# REPORT ON EXAMINATION

# OF THE

# GENERALI-U.S. BRANCH

# AS OF

# DECEMBER 31, 2011

DATE OF REPORT MAY 13, 2013

EXAMINER BERNARD LOTT

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NEW YORK STATE
DEPARTMENT of
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Benjamin M. Lawsky
Superintendent

May 13, 2013

Honorable Benjamin M. Lawsky
Superintendent of Financial Services
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 30859 dated May 25, 2012, attached hereto, I have made an examination into the condition and affairs of Generali – U.S. Branch as of December 31, 2011, and submit the following report thereon.

Wherever the designation “the Branch” appears herein without qualification, they should be understood to indicate Generali – U.S. Branch. Additionally, wherever the designations “Home Office” or “Assicurazioni Generali” appear herein without qualification, they should be understood to indicate Assicurazioni Generali di Trieste e Venezia (Trieste, Italy).

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 Branch’s office located at 250 Greenwich Street, New York, New York 10007.

## 1. SCOPE OF EXAMINATION

The Department has performed an individual examination of the Branch, a multi-state insurer. The previous examination was conducted as of December 31, 2006. This examination covered the five-year period from January 1, 2007 through December 31, 2011. Transactions occurring subsequent to this period were reviewed where deemed appropriate.

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 and identify prospective risks of the Branch by obtaining information about the Branch including corporate governance, identifying and assessing inherent risks within the Branch and evaluating system controls and procedures used to mitigate those risks. This examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All financially significant accounts and activities of the Branch were considered in accordance with the risk-focused examination process. The examiners also relied upon audit work performed by the Branch'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
Branch history
Corporate records
Management and control
Fidelity bonds and other insurance
Pensions, stock ownership and insurance plans
Territory and plan of operation
Growth of Branch
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 Branch 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 or rules, or that are deemed to require explanation or description.

## 2. DESCRIPTION OF BRANCH

The Branch originally operated in the United States during the years 1935 through 1941. U.S. operations were interrupted by World War II. The Branch re-entered the United States through the State of New York on December 23, 1952 as the United States Branch of Assicurazioni Generali, an insurer originally incorporated in Trieste, Italy on December 26, 1831.

Effective January 5, 1990, the Branch, with the approval of the New York Insurance Department, changed its name to Generali-U.S. Branch.

In 1991, Mediobanca S.p.A. ("Mediobanca"), an Italian investment bank, increased its ownership share of the Branch's Home Office from 5.98% to 12.84%. This acquisition made Mediobanca, Assicurazioni Generali's largest investor, and pursuant to the New York Insurance Law ("Insurance Law"), the controlling shareholder. As of the examination date, Mediobanca's ownership share had increase to 14% of Assicurazioni Generali. See Item 2D of this report (Holding Company System) for further details.

### A. Management

As a United States branch of an alien insurer licensed in this state, the Branch operates its business through a United States manager. Since 1966, the Branch's operations have been managed by Genamerica Management Corporation ("Manager"), a New York corporation which is wholly-owned by Assicurazioni Generali. A power of attorney, made effective since 1966, authorizes the Manager to represent the Branch in all matters relating to the operations of its business and affairs. The administration of the Branch is under the direction of the Branch's president and chief executive officer.

At December 31, 2011, the Manager's board of directors was comprised of the following eight members:

| Name and Residence | Principal Business Affiliation |
|---|---|
| Francesco Bosatra<br>Trieste, Italy | Home Office Representative,<br>Assicurazioni Generali S.p.A |
| Mauricio Caneda<br>Westbury, NY | Senior Vice President,<br>Generali U.S. Branch |
| Christopher Carnicelli<br>Scarsdale, NY | Chairman,<br>Genamerica Management Corp. |
| Alessandro Corsi<br>Trieste, Italy | Home Office Representative,<br>Assicurazioni Generali S.p.A |
| David Gates<br>Olathe, KS | General Counsel,<br>Generali USA Life Reassurance Company |
| Jose Menendez<br>Closter, NJ | Executive Vice President,<br>Generali US Branch |
| John Martini<br>Glen Head, NY | President and Chief Executive Officer,<br>Generali U.S. Branch |
| Edward Ritter<br>Olathe, KS | Independent Board Member,<br>Generali USA Life Re |

A review of the minutes of the board of directors' meetings held during the examination period indicated that the meetings were generally well attended with the exception of Alessandro Corsi who attended less than 50% of the meetings for which he was eligible to attend.

Members of the board have a fiduciary responsibility and must evince an ongoing interest in the affairs of the insurer. It is essential that board members attend meetings consistently and set forth their views on relevant matters so that the board may reach appropriate decisions. Individuals who fail to attend at least one-half of the regular meetings do not fulfill such criteria. It is recommended that board members who are unable or unwilling to attend meetings consistently should resign or be replaced.

As of December 31, 2011, the principal officers of the Branch were as follows:

| Name | Title |
|---|---|
| John E. Martini | President & Chief Executive Officer |
| Jose L. Menendez | Executive Vice President and C.O.O. |
| Mauricio R. Caneda | Senior Vice President |
| Richard G. D'Amato | Senior Vice President |
| Frank B. McLaughlin | Senior Vice President |
| Dave Pochettino | Senior Vice President |

United States Trustee

Pursuant to the provisions of Section 1315 of the New York Insurance Law, an alien insurer is required to maintain in the United States trusteed assets for the security of all its policyholders and creditors within the United States and to appoint a trustee of such assets. Under the terms of a deed of trust dated September 26, 1996, the Home Office designated the Bank of New York as its United States trustee. The deed provides that legal title to the trusteed assets shall be vested in the trustee and authorizes the trustee to sell or collect any security or property and to invest and reinvest the proceeds thereof upon written direction of the Manager.

The Bank of New York is also the custodian of the securities required to be on deposit with the superintendent, pursuant to Section 1314 of the New York Insurance Law.

B. Territory and Plan of Operation

As of December 31, 2011, the Branch was license to write business in all fifty states, the District of Columbia, and the Commonwealth of Puerto Rico.

The Branch's certificate of authority authorizes it to transact the kinds of insurance as defined in the following numbered paragraphs of Section 1113(a) of the New York Insurance Law:

| Paragraph | Line of Business |
|---|---|
| 3 | Accident & 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 |

The Branch is also empowered to transact such workers’ compensation insurance as may be incidental to coverage 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 Cong. as amended; 33 USC Section 901 et seq. as amended) to the extent permitted by its charter.

Based upon the lines of business for which the Branch is licensed, and pursuant to the requirements of Articles 13 and 41 of the New York Insurance Law, the Branch is required to maintain a minimum trusteed surplus in the amount of $2,200,000.

From September 30, 2000 through December 31, 2005 the Branch ceased writing new business and was in run-off status. Prior to that, the Branch’s primary business was produced through several managing general agents (“MGA”). The Branch terminated all but one of its MGA contracts and the remaining MGA services the renewal business of the non-standard automobile policies written in California, which the Branch is required to renew by law.

On January 1, 2006, the Branch resumed writing business on United States risks of multi-national clients of its Home Office. This business was ceded 100% to affiliated and nonaffiliated insurers, thus having no impact on the Branch’s net reserves. The Branch earns administrative fees for underwriting and servicing this business.

In 2010, the Branch commenced an arrangement whereby it assumes travel related business, as more fully described in item 2C of this report.

The following schedule shows the direct premiums written by the Branch in both New York and countrywide, and percentage which the New York premiums bear to the countrywide premiums:

| Calendar Year | New York State | Total United States | Percentage of United States Premiums Written in New York State |
|---|---|---|---|
| 2007 | $763,253 | $ 9,231,917 | 8.27% |
| 2008 | $518,894 | $10,870,565 | 4.77% |
| 2009 | $700,133 | $15,187,691 | 4.61% |
| 2010 | $369,018 | $20,170,498 | 1.83% |
| 2011 | $774,040 | $25,873,268 | 2.99% |

The Branch writes mostly commercial multiple peril, Inland marine, products liability – occurrence and other liability – occurrence.

C. Reinsurance

Assumed

Assumed reinsurance accounted for 69% of the Branch's $83,030,554 of gross premium written as of December 31, 2011. The Branch's assumed reinsurance program consists of two quota share agreements on travel related risks underwritten by Stonebridge Casualty Insurance Company ("Stonebridge"). Initiated in 2010, the Branch had a 100% quota share agreement reinsuring risks designated as "Club Med" and a 40% quota share agreement covering risks designated as "travel – non Club Med."

On July 28, 2011, an amendment was executed changing the 40% quota share agreement to a 100% quota share agreement. The amendment, however, stated that the agreement was to become effective as of January 1, 2011, covering all travel insurance policies with dates of sale on or after that date. Business assumed from January 1, 2011 to July 28, 2011 under the amendment was retroceded to an unauthorized affiliate, Europ Assistance Holding Irish Branch ("EAHIB") as explained hereafter. It appears that this cession should have been accounted for as retroactive reinsurance pursuant to the Statement of Statutory Accounting Principals ("SSAP") No. 62R. The examination made no financial change due to immateriality of the retroactive cession; however it is recommended that going forward the Branch should utilize prospective accounting only for business ceded on or after the effective date of the reinsurance agreement or amendment, pursuant to SSAP No. 62R.

Ceded

The Branch's ceded reinsurance falls into two main categories, travel (Club Med and non-Club Med) and multinational business risks. The Branch has structured its ceded reinsurance program as follows:

1. The ceded travel business risk is the retrocession of the assumed travel business risks previously noted. Prior to 2011, this business, assumed from Stonebridge, was 100% retro-ceded to EAHIB, pursuant to the two retrocession agreements. In 2011, the Branch commenced its retention of 50% of the non Club Med business, while ceding 50%. The Club Med business continued to be 100% ceded to EAHIB.

2. The multi-national business is comprised of business written by the Branch, on U.S. risks of multi-national clients of Assicurazioni Generali. As of December 31, 2011, the Branch wrote mainly inland marine and commercial multi-peril (non-liability portion). This business is 100% reinsured through various quota share reinsurance agreements with mostly affiliated and some non-affiliated insurers.

Reinsurance agreements with affiliates were reviewed for compliance with Article 15 of the Insurance Law. It was noted that as of the examination date, reinsurance agreements with the following affiliated insurers were not filed with the Department pursuant to the provisions of Section 1505(d)(2) of the New York Insurance Law:

1. Generali – Rueckversicherung (Austria)
2. Generali – Assurances (France)
3. Generali – Vitalicio Serguros (Spain)
4. Generali – Versicherung (Austria)
5. Generali – Zavarovalnica (Slovenia)
6. Europ Assistance Holding Irish Branch

It is recommended that the Branch comply with Section 1505(d)(2) of the New York Insurance Law and notify the superintendent prior to entering into affiliated reinsurance agreements.

At year-end 2011, the Branch recorded $56,433,000 in reinsurance premiums ceded. An examination review found that this amount exceeded fifty percent of the Branch's unearned premium reserves as of January 1, 2011. Section 1308(e)(1) of the New York Insurance Law states in pertinent part that "…[d]uring any period of twelve consecutive months, without the superintendent's permission… no domestic insurer, except life, shall by any reinsurance agreement or agreements cede an amount of its insurance on which the total gross reinsurance premiums are more than fifty percent of the unearned premiums on the net amount of its insurance in force at the beginning of such period…"

It was noted that the Branch did not receive the Superintendent's permission as required pursuant to Section 1308(e)(1) of the New York Insurance Law. It is therefore recommended that the Branch comply with Section 1308(e)(1)(A) of the New York Insurance Law and refrain from ceding more than fifty percent of the unearned premiums on the net amount of its insurance in force at the beginning of such period, without the Superintendent's permission.

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 Insurance Law.

The examination review found that Schedule F data reported by the Branch in its filed annual statement, in all material respects, 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. 62R. Representations were supported by appropriate risk transfer analyses and an attestation from the Branch's Chief Executive Officer and Chief Financial Officer pursuant to the NAIC's Annual Statement Instructions. Additionally, the review indicated that the Branch 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.

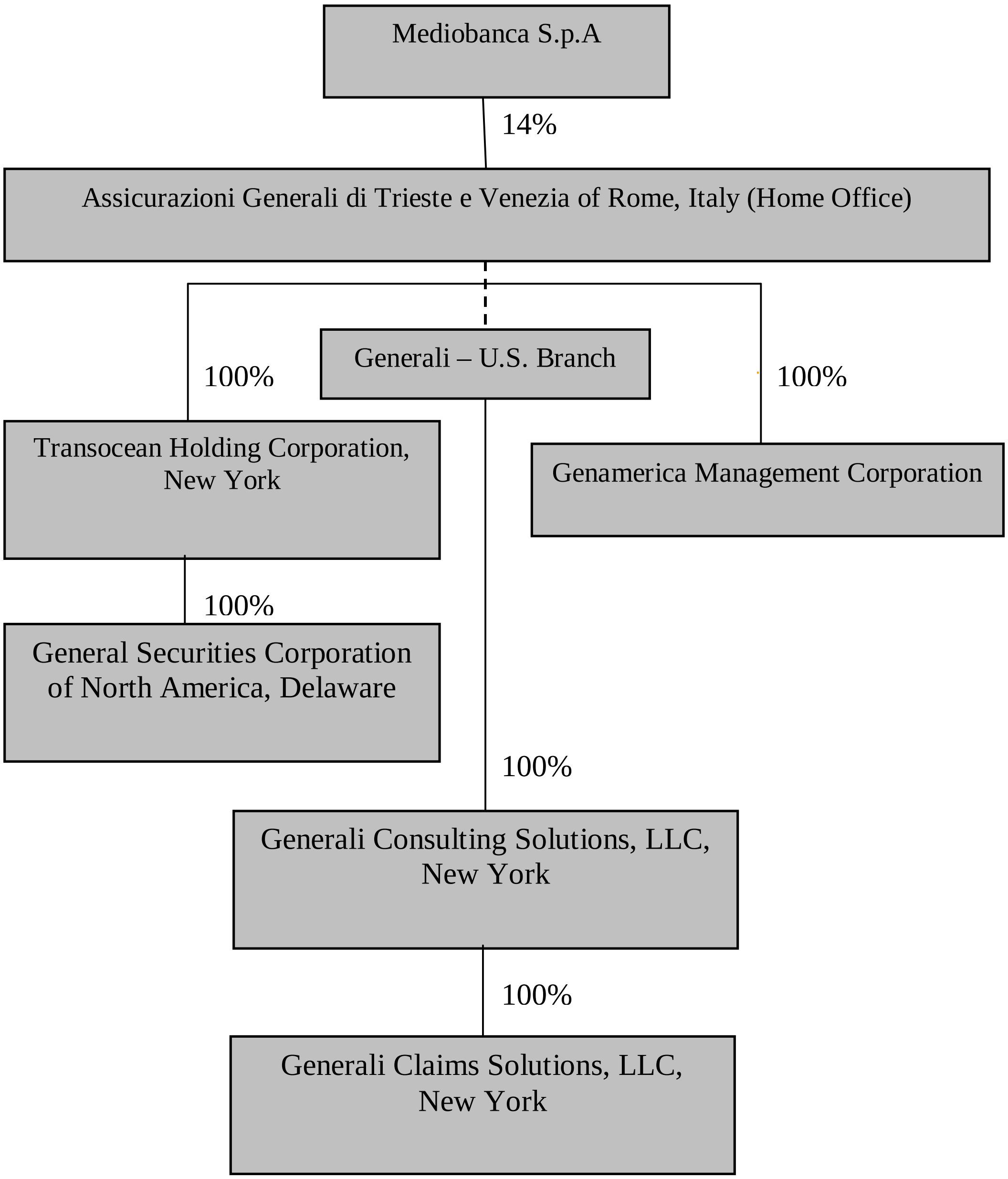
## D. Holding Company System

Pursuant to Section 1502(a) of the New York Insurance Law, authorized insurers, including alien insurers transacting business in this state through United States branches, or their subsidiaries are not deemed to be holding companies within the meaning of Article 15 of the New York Insurance Law, and accordingly are exempt from its provisions. This exemption does not apply when the alien insurer itself is deemed to be a controlled insurer.

Previously, based on the information available to the Department, the Home Office was not deemed to be a controlled insurer. However, during the examination period, it was discovered that Mediobanca S.p.A. ("Mediobanca"), an Italian bank, had previously acquired approximately 14% of the voting shares of the Home Office. Therefore, the Home Office would be considered to be a controlled insurer and part of a holding company system unless Mediobanca applied for and received a determination of non-control, which we are advised it cannot do under Italian Law. Accordingly, the Branch is deemed to be part of a holding company system and has agreed to file inter-company transactions pursuant to Section 1505 of the New York Insurance Law.

During the examination period, the Branch filed with the Department, NAIC Insurance Holding Company System Annual Registration Statements ("Form B") for the years 2009, 2010 and 2011; however, it did not file annual holding company registration statements ("Form HC1") pursuant to Part 80-1.4 of Department Regulation 52 for any of the years during the examination period. It is recommended that the Branch file a Form HC1 with the Department annually, on a going-forward basis, pursuant to the provisions of Part 80-1.4 of Department Regulation 52.

The following is an abridged chart of the holding company system at December 31, 2011:



At December 31, 2011, the Branch was party to the following agreements with other members of its holding company system:

Management Service Agreement

Effective July 25, 1966, Genamerica Management Corporation ("US Manager"), by virtue of a power of attorney dated July 14, 1966, was appointed as the United States Manager of the Branch. Pursuant to the Management Agreement, the US Manager is engaged to conduct and carry on the business and affairs of the Branch and the insurance business that the Branch transacts in all jurisdictions in which it is authorized. The US Manager is a wholly-owned subsidiary of Assicurazioni Generali.

Service Agreements

Effective January 1, 2011 the Branch has service agreements with its Home Office and the following four affiliates: Generali Claims Solutions, LLC, Generali Consulting Solutions, LLC, Montcalm Wine Importers Ltd. and Transocean Holding Corporation. Under these agreements, the Branch agrees to provide services for the benefit of the respective affiliate for: salaries, employee benefits and relations, payroll taxes and equipment expenses. It also provides for rent expense, printing and stationery, postage and telephone, and insurance. The affiliates agree to pay a share of the services based on a formula detailed in their respective agreement. Each agreement remains in full force for a term of 12 months from the commencement date. Pursuant to Section 1505 of the New York Insurance Law these agreements were submitted to the Department. After review the Department had no objections to any of the agreements, with the exception of Montcalm Wine Importers Ltd. Agreement. The approval of this agreement is still pending.

## E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2011, based upon the results of this examination:

| | | |
|---|---|---|
| Net premiums written to surplus as regards policyholders | 1.50 to 1 | |
| Liabilities to liquid assets (cash and invested assets less investments in affiliates) | 108% | * |
| Premiums in course of collection to surplus as regards policyholders | 43% | * |

The above ratios denoted with an asterisk fall outside the benchmark range set forth in the Insurance Regulatory Information System of the National Association of Insurance Commissioners. This appears to be due primarily to a net increase in reinsurance related liabilities and the examination change for unpaid losses and loss adjustment expenses. The remaining ratio falls within the benchmarks ranges.

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

| | Amounts | Ratios |
|---|---|---|
| Losses and loss adjustment expenses incurred | $3,656,890 | 12.90% |
| Other underwriting expenses incurred | 23,487,524 | 82.88 |
| Net underwriting gain | 1,195,774 | 4.22 |
| Premiums earned | $28,340,188 | 100.00% |

F. Accounts and Records

Prohibited loan

At December 31, 2011, the Branch reported an admitted asset in the amount of $2,000,000 under the caption "Receivables from parent, subsidiaries and affiliates" for a loan to an affiliate, Montcalm Wine Importers, Ltd. Pursuant to a loan agreement, the loan principal plus accrued interest thereon, was to be repaid by December 30, 2012. Loans to affiliates are prohibited pursuant to Section 1407(a)(4) of the New York Insurance Law, which prohibits investments in:

> (4) Obligations, shares or other securities (including certificates of deposit) issued by a parent corporation or a corporation which is an affiliate or will be an affiliate after direct or indirect acquisition by the insurer."

It is recommended that the Branch take due care to comply with Section 1407(a)(4) of the New York Insurance Law with regards to non-reserve and prohibited investments for a property/casualty insurer.

Accordingly, the examination has deducted the prohibited investment as a "not-admitted" asset pursuant to Section 1412(b) of the Insurance Law, which states that "…[e]very domestic insurer shall forthwith dispose of any investment acquired in violation of the law in force at the date of acquisition. … In determining the financial condition of any such insurer, the value of any wholly ineligible investments, and the value of any investment in excess of any limitation prescribed in this chapter, shall be deducted as a non-admitted asset of such insurer."

It is recommended that the Branch comply with Section 1412(a) of the New York Insurance Law with regards to the disposal of prohibited investments. Subsequently, the Branch settled the loan.

Inter-company receivable

At December 31, 2011, the Branch reported a $408,880 receivable from an affiliate, Generali Consulting Services. A review determined that $333,692 of this asset was over ninety days past due. SSAP No. 96 (Settlement requirements for intercompany transactions) states in part that "…[a]mounts owed to the reporting entity over ninety days from the written agreement due date shall be nonadmitted…" It is recommended that the Branch comply with SSAP No. 96 when determining the admissibility of receivables with related parties.

# 3. FINANCIAL STATEMENTS

## A Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2011 as determined by this examination and as reported by the Branch:

| Assets | Examination Assets | Examination Assets Not Admitted | Examination Net Admitted Assets | Company Net Admitted Assets | Surplus Increase (Decrease) |
|---|---|---|---|---|---|
| Bonds | $35,459,925 | $0 | $35,459,925 | $35,459,925 | $ 0 |
| Common stocks | 156,420 | 156,420 | 0 | 0 | 0 |
| Cash, cash equivalents and short-term investments | 11,365,576 | 0 | 11,365,576 | 11,365,576 | 0 |
| Other - Pension | 3,153,052 | 2,417,881 | 735,171 | 735,171 | 0 |
| Investment income due and accrued | 212,129 | 0 | 212,129 | 212,129 | 0 |
| Uncollected premiums and agents' balances in the course of collection | 10,014,923 | 2,362,852 | 7,652,071 | 7,652,071 | 0 |
| Amounts recoverable from reinsurers | 12,454,177 | 0 | 12,454,177 | 12,454,177 | 0 |
| Electronic data processing equipment and software | 3,866 | 3,866 | 0 | 0 | 0 |
| Receivables from parent, subsidiaries and affiliates | 2,816,448 | 2,333,692 | 482,756 | 2,816,448 | (2,333,692) |
| Leasehold Improvements | 470,054 | 470,054 | 0 | 0 | 0 |
| Advances | 24,432 | 24,432 | 0 | 0 | 0 |
| Totals assets | $76,131,002 | $7,769,197 | $68,361,805 | $70,695,497 | $(2,333,692) |

Liabilities, surplus and other funds

| | Examination | Company | Surplus Increase (Decrease) |
|---|---|---|---|
| Losses and loss adjustment expenses | $21,183,345 | $18,473,345 | $(2,710,000) |
| Reinsurance payable on paid losses and loss adjustment expenses | 3,106,324 | 3,106,324 | 0 |
| Other expenses (excluding taxes, licenses and fees) | 360,308 | 360,308 | 0 |
| Current federal and foreign income taxes | 14,380 | 14,380 | 0 |
| Unearned premiums | 9,490 | 9,490 | 0 |
| Ceded reinsurance premiums payable (net of ceding commissions) | 15,074,611 | 15,074,611 | 0 |
| Amounts withheld or retained by company for account of others | 61,467 | 61,467 | 0 |
| Provision for reinsurance | 8,396,972 | 8,396,972 | 0 |
| Drafts outstanding | 11,093 | 11,093 | 0 |
| Minimum pension liability | 2,385,284 | 2,385,284 | 0 |
| Total liabilities | $50,603,274 | $47,893,274 | $(2,710,000) |
| | | | |
| Statutory deposits | $ 500,000 | $ 500,000 | $ 0 |
| Unassigned funds (surplus) | 17,258,531 | 22,302,223 | (5,043,692) |
| Surplus as regards policyholders | $17,758,531 | $22,802,223 | $(5,043,692) |
| | | | |
| Totals | $68,361,805 | $70,695,497 | $(2,333,692) |

Note: The Internal Revenue Service has not audited the Branch's Federal Income Tax returns for the years covered by this examination. The examiner is unaware of any potential exposure of the Branch to any tax assessment and no liability has been established herein relative to such contingency.

B. Statement of Income

Surplus as regards policyholders decreased $1,714,849 during the five-year examination period January 1, 2007 through December 31, 2011, detailed as follows:

| | | |
|---|---|---|
| Underwriting Income | | |
| Premiums earned | | $28,340,188 |
| Deductions: | | |
| Losses and loss adjustment expenses incurred | $ 3,656,890 | |
| Other underwriting expenses incurred | 23,487,524 | |
| Aggregate write-ins for underwriting deductions | 0 | |
| Total underwriting deductions | | 27,144,414 |
| Net underwriting gain or (loss) | | $ 1,195,774 |
| Investment Income | | |
| Net investment income earned | $ 8,164,141 | |
| Net realized capital gain | 0 | |
| Net investment gain or (loss) | | $ 8,164,141 |
| Other Income | | |
| Net gain or (loss) from agents' or premium balances charged off | $( 916,021) | |
| Finance and service charges not included in premiums | 0 | |
| Pension liability | (2,059,328) | |
| Total other income | | $( 2,975,349) |
| Net income after dividends to policyholders but before federal and foreign income taxes | | $ 6,384,566 |
| Federal and foreign income taxes incurred | | 14,380 |
| Net Income | | $ 6,370,186 |

| | Gains in Surplus | Losses in Surplus | |
|---|---|---|---|
| Surplus as regards policyholders per report on examination as of December 31, 2006 | | | $19,473,380 |
| Net income | $ 6,370,186 | | |
| Net unrealized capital gains or (losses) | | $ 161,874 | |
| Change in nonadmitted assets | 8,634,598 | | |
| Change in provision for reinsurance | | 1,455,729 | |
| Net remittances from or (to) home office | | 5,000,000 | |
| Pension surplus adjustment | 0 | 10,102,030 | 0 |
| Net increase (decrease) in surplus | $15,004,784 | $16,719,633 | $( 1,714,849) |
| Surplus as regards policyholders per report on examination as of December 31, 2011 | | | $17,758,531 |

C. Trusteed Surplus Statement

The following statement shows the trusteed surplus of the Branch calculated in accordance with Section 1312 of the New York Insurance Law and as determined by this examination:

| | | |
|---|---|---|
| Assets | | |
| Bonds deposited with the state insurance departments for the protection of all policyholders and creditors within the United States: | | |
| New York | $ 3,898,532 | |
| Texas | 55,693 | |
| Accrued interest thereon | 27,261 | |
| Total deposits with state insurance departments | | $ 3,981,486 |
| Vested in and held by United States Trustee: | | |
| Cash | $ 1,562,598 | |
| Bonds | 33,387,5880 | |
| Total trusteed assets | | $34,950,186 |
| Total gross assets | | $38,931,672 |
| Liabilities | | |
| Total liabilities per examination results | | $50,603,274 |
| Deduction from liabilities: | | |
| Reinsurance recoverable on paid losses: | | |
| Authorized companies | 967,000 | |
| Unauthorized companies | 11,487,000 | |
| Special deposits, not exceeding net liabilities carried in this statement on liabilities in each respective state | 3,132,000 | |
| Accrued interest on state deposit | 2,683 | |
| Agents' balances or uncollected premiums not more than ninety days past due, not exceeding unearned premium reserves carried thereon | 7,652,070 | |
| Total deductions | | 23,240,753 |
| Net liabilities (Section 1312) | | $27,362,521 |
| Trusteed surplus (Section 1312) | | 11,569,151 |
| Total liabilities and trusteed surplus | | $38,931,672 |

The examination increased total liabilities by $2,710,000. This adjustment was made to reflect the examination's change for unpaid losses and loss adjustment expenses (Item 4). It should be noted that the examination change does not impair the Branch's trusteed surplus.

## 4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of $22,156,271 is $2,710,000 more than the $19,446,271 reported by the Branch in its filed December 31, 2011 annual statement. The examination change is due to the deficient twelve-month loss and loss adjustment expense runoff for accident years 2011 and prior. The deficiency was due primarily to the adverse development of the Branch's travel insurance portfolio.

The examination analysis of the loss and loss adjustment expense reserves was conducted in accordance with generally accepted actuarial principles and was based on statistical information contained in the Branch's internal records and in its filed annual statements.

## 5. RECEIVABLES FROM PARENT, SUBSIDIARIES AND AFFILATES

The examination admitted asset for the captioned item of $482,756 is $2,333,692 less than the $2,816,448 reported by the Branch as of December 31, 2011.

The difference is due to a $2,000,000 loan to an affiliate that was prohibited under Section 1407 of the Insurance Law as more fully explained in Item 2F of this report. Additionally, $333,692 of a receivable from an affiliate was more that ninety days past due. This amount was not admitted pursuant to SSAP No. 96 as more fully explained in Item 2F of this report.

## 6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination contained five recommendations as follows (page numbers refer to the prior report):

| ITEM | | | PAGE NO. |
|---|---|---|---|
| A | | Reinsurance | |
| | i | It is recommended that the Branch maintain copies of all its LOC's reported in Schedule F, Part 5. | 7 |
| | | This recommendation no longer applies. | |
| | ii | It is recommended that the Branch take proper care in filling out Schedule F of the annual statements. | 7 |
| | | The Branch has complied with this recommendation. | |
| | iii | It is recommended that the Branch maintain proper documentation for the amounts reported in Schedule F and write off any balances that are not collectible. | 8 |
| | | The Branch has complied with this recommendation. | |
| B | | Holding Company | |
| | | It is recommended that the Branch submit the service agreements to the Department for approval pursuant to the provisions of Section 1505(d)(3) of the New York Insurance Law. | 10 |
| | | The Branch has complied with this recommendation. | |
| C | | Risk Management and Internal Controls | |
| | | It is recommended that the Branch establish underwriting guidelines and submit them to the board of directors of the Branch's Manager for review and approval. | 12 |
| | | The Branch has complied with this recommendation. | |

## 7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

| ITEM | | | PAGE NO. |
|---|---|---|---|
| A | | Management | |
| | i | It is recommended that board members who are unable or unwilling to attend meetings consistently should resign or be replaced. | 4 |
| B | | Reinsurance | |
| | i | It is recommended that going forward the Branch should utilize prospective accounting only for business ceded on or after the effective date of the reinsurance agreement or amendment, pursuant to SSAP No. 62R. | 7 |
| | ii | It is recommended that the Branch comply with Section 1505(d)(2) of the New York Insurance Law and notify the superintendent prior to entering into affiliated reinsurance agreements. | 8 |
| | iii | It is therefore recommended that the Branch comply with Section 1308(e)(1)(A) of the New York Insurance Law and refrain from ceding more than fifty percent of the unearned premiums on the net amount of its insurance in force at the beginning of such period, without the Superintendent's permission. | 9 |
| C | | Holding company system | |
| | | It is recommended that the Branch file a Form HC1 with the Department annually, on a going-forward basis, pursuant to the provisions of Part 80-1.4 of Department Regulation 52. | 10 |
| D | | Accounts and records | |
| | i | It is recommended that the Branch take due care to comply with Section 1407(a)(4) of the New York Insurance Law with regards to non-reserve and prohibited investments for a property/casualty insurer. | 13 |
| | ii | It is recommended that the Branch comply with Section 1412(a) of the New York Insurance Law with regards to the disposal of prohibited investments. | 14 |
| | iii | It is recommended that the Branch comply with SSAP No. 96 when determining the admissibility of receivables with related parties. | 14 |

Respectfully submitted,

__________________________
Bernard Lott
Senior Insurance Examiner

STATE OF NEW YORK )
)ss:
COUNTY OF NEW YORK )

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

__________________________
Bernard Lott

Subscribed and sworn to before me

this__________ day of ____________________, 2013.

*APPOINTMENT NO. 30859*

*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:*

***Bernard Lott***

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

***GENERALI-US BRANCH***

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

***BRANCH***

*with such other information as he shall deem requisite.*

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

*this 25th day of MAY, 2012*

*BENJAMIN M. LAWSKY*
*Superintendent of Financial Services*

*By:*

*Jean Marie Cho*
*Deputy Superintendent*