

ASSOCIATION REPORT ON EXAMINATION

OF THE

SCOR REINSURANCE COMPANY.

AS OF

DECEMBER 31, 2001

ZONES  
REPRESENTED

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STATES  
PARTICIPATING

NEW YORK  
MISSISSIPPI

EXAMINERS

JAINARINE TILAKDHARRY  
JAMES O'SULLIVAN



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

Honorable Mike Pickens  
Chairman, Executive Committee  
Commissioner of Insurance  
State of Arkansas

April 30, 2004

Honorable Janie Miller  
Chairman, Southeastern Zone  
Commissioner of Insurance  
State of Kentucky

Honorable Gregory V. Serio  
Superintendent of Insurance  
State of New York

Honorable Mike Kreidler  
Chairman, Western Zone  
State of Washington

Sirs:

Pursuant to your instructions an examination has been made into the condition and affairs of the SCOR Reinsurance Company, hereinafter referred to as "the Company" or "SCOR", at its home office located at 199 Water Street, New York, New York 10038.

The examination was conducted by the New York State Insurance Department, hereinafter referred to as "the Department" with participation from the State of Mississippi representing the Southeastern Zone.

The report on examination is respectfully submitted.

REPORT ON EXAMINATION  
OF  
SCOR REINSURANCE COMPANY  
AS OF  
DECEMBER 31, 2001

DATE OF REPORT

APRIL 30, 2004

EXAMINER

JAINARINE TILAKDHARRY

## TABLE OF CONTENTS

<u>ITEM NO.</u>	<u>PAGE NO.</u>
1. Scope of examination	2
2. Description of Company	3
A. Management	4
B. Territory and plan of operation	6
C. Reinsurance	8
D. Holding company system	12
E. Commutation agreement	18
F. Section 1307 Loan	18
G. Loss portfolio transfer agreement and draft commutation and release agreement	19
H. Significant operating ratios	21
3. Financial statements	23
A. Balance sheet	23
B. Underwriting and investment exhibit	25
4. Common stocks	27
5. Losses and loss adjustment expenses	27
6. Payable to loss portfolio transfer reinsurers	27
7. Loss portfolio transfer	28
8. Conclusion	28
9. Subsequent events	29
10. Compliance with prior report on examination	30
11. Summary of comments and recommendations	31



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

April 30, 2004

Honorable Gregory V. Serio  
Superintendent of Insurance  
Albany, New York 12257

Sir:

Pursuant to the instructions contained in Appointment Number 21847, dated March 7, 2002 and attached hereto, I have made an examination into the condition and affairs of SCOR Reinsurance Company as of December 31, 2001, and respectfully submit the following report thereon.

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

Whenever the designations "Company" or "SCOR" appear herein without qualification, they should be understood to indicate SCOR Reinsurance Company.

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

This examination has concluded that as of the examination date, the Company was insolvent in the amount of \$734,559,360 and its capital stock of \$5,000,000 and required to be maintained surplus of \$35,000,000 were impaired in the amounts of \$739,599,360 and \$769,599,360, respectively.

The insolvency was due to an increase to the Company's reserves for losses and loss adjustment expenses as well as the disallowance of credit reflected by the Company for a loss portfolio transfer. These changes generated a statutory penalty for excess investment in insurance company stock. Prior to the issuance of this report, but subsequent to the examination date, the

Company took corrective action to improve its surplus position. During 2002, the Company entered into an adverse development cover that mitigated the examination reserve increase by \$270,000,000. The disallowed loss portfolio was commuted by year end 2003. Additionally, during 2003, the Company received surplus contributions totaling \$282,000,000 from its parent. These corrective actions eliminated the insolvency reflected in this report and are more fully discussed in item 9 herein, "Subsequent Events".

## 1. SCOPE OF EXAMINATION

The prior examination was conducted as of December 31, 1998. This examination covered 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
- 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 made 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 four New York domiciled subsidiaries, General Security Property and Casualty Company, General Security Indemnity Company, General Security Insurance Company, and Sorema North America Reinsurance Company (now known as General Security National Insurance Company). Separate reports thereon have been rendered for each of the above mentioned entities.

## **2. DESCRIPTION OF COMPANY**

SCOR Reinsurance Company was incorporated on November 8, 1984, under the laws of the State of New York to serve as the vehicle for the domestication of SCOR Reinsurance Company of Texas ("SCOR Texas"). Effective September 30, 1985, SCOR Texas merged with and into the Company, with SCOR Reinsurance Company as the surviving entity.

Effective January 1, 1994, General Security Assurance Corporation, an affiliate of the Company, merged into the Company with SCOR Reinsurance Company being the surviving entity and retaining its name.

Effective September 15, 1996, SCOR U.S. Corporation, through its subsidiary SCOR Reinsurance Company, purchased the assets and assumed substantially all of the liabilities of Allstate Insurance Company's ("Allstate") U.S. reinsurance division for business produced January 1, 1985 and subsequent. Allstate retained the assets and liabilities associated with the reinsurance division's pre-1985 book of business.

Pursuant to its charter, the Company's paid up capital of \$5,000,000 consists of 5,000 authorized and outstanding shares of common stock at \$1,000 par value per share. SCOR U. S. Corporation, a Delaware corporation, owns all of the issued and outstanding shares.

On July 31, 2001, SCOR Paris acquired 100% of the stock of Sorema N.A. Holding Corporation, the parent company of Sorema North America Reinsurance Company. SCOR Paris immediately contributed 100% of the stock of Sorema North America Reinsurance Company to SCOR. Effective January 1, 2002, the name of Sorema North America Reinsurance Company was changed to General Security National Insurance Company.

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 the following thirteen members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Jacques P. Blondeau Paris, France	Chairman and Chief Executive Officer, SCOR Paris
Allan M. Chapin New York, NY	Senior Partner, Sullivan & Cromwell
John R. Cox Roseland, NJ	Retired
Robert T. Faber Sleepy Hollow, NY	Senior Vice President, SCOR Reinsurance Company
Jerome Faure Larchmont, NY	Executive Vice President, SCOR U.S. Corporation
William T. Harris Basking Ridge, NJ	Executive Vice President, Commercial Risk Reinsurance Company

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Jerome Karter New York, NY	President and Chief Executive Officer, SCOR, U.S. Corporation
Serge M.P. Osouf Paris, France	President and Chief Operations Officer, SCOR, Paris-France
Patrick Peugeot Paris, France	President, La Mondiale
Graham C. Pewter Pembroke, Bermuda	President and Chief Executive Officer, Commercial Risk Partners Limited
Francois Reach Paris, France	Group Senior Vice President, SCOR, Paris-France
David Sherwood Amelia Island, FL	Consultant
Ellen E. Thrower New York, NY	Executive Director, The College of Risk Management Insurance and Actuarial Science

The board met four times during each calendar year. The minutes of the board of directors' meetings as well as committees thereof, held during the examination period were 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>
Jacques P. Blondeau	Chairman of the Board
Serge M.P. Osouf	Vice Chairman of the Board
Jerome Faure	President and Chief Executive Officer
John F. Verbich	Senior Vice President and Chief Financial Officer
John T. Andrews, Jr.	Senior Vice President and Secretary
Robert T. Faber	Senior Vice President
John P. Fitzpatrick	Senior Vice President

B. Territory and Plan of Operation

As of the examination date, the Company was licensed in the District of Columbia and all states except Colorado, Florida, Maine, Maryland, Massachusetts, Missouri, New Hampshire, South Carolina, Vermont, Virginia, and Wyoming. It is also licensed in Canada and Puerto Rico. Credit for reinsurance is allowed in the states where the Company is not licensed.

The Company specializes in underwriting treaties covering commercial and technical risks as well as providing property/casualty and special risk facultative coverages. The Company targets technical property risks, such as boiler and machinery as well as oil, gas and chemical plants. Its underwriting strategy emphasizes the development of long-term relationships with small to medium sized regional and specialty companies. SCOR's treaty book is written principally through reinsurance intermediaries, while facultative business is underwritten both through reinsurance intermediaries and on a direct basis.

While its portfolio has been dominated by casualty business, the Company has recently focused on writing more property coverages. It has also taken steps to decrease its surety business and ceased writing accident and health business. SCOR's treaty portfolio reflects an increase in non-proportional business. Its facultative business is also increasing, supported by a new unit created by the Group in 2000, SCOR Business Solutions, which is dedicated to large commercial risks.

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 damage
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 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, the Company is required to maintain a minimum surplus to policyholders of \$35,000,000.

The following schedule shows the Company's gross premiums written during the period of the examination, 1999 to 2001:

<u>1999</u>	<u>Gross Premiums Written</u> <u>2000</u>	<u>2001</u>
\$725,454,800	\$538,369,115	\$745,779,462

C. Reinsurance

Assumed

In 2001, the Company's assumed premiums represented 100% of its total book of business for the year. Approximately 84% of its gross premiums written were assumed from non-affiliates. The remaining 16% of its gross premiums written was assumed from affiliates, the majority of which was derived from a quota share reinsurance agreement ("quota share agreement"), effective December 31, 1996, between the Company and its subsidiaries General Security Insurance Company, General Security Property and Casualty Company, and General Security Indemnity Company. Pursuant to the quota share agreement, the Company assumes 90% of all business underwritten by its subsidiaries on or after January 1, 1997. Prior to the effective date of the quota share agreement, the Company and its subsidiaries participated in an intercompany pooling agreement for underwriting years 1991 through 1996.

Ceded

The Schedule F data as contained in the Company's filed annual statement was found to accurately reflect its reinsurance transactions.

All ceded reinsurance contracts in effect at December 31, 2001 were reviewed. The 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 description of the Company's ceded reinsurance program in effect at December 31, 2001:

<u>Type of Contract</u>	<u>Cession</u>
Property Facultative Quota Share and Surplus Share: (Covering all business of the Company's Facultative Department) Unauthorized – 100%	Cession A: 30% quota share for Maximum Foreseeable Loss ("MFL") lines less than or equal to \$20,000,000.  Cession B: Surplus share of \$10,000,000 divided by MFL, for MFL lines greater than \$20,000,000 but less than or equal to \$60,000,000.  Cession C: Surplus share of MFL excess of \$50,000,000 divided by MFL, for MFL lines greater than \$60,000,000 but less than or equal to \$108,000,000.  Cession D: Surplus share of \$58,000,000 divided by MFL, for MFL lines greater than \$108,000,000 but less than or equal to \$128,000,000.
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.
<u>Property Catastrophe:</u>	
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.

Aggregate Excess of Loss Unauthorized – 100%	\$13,000,000 excess of \$7,000,000 ultimate net loss, each occurrence, each acceptance, after the Company’s aggregate ultimate net loss exceeds \$16,000,000 during any one contract year.
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Type of ContractCession

## 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.
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“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.
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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.
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## 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.
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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.
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## Specific - American Nuclear Insurers:

Primary Property Nuclear Pools Quota share Unauthorized –100%	100% of the Company’s \$11,721,600 gross liability.
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Foreign Nuclear Pools Quota share Unauthorized – 100%	100% of the Company’s \$17,842,000 gross liability.
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Liability Nuclear Pools Quota share Unauthorized – 100%	100% of the Company’s \$3,717,500 gross liability.
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In the year 2001, the Company’s net retention on any one risk for facultative property business varied from \$5 million to \$20 million, depending on the maximum foreseeable loss, while for 1998 it was \$7 million for any risk. For general catastrophe business, the Company has retrocessional coverage for 95% of \$220 million in excess of \$30 million per occurrence for the year 2001, while in the year 1998 it was 95% of \$180 million in excess of \$30 million per occurrence.

In addition to the above agreements, the Company also had the following agreements providing additional reinsurance protection:

(i) Variable Quota Share Retrocession Agreement

Effective July 1, 1998, the Company entered into the captioned agreement, which provides that the Company may retrocede a quota share percentage of its business to its parent, Scor Paris, from time to time on a case by case basis. The agreement was filed with this Department and was non-disapproved June 9, 1998. This agreement is more fully described in Item 2D of this report.

(ii) Loss Portfolio Transfer Agreement

Effective October 1, 2000, the Company entered into a loss portfolio transfer agreement (“LPT”) with three unaffiliated reinsurers. The business transferred represented all business underwritten by Scor Re for underwriting years 1997, 1998 and 1999, excluding business assumed from its subsidiaries and all proportional property business. Pursuant to the LPT agreement, the

Company transferred \$661.9 of outstanding reserves for a consideration of \$521.9 million in premiums, resulting in a surplus benefit to the Company of \$140 million, which was reported as segregated surplus on the balance sheet. The LPT agreement provides that the transferred losses are subject to a maximum limit of \$700 million. It is noted that the transferred liabilities have reached the maximum limit. A portion of this agreement was commuted in 2002. This agreement is more fully described in item 2G of this report.

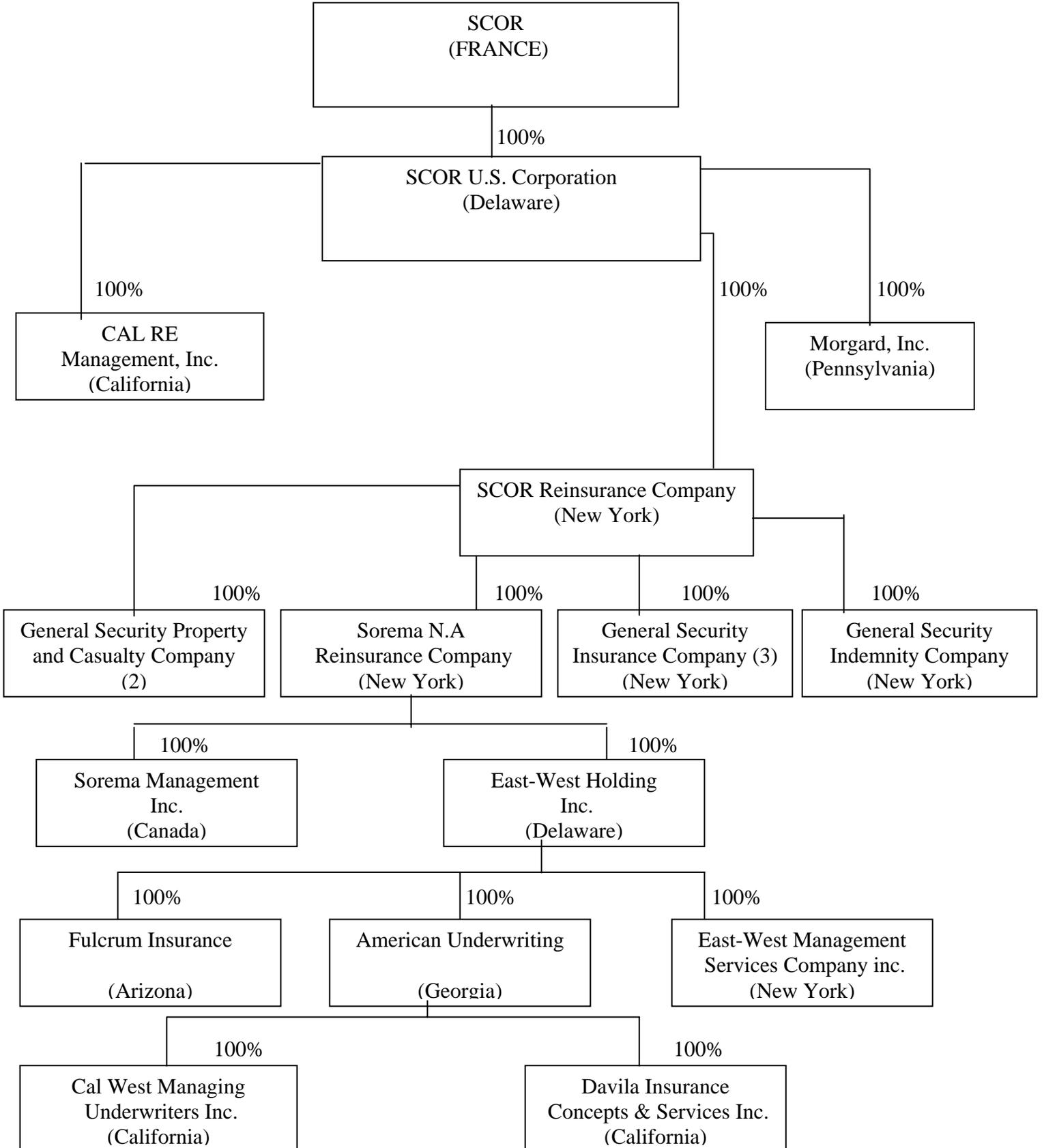
(iii) Net Aggregate Excess of Loss Reinsurance Agreement

Effective January 1, 2002, the Company and its subsidiaries entered into the captioned agreement with its ultimate parent, Scor Paris. The agreement provides protection of \$270 million above the Companies' carried reserves for losses and loss adjustment expenses of \$1.422 million as of December 31, 2001. The agreement was submitted to this Department and was non-disapproved on April 25, 2002.

D. Holding Company System

The Company is a subsidiary of SCOR U.S. Corporation, a Delaware corporation, which in turn is 100% owned by SCOR, a French reinsurance company. 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 the holding company system:

SCOR U.S. GROUP  
HOLDING COMPANY CHART



At December 31, 2001, the Company was a party to the following agreements with affiliates:

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. These amendments were approved by the Department.

2. Tax Allocation Agreement

Pursuant to this 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. These amendments were approved by the Department.

3. Variable Quota Share Reinsurance Agreement

Effective July 1, 1998, the Company entered into the captioned agreement, which provides that the Company may retrocede a quota share percentage of its business to its parent, Scor Paris, from time to time on a case by case basis. The agreement was filed with this Department and was non-disapproved on June 9, 1998.

Since inception, the Company has made five cessions to this agreement. In 2001, the Company ceded premiums totaling \$269,765,669 to SCOR Paris pursuant to this agreement, for which it received ceding commissions of \$117,121,624, as follows:

<u>Contract</u>	<u>Cession</u>	<u>Premium Ceded</u>	<u>Ceding Comm. %</u>	<u>Ceding Comm.</u>
VQS 2	Unearned at 6/30/01	\$ 38,844,790	34%	\$ 13,207,229
VQS 3	Unearned at 12/31/01	85,214,115	45%	38,346,352
VQS 4	Unearned at 12/31/01	84,769,363	45%	38,146,213
VQS 5	4 <sup>th</sup> qtr 2001 Earned	<u>60,937,401</u>	45%	<u>27,421,830</u>
	Total	<u>\$269,765,669</u>		<u>\$117,121,624</u>

VQS 3 and 4 represent the 100% quota share cession of virtually all of the Company's net unearned premiums at December 31, 2001. VQS 5 represents the 100% cession of premiums earned and losses incurred in the 4<sup>th</sup> quarter of 2001 for business underwritten by 3 named agents plus an attached list of contracts and comprised approximately 44% of its premiums earned in the 4<sup>th</sup> quarter of 2001.

Article IV of the agreement provides that:

“except as otherwise set forth in any Attachment Statement, the commission allowed by the Retrocessionaire to the Retrocedent shall be the Retrocessionaire's pro-rata share of the original ceding commission paid by the Retrocedent, including all adjustments thereto”.

It is noted that the Company increased the ceding commission from 34% on cessions 1 and 2 to 45% on cessions 3, 4 and 5. The Company indicated that the 45% ceding commission rate was determined as follows:

4 <sup>th</sup> quarter gross commission rate	28.0%
Gross operating expense as a % of Gross Written Premium	8.0
Premium tax and assessments for direct business	2.5
Override commission (profit to Company)	<u>6.5</u>
Total ceding commission rate	<u>45.0%</u>

It should be noted that the 2.5% for premium tax and assessments represent items that would be paid by the direct insurer and would not be a direct expense of the Company.

Section 1505(a) of the New York Insurance Law provides that the terms of any transactions within a holding company system to which a controlled insurer is a party must be fair and equitable and that the charges or fees for services performed shall be reasonable. The benchmark for a fair and equitable ceding commission rate is the rate that the Company would charge to an unaffiliated reinsurer and the unaffiliated reinsurer would be willing to accept. Further, Paragraph 51 of SSAP 62 of the Accounting Practices and Procedures Handbook of the National Association of Insurance Commissioners states:

“If the ceding commission paid under a reinsurance agreement exceeds the anticipated acquisition cost of the business ceded, the ceding entity shall establish a liability, equal to the difference between the anticipated acquisition cost and the reinsurance commissions received, to be amortized pro rata over the life of the reinsurance agreement”.

The ceding commission rate of 45% is 17% more than the rate it pays to its reinsureds, is in excess of the Company's acquisition costs, and is in excess of the rate it could charge to an unaffiliated reinsurer; therefore, the 45% ceding commission rate does not appear to be fair and equitable. It is recommended that the Company charge a ceding commission rate on its variable quota share agreement that is fair and equitable based on the anticipated acquisition costs of the business ceded pursuant to the provisions of Section 1505(a) of the New York Insurance Law and Paragraph 51 of SSAP 62 of the Accounting Practices and Procedures Handbook of the National Association of Insurance Commissioners.

It is further recommended that should the Company deviate from the commission rate permitted under the reinsurance agreement and utilize a commission as set forth in an attachment statement, as defined in the agreement, such attachment statement should be submitted to the Department for review to determine if the ceding commission allowed is fair and equitable.

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 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 Department approved the commutation agreement and the accounting therefor on December 31, 2001.

F. Section 1307 Loan

On December 31, 2001, the Company issued a surplus note to its parent SCOR (Paris) in the amount of \$63,000,000. The amount was received on February 27, 2002. The surplus note accrues interest rate at 5% per annum. No principal or interest payments can be made without the prior approval of the New York State Insurance Department.

This agreement was approved by this Department as a Type I subsequent event, pursuant to SSAP 72, paragraph 8 which states:

“Notes or other receivables received as additional capital contribution satisfied by receipt of cash or readily marketable securities prior to the filing of the annual statement shall be treated as a Type I subsequent event in accordance with SSAP 9 and as such shall be considered an admitted asset based on the evidence of collection and approval of the domiciliary commissioner. To the extent that the notes or other receivables are not satisfied, they shall be non-admitted”.

G. Loss Portfolio Transfer Agreement and Draft Commutation and Release Agreement

Effective September 30, 2000, the Company entered into a loss portfolio transfer agreement (“LPT”) with three unaffiliated reinsurers. The business transferred represented all business underwritten by Scor Re for underwriting years 1997, 1998 and 1999, excluding business assumed from its subsidiaries and all proportional property business. Pursuant to the LPT agreement, the Company transferred \$661.9 of outstanding reserves, and paid \$521.9 million in premiums, resulting in a surplus benefit to the Company of \$140 million, which was reported as segregated surplus. The LPT agreement provides that the transferred losses are subject to a maximum limit of \$700 million.

In the third quarter of 2001, the Company strengthened its reserves and reported the transferred liabilities at the maximum limit of \$700 million, resulting in a total surplus benefit to the Company for the LPT of \$178.1 million.

Pursuant to the provisions of the LPT agreement, the initial premium of \$521.9 million was accounted for on a funds withheld basis and was deposited in a funds held account, which was used to pay the liabilities assumed by the LPT reinsurers as the amounts became due. The outstanding balance in the funds held account accrues interest at a rate of 6% per annum.

In addition to the initial premium, the LPT agreement provides that the Company will pay an additional consideration directly to the reinsurers in quarterly installments from January 1, 2001 through July 1, 2005, or until the LPT is commuted. At the effective date of the LPT agreement, the total additional consideration due to the LPT reinsurers was approximately \$13.6 million. In the 4<sup>th</sup> quarter of 2002, one of the LPT reinsurers commuted its portion of the agreement, which ended the Company’s obligation for the additional consideration due to that reinsurer and reduced the total amount due by approximately \$1.7 million. As of December 31, 2001, the Company’s unpaid obligation due to the remaining LPT reinsurers was \$8,257,327, after consideration of the amounts paid in 2001 and the portion

of the LPT agreement that was commuted at the end of 2002. The Company has indicated its intention to commute the remaining portion of the LPT agreement in the third quarter of 2003, which would reduce the Company's remaining obligation by approximately \$3.6 million; however, until such time that the commutation is effected, the Company should report the full remaining obligation due. This report on examination includes a liability in the amount of \$8,257,327 under the caption, "payable to LPT reinsurers". It is recommended that the Company report its outstanding obligations due to the LPT reinsurers as a liability in its future filed statements.

As of September 30, 2002, paid net losses recovered under the LPT agreement totaled \$399.6 million and net reserves outstanding were \$300.4 million. The balance of the funds held account was \$175.2 million, leaving a funding deficit of approximately \$125.2 million. Once the funds held account is depleted, the reinsurers would be required to pay the remaining losses as they come due.

Effective December 28, 2002, the Company entered into a commutation and release agreement ("Commutation") with one of the LPT reinsurers (representing 23.82% of the cession), whereby the LPT reinsurer agreed to pay the Company the sum of \$66,793,000, in full satisfaction of its current and future liabilities under the LPT agreement. The sum represents a discount of approximately \$4.8 million on the reinsurer's share of the current net outstanding reserves. It is noted that the Company received a surplus contribution from its parent, Scor Paris, concurrent with the commutation to compensate for the surplus impact of the transaction. The Company has agreed to continue reporting the net gain on this reinsurer's portion of the LPT as segregated surplus on all future filed annual and quarterly statements as if it were still in effect and only reduce the segregated surplus as the applicable loss and loss adjustment expense payments exceed the amount originally paid by the Company to the reinsurer.

Subsequent to the examination date, the Company notified the Department in 2004 that its ultimate parent, Scor Paris, provided retrocessional coverage to transferees, the effect of which would be to limit the transferees ultimate liability under the agreement. Management represented that it did not become aware of the existence of such retrocesional protection until late 2003.

Had these facts been available at the time the Company entered into the loss portfolio transfer, the Company would have been required to account for this as a non-complying loss portfolio transfer pursuant to the provisions of Department Regulation 108. The financial statements set forth in this report reflect such accounting treatment.

H. 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	---
Liabilities to liquid assets (cash and invested assets less investment in affiliates)	174.6%
Premiums in course of collection to surplus as regards policyholders	---

The first and third ratios set forth above were not calculated due to the insolvency determined by this examination. The second ratio exceeds the benchmark set forth in the Insurance Regulatory Information System of the National Association of Insurance Commissioners. The result is due to the examination increase in the Company's loss and loss adjustment expense reserves.

The underwriting ratios presented below are on an earned/incurred basis and encompass the three-year period covered by this examination:

	Amounts	Ratios
Losses and loss adjustment expenses incurred	\$2,121,925,231	123.9%
Other underwriting expenses incurred	475,089,913	27.8
Net underwriting loss	<u>(885,036,187)</u>	<u>(51.7)</u>
Premiums earned	<u>\$1,711,978,957</u>	<u>100.0%</u>

**3. FINANCIAL STATEMENTS**

**A. Balance Sheet**

The following compares the assets, liabilities and surplus as determined by this examination with those reported by the Company as of December 31, 2001:

<u>Assets</u>	<u>Assets</u>	<u>Non-admitted Assets</u>	<u>Net Admitted Assets</u>	<u>Company</u>	<u>Surplus Increase (Decrease)</u>
Bonds	\$615,944,693	\$	\$615,944,693	\$615,944,693	\$
Common stocks	273,904,687	177,211,168	96,693,519	273,904,687	(177,211,168)
Cash	548,163,837		548,163,837	548,163,837	
Receivable for securities	1,997,310		1,997,310	1,997,310	
Premiums and agents' balances in course of collection	121,265,374		121,265,374	121,265,374	
Premiums, agents' balances and installments booked but deferred and not yet due	118,899,816		118,899,816	118,899,816	
Accrued retrospective premiums	6,514,417	651,442	5,862,975	5,862,975	
Funds held by or deposited with reinsured companies	26,680,821		26,680,821	26,680,821	
Reinsurance recoverables on loss and loss adjustment expense payments	7,691,000		7,691,000	7,691,000	
Federal and foreign income tax recoverable and interest thereon (including \$0 net deferred tax asset)	1,329,266		1,329,266	1,329,266	
Electronic data processing equipment and software	2,277,559		2,277,559	2,277,559	
Interest, dividends and real estate income due and accrued	5,857,077		5,857,077	5,857,077	
Receivable from parent, subsidiaries and affiliates	66,609,160		66,609,160	66,609,160	
Other assets non-admitted	96,788	96,788	0	0	
Commutation receivable from SCOR	<u>65,732,023</u>		<u>65,732,023</u>	<u>65,732,023</u>	
Totals	<u>\$1,862,963,828</u>	<u>\$177,959,398</u>	<u>\$1,685,004,430</u>	<u>\$1,862,215,598</u>	<u>\$ (177,211,168)</u>

<u>Liabilities</u>	<u>Examination</u>	<u>Company</u>	<u>Surplus Increase (Decrease)</u>
Losses and loss adjustment expenses	\$1,902,991,199	\$1,395,705,199	\$ (507,286,000)
Reinsurance payable on paid losses and loss adjustment expenses	60,936,093	60,936,093	
Commissions payable, contingent commissions and other similar charges	24,044,124	24,044,124	
Other expenses	7,384,303	7,384,303	
Taxes, licenses and fees	101,531	101,531	
Unearned premiums	274,095	274,095	
Ceded reinsurance premiums payable	125,401,817	125,401,817	
Funds held by company under reinsurance treaties	284,821,301	284,821,301	
Provision for reinsurance	2,036,400	2,036,400	
Net adjustments in assets and liabilities due to foreign exchange rates	293,841	293,841	
Payable to parent, subsidiaries and affiliates	2,062,109	2,062,109	
Payable to loss portfolio transfer reinsurers	8,257,327		(8,257,327)
Loss portfolio transfer	<u>999,650</u>	<u>(404,996,039)</u>	<u>(405,995,689)</u>
Total liabilities	<u>2,419,603,790</u>	<u>\$1,498,064,774</u>	<u>\$921,539,016</u>
Surplus and Other funds			
Aggregate write-ins for special surplus funds	\$	\$178,132,839	\$(178,132,839)
Common capital stock	5,000,000	5,000,000	
Surplus notes	63,000,000	63,000,000	
Gross paid in and contributed surplus	469,001,678	469,001,678	
Unassigned funds (surplus)	<u>(986,779,737)</u>	<u>(350,983,693)</u>	<u>(920,617,345)</u>
Surplus as regards policyholders	<u>\$(734,599,360)</u>	<u>\$364,150,824</u>	<u>\$(1,098,750,184)</u>
Totals	<u>\$1,685,004,430</u>	<u>\$1,862,215,598</u>	

**NOTE 1:** This examination has concluded that the Company was insolvent in the amount of \$734,599,360 and its capital stock of \$5,000,000 and required to be maintained surplus of \$35,000,000 were impaired in the amounts of \$739,599,360 and \$769,599,360, respectively. Subsequent to the examination date, the Company took corrective action to eliminate the insolvency referred to in this report. These actions are set forth in Section 9 herein, "Subsequent Events".

**NOTE 2:** 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 \$892,544,941 during the three-year examination period, January 1, 1999 through December 31, 2001 detailed as follows:

Statement of Income

Underwriting Income

Premiums earned		\$ 1,711,978,957
Deductions:		
Losses and loss expenses incurred	\$ 2,121,925,231	
Other underwriting expenses incurred	<u>475,089,913</u>	
Total underwriting deductions		\$ <u>2,597,015,144</u>
Net underwriting gain or (loss)		\$ (885,036,187)

Investment Income

Net investment income earned	\$ 225,889,147	
Net realized capital gains or (losses)	<u>5,269,614</u>	
Net investment gain or (loss)		231,158,761

Other Income

Net gain or (loss) from agents or premium balances charged off	\$ (15,969,962)	
Loss on foreign exchange rates	(2,095,714)	
Interest on funds held	(33,910,683)	
Retroactive reinsurance gain	11,868,385	
Net XOL - 1990	(22,000,000)	
Premium paid on XOL agreement-1990	(420,000)	
Aggregate write-ins for miscellaneous income	<u>(3,355,429)</u>	
Total other income		<u>(65,883,403)</u>
Net income before federal and foreign income taxes		\$ (719,760,829)
Federal income taxes		<u>(6,342,635)</u>
Net income (loss)		\$ <u>(713,418,194)</u>

Capital and Surplus Account

Surplus as regards policyholders, per report on examination as of December 31, 1999			\$ 157,945,586
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income (loss)	\$	\$ 713,418,194	
Net unrealized capital (loss)		36,990,602	
Change in not admitted assets		412,980,272	
Change in provision for reinsurance	27,801,462		
Change in foreign exchange adjustment	873,413		
Change in surplus notes	63,000,000		
Cumulative effect of change in accounting principles	56,000,000		
Surplus paid in Dividend to stockholders	133,669,252	<u>10,500,000</u>	
Total gains and losses	<u>\$ (281,344,127)</u>	<u>\$1, 173,889,069</u>	
Net increase in surplus as regards policyholders			<u>(892,544,941)</u>
Surplus as regards policyholders, per report on examination as of December 31, 2001			<u>\$ (734,599,355)</u>

#### **4. COMMON STOCKS**

The examination admitted asset of \$96,693,519 is \$177,211,168 less than the \$273,904,687 reported by the Company in its December 31, 2001 filed annual statement. The examination change represents the disallowance of the Company's investments in the common stock of its insurance subsidiaries.

Section 1408 of the New York Insurance Law limits an insurer's investment in insurance company stock to the greater of "...fifty per centum of the surplus to policyholders or sixty per centum of the surplus...". As this report reflects an insolvency, no investment in insurance company stock is permissible.

#### **5 LOSSES AND LOSS ADJUSTMENT EXPENSES**

The examination liability of \$1,902,991,199 is \$507,286,000 greater than the \$1,395,705,199 reported by the Company in its December 31, 2001 filed annual statement. The examination liability was determined in accordance with generally accepted actuarial principles and practices and was based on statistical information contained in the Company's internal records and its filed annual statements and verified by the examiner.

#### **6. PAYABLE TO LOSS PORTFOLIO TRANSFER REINSURERS**

The examination financial statements reflect a liability in the amount of \$8,257,327 for the captioned item. One of the Company's loss portfolio transfer agreements provides that the Company will pay an additional consideration directly to the reinsurers in quarterly installments from January 1, 2001 through July 1, 2005, or until the LPT is commuted. As of December 31, 2001, the Company's unpaid

obligation due to the remaining LPT reinsurers was \$8,257,327, after consideration of the amounts paid in 2001 and the portion of the LPT agreement that was commuted at the end of 2002.

## **7. LOSS PORTFOLIO TRANSFER**

The negative liability of \$(404,995,689) reported by the Company in its December 31, 2001 filed annual statement has been eliminated. As noted in Section 2G herein, subsequent to the examination date, the Company notified the Department in 2004 that its ultimate parent, Scor Paris, provided retrocessional coverage to loss portfolio transferees, the effect of which was to limit the transferees ultimate liability under the agreement. Management represented that it did not become aware of the existence of such retrocessional protection until late 2003.

Had these facts been available at the time the Company entered into the loss portfolio transfer, the Company would have been required to account for this agreement as a non-complying loss portfolio transfer pursuant to the provisions of Department Regulation 108. The financial statements set forth in this report reflect such accounting treatment.

## **8. CONCLUSION**

This examination has concluded that as of the examination date, the Company was insolvent in the amount of \$734,599,360 and its capital stock of \$5,000,000 and required to be maintained surplus of \$35,000,000 were impaired in the amounts of \$739,599,360 and \$769,599,360, respectively.

Subsequent to the examination date the Company took corrective action to eliminate the insolvency reflected in this report. These actions are set forth in Section 9 herein, "Subsequent Events".

## 9. SUBSEQUENT EVENTS

In 2002, the Company entered into an aggregate excess of loss reinsurance agreement whereby its ultimate parent provided coverage for an amount up to \$270,000,000 in excess of the loss and loss adjustment expense reserves reported by the Company as of December 31, 2001. There was no consideration paid for this coverage. The Company had exhausted this coverage as of December 31, 2003.

Additionally, at the end of calendar year 2003, the Company commuted the non-complying loss portfolio transfer agreement described herein for which credit was disallowed in this report. Finally, in 2003, the Company received a surplus contribution of \$282,000,000 from its ultimate parent. The effects of these subsequent events on the surplus as regards policyholders as determined by this examination are as follows:

Surplus as regards policyholders, per this report		\$ (734,599,360)
Add: 2003 surplus contribution	\$ 282,000,000	
Aggregate excess reinsurance	270,000,000	
Recoveries on disallowed loss portfolio transfer, net of commutation costs	<u>292,095,689</u>	<u>884,095,689</u>
Subtotal		\$ 149,496,329
Add: Insurance company stock disallowed		<u>177,211,168</u>
*Revised surplus		<u>\$ 326,707,497</u>

\* This amount does not reflect the effects of the Company's underwriting activities for accident years 2002 and 2003.

## 10. 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>
A. <u>Reinsurance</u>	
i. It was recommended that the Company maintain periodic back-ups, in magnetic form, of all information contained in the database, in unadulterated form, to support the amounts reported in its annual and quarterly statements, pursuant to Part 243 of the Department Regulation 152.	9
The Company has complied with this recommendation.	
ii. It was recommended that the Company comply with the provisions of Section 1505 of the New York Insurance Law at all times.	11
The Company has complied with this recommendation.	
B. <u>Lack of Cooperation</u>	
It was recommended that for future examinations, Company management respond fully and completely to all examination requests in a timely manner in order to ensure compliance with Section 310 of the New York Insurance Law.	16
The Company has complied with this recommendation.	
C. <u>Accounts and Records</u>	
i. It was recommended that the Company maintain all documentation that supports amounts reported in its filed annual statement.	16
The Company has complied with this recommendation.	
ii. It was recommended that the Company implement a formal reconciliation between their database of their gross premiums written, paid losses and case reserves to the amounts reported in the detailed schedules of its annual and quarterly statements.	17
The Company has complied with this recommendation.	

D. Abandoned Property Law

It was recommended that the Company annually 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. 17

The Company has complied with this recommendation.

**11. SUMMARY OF COMMENTS AND RECOMMENDATIONS**

ITEM

PAGE NO.

A. Insolvency

This examination has concluded that as of the examination date, the Company was insolvent in the amount of \$734,599,360 and its capital stock of \$5,000,000 and required to be maintained surplus of \$35,000,000 were impaired in the amounts of \$739,599,360 and \$769,599,360, respectively. 1

Subsequent to the examination date, the Company took corrective action to eliminate the insolvency reflected in this report. These actions are set forth in Item 9 herein, "Subsequent Events".

B. Holding Company

i. It is recommended that the Company charge a ceding commission rate that is fair and equitable on its variable quota share agreement pursuant to the provisions of Section 1505(d) of the New York Insurance Law. 17

ii. It is further recommended that should the Company deviate from the commission rate permitted under the reinsurance agreement and utilize a commission as set forth in an attachment statement, as defined in the agreement, such attachment statement should be submitted to the Department for review to determine if the ceding commission allowed is fair and equitable. 17

C. Loss Portfolio Transfer and Draft Commutation and Release Agreement

It is recommended that the Company report its outstanding obligations due to the LPT reinsurers as a liability in its future filed statements. 20

ITEM

PAGE NO.

Subsequent to the examination date, the Company notified the Department in 2004 that its ultimate parent, SCOR Paris, provided retrocessional coverage to transferees, the effect of which would be to limit the transferees ultimate liability under the agreement. Management represented that it did not become aware of the existence of such retrocesional protection until late 2003. 21

Had these facts been available at the time the Company entered into the loss portfolio transfer, the Company would have been required to account for this as a non-complying loss portfolio transfer pursuant to the provisions of Department Regulation 108. The financial statements set forth in this report reflect such accounting treatment. 21



State of New York  
County of Westchester

EXAMINER'S AFFIDAVIT AS TO STANDARDS AND PROCEDURES  
USED IN AN EXAMINATION

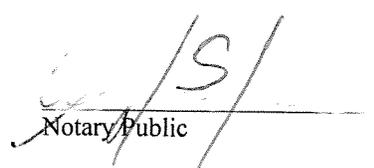
James F. O'Sullivan, BEING DULY SWORN, STATES AS FOLLOWS:

1. I have authority to represent the State of Mississippi in the examination of SCOR Reinsurance Company.
2. Mississippi is accredited under the National Association of Insurance Commissioners Financial Regulation Accreditation Standards.
3. I have reviewed the examination work papers and examination report and the examination of SCOR Reinsurance Company was performed in a manner consistent with the standards and procedures required by the State of Mississippi.

The affiant says nothing further.

  
Examiner's Signature

Subscribed and sworn before me by James F. O'Sullivan on this 5th day of May 2005.

  
Notary Public

My commission expires July 10, 2006 [date].

**ALYSSA TURKOVITZ**  
**Notary Public, State of New York**  
**No. 01TU6044514**  
**Qualified in Westchester County**  
**Commission Expires 7-10-06**

Appointment No. 21847

**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*

**SCOR REINSURANCE 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