

REPORT ON EXAMINATION  
OF THE  
SUECIA INSURANCE COMPANY  
AS OF  
DECEMBER 31, 2000

DATE OF REPORT:

FEBRUARY 28, 2002

EXAMINER:

JAMES MURPHY

## TABLE OF CONTENTS

| <u>ITEM</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                                 | 6               |
| D. Holding company system                      | 7               |
| E. Abandoned Property Law                      | 9               |
| F. Significant operating ratios                | 9               |
| 3. Financial statements                        | 10              |
| A. Balance sheet                               | 10              |
| B. Underwriting and investment exhibit         | 12              |
| 4. Loss and loss adjustment expenses           | 13              |
| 5. Compliance with prior report on examination | 14              |
| 6. Summary of comments and recommendations     | 15              |



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

February 28, 2002

Honorable Gregory Serio  
Superintendent of Insurance  
Albany, New York 12257

Sir:

Pursuant to instructions contained in Appointment No. 21807, dated December 6, 2001 and attached hereto, I have made an examination of the conditions and affairs of Suecia Insurance Company as of December 31, 2000 and submit the following report thereon.

The examination was conducted at the Company's home office, located at 25 Smith Street, Nanuet, New York 10954.

Wherever the designations "the Company" or "Suecia" appear herein without qualification, they should be understood to indicate the Suecia Insurance Company.

Wherever 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 period from January 1, 1996 through December 31, 2000. Transactions occurring subsequent to this period were reviewed where deemed necessary by the examiner.

The examination was limited in its scope and only those balance sheet items considered by this Department to require verification or analysis were reviewed. The items reviewed were cash and invested assets and loss 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 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
- Company records
- Fidelity bonds and other insurance
- Territory and plan of operation
- Business in force
- Loss experience
- Reinsurance
- Accounts and records
- Financial statements

A review was 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 require explanation or description.

## 2. DESCRIPTION OF COMPANY

The Company was incorporated as the Hansa Reinsurance Company of America on May 29, 1980, under the laws of New York and commenced business on October 31, 1980. The Company changed its name to Suecia Insurance Company on November 30, 1999.

On June 30, 2000, the Company increased the par value of its 140 common capital stock shares from \$25,000 per share to \$32,250 per share. The aggregate amount of common capital stock increased from \$3,500,000 to \$4,515,000. The gross paid-in and contributed surplus was reduced from \$41,505,500 to \$40,490,500. The Company bought back 31 shares of its common capital stock at the new par value of \$32,250 per share. At December 31, 2000, the Company had \$3,515,250 in common capital stock consisting of 109 shares of common stock with a par value of \$32,250 per share. Gross paid-in and contributed surplus was \$31,524,746.

The Company placed itself in runoff on October 1, 1993.

### A. Management

The Company is party to a management agreement with StellaRe Management Corporation (“StellaRe”), effective January 1, 1990. StellaRe was acquired by G.F. Dobson & Company LLC on April 1, 1998. StellaRe continues to manage the daily operations of the Company.

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 directors. As of the examination date, the board of directors was comprised of the following thirteen members:

| <u>Name and Residence</u>                | <u>Principal Business Affiliation</u>            |
|--|--|
| Robert A. Ansehl<br>Chappaqua, NY        | Attorney,<br>Bryan Cave LLP                      |
| Anders Barsk<br>New York, NY             | Vice President,<br>Gruss & Company               |
| Ake Brandin<br>Malmo, Sweden             | Retired  |
| E. Gunter Dahling<br>Sleepy Hollow, NY   | Retired  |
| J. Leo Daly<br>Toronto, Ontario          | President,<br>Suecia Reinsurance Company-Toronto |
| Gordon F. Dobson<br>Wyckoff, NJ          | President,<br>StellaRe                           |
| Goran Faxner<br>Danderyd, Sweden         | SEB-Parent Company                               |
| Scott Gottesman<br>Cortlandt Manor, NY   | Vice President,<br>StellaRe                      |
| Arne E. Mark<br>Greenwich, CT            | Retired  |
| George W. Murphy<br>Rockville Centre, NY | Treasurer,<br>StellaRe                           |
| Francis C. Oatway<br>Pomfort, VT         | President,<br>NER Data                           |
| Zaid Pedersen<br>Djursholm, Sweden       | SEB – Parent Company                             |

| <u>Name and Residence</u>     | <u>Principal Business Affiliation</u> |
|-------------------------------|---------------------------------------|
| Alan J. Rein<br>Scarsdale, NY | Attorney,<br>Kurzman & Eisenberg      |

The examiner's review of the minutes of the meetings of the board of directors and its committees indicated that meetings were well attended.

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

| <u>Name</u>      | <u>Title</u> |
|------------------|--------------|
| Gordon F. Dobson | President    |
| George W. Murphy | Treasurer    |
| Robert A. Ansehl | Secretary    |

B. Territory and Plan of Operation

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

|              |                |                 |                 |
|--------------|----------------|-----------------|-----------------|
| Alabama*     | Hawaii*        | Michigan        | Oklahoma        |
| Arizona*     | Idaho          | Mississippi     | Oregon          |
| Arkansas     | Illinois       | Missouri*       | Pennsylvania*   |
| California   | Indiana        | Nevada*         | Rhode Island*   |
| Connecticut* | Iowa*          | New Hampshire*  | South Carolina* |
| Colorado*    | Kansas*        | New Jersey*     | Texas           |
| Delaware*    | Louisiana      | New York        | Utah            |
| Florida*     | Maryland*      | North Carolina* | Washington      |
| Georgia*     | Massachusetts* | Ohio            |                 |

\*Accredited Reinsurer

As of December 31, 2000, 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                  |
| 17               | Credit                                     |
| 19               | Motor vehicle and aircraft physical damage |
| 20               | Marine and inland marine                   |
| 21               | Marine protection and indemnity            |

In addition, the Company is licensed to transact 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, 69<sup>th</sup> Congress, as amended; 33 USC Section 901 et seq. as amended) and the kinds of insurance and reinsurance as defined in Section 4102(c) 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 in the amount of \$35,000,000.

Prior to placing itself in runoff, the Company reinsured property and casualty business.

C. Reinsurance

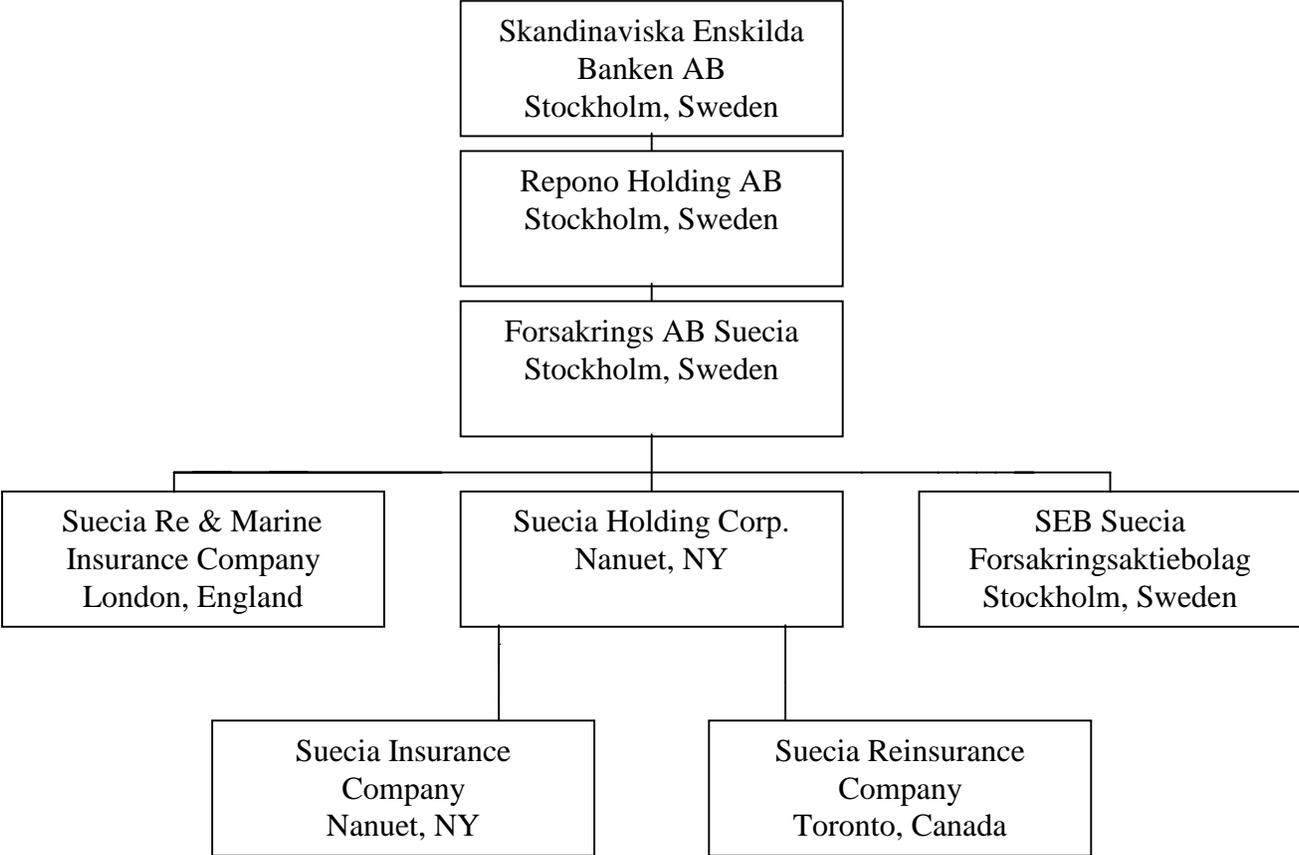
As of December 31, 2000, the Company did not maintain any active reinsurance coverage.

D. Holding Company System

The Company is a controlled insurer owned directly by Suecia Holding Corporation, a Delaware corporation, which in turn is owned by Suecia Insurance Company, Ltd., Stockholm Sweden. The ultimate holding company is Skandinaviska Enskilda Banken AB, Stockholm, Sweden.

As a member of a holding company system, the Company files registration statements as required by Article 15 of the New York Insurance Law and Department Regulation 52. All registration files were reviewed and no problem areas were encountered.

The following is the organizational chart of the holding company system as of December 31, 2000:



E. Abandoned Property Law

As a reinsurer, the Company does not have direct contact with insureds or claimants, therefore, they are not required to file an Abandoned Property report.

E. Significant Operating Ratios

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

|   |       |
|---|-------|
| Net premiums written in 2000 to policyholders surplus | 0.1:1 |
| Liabilities to liquid assets                          | 52.0% |
| Agents' balances to policyholders surplus             | 0.0%  |

All of the above ratios fall within the benchmark ranges as 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 | \$4,819,166        | 140.9 %        |
| Other underwriting expenses incurred         | 1,466,030          | 42.8           |
| Net underwriting loss                        | <u>(2,865,332)</u> | <u>(83.7)</u>  |
| Premiums earned                              | <u>\$3,419,864</u> | <u>100.00%</u> |

## 2. FINANCIAL STATEMENTS

### A. Balance Sheet

The following statements show the assets, liabilities and surplus as regards policyholders as determined by this examination as of December 31, 2000. It is the same as the balance sheet filed by the Company:

| <u>Assets</u>  | <u>Ledger<br/>Assets</u> | <u>Non-Ledger<br/>Assets</u> | <u>Not-Admitted<br/>Assets</u> | <u>Net-Admitted<br/>Assets</u> |
|--|--------------------------|------------------------------|--------------------------------|--------------------------------|
| Bonds  | \$81,007,816             | \$                           | \$169,960                      | \$80,837,856                   |
| Cash   | 83,746                   |                              |                                | 83,746                         |
| Short-term investments   | 1,793,279                |                              |                                | 1,793,279                      |
| Agents' balances or<br>uncollected premiums                                | 64,985                   |                              |                                | 64,985                         |
| Funds held by or deposited<br>with reinsured companies                     | 98,103                   |                              |                                | 98,103                         |
| Reinsurance recoverable on<br>loss and loss adjustment<br>expense payments | 12,300                   |                              |                                | 12,300                         |
| Federal income tax<br>recoverable and interest<br>thereon                  | 306,730                  |                              |                                | 306,730                        |
| Interest, dividends and<br>real estate income<br>due and accrued           |                          | 1,258,317                    |                                | 1,258,317                      |
| Loss portfolio transfer-funds<br>held                                      | <u>70,473</u>            |                              |                                | <u>70,473</u>                  |
| Total assets   | <u>\$83,437,432</u>      | <u>\$1,258,317</u>           | <u>\$169,960</u>               | <u>\$84,525,789</u>            |

Liabilities

|   |                     |
|---|---------------------|
| Losses  | \$23,920,803        |
| Reinsurance payable on paid loss and loss adjustment expenses | 74,051              |
| Loss adjustment expenses                                      | 4,265,700           |
| Contingent commissions and other similar charges              | (766,882)           |
| Other expenses  | 117,000             |
| Provision for reinsurance                                     | 11,359              |
| Miscellaneous payables  | <u>15,913,712</u>   |
| Total liabilities   | <u>\$43,535,743</u> |

Surplus and other funds

|                                       |                     |
|---------------------------------------|---------------------|
| Common capital stock                  | \$3,515,250         |
| Gross paid in and contributed surplus | 31,524,746          |
| Unassigned funds (surplus)            | <u>5,950,050</u>    |
| Surplus as regards policyholders      | <u>40,990,046</u>   |
| Total liabilities and surplus         | <u>\$84,525,789</u> |

Note: The Internal Revenue Service has completed its audits of the consolidated tax returns filed on behalf of the Company through tax year 1993. 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. Audits covering tax years 1994 through 2000 have yet to commence. 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 \$17,621,582 during the five-year examination period from January 1, 1996 through December 31, 2000 detailed as follows:

| <u>Statement of Income</u>                         |                     |
|--|---------------------|
| <u>Underwriting Income</u>                         |                     |
| Premiums earned                                    | \$ 3,419,864        |
| Deductions:  |                     |
| Losses incurred                                    | \$(4,710,842)       |
| Loss adjustment expenses incurred                  | 9,530,008           |
| Other underwriting expenses incurred               | <u>1,466,030</u>    |
| Total underwriting deductions                      | <u>\$ 6,285,196</u> |
| Net underwriting loss                              | \$(2,865,332)       |
| <br><u>Investment Income</u>                       |                     |
| Net investment income earned                       | \$26,666,323        |
| Net realized capital gains (losses)                | <u>187,696</u>      |
| Net investment gain                                | \$26,854,019        |
| <br><u>Other Income</u>                            |                     |
| Loss portfolio transfer-gain                       | <u>\$4,167,910</u>  |
| Total other income                                 | <u>\$ 4,167,910</u> |
| Net income before federal and foreign income taxes | \$28,156,597        |
| Federal income taxes incurred                      | <u>\$ 7,685,337</u> |
| Net income   | <u>\$20,471,260</u> |

Capital and Surplus Account

Surplus as regards policyholders, per report on

examination as of December 31, 1995 \$58,611,628

|  | <u>Gains in<br/>Surplus</u> | <u>Losses in<br/>Surplus</u> |                     |
|--|-----------------------------|------------------------------|---------------------|
| Net income   | \$20,471,260                | \$                           |                     |
| Net unrealized capital gains   | 352,068                     |                              |                     |
| Change in non-admitted assets  | 69,259                      |                              |                     |
| Change in provision for reinsurance  | 51,335                      |                              |                     |
| Dividends to stockholders  |                             | 28,600,000                   |                     |
| Capital changes  | 15,250 *                    |                              |                     |
| Surplus changes  | <u>                    </u> | <u>9,980,754*</u>            |                     |
| Total gains and losses   | <u>\$20,959,172</u>         | <u>\$38,580,754</u>          |                     |
| Net decrease in surplus as regards policyholders                                       |                             |                              | <u>\$17,621,582</u> |
| Surplus as regards policyholders, per report on<br>examination as of December 31, 2000 |                             |                              | <u>\$40,990,046</u> |

\* See item 2. Description of Company in this report

#### 4. LOSS AND LOSS ADJUSTMENT EXPENSES

The examination liability of \$28,816,503 is the same as the amount reported by the Company as of the examination date. The analysis was conducted in accordance with generally accepted actuarial principles and practices and was based on statistical information contained in the Company's internal records and in its filed annual statements.

## 5. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

Following are the violations, recommendations and comments contained in the prior report on examination and the subsequent actions taken by the Company in response to each citation (page numbers refer to the prior report):

| <u>Item</u> | <u>Description</u>  | <u>Page No.</u> |
|-------------|---|-----------------|
| A.          | <u>Management</u>   |                 |
| 1.          | It is recommended that board members who are unable or unwilling to attend meetings consistently resign or be replaced.<br><br>The Company has complied with this recommendation.   | 4-5             |
| 2.          | It is recommended that the Company submit to the Department all amendments to its charter and by-laws.<br><br>The Company has complied with this recommendation.  | 5               |
| B.          | <u>Territory and Plan of Operation</u>  |                 |
|             | 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.<br><br>The Company has complied with this recommendation. | 7               |
| C.          | <u>Reinsurance</u>  |                 |
|             | It is recommended that the Company obtain formal signed termination addendums for its reinsurance agreements.<br><br>The Company has complied with this recommendation.   | 7               |

| <u>Item</u> | <u>Description</u>  | <u>Page No.</u> |
|-------------|---|-----------------|
| 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.<br><br>The Company has complied with this recommendation.  | 9               |
| 2.          | It is recommended that the Company adhere to the requirements of Section 1217 of the New York Insurance Law regarding payments for electronic data processing equipment and consulting.<br><br>The Company has complied with this recommendation.   | 9               |
| 3.          | It is again recommended that the Company insist on obtaining underwriting statistics in such detail as to enable it to comply with statutory requirements and to calculate proper reserves. Subsequent to the examination date, the Company has made a dedicated effort to obtain loss data complying with statutory requirements from ceding insurers. That effort has been successful in some, but not all cases.<br><br>The Company has complied with this recommendation. | 10              |

**6. SUMMARY OF COMMENTS AND RECOMMENDATIONS**

There were no comments and recommendations in this report on examination.

Respectfully submitted,

\_\_\_\_\_  
/S/

James Murphy  
Associate Insurance Examiner

STATE OF NEW YORK )  
                                  )SS:  
COUNTY OF NEW YORK)

James Murphy, being duly sworn, deposes and says that the foregoing report, subscribed by him, is true to the best of his knowledge and belief.

\_\_\_\_\_  
/S/

James Murphy

Subscribed and sworn to before me

this \_\_\_\_\_ day of \_\_\_\_\_ 2002.

Appointment No. 21807

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:

**James Murphy**

*as proper person to examine into the affairs of the*

**SUECIA INSURANCE 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 6th day of December, 2001*



  
\_\_\_\_\_  
GREGORY V. SERIO  
Superintendent of Insurance