducted in accordance with generally accepted actuarial principles and was based on statistical information contained in the Company's internal records and its filed annual statements and verified by the examiner.

5. MARKET CONDUCT ACTIVITIES

In the course of this examination, a review was made of the manner in which the Company conducts its business practices practices and fulfills its contractual obligations to policyholders and claimants. The review was general in nature and is not to be construed to encompass the more precise scope of a market conduct investigation, which is the responsibility of the Market Conduct Unit of the Property Bureau of this Department.

The general review was directed at practices of the Company in the following major areas:

- 1) Sales and advertising
- 2) Underwriting
- 3) Rating
- 4) Treatment of policyholders and claimants.

No problem areas were encountered.

6. SUBSEQUENT EVENTS

It is noted that subsequent to the examination date, the Company was sold to Unitrin, Inc., a Delaware corporation effective December 31, 2002. Additionally, all of the Company's outstanding reserves were transferred to General Security National Insurance Company effective October 1, 2002 pursuant to an "Indemnity and Assumption Reinsurance Agreement". Both the sale of the Company and the indemnity and assumption reinsurance agreement were approved by the Department. The Company's name was subsequently changed to "Unitrin Preferred Insurance Company".

7. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination contained the following comments detailed as follows (page numbers refer to the prior report):

<u>ITEM</u>	<u>PAGE NO.</u>
<p>A. <u>Abandoned Property Law</u></p> <p>It is recommended that the Company, every year, file a verification and checklist for unclaimed property form to the Office of the State Comptroller, as required by Sections 1315 and 1316 of the New York Abandoned Property Law.</p> <p>The Company has complied with this recommendation</p>	<p>14</p>
<p>B. <u>Losses and Loss Adjustment Expenses</u></p> <p>It is recommended that the Company take proper care when completing Schedule P and all other parts of the annual statement blank.</p> <p>The Company has complied with this recommendation.</p>	<p>19</p>

8. SUMMARY OF COMMENTS AND RECOMMENDATIONS

There are no material comments and recommendations set forth in this report.

Respectfully submitted,

_____/s/_____
Jainarine Tilakdharry
Senior Insurance Examiner

STATE OF NEW YORK)
) SS.
)
COUNTY OF NEW YORK)

JAINARINE TILAKDHARRY, being duly sworn, deposes and says that the foregoing report submitted to by him is true to the best of his knowledge and belief.

_____/s/_____
Jainarine Tilakdharry

Subscribed and sworn to before me
this ____ day of _____ 2005.

Appointment No. 21850

STATE OF NEW YORK
INSURANCE DEPARTMENT

I, GREGORY V. SERIO, Superintendent of Insurance of the State of New York,
pursuant to the provisions of the Insurance Law, do hereby appoint:

Jainarine Tilakdharry

as proper person to examine into the affairs of the

GENERAL SECURITY PROPERTY AND CASUALTY COMPANY

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

Company

with such other information as he shall deem requisite.

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

this 7th day of March, 2002





GREGORY V. SERIO
Superintendent of Insurance