

REPORT ON EXAMINATION

OF THE

TRANSATLANTIC REINSURANCE COMPANY

AS OF

DECEMBER 31, 2014

DATE OF REPORT

MAY 13, 2016

EXAMINER

SELREY N. DAVID

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NEW YORK STATE  
DEPARTMENT *of*  
FINANCIAL SERVICES

Andrew M. Cuomo  
Governor

Maria T. Vullo  
Superintendent

May 13, 2016

Honorable Maria T. Vullo  
Superintendent  
New York State Department of Financial Services  
Albany, New York 12257

Madam:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 31251 dated November 14, 2014, attached hereto, I have made an examination into the condition and affairs of Transatlantic Reinsurance Company as of December 31, 2014, and submit the following report thereon.

Wherever the designation “the Company” appears herein without qualification, it should be understood to indicate Transatlantic Reinsurance Company.

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 Company’s home office located at One Liberty Plaza, 165 Broadway, New York, NY 10006.

## **1. SCOPE OF EXAMINATION**

The Department has performed an individual examination of the Company, a multi-state insurer. The previous examination was conducted as of December 31, 2009. This examination covered the five year period from January 1, 2010 through December 31, 2014. This examination was conducted concurrently with an examination of the Company's subsidiary, Fair American Insurance and Reinsurance Company. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

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 Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company 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 Company were considered in accordance with the risk-focused examination process. The examiners also relied upon audit work performed by the Company'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
- Company history
- Corporate records
- Management and control
- Fidelity bonds and other insurance
- Pensions, stock ownership and insurance plans
- Territory and plan of operation
- Growth of Company
- 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 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 that involve departures from laws, regulations or rules, or that are deemed to require explanation or description.

## **2. DESCRIPTION OF COMPANY**

Transatlantic Reinsurance Company was incorporated on October 29, 1952, under the laws of the State of New York and commenced business on December 2, 1952. All of the capital stock of the Company was purchased by the Excess Reinsurance Company of America, Philadelphia, PA, which merged with and into the Company on December 31, 1952. On September 30, 1967, all outstanding stock of the Company was acquired by the American Home Assurance Company, a member of the American International Group, Inc. (“AIG”).

On April 17, 1990, shareholders of the Company received common stock of PREINCO Holdings, Inc. in exchange for all their shares. Following the exchange, the name PREINCO Holdings, Inc. was changed to Transatlantic Holdings, Inc. (“THI”), and the Company became a wholly owned subsidiary of THI.

At December 31, 2008, AIG was the majority stockholder of THI, with an ownership of approximately 59%. In June 2009 AIG reduced its ownership in THI, through a secondary offering, to approximately 13.9% of the Company's outstanding common shares. In March 2010, AIG reduced its beneficial ownership through another secondary public offering. Immediately following the March 2010 secondary public offering, AIG beneficially owned approximately 1.1% (excluding shares held by certain mutual funds that are advised or managed by subsidiaries of AIG).

On November 20, 2011, THI entered into an Agreement and Plan of Merger with Alleghany Corporation and Shoreline Merger Sub, Inc. (formerly, Shoreline Merger Sub, LLC), a wholly-owned subsidiary of Alleghany Corporation, (“Shoreline”). The merger agreement provided for the merger of THI with and into Shoreline, with Shoreline continuing as the surviving company and as a wholly-owned subsidiary of Alleghany Corporation. On February 6, 2012, the stockholders of THI and the stockholders of Alleghany Corporation each approved the merger. The merger closed on March 6,

2012. Upon completion of the merger, Shoreline's name changed to "Transatlantic Holdings, Inc." Prior to March 6, 2012, THI was a publically-held company, with its stock trading on the New York Stock Exchange. On March 6, 2012, through the merger, THI became a privately-held company, and the Company became an indirect wholly-owned subsidiary of Alleghany Corporation.

Capital paid in is \$6,041,655 consisting of 1,208,331 shares of \$5 par value per share common stock. Gross paid in and contributed surplus is \$1,223,687,139. Gross paid in and contributed surplus increased by \$12,943,850 during the examination period, as follows:

Year	Description	Amount
2010	Beginning gross paid in and contributed surplus	\$1,210,743,289
2010 *	Surplus adjustments	\$ 31,820,273
2011 *	Surplus adjustments	25,439,090
2012 *	Surplus adjustments	(3,375,027)
2013 **	Surplus adjustments	<u>(40,940,486)</u>
	Total Surplus Contributions	<u>12,943,850</u>
2014	Ending gross paid in and contributed surplus	<u>\$1,223,687,139</u>

\* These contributions reflect the allocation of the expense of the stock based compensation plan offered by Transatlantic Holdings, Inc. to employees of the Company prior to the merger.

\*\* This decrease reflects the reversal of a \$41 million receivable from its parent for stock compensation expenses that, at the time of the merger in 2012, were expected to be reimbursed by its parent, but in 2013 were determined to be an expense of the Company.

#### 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. The board met four times during each calendar year. At December 31, 2014, the board of directors was comprised of the following nine members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Kenneth Apfel New York, NY	Executive Vice President and Chief Actuary, Transatlantic Holdings, Inc.
Paul Bonny London, England	Executive Vice President, International Operations, Transatlantic Holdings, Inc.

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Kenneth Brandt Alamo, CA	President, North America, Transatlantic Reinsurance Company
Christopher Dalrymple Mount Kisco, NY	Senior Vice President, General Counsel and Secretary, Alleghany Corporation
Michael C. Sapnar New York, NY	President and Chief Executive Officer, Transatlantic Holdings, Inc.
Gary Schwartz Demarest, NJ	Executive Vice President and General Counsel, Transatlantic Holdings, Inc.
Steven Skalicky * Larchmont, NY	Executive Vice President and Chief Financial Officer, Transatlantic Holdings, Inc.
Julian Spence London, England	Executive Vice President, Transatlantic Reinsurance Company
Javier Vijil Miami, FL	President and Chief Underwriting Officer, Latin American & Caribbean Division, Transatlantic Holdings, Inc.

\* Steven Skalicky was replaced by Mathew D. Mahoney, effective April 1, 2015.

Article V of the Company's charter that was in effect during the period under examination states, in part:

“The number of directors of the Company shall be not less than thirteen (13) nor more than twenty-one (21)...”

It is noted that the Company only had nine directors as of December 31, 2014. It is further noted that during 2012, the board approved a reduction in the number of directors to nine; however, the charter and by-laws were not amended to reflect the change. Subsequent to this examination, the Company amended and restated its charter and by-laws as of July 27, 2015 to reflect a minimum number of directors of seven and a maximum number of directors of thirteen. The amended and restated charter and by-laws were approved by the Department on September 15, 2015.

A review of the minutes of the board of directors' meetings held during the examination period indicated that the meetings were generally well attended and each board member had an acceptable record of attendance.

As of December 31, 2014, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Michael C. Sapnar	President, Chief Executive Officer and Chairman of the Board
Steven S. Skalicky	Executive Vice President and Chief Financial Officer
Mathew D. Mahoney	Senior Vice President, Deputy Chief Financial Officer and Controller
Amy M. Cinquegrana	Secretary
Kenneth Apfel	Executive Vice President and Chief Actuary
Gary A. Schwartz	Executive Vice President and General Counsel
Paul A. Bonny	Executive Vice President
Kenneth W. Brandt	Executive Vice President
George J. Dimartino	Executive Vice President
Beth A. Levene	Executive Vice President
Gregory J. Richardson	Executive Vice President
Javier E. Vijil	Executive Vice President

B. Territory and Plan of Operation

As of December 31, 2014, the Company was licensed to write business in thirty five states and the District of Columbia. The Company was a qualified or accredited reinsurer in the remaining fifteen states: Alabama, Hawaii, Maine, Maryland, Missouri, Montana, New Hampshire, North Carolina, North Dakota, Oregon, Rhode Island, Tennessee, Vermont, Virginia and Wyoming.

The Company was also licensed in, Guam, Puerto Rico, Canada, Bermuda, Japan, the U.K., the Dominican Republic, Germany, Australia, Singapore and the Hong Kong Special Administrative Region of the People's Republic of China. In addition, the Company's wholly-owned subsidiaries, TransRe London Limited. ("TRL") and TransRe Zurich Limited ("TRZ") were licensed as reinsurers in the U.K. and in Switzerland respectively.

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>Line of Business</u>
3(i)	Accident & health
4	Fire
5	Miscellaneous property
6	Water damage
7	Burglary and theft
8	Glass
9	Boiler and machinery
10	Elevator
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 Company is also authorized to transact such workers' compensation insurance as may be incidental to coverage contemplated under paragraphs 20 and 21 of Section 1113(a) of the New York Insurance Law, including insurances described in the Longshoremen's and Harbor Workers' Compensation Act (Public Law No. 803, 69th Congress as amended; 33 USC Section 901 et seq. as amended).

The Company is also authorized by Section 4102(c) of the New York Insurance Law to (i) reinsure risks of every kind or description and (ii) insure property or risks of every kind or description located or resident outside of the United States, its territories and possessions.

Additionally, the Company is licensed to conduct the business of special risk insurance pursuant to Article 63 of the New York Insurance Law.

Based on 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, 41 and 63 of the New York Insurance Law, the Company is required to maintain a minimum surplus to policyholders in the amount of \$35,000,000.

The Company holds a current certificate of authority issued by the United States Treasury, recognizing it as a certified reinsurer of surety companies doing business with the United States government and/or its agencies.

The Company does not write any direct insurance business; it assumes all of its business through treaty and facultative reinsurance agreements for property and casualty products. These products are distributed through brokers and on a direct basis in both the domestic and foreign markets. The Company assumes business worldwide primarily through its wholly-owned subsidiaries, TRZ and TRL. The Company has also established branch offices in foreign countries to gain access to overseas business.

C. Reinsurance

Assumed Reinsurance

The Company does not write any direct business; it assumes premiums from direct writers and other reinsurance companies. The following represents the significant aspects of its assumed reinsurance agreements in effect with affiliates as of December 31, 2014:

Effective July 1, 2009, the Company entered into an excess of loss agreement with its wholly owned subsidiary TRZ. This agreement indemnifies TRZ for losses accrued that are not covered by external retrocession arrangements. This agreement remains in force until terminated.

Effective October 8, 2012, the Company entered into a quota share reinsurance agreement with its wholly owned subsidiary, Fair American Insurance and Reinsurance Company (“FAIRCO”), with the Company as the reinsurer. Under this agreement, the Company assumes a 90% quota share percentage of FAIRCO’s contracts of insurance or reinsurance. This agreement remains in force until terminated.

Effective July 1, 2013, the Company entered into a quota share reinsurance agreement with Fair American Select Insurance Company (“FASIC”), a subsidiary of FAIRCO. Under this agreement, the Company assumes a 90% quota share percentage of FASIC’s contracts of insurance or reinsurance. This agreement remains in force until terminated.

Effective January 1, 2014, the Company entered into a quota share reinsurance agreement with its wholly owned subsidiary, TRL. Under this agreement, the Company assumes a 60% quota share percentage of TRL’s contracts of insurance or reinsurance. This agreement remains in force until terminated.

Ceded Reinsurance

The Company has structured the major components of its ceded reinsurance program as follows:

<u>Type of Contract</u>	<u>Cession</u>
<u>Property</u>	
Worldwide Aviation Pro Rata Excess of Loss	\$15,000,000 excess of \$1,600,000, per occurrence. Three layers.
Worldwide Aviation Excess of Loss Industry Loss Warranty (ILW)	First layer, activated by a \$700 million ILW - \$10,000,000 excess of \$12,000,000, per occurrence. Second layer activated by a \$800 million ILW - \$10,000,000 excess of \$12,000,000 per occurrence. Third layer, no ILW trigger - \$10,000,000 excess of \$32,000,000, per occurrence. Fourth layer activated by a \$1.25 billion ILW - \$5,000,000 excess of \$42,000,000, per occurrence.
Worldwide Marine Excess of Loss	\$50,000,000 excess of \$10,000,000, per occurrence. Four layers.
Worldwide Commercial Property Facultative Excess of Loss	\$40,000,000 excess of \$10,000,000, per risk. Two layers. Companion (run-off layer): 14.5% of \$40,000,000 excess of \$10,000,000, per risk.
Commercial Property Excess of Loss – Excluding Natural Perils	100% of \$12,500,000 excess of \$10,000,000, per risk.
<u>Catastrophe</u>	
Catastrophe Excess of Loss – Exclude US Atlantic Hurricane	First layer - 28.75% of \$200,000,000 excess of \$200,000,000, in the aggregate. Second layer - 55% of \$200,000,000 excess of \$200,000,000, in the aggregate.
Catastrophe Excess of Loss – US Wind Aggregate	First layer - 60% of \$100,000,000 excess of \$250,000,000 in the aggregate. Second layer - 20% of \$50,000,000 excess of \$250,000,000 in the aggregate. Third layer - 40% of \$50,000,000 excess of \$300,000,000 in the aggregate.
Catastrophe Excess of Loss – US Industry Loss Warranty	\$35,000,000 excess of \$50,000, per occurrence. Two layers.

<u>Type of Contract</u>	<u>Cession</u>
Catastrophe Excess of Loss - Worldwide Extreme Tail	10% of \$100,000,000 excess of \$950,000,000, in the aggregate.
Catastrophe Excess of Loss - US/Canada Earthquake	\$100,000,000 excess of \$500,000,000, per occurrence.
Property Catastrophe Excess of Loss – Latin American Division	\$50,000,000 excess of \$80,000,000, per occurrence.
Property Catastrophe Excess of Loss – Property Whole Account	37.5% of \$80,000,000 excess of \$40,000,000, per occurrence.

Each of the above agreements are independent reinsurance contracts and do not inure to the benefit of the reinsurers.

The Company has four quota share reinsurance agreements covering 10.5% of the Company's assumed property catastrophe excess of loss treaty portfolio. The quota share percentage and the limit of each agreement is detailed as follows:

<u>Type of Contract</u>	<u>Cession</u>
<u>Property Catastrophe Quota-Share</u>	
Kane SAC Ltd (Latigo Segregated Account)*	2.1% quota share up to \$31,332,121
Kane SAC Ltd. (Rondout Segregated Account)*	4.2% quota share up to \$61,381,599
Pangaea Reinsurance IX, Ltd.**	2.5% quota share up to \$36,830,136
Pangaea Reinsurance IX, Ltd.**	1.7% quota share up to \$24,552,934

\* Kane SAC Ltd - a Bermuda exempted company incorporated in Bermuda on July 2, 1981 and registered as a segregated accounts company under the Segregated Accounts Companies Act of 2000 on April 5, 2005.

\*\* Pangaea Reinsurance IX was registered in Bermuda as a special purpose vehicle.

Additionally, the Company cedes premiums and losses to two affiliated companies, Capitol Indemnity Corporation and TRZ. In 2014, the Company ceded approximately \$7 million and \$25 million of premiums respectively.

Reinsurance agreements with affiliates were reviewed for compliance with Article 15 of the New York Insurance Law. It was noted that all affiliated reinsurance agreements were filed with the Department pursuant to the provisions of Section 1505(d)(2) of the New York Insurance Law.

It is the Company's policy to obtain the appropriate collateral for its cessions to unauthorized reinsurers. Letters of credit and trust accounts obtained by the Company to take credit for cessions to unauthorized reinsurers were reviewed for compliance with Department Regulations 133 and 114, respectively. The examiner's review of a sample of trust agreements noted that in some of the trust agreements the definition of permitted investments referenced "cash or cash equivalents" but included no definition of same. This ambiguity may allow for investments that are in deviation from the requirements set forth in Department Regulation 114. It is recommended that the Company include in all future trust agreements, where this term is used, a clear definition of "cash or cash equivalents" and that such definition is drafted to ensure full compliance with the permitted investments referenced in Department Regulation 114.

The Company also reduces its provision for reinsurance pursuant to the provisions of Parts 125.4(e) or (f) of Department Regulation 20. Examination review indicated that the Company maintained the documentation required by the regulation.

All significant ceded reinsurance agreements in effect as of the examination date were reviewed and were found to contain the required clauses, including an insolvency clause meeting the requirements of Section 1308 of the New York Insurance Law.

Examination review found that the Schedule F data reported by the Company in its filed annual statement 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. 62 with the exception of those treaties that were accounted for as Deposit Accounting in accordance with Paragraph of SSAP No. 75. Representations were supported by appropriate risk transfer analyses and an attestation from the Company's Chief Executive Officer and Chief Financial Officer pursuant to the NAIC Annual Statement Instructions. Additionally, examination review indicated that the Company 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. 62R.

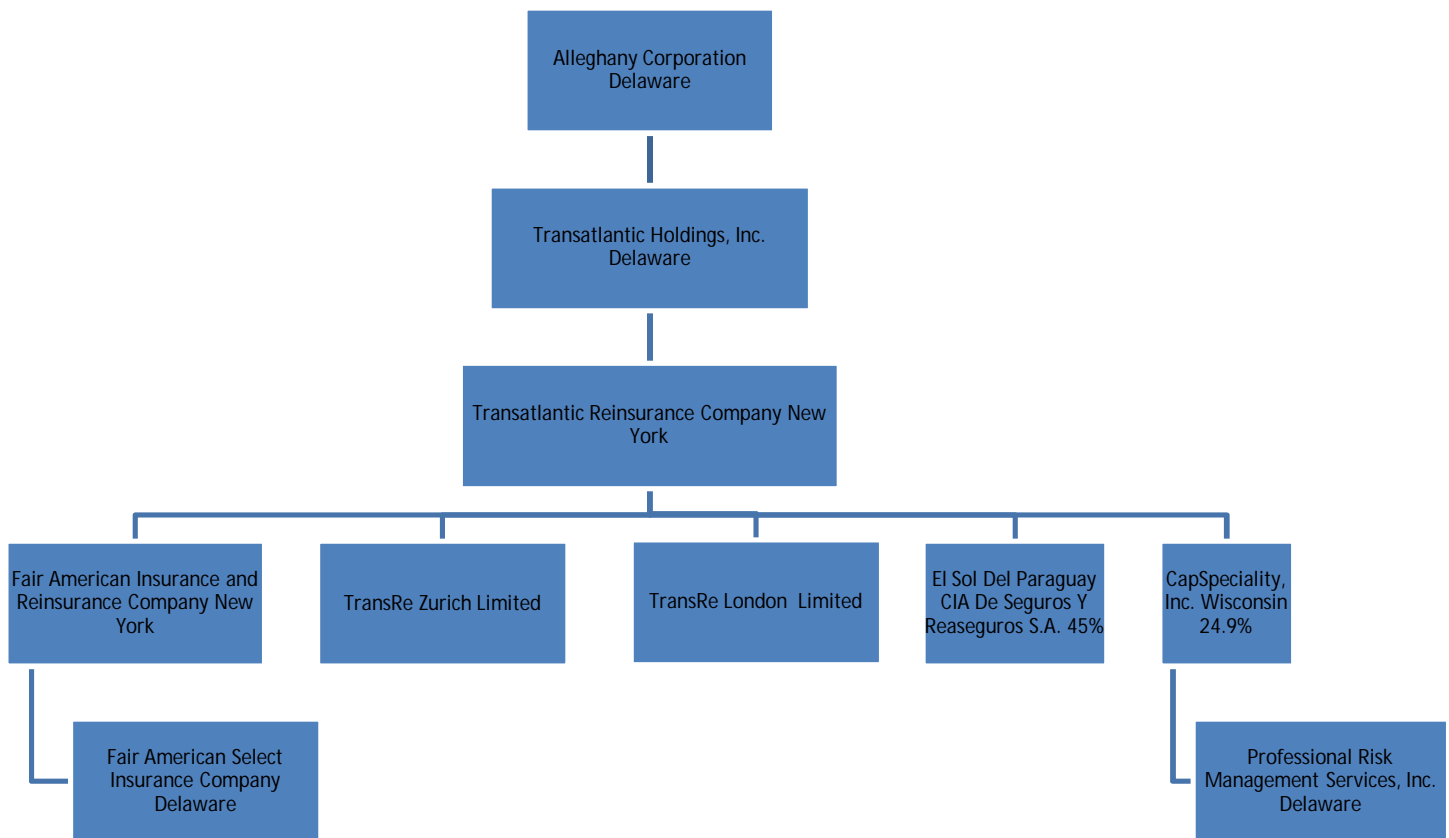
D. Holding Company System

The Company is a member of the Alleghany Group. The Company is a wholly-owned subsidiary of Transatlantic Holdings, Inc., a Delaware corporation, which is ultimately controlled by Alleghany Corporation.

As of December 31, 2014, the Company owned 100% of the stock of three subsidiaries; Fair American Insurance and Reinsurance Company, TransRe Zurich, Limited. TransRe London Holdings Limited, and 45% of the common stock of El Sol Del Paraguay CIA De Seguros Y Reaseguros S.A. On September 1, 2015, the Company sold its 40% share of Kuwaiti Reinsurance Company.

A review of the Holding Company Registration Statements filed with this Department indicated that such filings were complete and were filed in a timely manner pursuant to Article 15 of the New York Insurance Law and Department Regulation 52.

The following is an abridged chart of the holding company system at December 31, 2014:



Effective January 1, 2014, CapSpecialty, Inc. was recapitalized pursuant to a series of transactions that included the exchange by Alleghany Insurance Holdings LLC (“AIHL”) of its common stock in CapSpecialty, Inc. for Series A Convertible Preferred Stock and the subsequent sale by AIHL to the Company of 24.9% of the Preferred Stock. Professional Risk Management Services, Inc., previously 80% indirectly owned by THI, became a wholly-owned subsidiary of CapSpecialty, Inc.

On November 5, 2015, the Company entered into a stock purchase agreement with FAIRCO pursuant to which FAIRCO sold 100% of the share capital of FASIC to the Company. FASIC became a direct, wholly owned subsidiary of the Company.

At December 31, 2014, the Company was party to the following agreements with other members of its holding company system:

#### Management Agreement

Effective July 1, 2013, the Company entered into a Management Agreement with its subsidiary FAIRCO. Pursuant to the agreement, Transatlantic will provide FAIRCO with all the necessary administrative, production, marketing, underwriting, claims, investment, reinsurance, and accounting functions with respect to its business operations. This agreement was filed with the Department pursuant to Section 1608 of the New York Insurance Law.

#### 1. Service Agreements

Effective March 1, 2001 and subsequently amended, the Company entered into a service agreement with its subsidiary, Transatlantic Re (Brasil) Ltda. (“TransRe Brasil”). Pursuant to the agreement, TransRe Brasil shall provide the Company with the following services: a) representation and promotion of the Company in Brazil; (b) rendering of services, providing advice and information, all related to the reinsurance market in Brazil; (c) assistance with brochures and press releases in connection with the Brazilian reinsurance market; and (d) advise the Company on the identification of potential markets, presentation of business opportunities and such other activities as may be necessary or advisable for the rendering of services.

Effective January 1, 2011, the Company entered into a service agreement with its subsidiary, Transatlantic Re (Argentina) S.A. (“TransRe Argentina”). Pursuant to the agreement, TransRe

Argentina shall provide the Company with the following services in Argentina, Bolivia, Chile, Paraguay and Uruguay: (a) exclusive representation and promotion of the Company; (b) rendering of services, providing advice and information, all related to the reinsurance markets; (c) assistance with brochures and press releases in connection with the reinsurance markets; and (d) advise the Company on the identification of potential clients, presentation of business opportunities, business negotiation, technical analysis and administrative support in the area of reinsurance business, and such other activities as may be necessary or advisable for the rendering of services.

These agreements were not filed with the Department pursuant to Section 1505(d) of the New York Insurance Law.

It is recommended that the Company submit agreements between itself and any affiliated entities to the Department for non-disapproval pursuant to the provisions of Section 1505(d) of the New York Insurance Law. A similar recommendation was made in the prior report on examination.

## 2. Investment Management Agreement

Effective March 6, 2012, the Company entered into an investment management agreement with its affiliate, Alleghany Capital Partners LLC. On July 1, 2014, the Company amended the agreement to change Alleghany Capital Partners LLC's name to Roundwood Asset Management LLC. Pursuant to the agreement, the manager will make all investment decisions at the manager's sole discretion without first consulting the Company in accordance with the investment restrictions and guidelines. This agreement was not filed with the Department pursuant to Section 1505(d) of the New York Insurance Law.

It is recommended that the Company submit such agreement to the Department for non-disapproval pursuant to the provisions of Section 1505(d) of the New York Insurance Law.

## 3. Tax Sharing Agreement

Effective April 29, 2014, the Company became a party to a consolidated federal income tax sharing agreement with its parent and affiliates. Parties to this agreement are the Company, Alleghany Corporation, Transatlantic Holdings, Inc., Fair American Insurance and Reinsurance Company, and Fair American Select Insurance Company. The tax allocation agreement provides that in any year the parties file consolidated federal income tax returns, a computation shall be made on or before the date provided



by law for the payment of any federal income tax or estimate of the amount of income taxes or estimated tax refund to which each party would have to make or to which such party would be entitled if it filed at that time a return declaration or refund claim as a separate corporation and had not at the time been a member of the consolidated group. This agreement was filed with this Department pursuant to Section 1505 of the New York Insurance Law.

#### 4. Capital Support Agreement

Effective November 17, 2014, the Company entered into a capital support agreement with its subsidiary TRL. Pursuant to the agreement, the Company agreed to maintain TRL's regulatory capital in an amount not less than 20% above the minimum regulatory requirement (the "Threshold Capital Level") set forth by the Prudential Regulation Authority ("PRA") in the United Kingdom. This agreement was submitted to the Department on September 29, 2014. Subsequent to this examination, effective January 1, 2016, the Company agreed to maintain TransRe London's regulatory capital in an amount no less than its Solvency Capital Requirement, as calculated in accordance with the requirements set forth by the PRA, the provisions of the Solvency II Directive, the Commission Delegated Regulation and implementing Regulations supporting the Solvency II Directive and the Guidelines published by the European Insurance and Occupational Pension Authority ("EIOPA").

#### E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2014, based upon the results of this examination:

Net premiums written to surplus as regards policyholders	63%
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	81%
Premiums in course of collection to surplus as regards policyholders	13%

All of 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 five-year period covered by this examination:

	<u>Amounts</u>	<u>Ratios</u>
Losses and loss adjustment expenses incurred	\$10,471,654,385	67.34%
Other underwriting expenses incurred	5,035,460,499	32.38
Net underwriting loss	<u>42,584,684</u>	<u>0.27</u>
Premiums earned	<u>\$15,549,699,569</u>	<u>100.00%</u>

F. Accounts and Records

(i) Accounting for Foreign Exchange (SSAP No. 23)

The Company's current practice adjustments on its balance sheet are as follows:

- (a) Assets and liabilities are translated at year-end rates and create unrealized gains and losses. Revenues and expenses settled in cash are translated at the rate on the transaction dates and created realized gains and losses. Income and expenses recognized during an accounting period are recorded at the appropriate weighted average exchange rate.
- (b) The revaluation of beginning loss reserves are adjusted in losses paid. The revaluations of beginning unearned premium reserves are adjusted in premiums written.

(ii) Schedule Y Reporting

The examiner's review of the 2014 Annual Statement Schedule Y noted that the Company did not complete the Fair American Insurance and Reinsurance Company transactions on Part 2, Column 13 "Reinsurance Recoverable/(payable) on Losses and/or Reserve Credit Taken/(Liability)" in accordance with the NAIC's annual statement instructions. As a result, the Company failed to accurately present Schedule F, columns 9 through 13 data in Schedule Y, Part 2 Column 13. The Company reported \$(19,302,000) and should have reported \$(45,856,000).

It is recommended that the Company exercise greater care and complete Schedule Y in accordance with the NAIC Annual Statement Instructions. A similar recommendation was made in the prior report on examination.

(iii)New York Annual Statement Supplement

In response to Interrogatory Schedule 2 of the 2014 Annual Statement Supplement, the Company stated that it was not subject to Article 16 of the New York Insurance Law, so did not complete the required Controlled Person Worksheet. It is noted that the answer to both questions should have been yes, but as of December, 31 2014 the Company did not have any investments in controlled persons.

It is recommended that the Company exercise greater care and complete the Annual Statement Supplement in accordance with the Annual Statement Supplement Instructions.

### 3. FINANCIAL STATEMENTS

#### A Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2014 as determined by this examination and as reported by the Company:

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$ 9,857,505,789	\$ 0	\$ 9,857,505,789
Preferred stocks	121,241,269	0	121,241,269
Common stocks	2,420,126,659	0	2,420,126,659
Properties held for the production of income	1,742,760	0	1,742,760
Cash, cash equivalents and short-term investments	683,410,294	0	683,410,294
Other invested assets	240,334,413	0	240,334,413
Investment income due and accrued	99,750,939	0	99,750,939
Uncollected premiums and agents' balances in the course of collection	602,354,155	5,138,669	597,215,486
Deferred premiums, agents' balances and installments booked but deferred and not yet due	80,268,964	0	80,268,964
Amounts recoverable from reinsurers	30,107,942	0	30,107,942
Funds held by or deposited with reinsured companies	125,717,315	1,893,242	123,824,073
Net deferred tax asset	554,846,599	273,895,986	280,950,613
Electronic data processing equipment and software	8,584,940	8,584,940	0
Furniture and equipment, including health care delivery assets	359,659	359,659	0
Receivables from parent, subsidiaries and affiliates	7,025,965	0	7,025,965
Other miscellaneous receivables	12,348,851		12,348,851
Prepaid expenses	7,461,688	7,461,688	0
Leasehold improvements	24,737,008	24,737,008	0
Other assets	<u>20,920,845</u>	<u>2,134,556</u>	<u>18,786,289</u>
Totals	<u>\$14,898,846,054</u>	<u>\$324,205,748</u>	<u>\$14,574,640,306</u>

Liabilities, Surplus and Other FundsLiabilities

Losses and loss adjustment expenses		\$ 8,162,530,004
Reinsurance payable on paid losses and loss adjustment expenses		191,709,158
Commissions payable, contingent commissions and other similar charges		21,482,951
Other expenses (excluding taxes, licenses and fees)		161,215,612
Taxes, licenses and fees (excluding federal and foreign income taxes)		10,765,185
Current federal and foreign income taxes		33,106,581
Unearned premiums		977,822,770
Ceded reinsurance premiums payable (net of ceding commissions)		43,416,053
Funds held by company under reinsurance treaties		64,671,745
Provision for reinsurance		33,867,474
Payable to parent, subsidiaries and affiliates		12,545,664
Payable for securities		9,387,687
Loss portfolio transfer reserves		56,896,279
Other liabilities		<u>24,723,726</u>
Total liabilities		<u>9,804,140,889</u>
Common capital stock	\$ 6,041,655	
Loss portfolio transfer gain in surplus	4,953,721	
Intercompany adjustment	(6,398,858)	
Gross paid in and contributed surplus	1,223,687,139	
Unassigned funds (surplus)	<u>\$3,542,215,759</u>	
Surplus as regards policyholders		<u>4,770,499,417</u>
Totals		<u>\$14,574,640,306</u>

Note: The Internal Revenue Service has completed its audits of the Company's consolidated Federal Income Tax returns through tax year 2005. 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 2008 through 2014 are currently under examination. The examiner is unaware of any potential exposure of the Company to any tax assessment and no liability has been established herein relative to such contingency.

B. Statement of IncomeUnderwriting Income

Premiums earned		\$15,549,699,568
Deductions:		
Losses and loss adjustment expenses incurred	\$10,471,654,385	
Other underwriting expenses incurred	<u>5,035,460,499</u>	
Total underwriting deductions		<u>15,507,114,884</u>
Net underwriting gain or (loss)		42,584,684

Investment Income

Net investment income earned	2,098,282,662	
Net realized capital gain	<u>269,006,504</u>	
Net investment gain or (loss)		2,367,289,166

Other Income

Net gain or (loss) from agents' or premium balances charged off	751,317	
Foreign exchange gain	13,254,817	
Other miscellaneous income *	22,202,764	
Interest on funds held	2,885,794	
Other income *	<u>\$ 33,632,448</u>	
Total other income		<u>72,727,140</u>
Net income before federal and foreign income taxes		2,482,600,990
Federal and foreign income taxes incurred		<u>464,081,008</u>
Net Income		<u>\$ 2,018,519,982</u>

\* On January 26, 2012, THI reached an agreement with AIG to settle and mediate a dispute previously in arbitration, which arose as a result of losses claimed by THI and its subsidiaries from its participation in a securities lending program administered and managed by AIG. On July 20, 2012, a mediator awarded THI a settlement of \$75 million before legal costs.

C. Capital and Surplus Account

Surplus as regards policyholders increased \$754,435,494 during the five-year examination period January 1, 2010 through December 31, 2014, detailed as follows:

Surplus as regards policyholders per report on examination as of December 31, 2009			\$4,016,063,923
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income	\$2,018,519,981		
Net unrealized capital gains or (losses)	114,229,669		
Change in net unrealized foreign exchange capital gain (loss)		\$ 56,201,703	
Change in net deferred income tax	169,306,173		
Change in nonadmitted assets		138,196,037	
Change in provision for reinsurance	12,478,698		
Surplus adjustments paid in	12,943,850		
Dividends to stockholders		1,400,000,000	
Change in treasury stock			
Loss portfolio transfer gain in surplus	4,953,721		
Intercompany adjustment		6,398,858	
Gains in surplus	<u>22,800,000</u>	<u>0</u>	
Net increase (decrease) in surplus	<u>\$2,355,232,122</u>	<u>\$1,600,796,628</u>	<u>754,435,494</u>
Surplus as regards policyholders per report on examination as of December 31, 2014			<u>\$4,770,499,417</u>

#### 4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of \$8,182,530,004 is the same as reported by the Company as of December 31, 2014. The examination analysis of the Loss and loss adjustment expense reserves was conducted in accordance with generally accepted actuarial principles and statutory accounting principles, including the NAIC Accounting Practices & Procedures Manual, Statement of Statutory Accounting Principle No. 55 (“SSAP No. 55”).

#### 5. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

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

<u>ITEM</u>	<u>PAGE NO.</u>
A. Holding Company System	
i. It was recommended that the company amend its tax allocation agreement to include all entities incorporated in its consolidated federal income tax return and file such amended agreement with the Department pursuant to Circular Letter No. 33 (1979) and Article 15 of the Insurance Law.	11
The Company has complied with this recommendation.	
ii. It was recommended that the Company prepare written agreements for any services rendered on a regular or systematic basis between itself and any affiliated entities, and submit such agreements to the Department for nondisapproval pursuant to the provisions of Section 1505(d) of the New York Insurance Law.	12
The Company has not complied with this recommendation. A similar recommendation was made in this report.	
B. Accounts and Records	
i. It was recommended that the Company follow the annual statement layout and report all non-admitted assets in column two of the related annual statement asset line.	13
The Company has complied with this recommendation.	



ITEM	PAGE NO.
ii. It was recommended that the Company exercise greater care and complete all interrogatories in accordance with the NAIC Annual Statement Instructions.  The Company has complied with this recommendation.	13
iii. It was recommended that the Company exercise greater care and complete Schedule Y in accordance with the NAIC Annual Statement Instructions.  The Company has not complied with this recommendation. A similar recommendation was made in this report.	14
iv. It was recommended that unapplied cash, which cannot be properly classified at year-end, be reported as a separate suspense account item on the balance sheet, until such time that it can be properly classified.  The Company has complied with this recommendation.	14

## **6. SUMMARY OF COMMENTS AND RECOMMENDATIONS**

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Trust Agreements</u>  It is recommended that the Company include in all future trust agreements, where this term is used, a clear definition of “cash or cash equivalents” and that such definition is drafted to ensure full compliance with the permitted investments referenced in Department Regulation 114.	11
B. <u>Holding Company System</u>	
i. It is recommended that the Company submit agreements between itself and any affiliated entities to the Department for non-disapproval pursuant to the provisions of Section 1505(d) of the New York Insurance Law. A similar recommendation was made in the prior report on examination.	14
ii. It is recommended that the Company submit such agreement to the Department for non-disapproval pursuant to the provisions of Section 1505(d) of the New York Insurance Law.	14

ITEM	PAGE NO.
C. <u>Accounts and Records</u>	
i. It is recommended that the Company exercise greater care and complete Schedule Y in accordance with the NAIC Annual Statement Instructions. A similar recommendation was made in the prior report on examination.	16
ii. It is recommended that the Company exercise greater care and complete the Annual Statement Supplement in accordance with the Annual Statement Supplement Instructions.	17

Respectfully submitted,

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Selrey N. David, CIE  
Associate Insurance Examiner

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

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

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Selrey N. David

Subscribed and sworn to before me

this \_\_\_\_\_ day of \_\_\_\_\_, 2016.

*APPOINTMENT NO. 31251*

*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:*

***S'elrey David***

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

***Transatlantic Reinsurance Company***

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

***COMPANY***

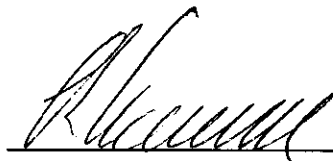
*with such other information as he shall deem requisite.*

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

*this 14th day of November, 2014*

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

By:



*Rolf Kaumann*  
*Deputy Chief Examiner*

