

REPORT ON EXAMINATION
OF
GENERAL SECURITY INDEMNITY COMPANY
AS OF
DECEMBER 31, 2001

DATE OF REPORT

JUNE 20, 2005

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	3
B. Territory and plan of operation	5
C. Reinsurance	7
D. Holding company system	8
E. Commutation Agreement	12
F. Significant operating ratios	13
3. Financial statements	14
A. Balance sheet	14
B. Underwriting and investment exhibit	16
4. Losses and loss adjustment expenses	17
5. Market conduct activities	18
6. Subsequent events	18
7. Compliance with prior report on examination	18
8. Summary of comments and recommendations	19



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 21849, dated March 7, 2002 attached hereto, I have made an examination into the condition and affairs of the General Security Indemnity 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 "GSIND" appear herein without qualification, they should be understood to indicate General Security Indemnity 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
- Market conduct activities
- 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 Property and Casualty Company and 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 Indemnity Company was incorporated under the laws of the state of New York on December 13, 1984 under the title, "Southwest International Reinsurance Company of New York" to serve as the vehicle for the redomestication of the company from Texas. This was accomplished when the Texas company merged into the New York company on December 31, 1985. Southwest International Reinsurance Company commenced operations the same day. The present title was adopted on August 30, 1993.

Pursuant to its charter, the Company's paid up capital of \$2,500,000 consists of 2,500 shares of common stock at \$1,000 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 Paris, France	Osouf 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
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 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>
Jerome Faure	President and Chief Executive Officer
John F. Verbich	Senior Vice President and Chief Financial Officer
John T. Andrew, Jr.	Senior Vice President and Secretary
Kudret Oztap	Senior Vice President
John Petroccione	Senior Vice President

B. Territory and Plan of Operation

As of the examination date, the Company was licensed in New York. It also operates as a surplus lines carrier on a non-admitted basis in the District of Columbia and all states except Connecticut, Delaware, Maine, Michigan, New Hampshire, New Jersey, New York, and Vermont. Approximately 98% of the Company's direct writings in 2001 were concentrated in California, Louisiana, Texas and Virginia.

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	-	-	\$ 427,929
Countrywide	\$3,624,295	\$4,014,655	\$21,414,625
% New York to Countrywide	0.00%	0.00%	2.00%

As of December 31, 2001, the Company is licensed to transact the kinds of business 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 and inland marine
21	Marine protection and indemnity

The Company may also write such workers' compensation insurance as may be incidental to coverages contemplated under paragraphs 20 and 21 of Section 1113(a) including insurances described in the Longshoremen's and Harbor Workers' Compensation Act (Public Law No. 803, 69th Congress as amended). 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, the Company 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 by program administrators ("PA"). Its claims settlements are handled by 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 Company had in effect the following reinsurance ceded contracts at December 31, 2001:

<u>Type of Contract</u>	<u>Cession</u>
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.

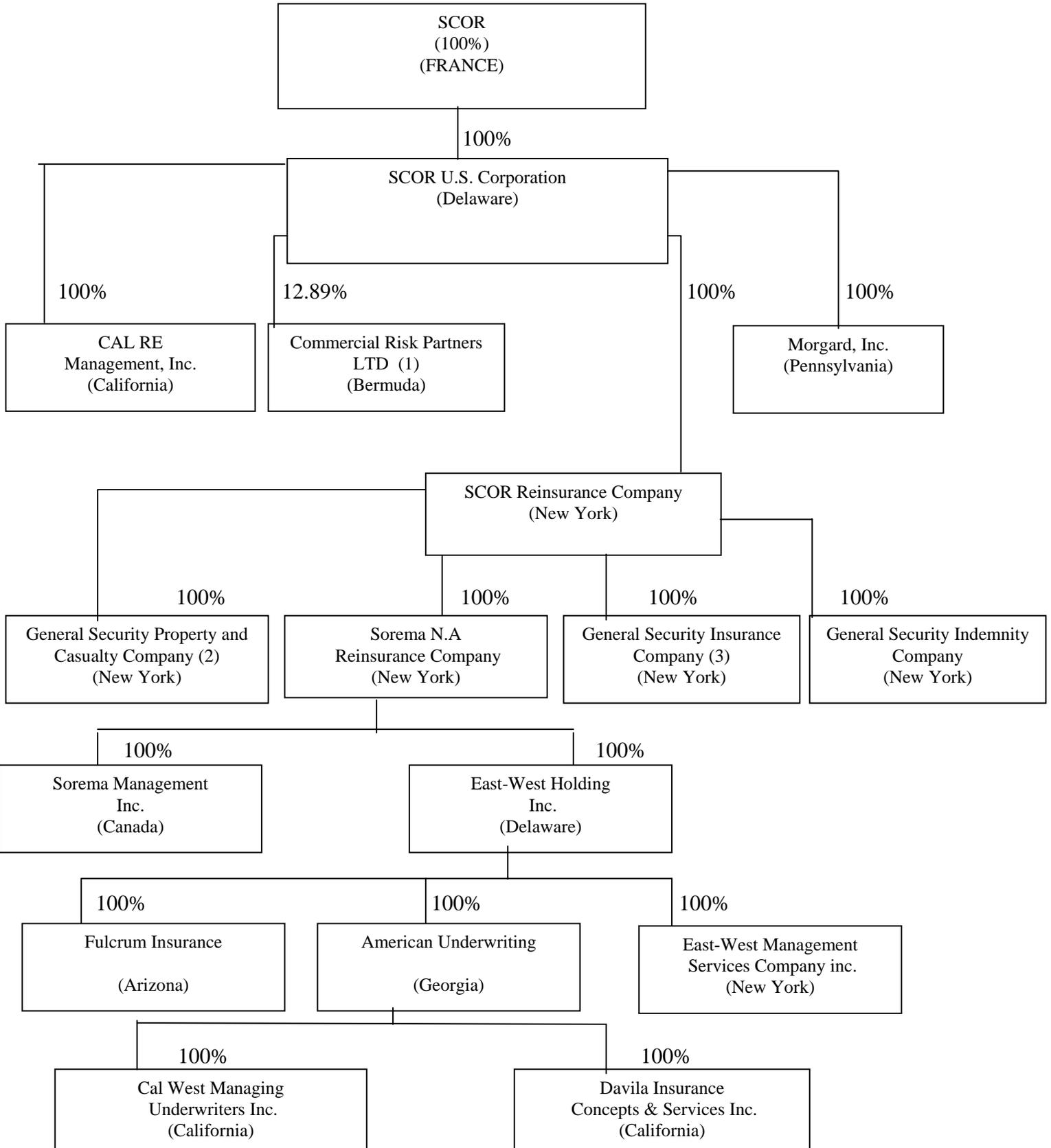
<u>Type of Contract</u>	<u>Cession</u>
“Non-SBS” Excess of Loss Unauthorized – 100%	\$6,000,000 excess of \$5,000,000, ultimate net loss, any one claim, any one risk for regional treaty and facultative business written on an individual client.
Clash Excess of Loss Unauthorized – 100%	\$25,000,000 excess 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% owned 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 as 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 Department approved the commutation agreement and the accounting therefore on December 31, 2001.

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	71: 1
Liabilities to liquid assets (cash and invested assets less investment in affiliates)	6.02%
Premiums in course of collection to surplus as regards policyholders	49.30%

All of the above ratio fall within the benchmark ranges set forth in the Insurance Regulatory Information System of the National Association of Insurance Commissioners.

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

	<u>Amounts</u>	<u>Ratios</u>
Losses incurred	\$(1,312,606)	(103.00)%
Loss adjustment expenses incurred	491,772	38.59
Other underwriting expenses incurred	373,164	29.28
Net underwriting gain	<u>1,721,989</u>	<u>135.13</u>
Premiums earned	<u>\$1,274,319</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>	Net Admitted <u>Assets</u>
Bonds	\$ 16,018,125		\$16,018,125
Cash on hand and on deposit	3,411,985		3,411,985
Short-term investments	23,238,537		23,238,537
Agents' balances	5,520,965		5,520,965
Reinsurance recoverables on loss and loss adjustment expense payments	4,500,938		4,500,938
Interest, dividends and real estate income due and accrued	<u>265,997</u>	<u> </u>	<u>265,997</u>
Total assets	<u>\$52,956,547</u>	<u>\$ 0</u>	<u>\$52,956,547</u>

Liabilities

Losses	\$1,082,482
Loss adjustment expenses	110,931
Other expenses (excluding taxes, licenses and fees)	38,786
Federal and foreign income taxes	742,195
Ceded reinsurance premiums payable (net of ceding commissions)	15,121,810
Provision for reinsurance	55,776
Payable to parent, subsidiaries, and affiliates	3,936,824
Deposit premiums	<u>80,000</u>
Total liabilities	\$21,168,804

Surplus and Other Funds

Common capital stock	\$2,500,000
Gross paid in and contributed surplus	20,500,000
Unassigned funds (surplus)	<u>8,787,743</u>
Surplus as regards policyholders	<u>31,787,743</u>
Total liabilities and surplus	<u>\$52,956,547</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 increased \$3,775,808 during the three year examination period, January 1, 1999 through December 31, 2001 detailed as follows:

Statement of Income

Underwriting Income

Premiums earned		\$1,274,319
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Deductions

Losses incurred	\$(1,312,606)	
Loss adjustment expenses incurred	491,772	
Other underwriting expenses incurred	<u>373,164</u>	
Total underwriting deductions		<u>(447,670)</u>

Net gain from underwriting		\$1,721,989
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Investment Income

Net investment income earned	\$5,708,847	
Net realized capital gains	<u>873,510</u>	
Net investment gain		6,582,357

Other Income

Miscellaneous income	\$ 178	
Retroactive reinsurance	<u>(2,444,150)</u>	
Total other income		<u>(2,443,972)</u>

Net income before federal and foreign income taxes		\$5,860,374
Federal and foreign income taxes incurred		<u>2,028,793</u>

Net income		<u>\$3,831,581</u>
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Capital and Surplus Account

Surplus as regards policyholders December 31, 1998 per report on examination			\$28,011,934
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income	\$3,831,581		
Change in provision in reinsurance		55,774	
Change in statutory reserves over statement reserves		57,534	
Cumulative effect of change in accounting principles	<u>57,535</u>	_____	
Total gains and losses	<u>\$3,889,116</u>	<u>\$113,308</u>	
Net increase in surplus			<u>3,775,808</u>
Surplus as regards policyholders December 31, 2001, per report on examination			<u>\$31,787,742</u>

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability of \$1,082,482 and \$110,931 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 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

On October 28, 2003, Scor Reinsurance Company sold its interest in the Company to Fairfax Financial Holdings, Ltd. On December 30, 2003, the Company's name was changed to Hudson Specialty 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>
A. <u>Abandoned Property Law</u>	
It is recommended that the Company file a checklist for unclaimed property with the Office of the State Comptroller annually, as required by Sections 1315 and 1316 of the New York Abandoned Property Law. The Company has complied with this recommendation.	13

8. SUMMARY OF COMMENTS AND RECOMMENDATIONS

There are no comments of recommendations included in this report.

Appointment No. 21849

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 INDEMNITY COMPANY

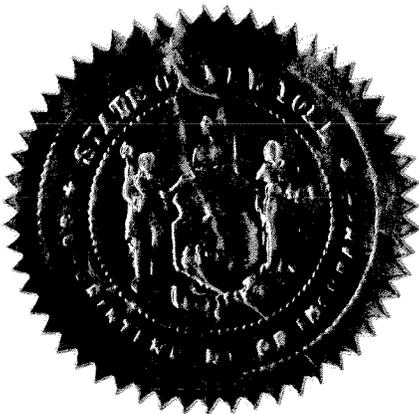
and to make a report to me in writing of the condition of the said

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