

REPORT ON EXAMINATION

OF THE

PUTNAM REINSURANCE COMPANY

AS OF

DECEMBER 31, 2004

DATE OF REPORT

MARCH 26, 2007

EXAMINER

MARC ALLEN

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

March 26, 2007

Mr. Eric R. Dinallo
Acting 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 22392 dated August 11, 2005 attached hereto, I have made an examination into the condition and affairs of Putnam Reinsurance Company as of December 31, 2004, and submit the following report thereon.

Wherever the designations “the Company” appear and “Putnam” herein without qualification, it should be understood to indicate Putnam Reinsurance Company.

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

The examination was conducted at the Company’s home office located at 80 Pine Street, New York, New York 10005.

1. SCOPE OF EXAMINATION

The previous examination was conducted as of December 31, 1999. This examination covered the five-year period from January 1, 2000 through December 31, 2004. 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, 2004. 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
- Corporate records
- Fidelity bond and other insurance
- Territory and plan of operation
- Growth of Company
- Business in force by states
- Loss experience
- Reinsurance
- Accounts and records
- Financial statements

A review was also made to ascertain what action was taken by the Company with regard to comments and recommendations contained in the prior report on examination.

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

2. DESCRIPTION OF COMPANY

The Company was incorporated under the laws of the State of New York on September 30, 1985 as SAI Industrial Assurance Company (“SAI”) to serve as the vehicle for the domestication of the United States Branch of the SAI-Societa Assicuratrice Industrials S.P.A of Torino, Italy (“SAI Italy”).

On December 12, 1985, AIG purchased 100% of the outstanding shares of SAI from SAI Italy.

On April 29, 1986, SAI’s name was changed to Putnam Reinsurance Company, the Company’s present corporate title.

On June 10, 1986, PREINCO Holdings, Inc. (“PREINCO”) was organized as a Delaware holding company. On June 30, 1986, AIG contributed 100% of the Company’s common stock, plus cash, to PREINCO in exchange for a 20.01% interest therein.

On April 18, 1990, the name of PREINCO Holdings, Inc. was changed to Transatlantic Holdings, Inc. (“Transatlantic”) and it became a public company in June, 1990.

The Company is a wholly-owned subsidiary of Transatlantic Reinsurance Company (“TRC”), which is a wholly-owned subsidiary of Transatlantic. As of December 31, 2004, AIG beneficially owned approximately 59% of Transatlantic’s outstanding common stock.

Paid in capital is \$2,500,000, consisting of 5,000 shares of \$500 par value per share common stock. Gross paid in and contributed surplus is \$90,727,719 as of December 31, 2004. The amount has not changed during the examination period.

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, 2004, the board of directors was comprised of the following thirteen members:

| <u>Name and Residence</u> | <u>Principal Business Affiliation</u> |
|---|---|
| James Balog Spring Lake, NJ | Retired Chairman, 1838 Investment Advisors, L.P. |
| C. Fred Bergsten Annandale, VA | Director, Institute for International Economics |
| Paul A. Bonny Surrey, UK | Executive Vice President, President-International Operations Transatlantic Reinsurance Company |
| Maurice R. Greenberg New York, NY | Chairman and Chief Executive Officer, American International Group, Inc. |
| Tomio Higuchi Tokyo, Japan | Chairman, Millea Holdings President, Nichido Fire And Marine Insurance Company |
| John J. Mackowski Little Compton, RI | Retired Chairman and Chief Executive Officer, The Atlantic Mutual Companies |
| Edward E. Matthews Princeton, NJ | Senior Advisor, American International Group, Inc. |
| Robert F. Orlich New Canaan, CT | President/Chief Executive Officer, Transatlantic Holdings, Inc. |
| Michael Sapnar Rumson, NJ | Senior Vice President, Chief Underwriting Officer-domestic operations Transatlantic Reinsurance Company |
| Steven S. Skalicky Larchmont, NY | Executive Vice President and Chief Financial Officer, Transatlantic Holdings Inc. |
| Howard I. Smith Woodbury, NY | Executive Vice President and Chief Financial Officer, American International Group, Inc. |
| Thomas R. Tizzio Middletown, NJ | Senior Vice Chairman American International Group, Inc. |
| Javier E. Vijil Miami, FL | Executive Vice President, President-Latin American division Transatlantic Holdings Inc. |

In March, 2005, Maurice R. Greenberg Edward Matthews, and Howard I. Smith resigned from the board.

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 of board members has an acceptable record of attendance.

As of December 31, 2004, the principal officers of the Company were as follows:

| <u>Name</u> | <u>Title</u> |
|----------------------|--|
| Maurice R. Greenberg | Chairman of the Board |
| Robert F. Orlich | President/Chief Executive Officer |
| Steven S. Skalicky | Executive Vice President and Chief Financial Officer |
| Elizabeth M. Tuck | Secretary |

B. Territory and Plan of Operation

As of December 31, 2004, , the Company was licensed to transact direct business in all states with the exception of Alabama, Connecticut, Kansas, Maine, Massachusetts, New Hampshire, New Jersey, North Carolina, Oregon, Rhode Island, South Dakota, Tennessee, Vermont, Virginia, West Virginia and Wyoming. In the states where the Company was not licensed to write direct business it either had the formal status of an authorized reinsurer or the state laws allowed cedants to take credit for reinsurance placed with the Company.

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 |

| <u>Paragraph</u> | <u>Line of Business</u> |
|------------------|--|
| 12 | Collision |
| 13 | Personal injury liability |
| 14 | Property damage liability |
| 15 | Worker's compensation and employer's liability |
| 16 | Fidelity and surety |
| 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 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). The Company is also authorized by Section 4102(c) of the New York Insurance Law to reinsure risks of every kind or description.

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

Based upon the lines of business for which the Company is licensed, and the Company's current capital structure, and pursuant to the requirements of Articles 13, 41 and 63 of the New York Insurance Law, Putnam Reinsurance Company is required to maintain a minimum surplus to policyholders in the amount of \$35,000,000.

C. Reinsurance

The Company entered in a quota share agreement with its parent company, Transatlantic Reinsurance Company. The agreement became effective as of January 1, 1991. The agreement currently provides for TRC to cede to Putnam a 5% share of the Company's net retained business after cessions through its external reinsurance contracts.

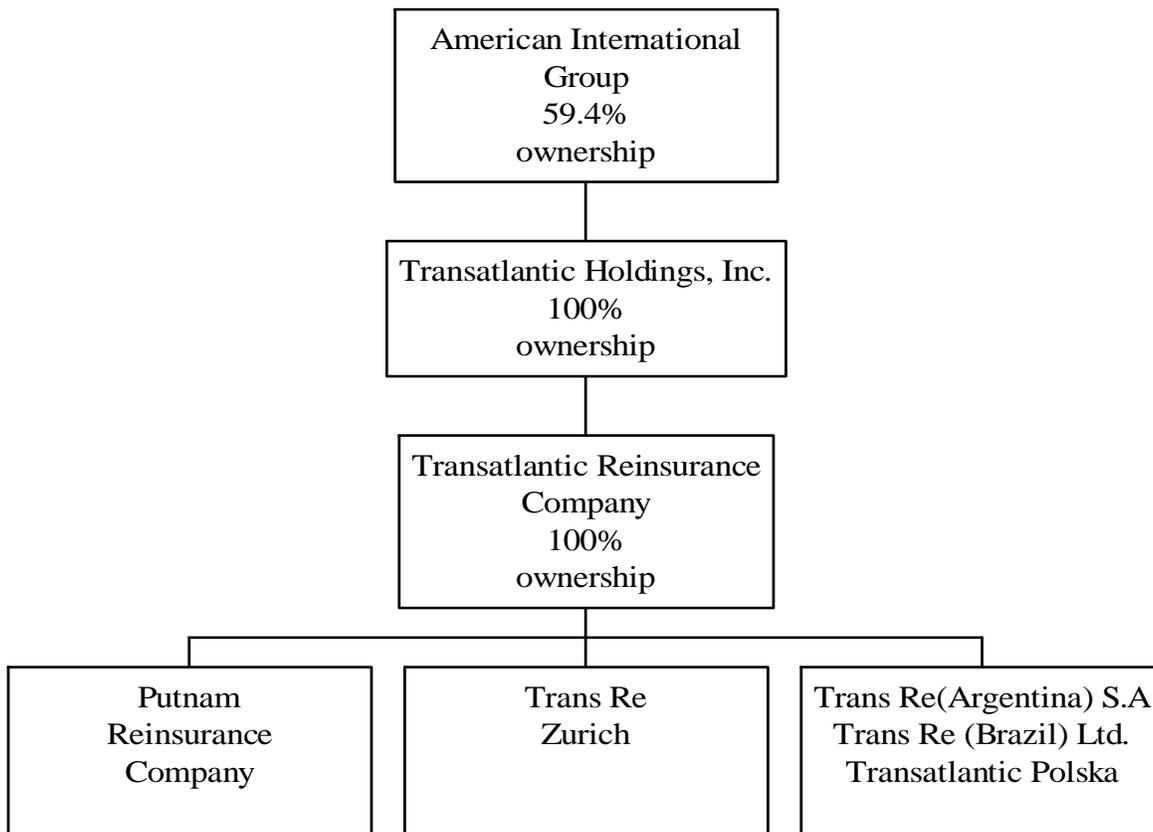
It was noted that the Company failed to properly complete Schedule F-Part 1 during the examination period in that it did not record its assumed paid and case losses. The Company subsequently corrected this in the 2005 annual statement.

D. Holding Company System

The Company is a wholly-owned subsidiary of TRC, which is a wholly-owned subsidiary of Transatlantic Holdings, Inc. (formerly PREINCO Holdings, Inc.), a Delaware corporation which became a public company in June 1990. At December 31, 2004, American International Group, Inc., a Delaware corporation, beneficially owned approximately 59% of Transatlantic Holdings, Inc.'s outstanding common stock. As of December 31, 2004, AIG was the ultimate controlling 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 a chart of the holding company system at December 31, 2004:



At December 31, 2004, the Company was party to the following agreements with other members of its holding company system:

1. Management Agreements with Transatlantic Reinsurance Company and AIG

The Company's operations are managed by Transatlantic Reinsurance Company pursuant to a management agreement effective January 1, 1991. This agreement was approved by the Department on February 7, 1991.

In addition, the Company and Transatlantic Holdings, Inc. are parties to a service and expense agreement with AIG. This agreement was effective July 1, 1986 and was approved by the Department on July 7, 1986. Under the terms of the aforementioned agreements, AIG and/or Transatlantic Reinsurance Company provide essentially all space, services and personnel necessary for the conduct of the Company's business.

2. Investment Management Agreements with AIG Global Investors Inc.

The Company is a party to an investment management agreement with AIG Global Investors, Inc. ("Global"), a wholly-owned AIG subsidiary. Under the terms of the agreement, Global acts as the manager of the Company's investment portfolio. Department approval for this agreement was obtained on August 7, 1986.

3. Tax Allocation Agreement

The Company files a consolidated federal income tax return with its parent, Transatlantic Reinsurance Company, and TRC's parent Transatlantic Holdings, Inc. The return is filed pursuant to the provisions of a tax allocation agreement approved by the Department on February 28, 1991.

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2004, based upon the results of this examination:

| | |
|---|---------|
| Net premiums written in 2004 to Surplus as regards policyholders | 182.08% |
| Liabilities to Liquid assets (cash and invested assets less investment in affiliates) | 82.72% |
| Premiums in course of collection to Surplus as regards policyholders | * |

The net premiums written to surplus and the liabilities to liquid assets ratios fall within the benchmark ranges established by the Insurance Regulatory Information System of the National Association of Insurance Commissioners.

* There was no value inserted in the premiums in course of collection to surplus ratio. The reason for this is that the premium in the course of collection figure is allocated to the Company from its parent based on a 5% quota share reinsurance treaty in effect between the two companies. The parent-Transatlantic Reinsurance Company nets its reinsurance payable on paid losses against premiums receivable in its premiums in the course of collection figure. It also includes cash advances to ceding companies in its premiums in the course of collection figure. The premiums receivable figure provided by the Transatlantic Reinsurance Company is not the appropriate figure to use in the ratio in question.

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> |
|--|----------------------|----------------|
| Loss and loss adjustment expenses incurred | \$470,572,105 | 81.17% |
| Other underwriting expenses incurred | 162,184,743 | 27.97 |
| Net underwriting loss | <u>(52,968,805)</u> | <u>(9.14)</u> |
| Premiums earned | <u>\$579,788,043</u> | <u>100.00%</u> |

F. Accounts and Records

i. Premiums and Considerations

The premium receivable amounts (Uncollected and deferred) are allocated to the Company from its direct parent-Transatlantic Reinsurance Company based on the five percent quota share agreement in effect between the two companies.

A concurrent examination of TRC revealed problems with TRC's premiums receivable in the course of collection and deferred premiums receivable figures.

The problems with TRC's premiums receivable balances are as follows:

1. The review of line 12.1 of the Annual Statement (uncollected premiums and agents' balances in course of collection) indicated that TRC includes its liability for reinsurance payable on paid loss and loss adjustment expenses in the figure reported. These liabilities or credit balances are netted against the premium receivable or debit balances.

The netting of reinsurance payable on paid losses against premiums receivable violates the NAIC Accounting Practices and Procedures Manual, Statements of Statutory Accounting Principles ("SSAP") set forth in SSAP 64 and SSAP 62.

SSAP 64-paragraph 3 states the following:

"Assets and liabilities that meet the criteria for offset shall not be netted when prohibited by specific statements of statutory accounting principles. An example of such is the case of reinsurance recoverables on paid losses and ceded premiums payable as provided for in SSAP 62-Property and Casualty Reinsurance."

SSAP 62-paragraph 40 state in part:

"...Assumed reinsurance payable on paid losses shall be classified as a separate liability item on the balance sheet..."

2. The concurrent examination review indicated that TRC included approximately \$85,000,000 in cash loss advances in line 12.1-'Uncollected premiums and agents' balances in the course of collection', in the 2004 annual statement. The cash loss advances disbursed to TRC's cedants should not be recorded as a premium receivable asset. The annual statement instructions require cash loss advances to be included under the asset caption-'Funds held by or deposited with reinsured companies'. This funds held asset is supposed to have been recorded on line 13.2 on the asset page in the 2004 annual statement. Specifically the instructions in reference to this line state in part:

“include...advances from the reinsurer to the ceding company for the payment of losses before an accounting is made by the ceding company.”

3. TRC failed to non-admit premiums receivable in accordance with Section 1301(a)(11) of the New York Insurance Law. Section 1301 of the New York Insurance Law enumerates various admitted assets. Section 1301(a)(11) describes the admitted asset status of premiums receivable and states in part:

“Premiums in the course of collection, other than life insurance premiums, not more than ninety days past due, less commissions payable thereon. The foregoing limitation of ninety days shall not apply to: ..(ii) reinsurance premiums payable by ceding insurers authorized to transact such business in this state, or(iii) reinsurance premiums payable which may be offset by amounts carried by the assuming insurer as liabilities for amounts due to the ceding insurer for unpaid losses or other mutual debts...”

TRC failed to follow the requirements of Section 1301(a)(11) of the New York Insurance Law in non-admitting premiums receivable. This would require maintaining a schedule of premiums receivable by ceding company and then aging those premiums. Premiums receivable that are over 90 days past due and due from non-authorized companies who have not provided collateral would be non-admitted.

TRC was not able to perform the above procedure because it's accounting system nets reinsurance payable against the gross premiums receivable and is incapable of separating the numbers. TRC would need to have a gross premium receivable number by ceding insurer to be able to comply with Section 1301(a)(11) of the New York Insurance Law.

In 2004 TRC non-admitted \$99,142 in premiums receivable based on a review of only facultative premiums receivable.

4. The concurrent examination of TRC's deferred premiums receivable indicated that there is a significant amount of dated balances in this amount that may need to be written off.

It is recommended that the Company ensure that it is receiving the correct premium receivable figures from TRC.

ii. Certified Public Accountant (“CPA”) Written Contract

The written contracts by which the Company engaged its CPA firm for the years 2000 through 2004 did not contain the provisions required by the Department Regulation 118, Part 89.2 which states in part:

“Every insurer subject to this Part shall retain an independent Certified Public Accountant who agrees by written contract with such insurer to comply with the provisions of Section 307(b) of the Insurance Law, this part and the Code of

ethics and professional standards adopted by the American Institute of Certified Public Accountants (“AICPA”). Such contract must specify:

- a. on or before May 31, the CPA shall provide an audited financial statement and opinion for the prior calendar year and an evaluation of the insurer’s accounting procedures and internal control systems as are necessary to the furnishing of the opinion;
- b. any determination by the CPA that the insurer has materially misstated its financial condition as reported to the superintendent or that the insurer does not meet minimum capital and surplus requirements set forth in the Insurance Law shall be given by the CPA, in writing, to the Superintendent within 15 calendar days following such determination; and
- c. the workpapers and any communications between the CPA and the insurer relating to the audit of the insurer shall be made available for review by the superintendent at the offices of the insurer, at the Insurance Department or at any other reasonable place designated by the superintendent. The CPA must retain for review such workpapers and communications for a period of not less than five years.”

It is recommended that the Company include in all future contracts written to engage CPA firms the provisions required by Department Regulation 118.

iii. Custodian Agreement

Management answered affirmatively to item 23 of the 2004 General Interrogatory-part 1:

“Excluding items in Schedule E, real estate, mortgage loans and investments held physically in the reporting entity’s offices, vaults or safety deposit boxes, were all stocks, bonds and other securities, owned throughout the current year held pursuant to a custodial agreement with a qualified bank or trust company in accordance with Part 1-General, Section IV.H-Custodial or Safekeeping Agreements of the NAIC Financial Condition Examiners Handbook.”

However, examination review indicated that the Company’s custodial agreement did not contain all of the protective covenants set forth in Part 1 Section IV. J of the NAIC Financial Condition Examiners Handbook. The agreement failed to include the following provisions:

In the event that the custodian gains entry in a clearing corporation through an agent, there should be a written agreement between the custodian and the agent that the agent shall be subjected to the same liability for loss of securities as the

custodian. If the agent is governed by laws that differ from the regulation of the custodian, the Commissioner of Insurance of the state of domicile may accept a standard of liability applicable to the agent that is different from the standard liability

If the custodial agreement has been terminated or if 100% of the account assets in any one custody account have been withdrawn, the custodian shall provide written notification, within three business days of termination or withdrawal, to the insurer's domiciliary commissioner;

The foreign bank acting as a custodian, or a U.S. custodian's foreign agent, or a foreign clearing corporation is only holding foreign securities or securities required by the foreign country in order for the insurer to do business in that country. A US custodian must hold all other securities.

It is recommended that the Company amend its custodial agreement to incorporate all of the protective covenants included in the NAIC Financial Condition Examiners Handbook.

iv. Investments

Section 1402(b) of the New York Insurance Law states in part:

“Not less than sixty percent of the amount of the required minimum capital or surplus to policyholder investments shall consist of the types specified in paragraphs one and two hereof:

(1) Obligations of the United States or any agency thereof provided such agency obligations are guaranteed as to principal and interest by the United States.

(2) Direct obligations of this state or of any county, district, or municipality thereof...”

At December 31, 2004, the Company did not have the requisite amount of investments to meet the above referenced requirements of the New York Insurance Law.

The Company corrected the situation after being advised of the situation by the Department in 2005.

It is recommended the Company carefully monitor its investments to ensure compliance with Article 14 of the New York Insurance Law.

3. FINANCIAL STATEMENTS

A Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2004 as determined by this examination and as reported by the Company.

| <u>Assets</u> | <u>Admitted Assets</u> | <u>Assets Not Admitted</u> | <u>Admitted Assets</u> |
|--|------------------------|--------------------------------|----------------------------|
| Bonds | \$362,559,546 | \$ 0 | \$362,559,546 |
| Cash, cash equivalents and short-term investments | 2,420,855 | 0 | 2,420,855 |
| Other invested assets | 216,801 | 0 | 216,801 |
| Receivable for securities | 2,700,000 | 0 | 2,700,000 |
| Investment income due and accrued | 4,944,151 | 0 | 4,944,151 |
| Uncollected premiums and agents' balances in the course of collection | 15,963,017 | 0 | 15,963,017 |
| Deferred premiums, agents' balances and installments booked but deferred and not yet due | 3,253,073 | 0 | 3,253,073 |
| Funds held by or deposited with reinsured companies | 2,436,007 | 0 | 2,436,007 |
| Current federal and foreign income tax recoverable and interest thereon | 3,508,314 | 0 | 3,508,314 |
| Net deferred tax asset | 6,653,779 | 0 | 6,653,779 |
| Other Miscellaneous receivables | <u>464</u> | <u>0</u> | <u>464</u> |
| Total assets | <u>\$404,656,007</u> | <u>\$ 0</u> | <u>\$404,656,007</u> |

Liabilities, surplus and other funds

| <u>Liabilities</u> | <u>Examination</u> | <u>Company</u> | <u>Surplus Increase (Decrease)</u> |
|--|----------------------|----------------------|--|
| Losses | \$251,796,666 | \$219,343,130 | \$(32,453,536) |
| Loss adjustment expenses | 13,003,334 | 13,003,334 | |
| Commissions payable, contingent commissions and other similar charges | 1,624,918 | 1,624,918 | |
| Other expenses (excluding taxes, licenses and fees) | 716,062 | 716,062 | |
| Unearned premiums | 43,223,023 | 43,223,023 | |
| Payable to parent, subsidiaries and affiliates | 1,057,804 | 1,057,804 | |
| Accumulated postretirement benefit obligation to affiliate | <u>50,000</u> | <u>50,000</u> | |
| Total liabilities | <u>\$311,471,807</u> | <u>\$279,018,271</u> | <u>\$(32,453,536)</u> |
| <u>Surplus and Other Funds</u> | | | |
| Common capital stock | \$ 2,500,000 | \$ 2,500,000 | \$ 0 |
| Gross paid in and contributed surplus | 90,727,719 | 90,727,719 | |
| Unassigned funds (surplus) | <u>(43,519)</u> | <u>32,410,017</u> | |
| Surplus as regards policyholders | <u>\$ 93,184,200</u> | <u>\$125,637,736</u> | <u>\$(32,453,536)</u> |
| Total liabilities and surplus and other funds | <u>\$404,656,007</u> | <u>\$404,656,007</u> | |

Note: The Internal Revenue Service has completed its audits of the Company's consolidated Federal Income Tax returns through tax year 2001. 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. 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.

This balance sheet does not reflect the potential income tax benefit related to the examination increase in the loss and loss adjustment expense reserve liabilities.

B. Underwriting and Investment Exhibit

Surplus as regards policyholders decreased \$11,132,631 during the five-year examination period January 1, 2000 through December 31, 2004, detailed as follows:

Underwriting Income

Premiums earned \$ 579,788,043

Deductions:

Losses incurred \$451,002,370

Loss adjustment expenses incurred 19,569,735

Other underwriting expenses incurred 162,184,743

Total underwriting deductions 632,756,848

Net underwriting gain or (loss) \$(52,968,805)

Investment Income

Net investment income earned \$ 72,281,345

Net realized capital gain 8,356,849

Net investment gain or (loss) 80,638,194

Net income before dividends to policyholders and before federal and foreign income taxes \$ 27,669,389

Federal and foreign income taxes incurred 15,538,000

Net income \$ 12,131,389

Note: This statement of income does not reflect the potential tax benefit related to the examination increase in loss and loss adjustment expenses incurred.

Capital and Surplus Account

| | | | |
|--|-----------------------------------|------------------------------------|----------------------|
| Surplus as regards policyholders per report on examination as of December 31, 1999 | | | \$ 104,316,832 |
| | <u>Gains in</u> <u>Surplus</u> | <u>Losses in</u> <u>Surplus</u> | |
| Net income | \$12,131,389 | | |
| Net unrealized capital gains or (losses) | | \$ 2,717,015 | |
| Change in net deferred income tax | 16,211,870 | | |
| Change in nonadmitted assets | | 9,558,875 | |
| Dividends to stockholders | <u> </u> | <u>27,200,000</u> | |
| Total increase and decreases | <u>\$28,343,259</u> | <u>\$39,475,890</u> | |
| Net increase (decrease) in surplus | | | <u>(11,132,631)</u> |
| Surplus as regards policyholders per report on examination as of December 31, 2004 | | | \$ <u>93,184,201</u> |

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of \$264,800,000 is \$32,453,536 more than the \$232,346,464 reported by the Company in its December 31, 2004, filed annual statement.

It should be noted that the financial statements presented in this report do not reflect the potential income tax benefit related to the examination increase in the loss and loss adjustment expenses.

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 Company's internal records and in its filed annual statements.

5. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

There were no comments and/or recommendations in the prior report on examination.

6. SUMMARY OF COMMENTS AND RECOMMENDATIONS

| <u>ITEM</u> | <u>PAGE NO.</u> |
|--|-----------------|
| A. <u>Reinsurance</u> | |
| i. It was noted that the Company failed to properly complete Schedule F-Part 1 during the examination period in that it did not record its assumed paid and case losses. The Company subsequently corrected this in its 2005 annual statement. | 6 |
| B. <u>Accounts and Records</u> | |
| i. It is recommended that the Company ensure that it is receiving the correct premium receivable figures TRC. | 11 |
| ii. It is recommended that the Company include in all future contracts written to engage CPA firms the provisions required by Department Regulation 118. | 12 |
| iii. It is recommended that the Company amend its custodial agreement to incorporate all of the protective covenants included in the NAIC Financial Condition Examiners Handbook. | 13 |
| iv. It is recommended the Company carefully monitor its investments to ensure compliance with Article 14 of the New York Insurance Law. | 13 |
| C. <u>Losses and Loss Adjustment Expenses</u> | |
| i. The examination increased the Company's loss reserve liability by \$32,453,536 based on an analysis conducted in accordance with generally accepted actuarial principles. | 17 |

Respectfully submitted,

_____/S/
Marc Allen
Associate Insurance Examiner

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

MARC ALLEN, being duly sworn, deposes and says that the foregoing report, subscribed by her, is true to the best of her knowledge and belief.

_____/S/
Marc Allen

Subscribed and sworn to before me
this _____ day of _____, 20 .

Appointment No 22392

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:

Marc Allen

as proper person to examine into the affairs of the

PUTNAM REINSURANCE COMPANY

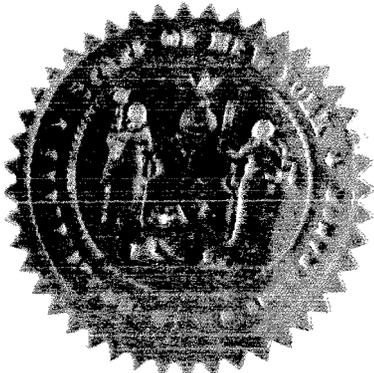
and to make a report to me in writing of the condition of the said

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 11th day of August, 2005



A handwritten signature in cursive script, appearing to read "Howard Mills".

HOWARD MILLS
Superintendent of Insurance