

REPORT ON EXAMINATION

OF THE

INTERNATIONAL CREDIT OF NORTH AMERICA REINSURANCE INC.

AS OF

DECEMBER 31, 2000

DATE OF REPORT

DECEMBER 15, 2001

EXAMINER

ROBERT A. VARGAS

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

December 15, 2001

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 21795, dated October 12, 2001, attached hereto, I have made an examination into the condition and affairs of International Credit of North America Reinsurance Inc. as of December 31, 2000 and submit the following report thereon.

Wherever the terms "Company" or "ICNA RE" appear herein, it should be understood to indicate the International Credit of North America Reinsurance Inc.

Whenever the term "Department" appears in this report, it should be understood to mean the New York State Insurance Department.

1. SCOPE OF EXAMINATION

The prior examination was conducted as of December 31, 1996. The current examination covers the four year period from January 1, 1997 through December 31, 2000, and was limited in its scope to a review or audit of only those balance sheet items considered by this Department to require analysis, verification or description, including: invested assets, and loss adjustment expense reserves. The examination included a review of income, disbursements and company records deemed necessary to accomplish such analysis or verification and utilized to the extent deemed appropriate, work performed by the Company's independent public accountants.

The examination was conducted at the Company's home office located at 39 Main Street, Chester, CT 06412.

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 which involve departures from laws, regulations or rules, or which are deemed to require explanation or description.

2. DESCRIPTION OF COMPANY

The Company was incorporated on September 9, 1988, under the laws of the State of New York. It was licensed and commenced business on January 18, 1989.

The Company is wholly-owned by International Credit of North America Holding Corporation, a Delaware holding company which in turn is wholly-owned by International Credit Insurance Corporation of Stockholm, Sweden. This corporation filed for bankruptcy on September 9, 1992, due to losses from direct financial guarantee business in Sweden.

As a result of significant losses arising also from financial guarantee business, the ultimate parent, Svenska Kredit Insurance Company also filed for bankruptcy in Stockholm, Sweden on October 29, 1992. Further details are set forth herein in item 2D, "Holding Company System."

The Company's authorized capital, \$1,000,000 consists of 1,000,000 shares of \$1.00 par value per share common stock. Gross paid in and contributed surplus totals \$4,150,244. All authorized common shares are issued and outstanding.

On January 7, 1997, the Company was given approval by the Department to declare an extraordinary dividend of \$2,833,333 to its immediate parent, International Credit of North America Holding Company ("INCA") Holding. This amount, together with a stock reduction in the amount of \$26,666,667, aggregating to \$29,500,000 was used to repay all principal and interest owed on a loan from Svenska Handelsbaken. This loan was initially taken by the ICNA Holding to start the Company. After this transaction, the Company's authorized capital stock decreased from \$3,000,000 to \$1,000,000 and the paid in capital was reduced by \$24,666,667.

A. Management

Pursuant to the Company's charter and by-laws, the Company is vested in a board of directors consisting of not less than 13 members nor more than 21 members. As of December 31, 2000, the Company had ten directors which is less than the minimum number required by Section 1202(a)(2) of the New York Insurance Law and by the Company's by-laws.

It is recommended that the Company comply with Section 1202(a)(2) of the New York Insurance Law and its by-laws by maintaining a board of directors consisting of at least 13 members.

The directors as of December 31, 2000 were as follows:

<u>Name and Residence</u>	<u>Principal Occupation</u>
Leo Francis Carlin Winchester, VA	Retired
Ernst Gunter Dahling Sleepy Hollow, NY	Retired
Tomas Ericson Greenwich, CT	Sr. Vice President, Volvo International
John Bernard Fitzgerald Devon, PA	Retired
Robert Merrill Lowd Port St. Lucie, FL	Retired
John Anthony Moore Mountain Lakes, NY	Retired
Acko Schager Stockholm	Attorney, Schager Advokatbyra, Stockholm
Vincent Theodore Schuster Daytona Beach, FL	Retired
Robert Edward O'Grady New York, NY	Retired
Steven J. Tynan Chester, CT	President and Treasurer, International Credit of North America Reinsurance Inc.

As of December 31, 2000 the principal ⁵ officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Steven J. Tynan	President and Treasurer
James Anthony Fitzpatrick, Jr.	Secretary

The board met an average of four times per calendar year during the examination period. The minutes of all the meetings of the board of directors and committees thereof held during the examination period were reviewed. All meetings were well attended.

B. Territory and Plan of Operation

The Company is licensed to do reinsurance business only in the State of New York. It ceased accepting new business in 1993 when its ultimate parent went into bankruptcy. The Company is now in run-off status.

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>Kinds of Insurance</u>
16	Fidelity and surety
17	Credit

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 in the amount of \$1,400,000.

The Company is a reinsurer and previously conducted business in both the United States and Canada. All of the Company's business was written directly through ceding companies and reinsurance brokers. However, the Company ceased writing new business in 1993, and is now in run-off status.

C. Reinsurance

The Company is in run-off. In 1998, the Company began commuting its portfolio of assumed reinsurance.

D. Accounts and Records

The Company did not file the Statement of Actuarial Opinion with the Department as of December 31, 2000, nor did the Company request its Actuary to prepare a formal Actuarial report as required in the NAIC Annual statement instructions.

It is recommended that the Company adheres to the NAIC Annual Statement instructions and files the Statement of Actuarial Opinion with the Department and requests its actuary to prepare formal Actuarial Report or file for an exemption.

E. Holding Company System

The Company is a wholly-owned subsidiary of International Credit of North America Holding Corporation, a Delaware corporation, which in turn is wholly-owned by International Credit Insurance Corporation ("ICIC") of Stockholm, Sweden. The latter is a subsidiary of a Swedish corporation, International Credit Holding in Stockholm AB ("ICH") which is owned 48.5% by Svenska Kredit and 25% each by Skandia and Trygg Hansa, all of which are Swedish corporations. Pursuant to the requirements of Section 1503 of the New York Insurance Law, the Company registered with the

Department as a controlled insurer and has filed annual reports in accordance with the requirements of Section 1504 of the New York Insurance Law and Department Regulation 52.

Inter-Company Agreement

The following inter-company agreement was in place during the examination period:

Tax Allocation Agreement

The Company participates in a tax allocation agreement with International Credit of North America Holding Companies. Under the agreement, the federal income tax liability will not be greater than the amount the Company would have paid if it had filed a separate federal income tax return. As required by Section 1505 of the New York Insurance Law and Circular Letter No. 33 (1979), the Company submitted, and the Department approved the tax allocation agreement.

F. Significant Operating Ratios

The Company has been in run-off since 1993 and the ratios have no significance.

G. Abandoned Property Law

Section 1316 of the New York State Abandoned Property Law requires the Company to file a report with the State Comptroller's Office annually, for any amount payable to residents of New York State. The Company has made the proper filings with the Office of the Comptroller.

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as determined by this examination and is the same as that reported by the Company in its filed annual statement as of December 31, 2000.

<u>Assets</u>	<u>Ledger Assets</u>	<u>Non-Ledger Assets</u>	<u>Assets not Admitted</u>	<u>Admitted Assets</u>
Cash and short-term investments	\$8,258,016	\$	\$	\$8,258,016
Funds held by or deposited with reinsurance companies	208,880			208,880
Reinsurance recoverable on loss and loss adjustment expenses	<u>455</u>	<u> </u>	<u> </u>	<u>455</u>
Total assets	<u>\$8,467,351</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$8,467,351</u>

Liabilities, Surplus and Other Funds

Losses and loss adjustment expenses		\$597,516
Reinsurance payable on paid loss and loss adjustment expenses		255,473
Other expenses		<u>25,000</u>
Total liabilities		\$877,989

Surplus and Other Funds

Common capital stock	\$1,000,000	
Gross paid in and contributed surplus	4,150,244	
Unassigned funds	<u>2,439,118</u>	
Surplus as regards policyholders		<u>7,589,362</u>
Total liabilities, surplus and other funds		<u>\$8,467,351</u>

Note: The Internal Revenue Service has not audited the consolidated income tax returns filed on behalf of the Company through the examination date. The examiner is unaware of any potential exposure of the Company to any further tax assessment and no liability has been established herein relative to such contingency.

B. Underwriting and Investment Exhibit

Surplus as regards policyholders decreased \$ 36,876,208 during the four-year examination period, January 1, 1997 through December 31, 2000 detailed as follows:

Statement of Income

Underwriting Income

Premiums earned		\$95,540
Deductions:		
Losses incurred and loss adjustment expenses incurred	\$(2,139,939)	
Other underwriting expenses incurred	<u>997,915</u>	
Total underwriting deductions		<u>(1,142,024)</u>
Net underwriting gain		\$1,237,564

Investment Income

Net investment income earned	\$4,822,537	
Net realized capital (losses)	<u>(9,378)</u>	
Net investment gain		<u>4,813,159</u>
Net income before income taxes		\$6,050,723
Federal income taxes incurred		<u>556,793</u>
Net income		<u>\$5,493,930</u>

Capital and Surplus Accounts

Surplus as regards policyholders, per report on examination as of December 31, 1996			\$44,465,570
	<u>Gains</u>	<u>Losses</u>	
Net income	\$5,493,930	\$	
Capital Contributions	400,000		
Forgiveness of intercompany income taxes payable	1,578,719		
Forgiveness of intercompany payable to ICNA Holdings	151,143		
Extraordinary dividends and stock reductions	_____	<u>44,500,000</u>	
Total gains and losses	<u>\$7,623,792</u>	<u>\$44,500,000</u>	
Net decrease in surplus as regards policyholders as of December 31, 2000			<u>36,876,208</u>
Surplus as regards policyholders as of December 31, 2000			<u><u>\$7,589,362</u></u>

4. LOSSES

The examination liability for losses of \$597,516, is the same amount as reported by the Company in its December 31, 2000 Annual Statement. The examination analysis was conducted in accordance with generally accepted actuarial principles and practices and was based on statistical information contained in the Company's internal control records and its filed annual statements. The results indicated that the reserves as established by the Company as of the examination date were adequate.

5. LOSS ADJUSTMENT EXPENSES

The Company failed to report a liability for loss adjustment expenses, which represent the expenses needed to run-off the Company's liabilities. No examination adjustment is being made due to immateriality.

However, it is recommended that the Company establish a liability for those expenses needed to runoff its business. Such liability should be equal to at least seventy-five percent of the total expenses needed to liquidate all of the Company's liabilities. It is also recommended that the Company determine the proper amounts to allocate among the expense categories on Part 4 of the Underwriting and Investment Exhibit.

6. MARKET CONDUCT ACTIVITIES

The Company is a professional reinsurer and, as such has no direct contact with insureds. Also, the Company is in run-off status.

7. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The previous report on examination as of December 31, 1996 contained thirteen comments and recommendations. (page numbers refer to the prior report):

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Management</u>	
i. It was recommended that the Company comply with Section 1202(a)(2) of the New York Insurance Law and its by-laws by maintaining a board of directors consisting of at least thirteen members.	4
The Company did not comply with this recommendation, a similar recommendation is made in this report.	
ii. It was recommended that the Board of Directors include its fees in the minutes and pass a resolution, in compliance with the Company's by-laws, setting fees to be paid to officers and non-officer directors who attend board meetings.	5
The Company complied with this recommendation.	
iii. It was recommended that Mr. Tynan, Director of the Company, formally amend his conflict of interest statement to include his position with his Constitution Partners.	6
The Company complied with this recommendation.	
B. <u>Reinsurance</u>	
It was recommended that the Company report a liability for unauthorized reinsurance in accordance with the annual statement instructions.	7
This recommendation is no longer applicable since the Company does not have any outstanding ceded reinsurance recoverables.	
C. <u>Holding Company System</u>	
It was recommended that the Company set up an escrow account in compliance with the tax allocation agreement.	9
This recommendation is no longer applicable as the Company has not paid any excess inter-company taxes to its parent, than the parent has paid per the tax allocation agreement.	
D. <u>Accounts and Records</u>	
i. It was recommended that the Company refrain reporting amounts in the Annual Statement's prior year columns that are different from those originally filed.	11

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The Company complied with this recommendation

- ii. It was recommended that the Company no longer report a liability for the organization cost of the Company paid by the holding company in its future filed statements. 12

The Company complied with its recommendation.

E. Internal Control

- i. It was recommended that that the Company establish a procedure whereby all checks above a certain amount must be endorsed by at least two officers. 12

The Company complied with this recommendation .

- ii. It was recommended that the Company remove the name of terminated employees from all lists designating authorized representatives of the Company. 12

The Company complied with this recommendation.

F. Abandoned Property Law

It was recommended that the Company comply with Section 1316 of the New York State Abandoned property Law. 13

The Company complied with this recommendation.

G. Management Agreement

It was recommended that Constitution Partners, the manager of the Company enter into a management agreement with the Company and submit such agreement to the Department. 13-14

The Company complied with this recommendation.

H. Loss Adjustment Expenses

- i. It was recommended that the Company report 75% of all its future expenses required to run off the Company in its future filed annual statements. 19

The Company did not comply with this recommendation. A similar recommendation is made in this report.

- ii. It was recommended that the Company allocate between expense classifications pursuant to New York Insurance Department Regulation 30. 19

The Company did not comply with this recommendation. A similar recommendation is made in this report.

8. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>		<u>PAGE NO.</u>
A.	<u>Management</u>	
	It is recommended again that the Company comply with Section 1202(a)(2) of the New York Insurance Law and its by-laws by maintaining a board of directors consisting of at least thirteen members.	4
B.	<u>Accounts and Records</u>	
	It is recommended that the Company adheres to the NAIC Annual Statement instructions and filed the Statement of Actuarial Opinion with the Department and requests its actuary to prepare a formal Actuarial Report or file for and exemption.	6
C.	<u>Loss Adjustment Expenses</u>	
	It is recommended that the Company establish a liability for those expenses needed to runoff its business.	12
	It is recommended again that the Company determine the proper amounts to allocate between expense classifications pursuant to Department Regulation 30.	12

Appointment No. 21795

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:

Robert Vargas

as proper person to examine into the affairs of the

**INTERNATIONAL CREDIT OF NORTH AMERICAN
REINSURANCE INC.**

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

Corporation

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 12th day of October, 2001





GREGORY V. SERIO
Superintendent of Insurance