

ASSOCIATION REPORT ON EXAMINATION

OF THE

PUTNAM REINSURANCE COMPANY

AS OF

DECEMBER 31, 2009

ZONES  
REPRESENTED

I  
II

STATES  
PARTICIPATING

NEW YORK  
OHIO

EXAMINERS

DILBRINA BELGRAVE  
RICHARD FLUHR



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

Honorable Merle Scheiber  
Chair, Midwest Zone  
Division of Insurance Director  
State of South Dakota

March 14, 2011

Honorable Jim Ridling  
Chair, Southeastern Zone  
Commissioner of Insurance  
State of Alabama

Honorable James Wrynn  
Superintendent of Insurance  
State of New York

Honorable Linda Hall  
Chair, Western Zone  
Division of Insurance Director  
State of Washington

Sirs:

Pursuant to your instructions the examination has been made into the condition and affairs of the Putnam Reinsurance Company hereinafter referred to as “the Company”, at its administrative office located at 80 Pine Street, New York, NY 10005.

The examination was conducted by the New York State Insurance Department, hereinafter referred to as “the Department” with participation from the State of Ohio representing the Midwest Zone

The report on examination is respectfully submitted.

REPORT ON EXAMINATION

OF THE

PUTNAM REINSURANCE COMPANY

AS OF

DECEMBER 31, 2009

DATE OF REPORT

MARCH 14, 2011

EXAMINER

DILBRINA BELGRAVE

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

March 14, 2011

Honorable James J. Wrynn  
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 30438 dated December 8, 2009 attached hereto, I have made an examination into the condition and affairs of Putnam Reinsurance Company as of December 31, 2009, and submit the following report thereon.

Wherever the designation “the Company” appears 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 Department has performed an association examination of Putnam Reinsurance Company. The previous examination was conducted as of December 31, 2004. This examination covered the five-year period from January 1, 2005 through December 31, 2009. This examination was conducted concurrently with an examination of the Company's parent, Transatlantic 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. This examination also included a review and evaluation of the Company's own control environment assessment and an evaluation based upon the Company's Sarbanes Oxley documentation and testing. 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 Financial Condition Examiners Handbook of the NAIC:

- 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, 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") as a result of the domestication of the United States Branch of the SAI-Societa Assicuratrice Industrials S.P.A of Torino, Italy ("SAI-Italy") to a New York corporation.

On December 12, 1985, American International Group ("AIG") purchased 100% of SAI's 1,000 shares of \$500 par value per share common stock from SAI-Italy to become the new sole shareholder of the Company. The Company's name was changed to its present title on April 29, 1986.

On February 24, 1986, the Company's authorized capital was increased from \$500,000 to \$2,500,000, consisting of an additional 4,000 shares of \$500 par value per share common stock. On June 30, 1986, the additional 4,000 shares of the Company's common stock were issued to AIG for consideration of \$2,000,000. On the same date, AIG contributed all 5,000 shares of the Company's common stock, plus cash, to PREINCO Holdings, Inc. ("PREINCO") in exchange for a 20.01% interest in PREINCO. PREINCO was organized in the State of Delaware on June 10, 1986, to become the new holding company and sole shareholder of the Company.

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

In 1995, Transatlantic transferred ownership of the Company to its wholly-owned subsidiary Transatlantic Reinsurance Company (“TRC”).

Gross paid in and contributed surplus was \$90,727,719 as of December 31, 2009. 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, 2009, the board of directors was comprised of the following thirteen 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 A. Bonny London, England	Executive Vice President, Transatlantic Holdings, Inc.
Ian H. Chippendale London, England	Retired Former Chairman, RBS Insurance Group
John G. Foos Gwynedd Valley, PA	Retired Former Chief Financial Officer, Independence Blue Cross
John L. McCarthy Boston, MA	President, Risk Management Foundation of the Harvard Medical Institutions, Inc.
Robert F. Orlich, New Canaan, CT	President and Chief Executive Officer, Transatlantic Holdings, Inc.
William J. Poutsiaka Weston, MA	Retired Former President and Chief Executive Officer, PanAgora Asset Management
Richard S. Press, Weston, MA	Retired Former Senior Vice President and Director, Insurance Asset Management Group, Wellington Management Company, LLP



<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Michael C. Sapnar Rumson, NJ	Executive Vice President and Chief Underwriting Officer, Transatlantic Holdings, Inc.
Gary A. Schwartz Demarest, NJ	Senior Vice President and General Counsel, Transatlantic Holdings, Inc.
Steven S. Skalicky Larchmont, NY	Executive Vice President and Chief Financial Officer, Transatlantic Holdings, Inc.
Thomas R. Tizzio Middletown, NJ	Retired Former Senior Vice Chairman-General Insurance, AIG
Javier E. Vijil Miami, FL	Executive Vice President, Transatlantic Holdings Inc.

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, 2009, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Robert S. Press	Chairman of the Board
Robert F. Orlich	President and Chief Executive Officer
Steven S. Skalicky	Executive Vice President and Chief Financial Officer
Amy Marie Cinquegrana	Secretary
Kenneth Apfel	Executive Vice President and Chief Actuary
Paul A Bonny	Executive Vice President
Michael C. Sapnar	Executive Vice President
Javier E. Vijil	Executive Vice President
Gary A. Schwartz	Senior Vice President and General Counsel

B. Territory and Plan of Operation

As of December 31, 2009, the Company was licensed to transact business in all states and the District of Columbia with the exception of Alabama, Connecticut, Kansas, Maine, Massachusetts, New Hampshire, New Jersey, North Carolina, North Dakota, Oregon, Rhode Island, South Dakota,

Tennessee, Vermont, Virginia, West Virginia and Wyoming. The Company is an accredited reinsurer in Connecticut and North Dakota.

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
6	Water damage
7	Burglary and theft
8	Glass
9	Boiler and machinery
10	Elevator
11	Animal
12	Collision
13	Personal injury liability
14	Property damage liability
15	Workers' compensation and employers' liability
16	Fidelity and surety
17	Credit
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine
21	Marine protection and indemnity

The 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

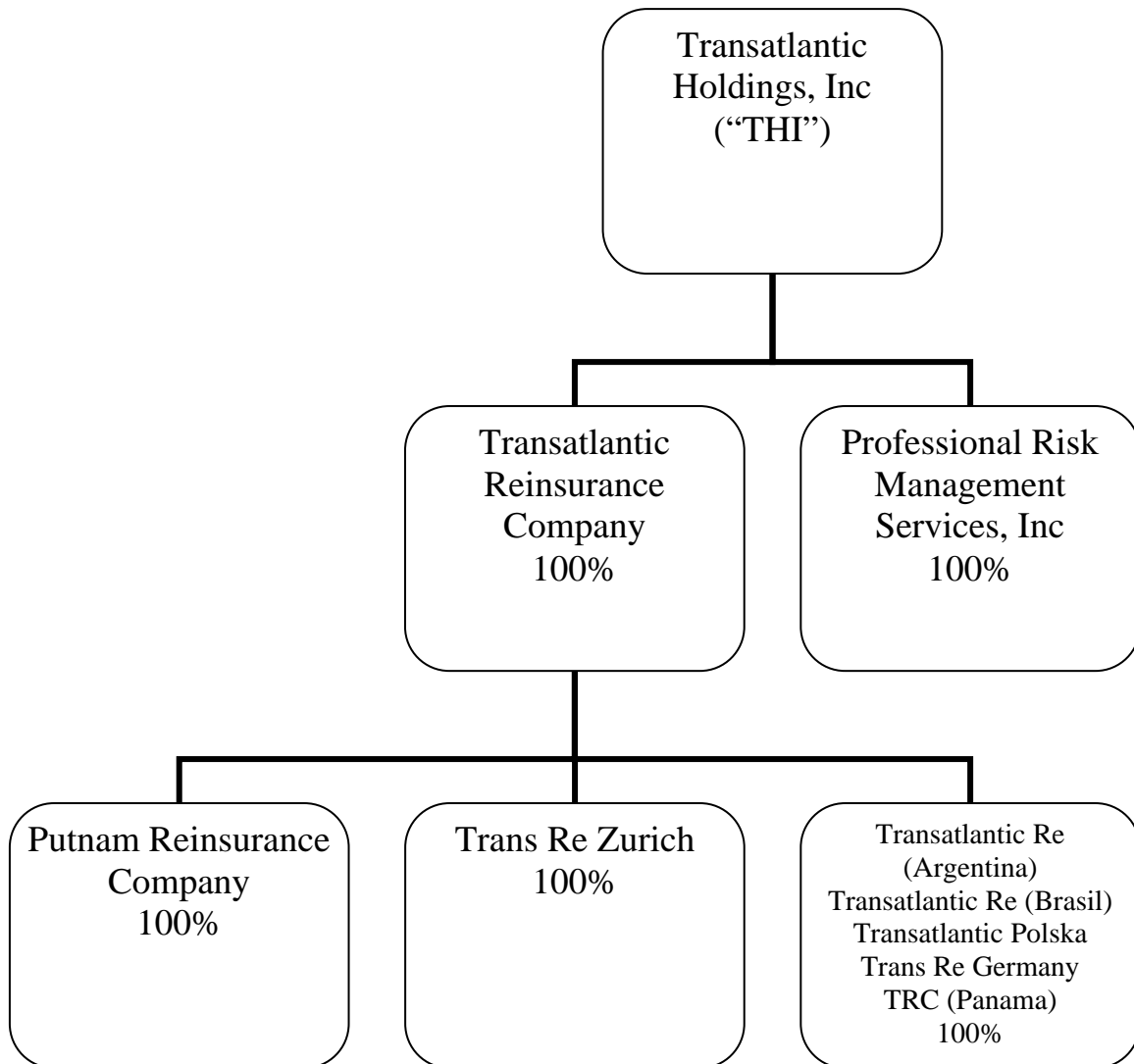
The Company entered in a quota share agreement with its parent company, Transatlantic Reinsurance Company. The agreement became effective as of January 1, 1991. The agreement currently provides for TRC to cede to the Company a 5% share of its net retained business after cessions through its external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

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. As of December 31, 2009, AIG beneficially owned approximately 13.9% of THI's outstanding common stock. Subsequently, American Home Assurance Company ("AHAC"), a wholly owned subsidiary of American International Group, the Company's former ultimate controlling entity, sold all but 1% of its ownership interest in the Company's parent, Transatlantic Holdings Inc., in a public offering on March 10, 2010.

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, 2009:



At December 31, 2009, the Company was party to the following agreements with other members of its holding company system:

1. Management Agreements with Transatlantic Reinsurance Company

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.

## 2. 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 was filed pursuant to the provisions of a tax allocation agreement approved by the Department on February 28, 1991.

It was noted that the Company filed a consolidated federal income tax return with its ultimate parent, Transatlantic Holdings, Inc., its parent Transatlantic Reinsurance Company and its affiliate, Professional Risk Management Services ("PRM"), Inc. However, PRM was not a party to the Company's filed tax allocation agreement. Pursuant to Department's Circular Letter No. 33 (1979), notification to the Department should be given within 30 days of any amendment to or termination of a tax allocation agreement.

It is 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.

### E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2009, based upon the results of this examination:

Net premiums written to surplus as regards policyholders	88%
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	75%
Premiums in course of collection to surplus as regards policyholders	16%

All above ratios fall within the benchmark ranges established by 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>
Loss and loss adjustment expenses incurred	\$573,878,904	66.97%
Other underwriting expenses incurred	242,603,879	28.31
Net underwriting loss	<u>40,394,586</u>	<u>4.71</u>
Premiums earned	<u>\$856,877,369</u>	<u>100.00%</u>

F. Accounts and Records

(i) Annual Statement Disclosures

Upon review of the 2009 annual statement general interrogatories, it was noted that the Company failed to report BlackRock Financial Management, Inc. as its investment advisor.

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

(ii) Uncollected Premiums

The Company's admitted asset for "Uncollected premiums and agents' balances in course of collection" represents an allocation from its parent, Transatlantic Reinsurance Company, pursuant to the 5% quota share reinsurance agreement. A review of a sample of TRC's uncollected premium and agents' balance in the course of collection indicated that certain items were included in the uncollected premium balance that should have been classified in other balance sheet accounts. These items included cash loss advances, profit commission adjustments and reinsurance payable on paid losses. Pursuant to the NAIC annual statement instructions, advances from a reinsurer to the ceding company for the payment of losses before an accounting is made by the ceding entity should be reported as "Funds held by or deposited with reinsured companies;" and profit commission adjustments should be reported as "Commissions payable." Further, pursuant to SSAP 62, paragraph 42, assumed reinsurance payable on paid losses should be classified as a separate liability item on the balance sheet.

The Company indicated that most of the misclassified items represent cash paid by the Company to reinsured companies at the end of the year, either for cash loss advances or reinsurance

losses paid, where the cash is unapplied at year-end due to timing differences between the closing date of some of the Company's operating systems and its general ledger. It is recommended that such unapplied cash, which cannot be properly classified at year-end, should be reported as a separate suspense account item on the balance sheet, until such time that it can be properly classified.

(iii) Schedule T Reporting

In its 2009 annual statement, the Company reported that it was authorized as an accredited reinsurer in the following thirteen states:

Alabama	North Dakota
Connecticut	Rhode Island
Maine	South Dakota
Massachusetts	Vermont
New Hampshire	West Virginia
New Jersey	Wyoming
North Carolina	

Upon review, it was noted that the Company was authorized as an accredited reinsurer in only two states; Connecticut and North Dakota. It is recommended that the Company exercise greater care and accurately complete Schedule T in accordance with the NAIC Annual Statement Instructions.

### 3. FINANCIAL STATEMENTS

#### A Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2009 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	\$520,298,135	\$ 0	\$520,298,135
Cash, cash equivalents and short-term investments	68,317,390	0	68,317,390
Receivable for securities	95,049	0	95,049
Investment income due and accrued	8,040,703	0	8,040,703
Uncollected premiums and agents' balances in the course of collection	33,768,579	310,831	33,457,748
Funds held by or deposited with reinsured companies	3,371,068	0	3,371,068
Current federal and foreign income tax recoverable and interest thereon	3,438,412	0	3,438,412
Net deferred tax asset	<u>23,579,680</u>	<u>11,610,966</u>	<u>11,968,714</u>
Total assets	<u>\$660,909,016</u>	<u>\$11,921,797</u>	<u>\$648,987,219</u>



Liabilities, surplus and other fundsLiabilities

Losses	\$358,129,734
Reinsurance payable on paid losses and loss adjustment expenses	20,406,000
Loss adjustment expenses	14,987,828
Commissions payable, contingent commissions and other similar Charges	(1,609,878)
Other expenses (excluding taxes, licenses and fees)	1,928,579
Unearned premiums	50,034,180
Payable to parent, subsidiaries and affiliates	1,591,917
Other miscellaneous receivables	<u>11,369</u>
Total liabilities	\$445,479,729

Surplus and Other Funds

Common capital stock	2,500,000
Gross paid in and contributed surplus	90,727,719
Unassigned funds (surplus)	<u>110,279,771</u>
Surplus as regards policyholders	<u>203,507,490</u>
Total liabilities and surplus and other funds	<u>\$648,987,219</u>

NOTE: The Internal Revenue Service has completed audits of the Company's consolidated Federal Income Tax returns through tax year 2005. All material adjustments 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.

B. Statement of IncomeUnderwriting Income

Premiums earned		\$856,877,369
Deductions:		
Losses incurred	\$541,746,740	
Loss adjustment expenses incurred	32,132,164	
Other underwriting expenses incurred	242,603,880	
Aggregate write-ins for underwriting deductions	<u>(1)</u>	
Total underwriting deductions		<u>816,482,783</u>
Net underwriting gain or (loss)		\$40,394,586

Investment Income

Net investment income earned	\$107,030,972	
Net realized capital gain	<u>4,483,552</u>	
Net investment gain or (loss)		111,514,524

Other Income

Aggregate write-ins for miscellaneous income	\$ <u>115</u>	
Total other income		<u>115</u>
Net income before federal and foreign income taxes		\$151,909,225
Federal and foreign income taxes incurred		<u>14,627,777</u>
Net income		<u>\$137,281,448</u>

C. Capital and Surplus Account

Surplus as regards policyholders increased \$110,323,289 during the five-year examination period January 1, 2005 through December 31, 2009, detailed as follows:

Surplus as regards policyholders per report on examination as of December 31,			\$93,184,201
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income	\$137,281,448		
Net unrealized capital gains or (losses)		\$ 11,361	
Change in net deferred income tax	7,361,691		
Change in non-admitted assets		2,358,489	
Dividends to stockholders		32,000,000	
Aggregate write-ins for gains and losses in surplus	<u>50,000</u>	<u>                    </u>	
Total gains and losses	<u>\$144,693,139</u>	<u>\$34,369,850</u>	
Net increase in surplus			<u>110,323,289</u>
Surplus as regards policyholders per report on examination as of December 31, 2009			<u>\$203,507,940</u>

**4. LOSSES AND LOSS ADJUSTMENT EXPENSES**

The examination liability for the captioned items of \$378,535,734 is the same as reported by the Company as of December 31, 2009. 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**

<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.	7
The Company has complied with this recommendation.	
B. <u>Accounts and Records</u>	
i. It is recommended that the Company ensure that it is receiving the correct premium receivable figures from its parent company.	12
The Company has complied with this recommendation.	
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
The Company has complied with this recommendation.	
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
The Company has complied with this recommendation.	
iv. It is recommended the Company carefully monitor its investments to ensure compliance with Article 14 of the New York Insurance Law.	14
The Company has complied with this recommendation.	

## 6. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Holding Company System</u>	
i. It is 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.	9
B. <u>Accounts and Records</u>	
i. It is recommended that the Company exercise greater care and complete all interrogatories in accordance with the NAIC Annual Statement Instructions.	10
ii. It is recommended that such unapplied cash, which cannot be properly classified at year-end, should be reported as a separate suspense account item on the balance sheet, until such time that it can be properly classified.	11
iii. It is recommended that the Company exercise greater care and accurately complete Schedule T in accordance with the NAIC Annual Statement Instructions	11



Appointment No. 30438

**STATE OF NEW YORK  
INSURANCE DEPARTMENT**

I, James J. Wrynn Superintendent of Insurance of the State of New York,  
pursuant to the provisions of the Insurance Law, do hereby appoint:

**Dilbrina Belgrave**

*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 she 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 8th day of December, 2009*



*James J. Wrynn*

JAMES J. WRYNN

Superintendent of Insurance