

REPORT ON EXAMINATION

OF THE

SUECIA INSURANCE COMPANY

AS OF

DECEMBER 31, 2005

DATE OF REPORT

FEBRUARY 14, 2008

EXAMINER

JOSEPH REVERS

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

February 14, 2008

Honorable Eric R. Dinallo
Superintendent of Insurance
Albany, New York 12257

Sir:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 22512 dated June 6, 2006 attached hereto, I have made an examination into the condition and affairs of Suecia Insurance Company as of December 31, 2005, and submit the following report thereon.

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

Wherever the term “Department” appears herein without qualification, it should be understood to mean the New York Insurance Department.

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

1. SCOPE OF EXAMINATION

The previous examination was conducted as of December 31, 2000. This examination covered the five-year period from January 1, 2001 through December 31, 2005. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

The examination comprised a verification of assets and liabilities as of December 31, 2005. 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 ("CPA"). 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 ("NAIC"):

- History of Company
- Management and control
- Company records
- Fidelity bond and other insurance
- Territory and plan of operation
- Loss experience
- Reinsurance
- Accounts and records
- Financial statements

This report on examination is confined to financial statements and comments on those matters, which involve departures from laws, regulations or rules, or which are deemed to require explanation or description.

2. DESCRIPTION OF COMPANY

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

At December 31, 2005, 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. The gross paid-in and contributed surplus was reduced from \$31,524,746 to \$21,524,746, as follows:

<u>Year</u>	<u>Description</u>	<u>Amount</u>
2000	Beginning gross paid in and contributed surplus	\$31,524,746
2002	Extraordinary Dividend	<u>\$(10,000,000)</u>
	Total Surplus Contributions (withdrawals)	<u>(10,000,000)</u>
2005	Ending gross paid in and contributed surplus	<u>\$21,524,746</u>

The Company placed itself in run-off on October 1, 1993.

A. Management

The Company is a 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 management agreement, StellaRe was granted authority to collect premiums; adjust and pay losses; review and, where appropriate, recommend commutation of any included policies or other liabilities of the Company; and to invest all moneys received by the Company in compliance with the investment laws of New York and the Company’s investment guidelines. However, StellaRe is not authorized and shall not underwrite on the Company’s behalf any insurance or reinsurance of any kind or nature without the prior written consent 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 members. At December 31, 2005, the board comprised twelve directors, which is less than the minimum number required by Sections 1201(a)(5)(B)(v) and 1202(a)(2) of the New York Insurance Law and by the Company’s charter and by-laws. The board met on November 16, 2006 and elected the thirteenth member of the board, pending the approval of the minutes at the next meeting. Nevertheless, it is recommended that the Company comply with Sections 1201(a)(5)(B)(v) and 1202(a)(2) of the New York Insurance Law and its charter and by-laws by maintaining a board of directors consisting of at least thirteen members.

At December 31, 2005, the board of directors was comprised of the following twelve members:

Name and ResidencePrincipal Business Affiliation

Maria Rosqvist Croce
Wayne, NJ

Assistant Vice President Finance,
Risk Enterprise Management, Ltd.

Ernst Gunter Dahling
Sleepy Hollow, NY

Retired

Joseph Leo Daly
Toronto, Ontario

President,
Suecia Reinsurance Company

Gordon Frederick Dobson
North Haledon, NJ

President,
G.F. Dobson & Company, LLC

Goran Dan Peter Faxner
Danderyd, Sweden

Managing Director,
Repono Holding AB
President,
Suecia Holding Corporation
Vice Chairman,
Suecia

Scott Eric Gottesman
Cortlandt Manor, NY

Chief Financial Officer,
G.F. Dobson & Company, LLC
Secretary and Treasurer,
Suecia

William Hamilton Howell
Princeton, NJ

President,
Specialty Claims Management, LLC

Arne Erik Mark
Essex, CT

Retired

Peter Niles Mazurek
Northvale, NJ

Vice President – Operations,
Specialty Claims Management, LLC

George William Murphy
Rockville Center, NY

Retired

Zaid Owe Bailey Pedersen
Djursholm, Sweden

Vice President,
Skandinaviska Enskilda Banken AB
Chairman,
Suecia Holding Corporation
Chairman,
Suecia

Alan John Rein
White Plains, NY

Attorney At Law,
Kurzman Eisenberg Corbin Lever & Goodman, LLP

The board met once in 2001 and twice a year thereafter during each calendar year for the period under examination.

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 has an acceptable record of attendance.

As of December 31, 2005, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Zaid Pedersen	Chairman
Goran Faxner	Vice Chairman
Scott Eric Gottesman	Secretary and Treasurer

It was noted that the Company reported no president on the 2005 Annual Statement Jurat Page. In the charter and by-laws of the Company, however, it is stated that a president shall be one of the officers of the Company. It is recommended that the Company comply with its charter and by-laws by electing a president as one of the officers of the Company.

B. Territory and Plan of Operation

As of December 31, 2005, the Company was licensed to write business in sixteen states, and accredited as a reinsurer in nineteen other states.

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	Accident & health
4	Fire
5	Miscellaneous property damage
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

<u>Paragraph</u>	<u>Line of Business</u>
15	Worker's compensation and employer's liability
16	Fidelity and surety
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 incident to coverages 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).

On July 26, 2002, the Company deleted from its license all insurance and reinsurance powers as defined in Section 4102(c) 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 Article 13 of the New York Insurance Law, the Company is required to maintain a minimum surplus to policyholders in the amount of \$3,515,250.

Prior to placing itself in run-off, the Company reinsured property and casualty business.

C. Reinsurance

As of December 31, 2005, the Company had no reinsurance coverages in effect.

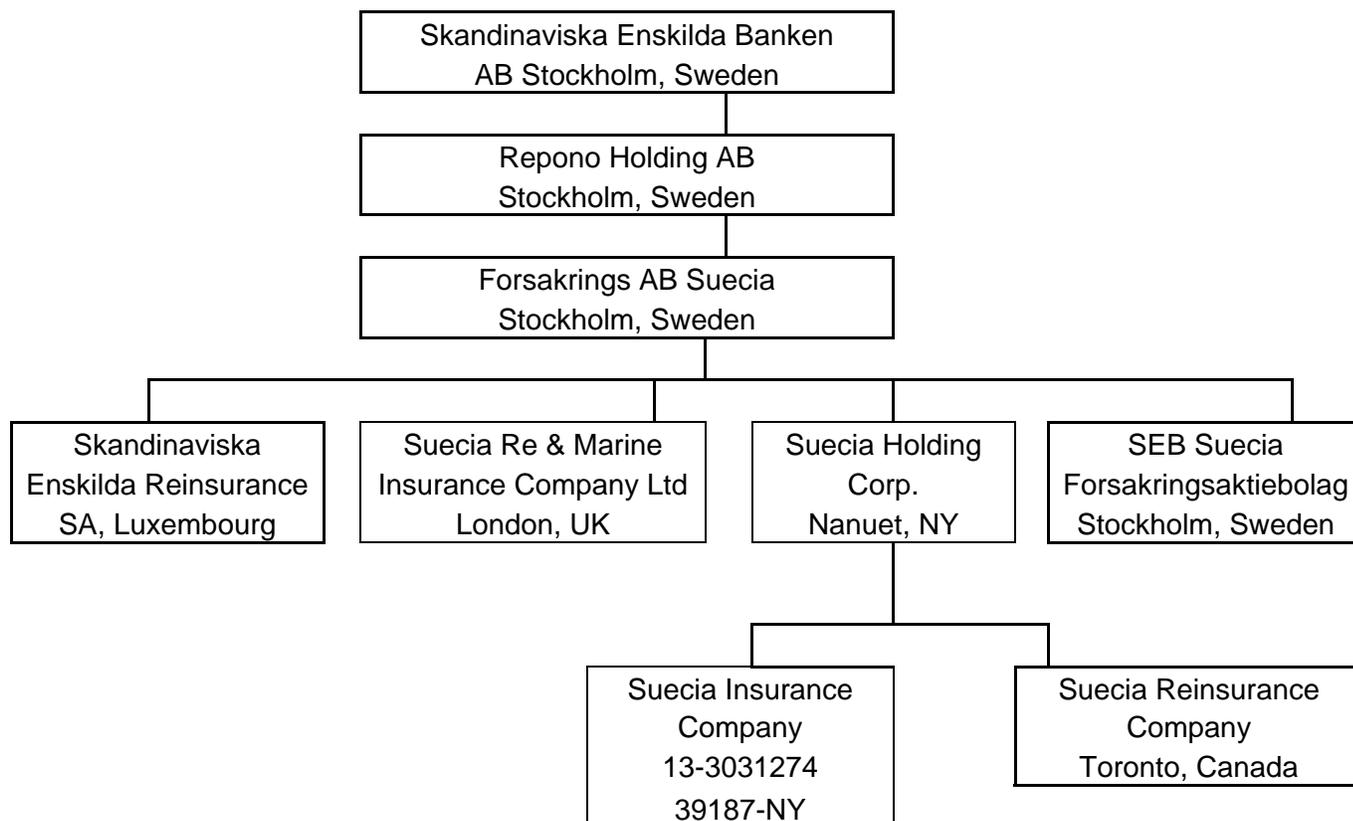
On July 1, 1999, the Company entered into a contract whereby it assumed 100% of all outstanding loss and loss adjustment expense reserves from the United States Branch of the Trygg-Hansa Insurance Company, Ltd. The transaction was approved by the Department.

D. Holding Company System

The Company is a wholly-owned subsidiary of Suecia Holding Corporation, a Delaware corporation, which is ultimately controlled by Skandinaviska Enskilda Banken AB, Stockholm, Sweden.

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 a chart of the holding company system at December 31, 2005:



At December 31, 2005, the Company was party to a tax allocation agreement with its immediate parent, Suecia Holding Corporation. The agreement became effective October 1, 1982 and was non-objected to by the Department on December 14, 1982. The agreement was amended for the first time on August 1, 2006 to reflect the name change of both companies.

Upon review, it was determined that the agreement is in compliance with the minimum guidelines set forth in the Department Circular Letter No. 33 (1979).

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2005, based upon the results of this examination:

Net premiums written to surplus as regards policyholders	0%
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	58%
Premiums in course of collection to surplus as regards policyholders	0%

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	\$997,469	287.50%
Other underwriting expenses incurred	609,316	175.62
Net underwriting loss	<u>(1,259,835)</u>	<u>(363.12)</u>
Premiums earned	<u>\$346,950</u>	<u>100.00%</u>

F. Accounts and Records

Compliance with Department Regulation 118

A review of the CPA contract for the 2005 audit year revealed that the contract was not in compliance with Part 89.2 of Department Regulation No. 118. The contract provides that the workpapers and communications related to the audit “will be retained by us for a period of not less than five years after the period reported.” Part 89.2(c) of Department Regulation 118 requires that such workpapers and communications must be retained by the CPA for the period specified in Sections 243.2(b)(7) and (c) of Department Regulation 152, which states that such records must be retained “for six calendar years from its creation or until after the filing of the report on examination in which the record was subject to review, whichever is longer.” It is recommended that the Company ensure that the contract with the CPA for all future audits contain the provisions required by Department Regulation 118.

3. FINANCIAL STATEMENTS

A Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2005 as determined by this examination and as reported by the Company:

<u>Assets</u>	<u>Assets</u>	<u>Examination</u> Assets Not <u>Admitted</u>	Net Admitted <u>Assets</u>
Bonds	\$58,740,706	\$0	\$58,740,706
Cash, cash equivalents and short-term investments	2,764,128	0	2,764,128
Investment income due and accrued	506,264	0	506,264
Uncollected premiums and agents' balances in the course of collection	(16,650)	0	(16,650)
Amounts recoverable from reinsurers	3,260	0	3,260
Funds held by or deposited with reinsured companies	82,547	0	82,547
Net deferred tax asset	1,849,000	1,689,000	160,000
Aggregate write-ins for other than invested assets	<u>15,758</u>	<u>0</u>	<u>15,758</u>
Total assets	<u>\$63,945,013</u>	<u>\$1,689,000</u>	<u>\$62,256,013</u>

Liabilities, surplus and other fundsLiabilities

Losses		\$19,433,641
Reinsurance payable on paid losses and loss adjustment expenses		807,992
Loss adjustment expenses		3,267,370
Commissions payable, contingent commissions and other similar charges		(828,823)
Other expenses (excluding taxes, licenses and fees)		118,000
Current federal and foreign income taxes		34,064
Ceded reinsurance premiums payable (net of ceding commissions)		196
Provision for reinsurance		3,260
Aggregate write-ins for liabilities		<u>12,955,452</u>
Total liabilities		\$35,791,152

Surplus and Other Funds

Common capital stock	\$3,515,250	
Gross paid in and contributed surplus	21,524,746	
Unassigned funds (surplus)	<u>1,424,865</u>	
Surplus as regards policyholders		<u>26,464,861</u>
Total liabilities, surplus and other funds		<u>\$62,256,013</u>

NOTE: The Internal Revenue Service has completed its audits of the Company's consolidated federal income tax returns for the tax years 2001 through 2004. No material adjustments were made for the years 2001 and 2002 and no adjustments were made for the years 2003 and 2004. The Internal Revenue Service has not yet begun to audit the 2005 tax return. 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. Underwriting and Investment Exhibit

Surplus as regards policyholders decreased \$14,525,185 during the five-year examination period January 1, 2001 through December 31, 2005, detailed as follows:

Underwriting Income

Premiums earned		\$346,950
Deductions:		
Losses incurred	\$(1,269,871)	
Loss adjustment expenses incurred	2,267,340	
Other underwriting expenses incurred	<u>609,316</u>	
Total underwriting deductions		<u>1,606,785</u>
Net underwriting gain or (loss)		\$(1,259,835)

Investment Income

Net investment income earned	\$15,677,042	
Net realized capital gains	<u>4,312,793</u>	
Net investment gain or (loss)		19,989,835

Other Income

Aggregate write-ins for miscellaneous income	<u>\$(197,489)</u>	
Total other income		<u>(197,489)</u>
Net income after dividends to policyholders but before federal and foreign income taxes		\$18,532,511
Federal and foreign income taxes incurred		<u>4,524,691</u>
Net income		<u>\$14,007,820</u>

C. Capital and Surplus Account

Surplus as regards policyholders per report on examination as of December 31, 2000			\$40,990,046
	<u>Gains in</u>	<u>Losses in</u>	
	<u>Surplus</u>	<u>Surplus</u>	
Net income	\$14,007,820		
Net unrealized capital gains or (losses)	173,896		
Change in net deferred income tax	1,849,000		
Change in nonadmitted assets		\$1,689,000	
Change in provision for reinsurance	8,099		
Surplus adjustments (extraordinary dividend)		10,000,000	
Dividends to stockholders	<u> </u>	<u>18,875,000</u>	
Total gains and losses	<u>\$16,038,815</u>	<u>\$30,564,000</u>	
Net increase (decrease) in surplus			<u>(14,525,185)</u>
Surplus as regards policyholders per report on examination as of December 31, 2005			<u>\$26,464,861</u>

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of \$22,701,011 is the same as reported by the Company as of December 31, 2005. The examination analysis was conducted in accordance with generally accepted actuarial principles and practices and was based on statistical information contained in the Company's internal records and in its filed annual statements.

5. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination contained no comments or recommendations.

6. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Management</u>	
i. It is recommended that the Company comply with Sections 1201(a)(5)(B)(v) and 1202(a)(2) of the New York Insurance Law and its charter and by-laws by maintaining a board of directors consisting of at least thirteen members.	3
ii It is recommended that the Company comply with its charter and by-laws by electing a president as one of the officers of the Company.	5
B <u>Accounts and Records</u>	
It is recommended that the Company ensure that the contract with the CPA for all future audits contain the provisions required by Department Regulation 118.	9

STATE OF NEW YORK
INSURANCE DEPARTMENT

I, HOWARD MILLS, Superintendent of Insurance of the State of New York,
pursuant to the provisions of the Insurance Law, do hereby appoint:

Joseph Revers

as proper person to examine into the affairs of the

SUECIA INSURANCE COMPANY

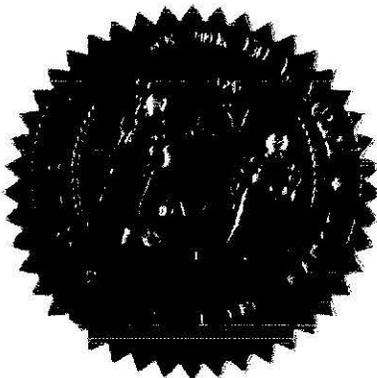
and to make a report to me in writing of the condition of the said

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 June, 2006



Howard Mills

HOWARD MILLS
Superintendent of Insurance