

REPORT ON EXAMINATION

OF THE

TRYGG-HANSA INSURANCE COMPANY, LTD. (U.S. BRANCH)

AS OF

DECEMBER 31, 2005

DATE OF REPORT

FEBRUARY 15, 2008

EXAMINER

JOSEPH REVERS

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

February 15, 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 22511 dated June 6, 2006 attached hereto, I have made an examination into the condition and affairs of the United States Branch of the Trygg-Hansa Insurance Company, Ltd. as of December 31, 2005, and submit the following report thereon.

Wherever the designations "the Branch" or "Trygg-Hansa" appear herein without qualification, they should be understood to indicate the United States Branch of the Trygg-Hansa Insurance Company, Ltd. Wherever the designation "the Manager" appears herein without qualification, it should be understood to indicate G.F. Dobson and Company, LLC., the United States Manager of the Branch.

Wherever the term "Department" appears herein without qualification, it should be understood to mean the New York Insurance Department.

Wherever the terms "Company" or "Home Office" appear herein without qualification, they should be understood to mean the Trygg-Hansa Insurance Company, Ltd.

The examination was conducted at the offices of the Manager located at 25 Smith Street, Nanuet, New York 10954.

## **1. SCOPE OF EXAMINATION**

The previous examination was conducted as of December 31, 2000. This examination covered the five-year period from January 1, 2001 through December 31, 2005. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

The examination comprised a verification of assets and liabilities as of December 31, 2005. The examination included a review of income, disbursements and branch records deemed necessary to accomplish such analysis or verification and utilized, to the extent considered appropriate, work performed by the Branch's independent certified public accountants ("CPA"). A review or audit was also made of the following items as called for in the Examiners Handbook of the National Association of Insurance Commissioners ("NAIC"):

- History of Branch
- Management and control
- Corporate records
- Fidelity bond and other insurance
- Territory and plan of operation
- Loss experience
- Reinsurance
- Accounts and records
- Financial statements

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 BRANCH**

The Branch was licensed in 1976 under the laws of the State of New York as the United States Branch of Hansa Marine Insurance Company, Ltd, a Swedish insurer established in 1918. In October 1989, the Branch's home office changed its name to Trygg-Hansa Insurance Company, Ltd. and on August 6, 1990 an amended license was issued by this Department to the Branch reflecting the name change. Further, having met the financial requirements of Sections 1312 and 4103(c) of the New York Insurance Law, the Branch was granted authority to transact the kinds of business noted in Section 2 (B) of this report and for which its home office is licensed in its domiciliary jurisdiction.

The Branch placed itself in run-off on December 15, 1994, with a resolution from the home office board of directors.

A. Management

Effective May 1, 1995, G.F. Dobson & Company LLC, was appointed the United States Manager of the Branch. G.F. Dobson & Company LLC, is a New York corporation and is not part of any holding company system. The Branch's run-off operations are conducted by the Manager. Pursuant to the terms of the management agreement, the Manager was granted binding authority for and on behalf of the Branch and is appointed as the attorney-in-fact with full power and authority to invest all the Branch's funds in accordance with the insurance investment laws of New York State and the Branch's investment guidelines, to perform all administrative services, to participate in and direct all loss audits and claims administration as directed by the executive review committee and to do all other acts and things necessary or proper for the conduct of the Branch's business and operations. However, the Manager is not authorized to underwrite on the Branch's behalf nor commit the Branch to underwrite any insurance or reinsurance of any kind or nature without the prior written consent of the Branch.

The Branch does not have a board of directors. However, it has an executive review committee ("ERC") that oversees the activities of the Branch and reports to the home office. The ERC meets three times in each calendar year and keeps minutes of the meetings. At December 31, 2005, the ERC was composed of two members from the home office and one member from the Manager. The members of the ERC as of December 31, 2005 were as follows:

<u>Name</u>	<u>Company</u>
Soren Theilgaard	General Counsel and Secretary of Codan Insurance, Ltd.
Per Brandt	Senior Vice President and General Counsel of Trygg-Hansa, Sweden
Gordon Frederick Dobson	President, G.F. Dobson & Company LLC

For informational purposes, a review of the ERC minutes was performed and revealed no area of concern.

As of December 31, 2005, the principal officers of the Manager of the Branch were as follows:

<u>Name</u>	<u>Title</u>
Gordon Frederick Dobson	President, G.F. Dobson & Company LLC
Scott Eric Gottesman	Secretary and Treasurer, G.F. Dobson & Company LLC

B. Territory and Plan of Operation

As of December 31, 2005 the Branch was licensed to write business in the following states:

Arizona	New York
Delaware	Ohio
Illinois	Pennsylvania
Indiana	Tennessee
Kentucky	Texas
Maryland	West Virginia

As of the December 31, 2005, the Branch 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 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 and inland marine
21	Marine protection and indemnity

In addition, the Branch is licensed to transact such workers' compensation insurance as may be incident to coverages contemplated under paragraphs 20 and 21 of Section 1113(a) of the New York Insurance Law, including insurances described in the Longshoremen's and Harbor Workers' Compensation Act (Public Law No. 803, 69<sup>th</sup> Congress, as amended; 33 USC Section 901 et seq. as amended) to the extent permitted by certified copy of its charter on file with this Department, provided however, the authority conferred by the New York license is limited to the writing of contracts issued for delivery in the United States, insuring risks of policyholders within the United States.

Based on the lines of business for which the Branch is licensed and pursuant to the requirements of Articles 13 and 41 of the New York Insurance Law, the Branch is required to maintain a minimum trusteed surplus in the amount of \$2,200,000.

C. Reinsurance

As of December 31, 2005, the Branch had no reinsurance contracts in effect.

On July 1, 1999, the Branch entered into a contract whereby 100% of all outstanding loss and loss adjustment expense reserves were transferred to Suecia Insurance Company. The transaction was approved by the Department.

D. Holding Company System

The Company is a wholly-owned subsidiary of Trygg-Hansa Forsakring AB (Sweden), which is a member of the Royal & Sun Alliance Insurance Group, plc.

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 a chart of the holding company system at December 31, 2005:



E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2005, based upon the results of this examination:

Net premiums written to surplus as regards policyholders	0%
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	8%
Premiums in course of collection to surplus as regards policyholders	4%
Gross change in policyholders surplus	(15%)
Net change in adjusted policyholders surplus	(15%)

The above ratios denoted with an asterisk fall outside the benchmark ranges set forth in the Insurance Regulatory Information System of the National Association of Insurance Commissioners. The unusual ratios noted above are due to the Branch's runoff status and its remittances to home office.

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

	<u>Amounts</u>	<u>Ratios</u>
Losses and loss adjustment expenses incurred	(\$497,205)	(785.37)%
Other underwriting expenses incurred	749,633	1,184.10
Net underwriting loss	<u>(189,120)</u>	<u>(298.73)</u>
Premiums earned	<u>\$63,308</u>	<u>100.00%</u>

The unusual underwriting ratios noted above are due to the Branch's run-off status.

F. Accounts and Records

i. Approval of Investments

Upon review of the minutes of the meetings of the ERC, it was noted that although the minutes indicated that the Branch's investment transactions were reviewed and approved, the minutes did not include a listing of the investment transactions. It is recommended that the minutes of the ERC meetings include a listing of the investment transactions being approved, pursuant to the provisions of Section 1411(a) of the New York Insurance Law.

ii. Compliance with Department Regulation 118

Upon review of the CPA contract for the 2005 audit year it was noted that the contract stated that the workpapers must be retained by the CPA firm for five years. Pursuant to the provisions of Part 89.2(c) of Department Regulation 118, all workpapers must be retained for six calendar years from their creation or until after the filing of the report on examination in which the record was subject to review, whichever is longer. It is recommended that the Branch's contract with the CPA firm be amended to comply with the provisions of Part 89.2(c) of Department Regulation 118.

iii. Deed of Trust – Change in Trustee

During the period under examination the trustee of the Branch's trusteed assets under a deed of trust conforming with Section 1315 of the New York Insurance Law was changed from JP Morgan Chase Bank to Wells Fargo Bank. The approval of the Department is required to change the trustee under a deed of trust. The Branch has not provided any evidence that such approval was obtained.

Thus, it is recommended that the Branch submit the change in trustee under its deed of trust to the Department for approval.

### 3. FINANCIAL STATEMENTS

#### A Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2005 as determined by this examination and as reported by the Branch, which are the same:

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$6,207,375	\$ 0	\$6,207,375
Cash, cash equivalents and short-term investments	355,937	<u>0</u>	355,937
Investment income due and accrued	98,754	0	98,754
Uncollected premiums and agents' balances in the course of collection	237,568	0	237,568
Amounts recoverable from reinsurers	137,565	0	137,565
Funds held by or deposited with reinsured companies	27,626	0	27,626
Current federal and foreign income tax recoverable and interest thereon	232	0	232
Aggregate write-ins for other than invested assets	<u>(402,759)</u>	<u>0</u>	<u>(402,759)</u>
Total assets	<u>\$6,662,298</u>	<u>\$ 0</u>	<u>\$6,662,298</u>

Liabilities, Surplus and Other FundsLiabilities

Losses		\$6,145,402
Reinsurance payable on paid losses and loss adjustment expenses		1,043,936
Loss adjustment expenses		1,464,787
Other expenses (excluding taxes, licenses and fees)		30,500
Ceded reinsurance premiums payable (net of ceding commissions)		19,348
Funds held by company under reinsurance treaties		11,868
Provision for reinsurance		492,139
Aggregate write-ins for liabilities		<u>(8,685,341)</u>
Total liabilities		\$522,639

Surplus and Other Funds

Aggregate write-ins for special surplus funds	\$250,000	
Unassigned funds (surplus)	<u>5,889,659</u>	
Surplus as regards policyholders		<u>6,139,659</u>
Total liabilities, surplus and other funds		<u>\$6,662,298</u>

**NOTE:** During the period under examination, the Branch has not been audited by the Internal Revenue Service. The examiner is unaware of any potential exposure of the Branch 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 \$6,677,219 during the five-year examination period January 1, 2001 through December 31, 2005, detailed as follows:

Underwriting Income

Premiums earned		\$63,308
Deductions:		
Losses incurred	\$(1,323,993)	
Loss adjustment expenses incurred	826,788	
Other underwriting expenses incurred	<u>749,633</u>	
Total underwriting deductions		<u>252,428</u>
Net underwriting gain or (loss)		\$(189,120)

Investment Income

Net investment income earned	\$2,219,796	
Net realized capital gain	<u>2,355</u>	
Net investment gain or (loss)		2,222,151

Other Income

Aggregate write-ins for miscellaneous income	<u>\$(555,835)</u>	
Total other income		<u>(555,835)</u>
Net income after dividends to policyholders but before federal and foreign income taxes		\$1,477,196
Federal and foreign income taxes incurred		<u>53,543</u>
Net income		<u>\$1,423,653</u>

C. Capital and Surplus Accounts

Surplus as regards policyholders per report on examination as of December 31, 2000			\$12,816,878
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income	\$1,423,653		
Change in provision for reinsurance		100,872	
Net remittances from or (to) home office	_____	<u>8,000,000</u>	
Total gains and losses	<u>\$1,423,653</u>	<u>\$8,100,872</u>	
Net increase (decrease) in surplus			<u>(6,677,219)</u>
Surplus as regards policyholders per report on examination as of December 31, 2005			<u>\$6,139,659</u>

C. Trusteed Surplus Statement

The following statement shows the trustee surplus of the Branch calculated in accordance with the provisions of Section 1312 of the New York Insurance Law as of December 31, 2005:

Assets

Bonds on deposit with various states of the United States for the protection of all the Branch's policyholders and creditors within the United States:

New York	\$2,584,616	
Ohio	<u>296,082</u>	
Total		\$2,880,698

Assets held within the United States by trustees for the protection of all the Branch's policyholders and creditors within the United States:

Cash	\$ 6,043	
Bonds	2,890,723	
Accrued interest on trustee assets	<u>98,754</u>	
Total		<u>2,995,520</u>

Total assets \$5,876,218

Liabilities

Liabilities as determined by this examination \$522,639

Additions to liabilities:

Ceded reinsurance balances payable	\$19,348	
Retroactive reinsurance	<u>383,411</u>	

Total additions 402,759

Total \$925,398

Deductions from liabilities:

Reinsurance Recoverable on paid losses and loss adjustment expenses	(Authorized cos.)	\$115,748	
	(Unauthorized cos.)	21,817	
Agents' balances not more than ninety days past due		237,568	
Unpaid reinsurance premiums receivable not exceeding losses and loss adjustment expenses	(Authorized cos.)	4,679	
	(Unauthorized cos.)	<u>22,947</u>	

Total deductions 402,759

Net liabilities (per Section 1312) \$522,639

Trusteed surplus 5,353,579

Total \$5,876,218

The NAIC Trusteed Surplus Statement instructions, state that Schedule A (Deposits with State Officers) must include only securities deposited with insurance departments or officers of the various states and territories of the United States for the protection of all of the company's policyholders or policyholders and creditors within the United States. For each state and territory, a complete and accurate description of each of the assets deposited must be provided. The Branch did not report any deposit with state officers in Schedule A of its filed Trusteed Surplus Statement. Schedule A should have been completed; thus, the Branch is not in compliance with the NAIC Trusteed Surplus Statement instructions.

It is therefore recommended that the Branch fill out the trusteed surplus statement in accordance with the NAIC instructions.

#### **4. LOSSES AND LOSS ADJUSTMENT EXPENSES**

The examination liability for the captioned items of \$7,610,189 is the same as reported by the Branch as of December 31, 2005. The examination analysis was conducted in accordance with generally accepted actuarial principles and practices and was based on statistical information contained in the Branch's internal records and in its filed annual statements.

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

The prior report on examination contained no comments or recommendations.

**6. SUMMARY OF COMMENTS AND RECOMMENDATIONS**

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Accounts and Records</u>	
i. It is recommended that the minutes of the ERC meetings include a listing of the investment transactions being approved, pursuant to the provisions of Section 1411(a) of the New York Insurance Law.	7
ii. It is recommended that the Branch ensure that the contract with its CPA firm for all future audits complies with the provisions of Part 89.2(c) of Department Regulation 118.	7
iii. It is recommended that the Branch submit the change in trustee under its Deed of Trust to the New York Insurance Department for approval.	7
B. <u>Trusteed Surplus Statement</u>	
It is recommended that the Branch fill out the trustee surplus statement in accordance with the NAIC instructions.	13



Appointment No 22511

STATE OF NEW YORK  
INSURANCE DEPARTMENT

I, HOWARD MILLS, Superintendent of Insurance of the State of New York,  
pursuant to the provisions of the Insurance Law, do hereby appoint:

**Joseph Revers**

*as proper person to examine into the affairs of the*

**TRYGG-HANSA INSURANCE COMPANY LIMITED  
(UNITED STATES BRANCH)**

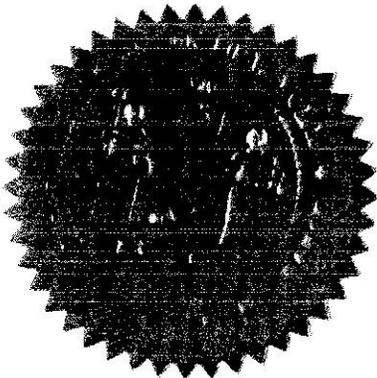
*and to make a report to me in writing of the condition of the said*

**Branch**

*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 6th day of June, 2006*



*Howard Mills*

HOWARD MILLS  
Superintendent of Insurance