

REPORT ON EXAMINATION

OF THE

GENERAL SECURITY NATIONAL INSURANCE COMPANY

AS OF

DECEMBER 31, 2014

DATE OF REPORT

MARCH 10, 2016

EXAMINER

MARIBEL C. NUNEZ, C.P.C.U

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NEW YORK STATE
DEPARTMENT *of*
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Maria Vullo
Superintendent

March 10, 2016

Honorable Maria Vullo
Superintendent
New York State Department of Financial Services
Albany, New York 12257

Madam:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Letter Number 31218 dated September 30, 2014, attached hereto, I have made an examination into the condition and affairs of the General Security National Insurance Company as of December 31, 2014, and submit the following report thereon.

Wherever the designation “the Company” or “GSNIC” appears herein without qualification, they should be understood to indicate General Security National Insurance Company.

Wherever the term “Department” appears herein without qualification, it should be understood to mean the New York State Department of Financial Services.

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

1. SCOPE OF EXAMINATION

The Department has performed a multi-state examination of General Security National Insurance Company. The previous examination was conducted as of December 31, 2009. This examination covered the five-year period from January 1, 2010 through December 31, 2014. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

This examination was conducted in accordance with the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners Handbook (“Handbook”), which requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company and evaluate system controls and procedures used to mitigate those risks.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management’s compliance with Statutory Accounting Principles. The examiners also relied upon audit work performed by the Company’s independent public accountants when appropriate.

This examination report includes a summary of significant findings for the following items as called for in the Handbook:

- Significant subsequent events
- Company history
- Corporate records
- Management and control
- Fidelity bonds and other insurance
- Territory and plan of operation
- Growth of Company
- Loss experience
- Reinsurance
- Accounts and records
- Statutory deposits
- Financial statements
- Summary of recommendations

A review was also made to ascertain what action was taken by the Company with regard to comments and recommendations contained in the prior report on examination.

This report on examination is confined to financial statements and comments on those matters that involve departures from laws, regulations, rules or that are deemed to require explanation or description.

2. DESCRIPTION OF COMPANY

The Company was incorporated as the Copenhagen Reinsurance Company of America under the laws of the State of New York on May 15, 1980. The Company commenced underwriting on October 1, 1980, by assuming a book of the United States (“U.S.”) domiciled business of its parent, Copenhagen Reinsurance Company, Ltd. of Denmark.

On July 28, 1989, the Company’s name was changed to Sorema North America Reinsurance Company when it was acquired by Sorema N.A. Holding Corporation, a member of Groupama of France (“Groupama”).

On July 31, 2001, SCOR S.E. (“SCOR SE”) acquired 100% of the stock of Sorema N.A. Holding Corporation. SCOR SE immediately contributed 100% of the stock of the Company to SCOR Reinsurance Company (“SCOR Re”). Effective January 1, 2002, the name of the Company was changed to General Security National Insurance Company (“GSNIC”).

In early 2002, the Company ceased writing any new or renewal business and the liabilities under the existing contracts were placed into run-off.

On December 31, 2006, SCOR Re sold 100% of the outstanding stock of the Company to SCOR SE under its capital restructure plan and the Company became a direct subsidiary of SCOR SE.

The Company merged with Commercial Risk Re-Insurance Company (“CRRIC”), an affiliate whose issued and outstanding common shares were canceled without consideration and ceased to exist on December 31, 2009.

On October 1, 2010, SCOR whose contributed 100% of GSNIC common stock to SCOR U.S. at its September 30, 2010 fair value of \$133.6 million.

Effective January 1, 2011, the Company began assuming reinsurance through intercompany quota share agreements from its affiliates, SCOR Re and General Security Indemnity Company of Arizona (“GSINDA”).

In 2012, GSNIC formulated a new business plan and commenced underwriting equine lines through a MGA.

At December 31, 2014, the capital paid in was \$5,000,000 consisting of 100 shares of common stock at \$50,000 par value per share. Gross paid in and contributed surplus was \$297,207,000 and has not changed during the examination period.

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 seven nor more than thirteen members. The board meets four times during each calendar year. As of December 31, 2014, the board of directors was comprised of the following six members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Jean-Paul Conoscente White Plains, New York	Senior Vice President, Chief Underwriting Officer - Treaty SCOR Reinsurance Company
Henry Klecan, Jr. New York, New York	Chairman, President and Chief Executive Officer SCOR Reinsurance Company
Mark Kociancic Summit, New Jersey	SCOR Group Deputy CFO and Executive Vice President SCOR Reinsurance Company
Victor Yves Peignet Saint-Cloud, France	Chief Executive Officer, SCOR Global P&C
Lee H. Routledge Hoboken, New Jersey	Senior Vice President – Claims, Litigation and Discontinued Business, SCOR Reinsurance Company

Name and ResidencePrincipal Business Affiliation

Edward Nathan Wolf
New York, NY

Professor of Economics,
New York University

A review of the minutes of the board of directors' meetings held during the examination period indicated that the meetings were generally well attended and each board member had an acceptable record of attendance.

During the review of the board of directors it was observed that the Company had six members in its board of directors as of December 31, 2014. This was due to the resignation of one of its members during the fourth quarter of 2014. The director was replaced during the first quarter of 2015.

As of December 31, 2014, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Henry Klecan, Jr.	Chairman, President and CEO
Maxine Hilary Verne	Senior VP, General Counsel and Corporate Secretary
Paul Matthew Christoff	Senior VP, CFO and Treasurer

B. Territory and Plan of Operation

As of December 31, 2014, the Company was licensed to write business in all fifty states, and the District of Columbia. The Company is also an accredited reinsurer in Puerto Rico.

As of the examination date, the Company was authorized to transact the kinds of insurance as defined in the following numbered paragraphs of Section 1113(a) of the New York Insurance Law:

<u>Paragraph</u>	<u>Kind 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

As of the examination date, the Company is also licensed to write special risk insurance (free trade zone license) pursuant to Article 63 of the New York Insurance Law. Additionally, the Company may also write such workers' compensation insurance as may be incidental to coverage contemplated under paragraphs 20 and 21 of Section 1113(a) of the New York Insurance Law including insurance described in the Longshoremen's and Harbor Workers' Compensation Act and is authorized by Section 4102(c) to insure property or risks of every kind or description outside of the United States and reinsurance of every kind or description.

Based on the lines of business for which the Company is licensed, the current capital structure and pursuant to the requirements of Articles 13, 41 and 63 of the Department of Financial Services Law, the Company is required to maintain a minimum surplus to policyholders in the amount of \$35,000,000.

The following schedule shows the direct premiums written by the Company both in total and in New York for the period under examination:

<u>Calendar Year</u>	<u>New York State</u>	<u>Total United States</u>	<u>Premiums Written in New York State as a percentage of United States Premium</u>
2010	\$ (50)	\$ (50)	100.00%
2011	\$ (40)	\$ (40)	100.00%
2012	\$ 1,275	\$ 286,457	0.45%
2013	\$ 35,211	\$1,765,017	1.99%
2014	\$ 373,877	\$6,217,786	6.01%

In 2012, GSNIC formulated a new business plan and commenced underwriting equine lines through a MGA. In particular, bloodstock coverage which includes equine mortality, loss of use, barrenness, specified perils and other related risks.

It is noted that prior to being in run-off in 2002, the Company had historically underwritten property and casualty lines of insurance and reinsurance (i.e., contracts covering property damage,

such as dwellings, industrial and commercial goods, vehicles, ships, stored or transported merchandise or operating losses caused by fires or other events, including accidents or natural catastrophes as well as damages caused to third parties under civil liability coverage). Accordingly, the discontinued business includes contracts covering automobile liability, workers' compensation and general civil liability.

C. Reinsurance

Assumed reinsurance accounted for 92.54% of the Company's gross premium written as of December 31, 2014. The Company's assumed reinsurance business has increased during the period covered by this examination. The Company's assumed reinsurance program consists mainly of property/casualty coverage assumed on both a quota share and/or excess of loss basis, pursuant to the terms of the facultative and treaty agreements with both authorized and unauthorized cedents.

The Company utilizes reinsurance accounting as defined in Statement of Statutory Accounting Principle ("SSAP") No. 62 for all of its assumed reinsurance business.

The Company assumes most of its business from its affiliated company SCOR Re under a quota share agreement, whereby SCOR Re retrocedes 8.5% of all its business covering the US treaty and facultative, with the exception of aviation and space business.

At December 31, 2014, the Company had the following ceded reinsurance program with SCOR Global P&C for its treaty and facultative business:

<u>Type of Contract</u>	<u>Cession</u>
<u>Treaty</u> Property Catastrophe Excess of Loss 2 layers	\$435,000,000 in excess of \$25,000,000 ultimate net loss, each and every loss occurrence, with an annual aggregate deductible of \$25,000,000 on the first layer and an aggregate limit of \$520,000,000 on the second layer.

<u>Type of Contract</u>	<u>Cession</u>
Multi Line Excess of Loss	\$95,000,000 in excess of \$5,000,000 ultimate net loss, each and every loss occurrence, each and every risk or event, with an annual aggregate deductible of \$5,000,000 and subject to an annual aggregate limit of \$285,000,000. The agreement covers all aviation, agriculture, credit & surety, engineering and marine business.
Property per Risk Clash Excess of Loss	\$50,000,000 in excess of \$25,000,000 ultimate net loss, each and every loss occurrence, with an annual aggregate limit of \$150,000,000. The agreement excludes ocean marine, credit and surety business, and agriculture.
Facultative – SCOR Business Solution	
Property Quota Share	20% quota share of the reinsured gross liability. The agreement excludes treaty reinsurance, casualty, except for incidental exposure covered by a property acceptance, credit and surety, and aviation and space.
Casualty per Risk Excess of Loss	\$137,000,000 in excess of \$25,000,000 ultimate net loss, each and every loss occurrence, with an annual aggregate limit of \$411,000,000 and an aggregate deductible of \$10,000,000. The agreement excludes ocean marine (except offshore and shipbuilders' risks), aviation business, and treaty reinsurance.
Casualty Quota Share	95% quota share of the reinsured gross liability. The agreement excludes property, credit & surety, aviation, and auto physical damage lines of business.
Facultative Property XOL	\$15,000,000 in excess of \$10,000,000 of the ultimate net loss, each occurrence with an annual aggregate deductible of \$10,000,000. This agreement excludes treaty reinsurance, casualty, credit and

Type of ContractCession

surety, and aviation and space.

In addition, the Company entered into an Annual Aggregate Stop Loss agreement with its affiliate, SCOR Re effective January 1, 2014. The agreement protects against adverse loss development on the Company's run-off and in-force business. The Company retains 80% of net earned premium with an annual aggregate limit of 30% of net earned premium. The agreement covers treaty, facultative and insurance assumed and/or written by the Company excluding life and health business.

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

All significant ceded reinsurance agreements in effect as of the examination date were reviewed and found to contain the required clauses, including an insolvency clause meeting the requirements of Section 1308 of the New York Insurance Law.

Examination review found that the Schedule F data reported by the Company in its filed annual statement accurately reflected its reinsurance transactions. Additionally, management has represented that all material ceded reinsurance agreements transfer both underwriting and timing risk as set forth in SSAP No. 62. Representations were supported by an attestation from the Company's Chief Executive Officer and Chief Financial Officer pursuant to the NAIC Annual Statement Instructions. Additionally, examination review indicated that the Company was not a party to any finite reinsurance agreements. All ceded reinsurance agreements were accounted for utilizing reinsurance accounting as set forth in SSAP No. 62.

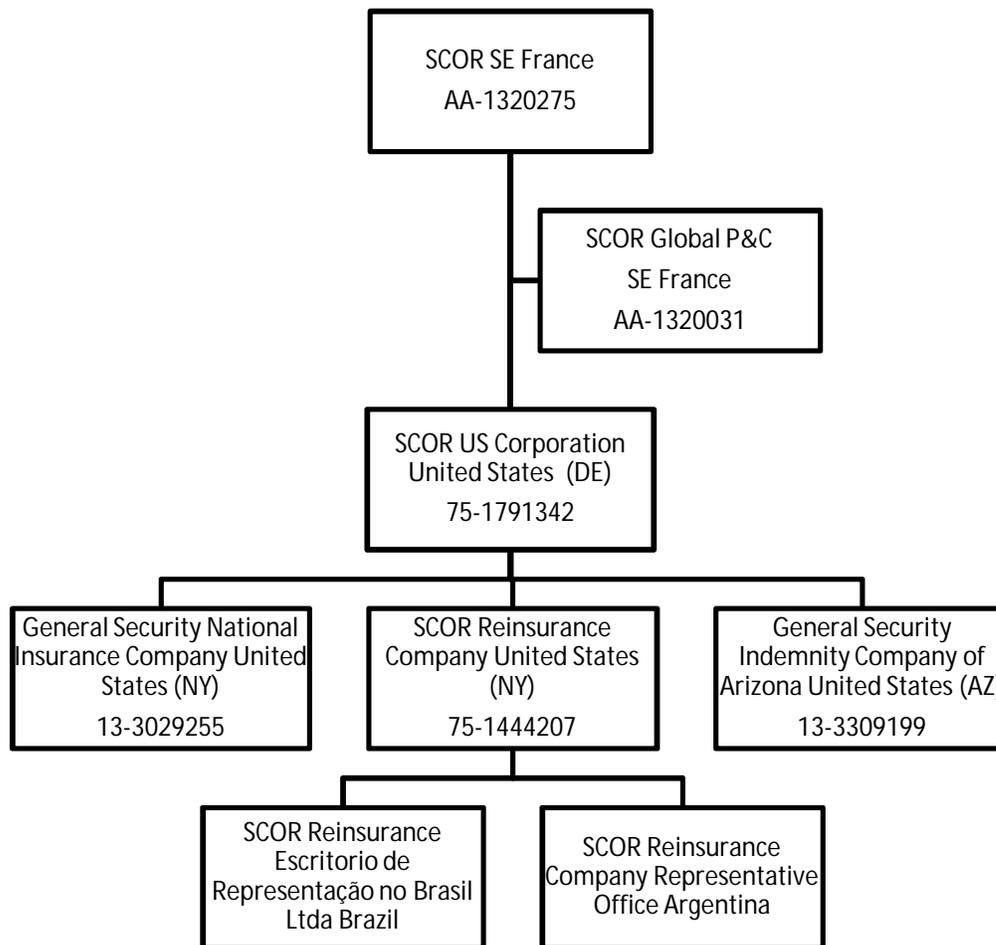
During the period covered by this examination, the Company commuted various reinsurance agreements where it was either a ceding or assuming reinsurer. These commutations resulted in gains and losses to the Company's surplus position.

D. Holding Company System

The Company is a member of the SCOR Group. The Company is a wholly-owned subsidiary of SCOR US, a Delaware corporation, which is ultimately controlled by SCOR SE France, a publicly owned French holding company of a global reinsurance group.

A review of the Holding Company Registration Statements filed with this Department indicated that such filings were complete and were filed in a timely manner pursuant to Article 15 of the New York Insurance Law and Department Regulation 52.

The following is an abridged chart of the holding company system at December 31, 2014:



As of December 31, 2014, the Company was party to the following agreements with other members of its holding company system:

Cost Sharing Agreement

Effective July 28, 2008, the Company, GSINDA, SCOR US and other affiliates entered into a cost sharing agreement with SCOR Re, whereby SCOR Re had agreed to provide services relating to data information, human resources, legal, risk management, treasury and actuarial, accounting/financial management, claims, investment management, office space and marketing. The agreement was filed with the Department pursuant to Section 1505 of the New York Insurance Law.

Parental Guarantee

Effective March 1, 2012, the Company, SCOR Re and GSINDA entered into a guarantee cost allocation agreement with the ultimate parent company SCOR SE. Under the agreement, SCOR SE guarantees on behalf of and for the benefits of the name affiliates the full and prompt performance of all their payment obligations under all insurance and reinsurance contracts. SCOR SE is required to allocate a charge to each of the subsidiaries in consideration of the guarantees provided under the parental guarantee agreement. The agreement was filed with the Department pursuant to Section 1505 of the New York Insurance Law.

Tax Sharing Agreement

Effective January 1, 2007, SCOR Re, SCOR US (Parent), GSINDA, and Cal Re Management (affiliate) are party to a tax sharing agreement. Each subsidiary will provide the parent funds to cover its individual federal income tax liability. Settlements will be made within 30 days of filing the consolidated income tax return. The agreement was amended several times to change some provisions including the addition of GSNIC on December 31, 2011. The agreement and amendments were filed with the Department pursuant to Section 1505 of the New York Insurance Law.

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2014, based upon the results of this examination:

Net premiums written to surplus as regards policyholders	80%
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	4%
Premiums in course of collection to surplus as regards policyholders	87%

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

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

	<u>Amounts</u>	<u>Ratios</u>
Losses and loss adjustment expenses incurred	\$188,814,540	72.85%
Other underwriting expenses incurred	101,356,295	39.11%
Net underwriting loss	<u>(31,003,729)</u>	<u>(11.96%)</u>
Premiums earned	<u>\$259,167,106</u>	<u>100.00%</u>

3. FINANCIAL STATEMENTS

A Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2014 as reported by the Company:

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$173,543,618	\$0	\$173,543,618
Cash, cash equivalents and short-term investments	53,701,933	0	53,701,933
Receivables for securities	1,555	0	1,555
Investment income due and accrued	1,422,841	0	1,422,841
Uncollected premiums and agents' balances in the course of collection	41,028,511	0	41,028,511
Deferred premiums, agents' balances and installments booked but deferred and not yet due	1,048	0	1,048
Amounts recoverable from reinsurers	687,648	0	687,648
Funds held by or deposited with reinsured companies	8,556,999	0	8,556,999
Net deferred tax asset	42,114,678	28,568,329	13,546,349
Receivables from parent, subsidiaries and affiliates	3,342,906	0	3,342,906
Goodwill	15,421,287	15,421,287	0
Reinsurance balances receivable	3,877,412	0	3,877,412
Prepaid benefits cost	3,160,660	3,160,660	0
Cash deposited with claims administrators	<u>2,938,528</u>	<u>0</u>	<u>2,938,528</u>
Totals	<u>\$349,799,624</u>	<u>\$47,150,276</u>	<u>\$302,649,348</u>

Liabilities, surplus and other funds

	<u>Company</u>
Losses and Loss Adjustment Expenses	\$116,448,462
Reinsurance payable on paid losses and loss adjustment expenses	8,846,647
Commissions payable, contingent commissions and other similar charges	3,333,144
Other expenses (excluding taxes, licenses and fees)	176,936
Taxes, licenses and fees (excluding federal and foreign income taxes)	227,711
Current federal and foreign income taxes	146,726
Unearned premiums	26,780,972
Ceded reinsurance premiums payable (net of ceding commissions)	2,215,672
Funds held by company under reinsurance treaties	23,738,983
Provision for reinsurance	108,872
Reinsurance reserves assumed as deposits	7,813,208
Accrued minimum pension liability	5,278,381
Direct claims payable	1,892,632
Retroactive reinsurance assumed reserves	1,785,456
Miscellaneous payable	<u>202</u>
Total liabilities	<u>198,794,004</u>
 <u>Surplus and Other Funds</u>	
Common capital stock	\$ 5,000,000
Gross paid in and contributed surplus	297,207,000
Unassigned funds (surplus)	<u>(198,351,656)</u>
Surplus as regards policyholders	<u>103,855,344</u>
 Total liabilities, surplus and other funds	 <u>\$302,649,348</u>

Note: The Internal Revenue Service has completed its audits of the Company's consolidated Federal Income Tax returns through tax year 2010. All material adjustments, if any, made subsequent to the date of examination and arising from said audits, are reflected in the financial statements included in this report. The Internal Revenue Service has not yet begun to audit tax returns covering tax years 2011 through 2014. 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. Statement of Income

Net income for the five year examination period, January 1, 2010 through December 31, 2014, was (\$8,575,962) detailed as follows:

Underwriting Income

Premiums earned		\$259,167,106
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Deductions:

Losses and loss adjustment expenses incurred	\$188,814,540	
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Other underwriting expenses incurred	<u>101,356,295</u>	
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Total underwriting deductions		<u>290,170,835</u>
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Net underwriting gain or (loss)		(31,003,729)
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Investment Income

Net investment income earned	19,486,234	
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Net realized capital gain	<u>3,532,564</u>	
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Net investment gain or (loss)		23,018,798
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Other Income

Net gain or (loss) from agents' or premium balances charged off	154,565	
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Aggregate write-ins for miscellaneous income	<u>(6,772,817)</u>	
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Total other income		<u>(6,618,252)</u>
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Net income before dividends to policyholders and before federal and foreign income taxes		(14,603,183)
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Federal and foreign income taxes incurred		<u>(6,027,221)</u>
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Net Loss		<u><u>\$(8,575,962)</u></u>
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C. Capital and Surplus Account

Surplus as regards policyholders decreased \$1,680,183 during the five-year examination period January 1, 2010 through December 31, 2014, detailed as follows:

Surplus as regards policyholders per report on examination as of December 31, 2009			\$105,535,525	
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>		
Net loss		\$8,575,962		<u>LO</u>
Net unrealized capital gains or (losses)	364,591			<u>SS</u>
Change in net unrealized foreign exchange capital gain (loss)	233,156			<u>ES</u>
Change in net deferred income tax	3,663,086			<u>AN</u>
Change in non-admitted assets		1,029,546		<u>D</u>
Change in provision for reinsurance	1,158,458			<u>LO</u>
Cumulative effect of changes in accounting principles	5,372,934			<u>SS</u>
Aggregate write-ins for gains and losses in surplus	<u>0</u>	<u>2,866,900</u>		<u>AD</u>
Net increase (decrease) in surplus	<u>10,792,225</u>	<u>12,472,408</u>	<u>(1,680,183)</u>	<u>JU</u>
Surplus as regards policyholders per report on examination as of December 31, 2014			<u>\$103,855,342</u>	<u>ST</u> <u>ME</u>

NT EXPENSES

The examination liability for the captioned items of \$116,448,462 is the same as reported by the Company as of December 31, 2014. The examination analysis of the Loss and loss adjustment expense reserves was conducted in accordance with generally accepted actuarial principles and statutory accounting principles, including the NAIC Accounting Practices & Procedures Manual, Statement of Statutory Accounting Principle No. 55.

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

There were no recommendations made on the prior report on examination.

6. SUMMARY OF COMMENTS AND RECOMMENDATIONS

There are no recommendations in the report on examination

APPOINTMENT NO. 31218

NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

I, **BENJAMIN M. LAWSKY**, Superintendent of Financial Services of the State of New York, pursuant to the provisions of the Financial Services Law and the Insurance Law, do hereby appoint:

Maribel Nuñez

as a proper person to examine the affairs of the

General Security National Insurance Company

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

COMPANY

with such other information as he shall deem requisite.

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

this 30th day of September, 2014

BENJAMIN M. LAWSKY
Superintendent of Financial Services

By:



Rolf Kaumann
Deputy Chief Examiner

