REPORT ON EXAMINATION

OF

GENERAL SECURITY INDEMNITY COMPANY

AS OF

DECEMBER 31, 1998

DATE OF REPORT	SEPTEMBER 26, 2002
EXAMINER	MARC BRUCKSTEIN

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

September 26, 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 21416, dated June 7, 1999 attached hereto, I have made an examination into the condition and affairs of the General Security Indemnity Company as of December 31, 1998, and submit the following report thereon.

The examination was conducted at the Company's home office located at Two World Trade Center, New York, New York 10048-2495. Subsequent to the date of examination, upon the destruction of the Company's offices on September 11, 2001, operations were moved to 199 Water Street, New York, New York.

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 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, 1994. This examination covers the four year period from January 1, 1995 through December 31, 1998. 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, 1998, 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
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, and its affiliates, General Security Property and Casualty Company and General Security Insurance Company, all three being New York domestic insurers. Separate reports have been rendered thereon.

2. DESCRIPTION OF COMPANY

General Security Indemnity Company was incorporated on December 13, 1984 under the title Southwest International Reinsurance Company of New York under the laws 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 $1,000 par value per share of common stock. 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 fourteen members. The board meets four times during each calendar year. The directors as of December 31, 1998 were as follows:

Name and Residence	Principal Business Affiliation
Louis Anthony Adanio Morganville, New Jersey	Senior Vice President, SCOR U.S. Corporation
Jacques Patrick Blondeau Paris, France	Chairman & CEO, SCOR Paris
Allan Melville Chapin New York, New York	Senior Partner, Sullivan & Cromwell
John Roger Cox Roseland, New Jersey	Retired
Jeffrey Dale Cropsey New Canaan, Connecticut	Senior Vice President & CFO, SCOR U.S. Corporation
Robert Thomas Faber Sleepy Hollow, Illinois	Senior Vice President, SCOR Reinsurance Company
Jerome Faure Larchmont, New York	Executive Vice President, SCOR U.S. Corporation
Jerome Karter New York, New York	President & CEO, SCOR U.S. Corporation
Dominique Philippe Lavallee Toronto, Ontario, Canada	President & CEO, SCOR Canada Reinsurance Company
Serge Michel Phillippe Osouf Paris, France	President and Chief Operations Officer, SCOR, Paris France
Patrick Puegeot Paris, France	President, La Mondiale
Francois Reach Paris, France	Group Senior Vice President, SCOR, Paris France
David J. Sherwood Ponte Verde, Florida	Retired
Ellen Elizabeth Thrower New York, New York	President, The College of Insurance

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, 1998:

Name	Title
Jacques P. Blondeau	Chairman of the Board of Directors
Serge M. P. Osouf	Vice Chairman of the Board of Directors
Jerome Karter	President and Chief Executive Officer
Louis Adanio	Senior Vice President
John T. Andrews, Jr.	Senior Vice President, General Counsel & Corporate Secretary
Jeffrey D. Cropsey	Senior Vice President and Chief Financial Officer
Jerome Faure	Executive Vice President
Joseph F. Pelso	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 non-admitted basis in Washington, District of Columbia and all states except Connecticut, Delaware, Florida, Iowa, Maine, Michigan, Mississippi, New Hampshire, New Jersey, New York, Ohio, Oklahoma, Pennsylvania, Rhode Island, South Carolina, and Vermont. Approximately 98% of the Company's direct writings in 1998 were concentrated in California, Louisiana, Texas and Virginia.

During the period of examination the Company did not write any direct premiums in New York State.

As of December 31, 1998, 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:

Paragraph	Line of Insurance
3	Accident and health
4	Fire
5	Miscellaneous property

Paragraph	Line of Insurance
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) 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 (“PAs”). Its claims settlements are handled by third party administrators (“TPAs”).

C. Reinsurance

The Company had participated in an inter-company pooling agreement with certain affiliated companies. Pursuant to the terms of this agreement, which was effective January 1, 1991 through December 31, 1996 and approved by the Department on April 5, 1991, General Security Property and Casualty ("GSP&C") (formerly known as Unity Fire and General Insurance Company ("Unity"), General Security Insurance Company ("GSIC"), and General Security Indemnity Company ("GSIND") ceded their net liability under all new and renewal business written after January 1, 1991 to SCOR Reinsurance Company ("SCOR") and the entire pooled business was then allocated among the pool members as follows:

SCOR	80%
GSP&C	5
GSIC	10
GSIND	5
Total	100%

Business written prior to 1991 by the pool members was 100% ceded to SCOR.

The pooling agreement was terminated December 31, 1996, and net unearned premiums of $46,141,000, and net losses and loss adjustment expense reserves of $117,219,000, were transferred back to the pool participants that initially transferred such business to the pool. The pool was then distributed to the pool participants in accordance with established proportions.

The pooling agreement was replaced with a quota share reinsurance agreement between SCOR and its subsidiaries effective December 31, 1996. The New York Insurance Department approved the reinsurance agreement on December 18, 1996. Under this agreement, SCOR assumed 90% of GSIND, GSIC, and GSP&C net retained underwriting assets and reserves and 90% of all policies becoming effective or renewing on, or after, January 1, 1997.

The Company received permission from the New York Insurance Department to account for the assets and net liabilities related to 1991 through 1996 accident years as prospective reinsurance. However, any adverse loss development subsequent to December 31, 1996, from the 1991 through 1996 accident years, is subject to retrospective reinsurance accounting treatment.

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.

The examiners reviewed all ceded reinsurance contracts effected during the examination period. These contracts all contained the required standard clauses including the insolvency clauses meeting the requirements of Section 1308 of the New York Insurance Law.

The Company had the following reinsurance ceded contracts in effect at December 31, 1998:

Type of Contract	Cession
Casualty 100.00% unauthorized	90% of $3,500,000 excess of $2,500,000 net loss, each occurrence.
Property and Casualty and Surety 100.00% unauthorized	This is a variable retro established for specific placement, max cession 100%.
Property Catastrophe 100.00% unauthorized	
Three Layers	95% of $180,000,000 excess of $30,000,000 each loss occurrence.
Underlying Property 100.00% unauthorized	$25,000,000 excess of $5,000,000 each loss, each occurrence.

Type of Contract	Cession
Healthcare/Workers Compensation Variable Quota Share 100% unauthorized	95% maximum quota share, requires approval on a case by case basis.
Statutory Workers' Compensation Per Claimant Excess of Loss 48% authorized, 52% unauthorized	
First Layer	$3,000,000 excess of $2,000,000 each loss, each claimant.
Second Layer	$5,000,000 excess of $5,000,000 each loss each claimant.
Per Occurrence Excess of Loss	
First Layer	$3,000,000 excess $2,000,000 each loss occurrence.
Second Layer	(a) $5,000,000 excess $5,000,000 each occurrence- based on $10,000,000 statutory coverage. (b) $15,000,000 excess $5,000,000 each occurrence – based on unlimited statutory coverage.
Third Layer	$30,000,000 excess $20,000,000 each loss occurrence.
Fourth Layer	$50,000,000 excess of $50,000,000 each loss occurrence.

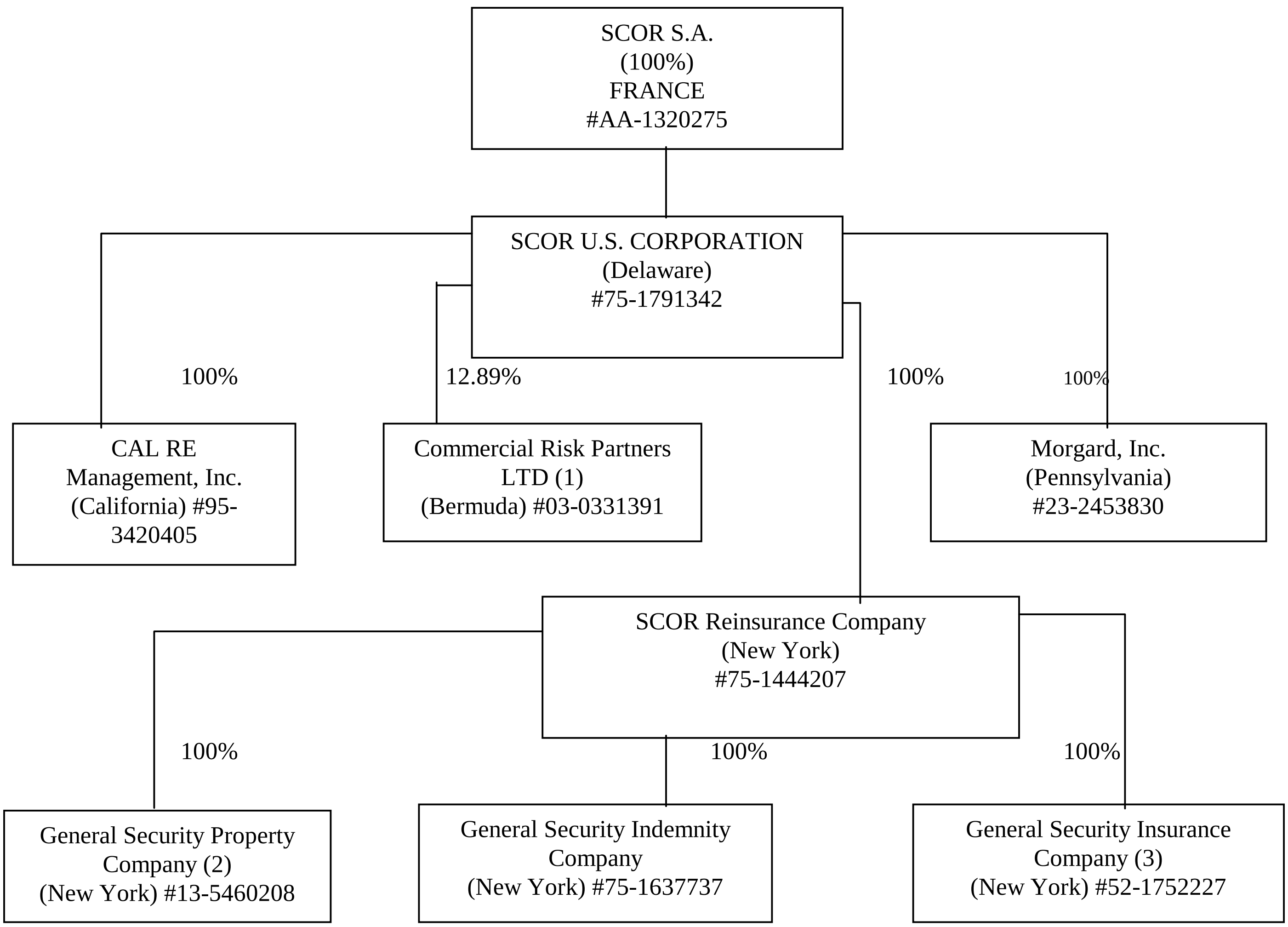
D. Holding Company System

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 S.A., 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 is a list of all entities affiliated with SCOR U.S. Corporation:

SCOR U.S. GROUP

HOLDING COMPANY CHART



1) 52.36% of Commercial Risk Partners Limited is owned by SCOR; 34.75% by Western General Insurance LTD.
2) Prior to April 18, 1996, was known as The Unity Fire & General Insurance Company
3) General Security Insurance Company redomesticated from Maryland to New York, effective 12/31/96
4)

At December 31, 1998, 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 and approved by this Department in 1991 and subsequently amended in 1991, 1994 and 1996, SCOR Reinsurance Company, SCOR U.S. Corporation, SCOR Services, Inc., Bind, Inc., NARG, Inc., California Reinsurance Management Corporation, General Security Property and Casualty Company (formerly Unity Fire and General Insurance Company), Morgard, Inc., Morgard Partners Inc., Unistrat Corporation of America, General Security Insurance Company, and General Security Indemnity Company agreed to provide and make available to each other the services of their personnel, office space, equipment and other services. The amendments were approved by this Department.

2. Tax Allocation Agreement

The Company is a party to the consolidated federal income tax return filed with the Internal Revenue Service by SCOR U.S. Corporation and its affiliates. The agreement was effective August 2, 1991 and approved by the Department on April 19, 1991. The agreement was amended May 5, 1994 and approved by the Department.

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 1998 based upon the results of this examination:

Net premiums written in 1998 to surplus as regards policyholders	.01: 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	*

* The ratio of premiums in course of collection to surplus was not calculated is due to the depooling of the SCOR Group, creating a negative premiums in course of collection.

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 four year period covered by this examination:

	Amounts	Ratios
Losses incurred	$17,856,833	60.06%
Loss adjustment expenses incurred	3,300,228	11.10
Other underwriting expenses incurred	9,589,186	32.25
Net underwriting loss	(1,015,143)	(3.41)
Premiums earned	$29,731,104	100.00%

F. Abandoned Property Law

Pursuant to Sections 1315 and 1316 of the New York Abandoned Property Law any amount issued and payable to a resident of this State shall be abandoned property if unclaimed for three years by the person entitled to the funds. Although there was no abandoned property, the Company is required to file an unclaimed property form to the Office of the State Comptroller.

It is recommended that the Company file a verification and checklist for unclaimed property form with the Office of the State Comptroller, as required by Sections 1315 and 1316 of the New York Abandoned Property Law.

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3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and surplus as determined by this examination as of December 31, 1998:

Assets	Ledger Assets	Non-ledger Assets	Not Admitted Assets	Admitted Assets
Bonds	$ 22,944,649			$22,944,649
Cash on hand and on deposit	9,141			9,141
Short-term investments	6,575,212			6,575,212
Agents' balances	(193,297)			(193,297)
Federal income tax recoverable interest thereon	133,056			133,056
Interest, dividends and real estate income due and accrued		$321,180		321,180
Total assets	$29,468,761	$321,180	$ 0	$29,789,941

Liabilities

Losses		$3,017,809
Loss adjustment expenses		152,462
Federal and foreign income taxes		224,674
Unearned premiums		139,351
Payable for securities		607,859
Retroactive reinsurance		(2,444,148)
Deposit premiums		80,000
Total liabilities		$1,778,007

Surplus

Retroactive Reinsurance	$2,444,148	
Common capital stock	2,500,000	
Gross paid in and contributed surplus	20,500,000	
Unassigned funds (surplus)	2,567,786	
Surplus as regards policyholders		$ 28,011,934
Total liabilities and surplus		$29,789,941

NOTE: The Internal Revenue Service has completed its audits of the consolidated income tax returns filed on behalf of the Company through tax year 1988. Any material adjustments made subsequent to the date of examination and arising from said audits, are reflected in the financial statements included in this report. Audits covering the tax years ended 1989 to 1996 are currently in progress, while those covering tax years 1997 – 1998 have yet to commence.

B. Underwriting and Investment Exhibit

Surplus as regards policyholders increased $8,380,516 during the four year examination period, January 1, 1995 through December 31, 1998 detailed as follows:

Statement of Income

Underwriting Income		
Premiums earned		$29,731,104
Deductions		
Losses incurred	$17,856,833	
Loss adjustment expenses incurred	3,300,228	
Other underwriting expenses incurred	9,589,186	
Total underwriting deductions		30,746,247
Net loss from underwriting		$(1,015,143)
Investment Income		
Net investment income earned	$8,589,718	
Net realized capital gains	186,798	
Net investment gain		8,776,516
Other Income		
Miscellaneous income	$ 31,325	
Loss portfolio transfer	2,446,709	
Total other income		2,478,034
Net income before federal and foreign income taxes		$10,239,407
Federal and foreign income taxes incurred		(25,750)
Net income		$10,265,157

Capital and Surplus Account

	Gains in Surplus	Losses in Surplus	
Surplus as regards policyholders December 31, 1994 per Report on Examination			$19,631,418
Net gain	$10,265,157		
Extraordinary amounts of taxes prior years		$1,884,641	
Total gains and losses	$10,265,157	$1,884,641	
Net increase in surplus			8,380,516
Surplus as regards policyholders December 31, 1998, per report on examination			$28,011,934

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for losses of $3,017,809 and loss adjustment expenses of $152,462 are the same as those reported by the Company in its December 31, 1998 filed annual statement. The examination liabilities were calculated in accordance with generally accepted actuarial principles and were based on statistical information contained in the Company's internal records and filed annual statements as 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 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. 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):

ITEM		PAGE NO.
A.	Management	
	It is recommended that the Company adhere to the requirements of Section 1201 of the New York Insurance Law and maintain at least three New York State residents on its board of directors.	5
	The Company has complied with this recommendation.	
B.	Reinsurance	
	It is recommended that the Company comply with the provisions of Section 1505(d)(2) of the New York Insurance Law and submit all intercompany reinsurance agreements to this Department for non-disapproval.	9
	The Company has complied with this recommendation.	

ITEM		PAGE NO.
C.	Holding Company System	
	The previous report on examination noted the Company, as a controlled insurer, did not file intercompany agreements or amendments thereto with the Superintendent at least thirty days prior as required by Section 1505(d)(3) of the New York Insurance Law. During the examination as of December 31, 1994, it was noted that an amendment to the Tax Allocation Agreement and an amendment to the Pooling Agreement were submitted after the effective dates of the amendments. Therefore, it is again recommended that the Company comply with the provisions of Section 1505(d)(3) of the New York Insurance Law and submit all intercompany agreements, including amendments thereto, within the time frame set forth in the statute.	11
	The Company has complied with this recommendation.	
D.	Accounts and Records	
	It is recommended that the Company correct its name on the custodial agreement with The Bank of New York to General Security Indemnity Company and to amend the agreement to include those protective covenants set forth in the body of this report.	12-13
	The Company has not complied with this recommendation	

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7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

ITEM		PAGE NO.
A.	Abandoned Property Law	
	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 Abandoned Property Law.	13

Respectfully submitted,

/S/

Marc Bruckstein
Senior Insurance Examiner

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

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

/S/

Marc Bruckstein

Subscribed and sworn to before me

this _____ day of _________ 2002.

Appointment No 21416

STATE OF NEW YORK
INSURANCE DEPARTMENT

I, NEIL D. LEVIN *, Superintendent of Insurance of the State of New York, pursuant to the provisions of the Insurance Law, do hereby appoint:*

Marc Bruckstein

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* June, 1999

NEIL D. LEVIN
Superintendent of Insurance