

REPORT ON EXAMINATION
OF
CORPA REINSURANCE COMPANY
AS OF
DECEMBER 31, 2000

DATE OF REPORT

MARCH 20, 2002

EXAMINER

DEBORAH SEXTON

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

GEORGE E. PATAKI
Governor

GREGORY P.SERIO
Superintendent of Insurance

March 20, 2002

Honorable Gregory V. Serio
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 21788 dated October 10, 2001, and attached hereto, I have made an examination into the condition and affairs of the Corpa Reinsurance Company as of December 31, 2000 and submit the following report thereon.

The examination was conducted at the offices of the Company located at 51 JFK Parkway, Short Hills, New Jersey.

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

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

1. SCOPE OF EXAMINATION

The prior examination was conducted as of December 31, 1995. This examination covers the five-year period from January 1, 1996 through December 31, 2000. Transactions subsequent to this period were reviewed where deemed appropriate.

The examination included a complete verification of assets and liabilities as of December 31, 2000, a review of income, disbursements, and Company records 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
- Reinsurance
- Loss experience
- Accounts and records
- Financial statements

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

2. DESCRIPTION OF THE COMPANY

The Company was incorporated on June 15, 1977, under the laws of New York and began business on September 7, 1977, as Ennia Reinsurance Company of America. On January 1, 1987, the Company adopted the name of Aegon Reinsurance Company of America. The name of Corpa Reinsurance Company was adopted on August 11, 1992.

The Company has paid in capital of \$2,600,000 and contributed surplus of \$16,590,056. Capital paid up of \$2,600,000 consists of 2,600 shares with a par value of \$1,000, all of which are owned by Aegon U.S. Holding Corporation.

A. Management

Pursuant to the Company's charter and by-laws, management is vested in a board of directors consisting of not less than 13 members nor more than 21 members. The board meets once during each calendar year. The directors as of December 31, 2000 were as follows:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Hans F. Breukhoven Norwalk, CT	Vice President, Rabobank, Nederland
Patrick DePalma Cedar Rapids, IA	President, Money Services Inc.

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Gerald Dolman New York, NY	Attorney, Physicians Reciprocal Insurers
Steven Frushtick Mamaroneck, NY	Accountant, Wiener, Frushtick & Straub
Nicholas T. Furlong Bridgewater, NJ	Consultant, Westmont Associates
Sonia Hoff Colonia, NJ	Vice President, Corpa Reinsurance Company
Eileen M. Lynch Convent Station, NJ	Sr. Vice President, Secretary and Treasurer, Corpa Reinsurance Company
David Z. Marlow Livingston, NJ	Attorney, Bennett, Ayervais & Bertrand, PC
Willett S. Moore, Jr. Darien, CT	Investor, Charter Atlantic Corporation
Jos B.M. Streppel The Hague, Netherlands	Member of the Executive Board, Aegon NV
Richard Taylor Lenox, MA	Public Relations, Rafferty Associates. Inc.
Cor H. Verhagen Sarasota, FL	President, Corpa Reinsurance Company
Craig D. Vermie Cedar Rapids, IA	Assistant General Counsel, Aegon USA

The Company is in violation of Section 1203 of the New York Insurance Law, in that it failed to have the required number of New York residents as its Board of Directors. Section 1203 requires a minimum of three directors reside within New York State. As of the exam date, only two directors resided in New York. It is recommended that the Company comply with Section 1203 of the New York Insurance Law and elect another director that resides within the state of New York.

The minutes of all meetings of the board of directors and committees thereof held during the examination period were reviewed. All directors had satisfactory attendance at these meetings.

The following were the principal officers of the Company on December 31, 2000:

<u>Name</u>	<u>Title</u>
Cor H. Verhagen	President
Eileen M. Lynch	Sr. Vice President, Secretary and Treasurer
Sonia Hoff	Vice President

B. Territory and Plan of Operation

As of the examination date, the Company was licensed in the following states:

California	Illinois
New York	Texas

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

<u>Paragraph</u>	<u>Line of Insurance</u>
3	Accident and health
4	Fire
5	Miscellaneous property
6	Water damage
7	Burglary and theft
8	Glass
9	Boiler and machinery
10	Elevator
11	Animal
12	Collision
13	Personal injury liability
14	Property damage liability
15	Workers' compensation and employers' liability
16	Fidelity and surety
17	Credit
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine (inland only)
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, USC Section 901 et. seq. as amended).

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, Corpa is required to maintain a minimum surplus to policyholders of \$2,200,000.

On September 1, 1987, the Company ceased all assumed reinsurance operations and is now in run-off. Section 1203(b) of the New York Insurance Law states:

"Any domestic insurer which ceases to do any insurance business for more than one year continuously shall forfeit its right to resume an insurance business, except with the prior approval of the superintendent. Unless such approval shall be granted, the superintendent may commence a proceeding, pursuant to the provisions of article seventy-four of this chapter to liquidate and dissolve such insurer."

The Company has committed that it will not resume writing new or renewal insurance or reinsurance in New York unless and until it has received the prior written approval of the Superintendent of Insurance of the State of New York pursuant to the provisions of Section 1203(b) of the New York Insurance Law.

The Company is actively commuting both its assumed and ceded business. As of the date of this report, the Company has commuted treaties with all but one major ceded reinsurer and negotiations are continuing with the remaining companies that comprise the majority of Corpa's assumed reserves.

C. Reinsurance

As of December 31, 2000, the Company did not maintain any active reinsurance coverage.

D. Holding Company System

The Company is a controlled insurer owned directly by Aegon U.S. Holding Corporation, a Delaware corporation, which in turn is owned by Aegon N.V., The Hague, Netherlands. Accordingly, the Company has made the appropriate filings required by Article 15 of the New York Insurance Law and Department Regulation 52.

(i) Management Agreement

The Company is a party to a management agreement with its affiliate, Short Hills Management Company, dated October 10, 1989, to handle the daily operations of Corpa, for which it is reimbursed by Corpa on a monthly basis for costs incurred. The management agreement was submitted to the Department on October 4, 1989. The agreement was amended in 1998 to reflect that the Company had previously changed its name from Aegon Reinsurance Company to Corpa Reinsurance Company.

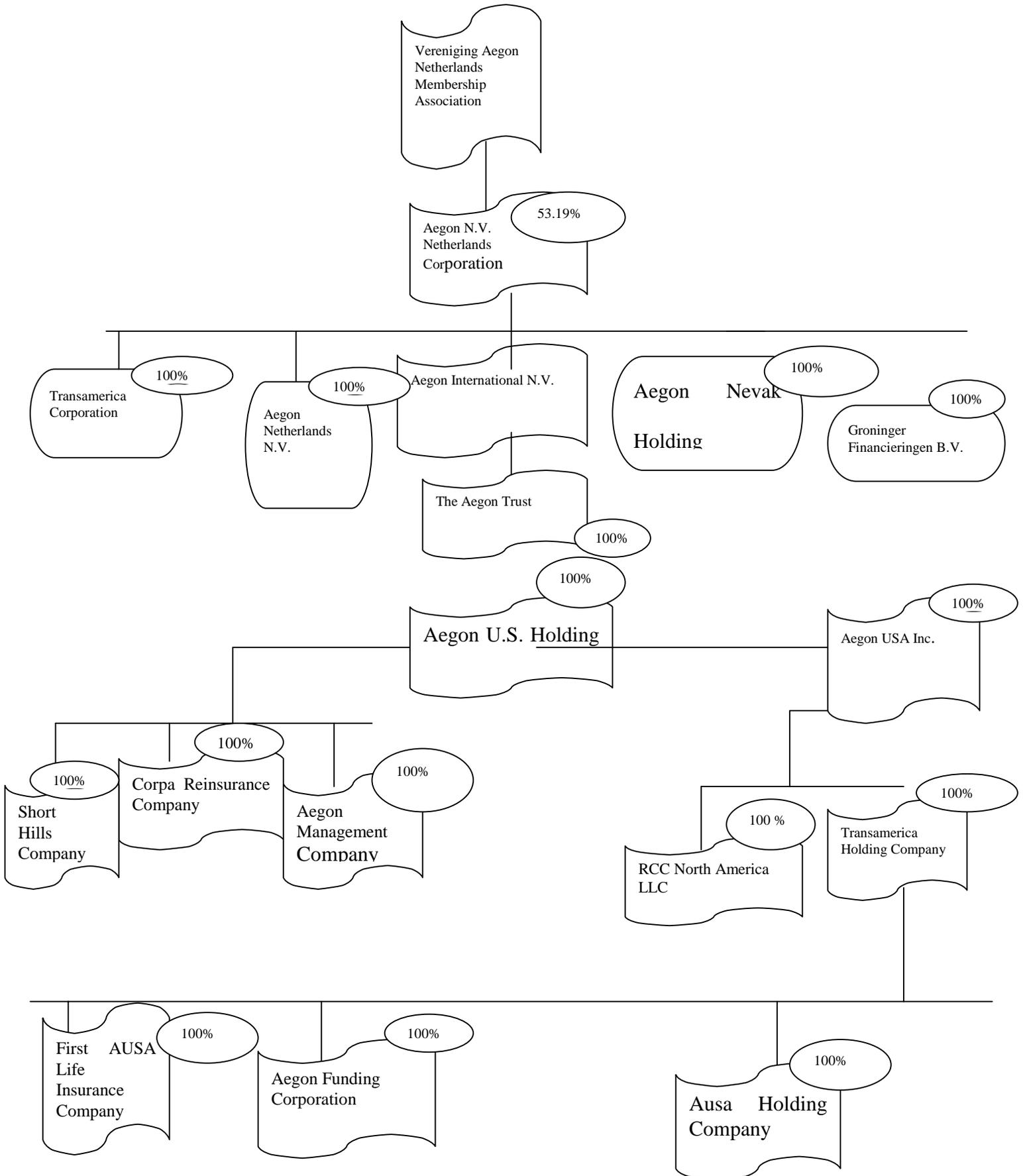
During the prior exam, it was noted that Aegon USA provides additional services, such as preparation of the federal income tax return, use of payroll systems and providing legal advice to the Company. It was recommended that the Company execute a written agreement in accordance with Section 1505 (d) of the New York Insurance Law. Short Hills Management Company has entered into an agreement with Life Investors Insurance Company of America ("LIICA"), a subsidiary of Aegon USA Insurance Company. This agreement states that LIICA may furnish Short Hills Management with certain services and may confer with them on an advisory basis and make use of some of LIICA's

resources in order to properly service Corpa Reinsurance Company and LIICA should be compensated for such services.

(ii) Tax Allocation Agreement

The Company files a consolidated income tax return with its immediate parent, Aegon U.S. Holding Corporation, pursuant to a tax allocation agreement dated October 1, 1992. The tax allocation agreement was submitted to the Department on January 9, 1997.

The following is a partial organizational chart of the holding company system:



On October 22, 1987, the Company received an infusion of funds amounting to \$20,206,294 as a result of a loan pursuant to the provisions of Section 1307 of the New York Insurance Law, from its parent Aegon U.S. Sub-Holding Corporation (subsequently merged into Aegon U.S. Holding Corporation). Section 1307 provides that neither principal nor interest can be repaid without the approval of the Superintendent. The loan was paid in full as of December 31, 2000 with the approval of the Superintendent.

E. Accounts and Records

The Company is a party to a custodian agreement with the Bank of New York for the safeguarding of its securities. During the prior examination, it was discovered that this agreement was missing several provisions, which are deemed to represent good business practices for the contents of such agreements. During the current examination period the Company has added all but one provision satisfactorily.

It is recommended that the Company amend its custodial agreement with the Bank of New York to include a provision stating that the custodian shall not transfer to or from the insurer's account unless the transfer is authorized by two officers of the insurer appointed by a resolution of the insurer's board of directors or a committee thereof.

F. Abandoned Property Law

Section 1316 of the New York Abandoned Property Law requires insurance companies to report to the State Comptroller on or before April 1, any property that is insurance related, that is deemed abandoned and has been unclaimed for a three year period. According to Section 1316 of the Abandoned Property Law, a report must be filed whether or not the Company has any abandoned property to report.

The Company did not file any abandoned property reports during the examination period. The Company stated that it had no abandoned property to report. However, the New York Abandoned Property Law requires an insurer to file an abandoned property report, even if it has no abandoned property. It is recommended that the Company file an annual report with New York State Comptrollers office in compliance with Section 1316 of the New York Abandoned Property Law.

G. Significant Operating Ratios

The significant operating ratios presented here reflect that the Company is operating in a run-off position.

The following ratios have been computed as of December 31, 2000, based upon the results of this examination:

Net premiums written in 2000 to surplus as regards policyholders	.002 : 1
Liabilities to liquid assets (cash and invested assets less investment in affiliates)	63.6%
Premiums in course of collection to Surplus as regards policyholders	less than .01%

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	\$(46,697,084)	(23622)%
Other underwriting expenses incurred	7,443,715	3765%
Net underwriting gain	<u>39,451,050</u>	<u>19957%</u>
Premiums earned	<u>\$197,681</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, 2000. This statement is the same as that filed by the Company:

<u>Assets</u>	<u>Ledger Assets</u>	<u>Non-Ledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$67,222,035	\$	\$	\$67,222,035
Cash	4,763,727			4,763,727
Cash in Transit	283,437			283,437
Premiums and agents' balances in course of collection	179,096		143,918	35,178
Funds held by or deposited with reinsured companies	69,593			69,593
Reinsurance recoverables on loss and loss adjustment expenses	133,051			133,051
Electronic data processing	8,509			8,509
Interest, dividends and real estate income due and accrued		712,792		712,792
Federal income tax recoverable and interest thereon		72,737		72,737
Total	<u>\$72,659,448</u>	<u>\$785,529</u>	<u>\$143,918</u>	<u>\$73,301,059</u>

Liabilities

Losses	\$41,045,077
Reinsurance payable on paid losses	417,744
Loss adjustment expenses	4,706,030
Other expenses	101
Taxes, licenses and fees	279
Funds held by company under reinsurance treaties	836
Provision for reinsurance	75,284
Excess of statutory reserves over statement reserves	11,265
Payable to parent, subsidiaries and affiliates	<u>226,827</u>
Total liabilities	\$46,483,443

Surplus and other Funds

Common capital stock	\$2,600,000
Gross paid in and contributed surplus	16,590,056
Unassigned funds	<u>7,627,560</u>
Surplus as regards policyholders	<u>26,817,616</u>
Total liabilities and surplus	<u>\$73,301,059</u>

Note: The Internal Revenue Department has completed its audit of the consolidated tax returns filed on behalf of Corpa Reinsurance throughout 1996. The examiner is unaware of any potential tax assessment and the Company has made no provision for any potential liability resulting from the audit.

B. Underwriting and Investment Exhibit

Surplus as regards policyholders decreased \$1,036,251 during the five-year examination period, January 1, 1996 through December 31, 2000 detailed as follows:

Statement of Income

Underwriting income

Premiums earned		\$197,681
Deductions:		
Losses and loss adjustment expenses incurred	\$(46,697,084)	
Other underwriting expenses incurred	7,443,715	
Total deductions		<u>(39,253,369)</u>
Net operating gain		39,451,050

Investment Income

Net investment income earned	\$40,612,231	
Net realized gain	<u>611,738</u>	
Net investment gain		41,223,969

Other Income

Miscellaneous income	\$10,805	
Net gain on agents' balances charged off	<u>215,303</u>	
Total Other income		<u>226,108</u>
Net income before Federal income taxes		\$80,901,127
Federal income tax incurred		<u>23,393,887</u>
Net Income		<u><u>\$57,507,240</u></u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 1995
per report on examination:

\$27,853,867

	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net Income	\$57,507,240	\$	
Excess of statutory	37,973		
Change in not admitted assets	236,770		
Dividends paid to stockholders		4,750,000	
Change in surplus due to repayment of Section 1307 loan from parent company		56,535,409	
Change in provision for reinsurance	<u>2,467,175</u>	<u> </u>	
Total gains and losses	<u>\$60,249,158</u>	<u>\$61,285,409</u>	
Net decrease in surplus as regards policyholders			<u>(1,036,251)</u>
Surplus as regards policyholders, December 31, 2000 per report on examination			<u>\$26,817,616</u>

4. LOSS AND LOSS ADJUSTMENT EXPENSES

The examination liability of \$45,751,107 is the same as the amount reported by the Company in its annual statement as of December 31, 2000. The examination reserves were calculated in accordance with generally accepted actuarial principles and practices. The amounts were based on an actuarial analysis using information contained in the Company's annual and quarterly statements as well as in its internal records as verified by the examiner.

5. 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>Management</u>	
1. It is again recommended that board members who are unwilling or unable to attend meetings consistently resign or be replaced.	5
The Company has complied with this recommendation.	
2. At December 31, 1992, the board of directors of the Company consisted of only twelve members. It is recommended that the Company comply with its by-laws and maintain thirteen directors at all times.	5
The Company has complied with this recommendation	
3. The Company could not locate statements of written consent by the shareholder for the appointment of two directors during the examination period. It is recommended that the Company exercise greater care in maintaining records of the election of its directors.	5
The Company has complied with this recommendation.	

ITEMPAGE NO.

It is again recommended that the Company obtain conflict of interest statements from all directors, officers and key employees.

The Company has complied with this recommendation.

5. It is recommended that all officers, directors and key employees of the Company make complete and accurate disclosures on annual conflict of interest statements. 6

The Company has complied with this recommendation.

B. Territory and Plan of Operation

The Company has committed that it will not resume writing new or renewal insurance or reinsurance in New York unless and until it has received the prior written approval of the Superintendent of Insurance of the State of New York pursuant to the provisions of Section 1203(b) of the New York Insurance Law. 8

This comment is repeated in the current report on examination.

C. Holding Company System

1. It is recommended that the Company comply with the annual statement instructions and disclose the amount of accrued interest in the “Notes to Financial Statements” section of its filed annual statement. 9

The Company has complied with this recommendation.

2. The Company is a party to a management agreement with an affiliate, Short Hills Management Company. The agreement was in the names of Aegon Management Company, Inc. and Aegon Reinsurance Company of America, the former names of Short Hills and Corpa respectively. It is recommended that the Company update its Management Agreement to reflect the current names of the parties to the agreement. 10

The Company has complied with this recommendation.

3. It is recommended that the Company submit its tax allocation agreement to the Department in compliance with Circular Letter 33 (1979). 10

The Company has complied with this recommendation.

<u>ITEM</u>	<u>PAGE NO.</u>
4. No written agreement exists for services performed on the Company's behalf by Aegon U.S. Holding Corporation.	11
The Company has complied with this recommendation.	
D. <u>Accounts and Records</u>	
1. It is again recommended that the Company allocate its expenses in accordance with the classifications denoted in New York Regulation 30, Part 107.3.	11
The Company has complied with this recommendation	
2. The Company did not include risk based capital balances in the five-year Historical Data exhibit in its 1995 filed annual statement. It is recommended that the Company include all relevant information required by the annual statement instructions in all future filed statements.	12
The Company has complied with this recommendation.	
3. It is recommended that the Company implement better procedures to review its reserve balances on a regular basis.	12
The Company has implemented a more timely review policy.	
4. It is recommended that the Company amend its custodial agreement with The Bank of New York to include the aforementioned missing provisions.	13
The Company has complied with this recommendation by adding all but one provision satisfactorily to the custodial agreement. A similar recommendation is included in the current report on examination.	
E. <u>Compliance with Section 325</u>	14
It is recommended that the Company amend its Section 325 Plan for the location of its books and records to comply with the requirements of Section 325(a) and (b) of the New York Insurance Law; submit the revised plan to the Department for its review and maintain those records indicated by Section 325(a) at its New York office.	
The Company has complied with this recommendation.	

6. SUMMARY OF COMMENTS AND RECOMMENDATIONS

The following are the comments and recommendations contained in this report:

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Management</u>	4
<p>It is recommended that the Company comply with Section 1203 of the New York Insurance Law and elect another director that resides within the state of New York.</p>	
B. <u>Territory and Plan of Operation</u>	6
<p>The Company has committed that it will not resume writing new or renewal insurance or reinsurance in New York unless and until it has received the prior written approval of the Superintendent of Insurance of the State of New York pursuant to the provisions of Section 1203(b) of the New York Insurance Law.</p> <p>This comment is repeated from the prior examination.</p>	
C. <u>Accounts and Records</u>	10
<p>It is recommended that the Company amend its custodial agreement with the Bank of New York to include a provision stating that the custodian shall not transfer to or from the insurer's account unless the transfer is authorized by two officers of the insurer appointed by a resolution of the insurer's board of directors or a committee thereof.</p>	
D. <u>Abandoned Property Law</u>	11
<p>It is recommended that the Company file an annual report with the New York State Controllars office in compliance with the New York Abandoned Property Law.</p>	

Respectfully submitted,

_____/S/_____
Deborah Sexton
Senior Insurance Examiner

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

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

_____/S/_____
Deborah J. Sexton

Subscribed and sworn to before me
this _____ day of _____ 2002.

Appointment No. 21788

STATE OF NEW YORK
INSURANCE DEPARTMENT

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

Deborah Sexton

as proper person to examine into the affairs of the

CORPA REINSURANCE COMPANY

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

Company

with such other information as she 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 10th day of October, 2001





GREGORY V. SERIO
Superintendent OF Insurance