REPORT ON EXAMINATION

OF THE

GENERAL SECURITY NATIONAL INSURANCE COMPANY

AS OF

DECEMBER 31, 2009

| | |
|---|---|
| DATE OF REPORT | APRIL 30, 2011 |
| EXAMINER | ANTHONY CARDONE, CFE |

TABLE OF CONTENTS

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

April 30, 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 30612 dated October 14, 2010 attached hereto, I have made an examination into the condition and affairs of the General Security National Insurance Company as of December 31, 2009, and submit the following report thereon.

Wherever the designations "the Company" or "GSNIC" appear herein without qualification, they should be understood to indicate General Security National 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 199 Water Street, New York, New York.

## 1. SCOPE OF EXAMINATION

The Department has performed a multi-state examination of General Security National Insurance Company. The previous examination was conducted as of December 31, 2006. This examination covered the three-year period from January 1, 2007 through December 31, 2009. 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. 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 that involve departures from laws, regulations or rules, or that are deemed to require explanation or description.

## 2. DESCRIPTION OF COMPANY

The Company was incorporated as the Copenhagen Reinsurance Company of America under the laws of the State of New York on May 15, 1980. The Company commenced underwriting on October 1, 1980, by assuming a book of the United States ("U.S.") domiciled business of its parent, Copenhagen Reinsurance Company, Ltd. of Denmark.

On July 28, 1989, the Company's name was changed to Sorema North America Reinsurance Company when it was acquired by Sorema N.A Holding Corporation, a member of Groupama of France ("Groupama").

On July 31, 2001, SCOR Paris acquired 100% of the stock of Sorema N.A. Holding Corporation. SCOR Paris immediately contributed 100% of the stock of the Company to SCOR Reinsurance Company ("SCOR Re"). Effective January 1, 2002, the name of the Company was changed to General Security National Insurance Company ("GSNIC").

On December 31, 2006, SCOR Reinsurance Company sold 100% of the outstanding stock of the Company to SCOR Paris under its capital restructure plan and the Company became a direct subsidiary of SCOR Paris.

The Company merged with Commercial Risk Re-Insurance Company ("CRRIC"), an affiliate whose issued and outstanding common shares were canceled without consideration and ceased to exist on December 31, 2009.

At December 31, 2009, the capital paid in was $5,000,000 consisting of 100 shares of common stock at $50,000 par value per share. Gross paid in and contributed surplus was $297,207,000 and increased by $66,756,161 during the examination period, as follows:

| Year | Description | |
|---|---|---|
| 2006 | Beginning gross paid in and contributed surplus | $230,450,839 |
| 2007 | Surplus contribution | 1,592,470 |
| 2008 | Surplus withdrawal | (2,336,309) |
| 2008 | Contribution of capital (merger) | 67,500,000 |
| | Ending gross paid in and contributed surplus | $297,207,000 |

The 2008 contribution of capital of $67.5 million was a result of the merger of CRRIC into the Company. This transaction was approved by the Department. The amounts reflected as a surplus contribution in 2007 and as a surplus withdrawal in 2008 were the result of corrections in unassigned funds.

## 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 seven nor more than thirteen members. The board meets four times during each calendar year. At December 31, 2009, the board of directors was comprised of the following twelve members:

| Name and Residence | Principal Business Affiliation |
|---|---|
| John Tennant Andrews, Jr.<br>Califon, NJ | Retired |
| Allan Melville Chaplin<br>New York, NY | Partner,<br>Compass Advisors, LLC |
| Jean-Paul Conoscente<br>Scarsdale, NY | Senior Vice President, Chief Underwriting Officer – Treaty,<br>SCOR Reinsurance Company |
| Steven Zane Desner<br>Rockville Center, NY | Senior Vice President Human Resources & Administration,<br>SCOR Reinsurance Company |

| Name and Residence | Principal Business Affiliation |
|---|---|
| Henry Klecan, Jr<br>New York, NY | Chairman |
| Mark Kociancic<br>Mendham, NJ | Executive Vice President, Chief Financial Officer & Treasurer,<br>SCOR Reinsurance Company |
| Sarah Krotov<br>Brooklyn, NY | Senior Vice Precident, Chief Risk Officer, Chief Actuary,<br>Scor Reinsurance Company |
| Victor Yves Peignet<br>Saint-Cloud, France | Chief Executive Officer,<br>SCOR Global P&C |
| Peter Rizacos<br>New Rochelle, NY | Senior Vice President –SBS,<br>SCOR Reinsurance Company |
| Lee H. Routledge<br>Hoboken, NJ | Senior Vice President, Claims,<br>SCOR Reinsurance Company |
| Patrick Thourot<br>Paris La Defense , Cedex, France | Retired,<br>SCOR SE |
| Edward Nathan Wolff<br>New York, NY | Professor of Economics,<br>New York University |

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

| Name | Title |
|---|---|
| Henry Klecan, Jr. | Chairman, President & Chief Executive Officer |
| Maxine Hilary Verne | Senior Vice President, General Counsel and Corporate Secretary |
| Mark Kociancic | Senior Vice President, Chief Financial Officer and Treasurer |
| Sarah Krutov | Senior Vice President, Chief Risk Officer, Chief Actuary |
| Lee H. Routledge | Senior Vice President, Claims, Litigation and Discontinued Business |
| Jean-Paul Conoscente | Senior Vice President, Chief Underwriting Officer, Treaty |

| Name | Title |
|---|---|
| Peter Rizacos | Senior Vice President, National Accounts |
| Andrew Flasko | Senior Vice President, Chief Information Officer |
| Steven Desner | Senior Vice President, Human Resources & Administration |
| James Duncan Alleyne Grieve | Senior Vice President, Branch Manager |

B. Territory and Plan of Operation

As of December 31, 2009, the Company was licensed to write business in the District of Columbia and all states except New Hampshire, Ohio and Vermont. The Company is also an accredited reinsurer in New Hampshire and Vermont and is licensed for reinsurance only in Puerto Rico.

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:

| Paragraph | Line of Business |
|---|---|
| 3 | Accident & health |
| 4 | Fire |
| 5 | Miscellaneous property |
| 6 | Water damage |
| 7 | Burglary and theft |
| 8 | Glass |
| 9 | Boiler and machinery |
| 10 | Elevator |
| 11 | Animal |
| 12 | Collision |
| 13 | Personal injury liability |
| 14 | Property damage liability |
| 15 | Workers' compensation and employers' liability |
| 16 | Fidelity and surety |
| 17 | Credit |
| 19 | Motor vehicle and aircraft physical damage |
| 20 | Marine and inland marine |
| 21 | Marine protection and indemnity |

As of the examination date, the Company is also licensed to write special risk insurance (free trade zone license) pursuant to Article 63 of the New York Insurance Law. Additionally, the Company may also write 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 insurance described in the Longshoremen's and Harbor Workers' Compensation Act and is authorized by Section 4102(c) to insure property or risks of every kind or description outside of the United States and reinsurance of every kind or description.

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. As of December 31, 2009, the Company reported policyholder surplus of $115,235,525.

As the Company has been in run-off since 2002, the Company only reported $(52,692) in direct premiums for 2009, all associated with New York.

Beginning in 2002, the Company ceased writing any new or renewal business and the liabilities under the existing contracts are being run-off. Prior to 2002, the Company had historically underwritten property and casualty lines of insurance and reinsurance business (i.e., contracts covering property damage, such as dwellings, industrial and commercial goods, vehicles, ships, stored or transported merchandise or operating losses caused by fires or other events, including accidents or natural catastrophes as well as damages caused to third parties under civil liability coverage). Accordingly, remaining business includes contracts covering automobile liability, workers' compensation and general civil liability.

C. Reinsurance

Assumed

The Company's assumed reinsurance program has not been active since 2002. For 2009 all premium activity reflected in the annual statement is related to premium adjustments. Assumed reinsurance in total accounted for $(107,572) of the Company's gross premium written at December 31, 2009. During the period covered by this examination, the Company's assumed reinsurance business has remained stable due to the run-off since the last examination.

<u>Ceded</u>

The Company has been in run-off since 2002. The ceded reinsurance program has remained essentially unchanged since the previous examination. A summary of the material portions of the ceded reinsurance program follows:

At December 31, 2009, the total reinsurance recoverable on loss payments and unpaid losses and loss adjustment expenses was $53.8 million. Reinsurance recoverable in 2009 consisted of amounts ceded to several reinsurers, including $12.7 million from SCOR Global P&C, and $34.7 million from Rampart Insurance Company ("Rampart").

Contemporaneous with the purchase of Sorema N.A. in 2001, three portfolios with loss reserves totaling $61.5 million were transferred from the Company to Rampart. As the consideration for these contracts was equal to the reserves transferred, no gain or loss was incurred. The Company utilized prospective reinsurance accounting for the transfers. The consideration under these arrangements is being held in segregated cash and investment accounts, which accrue interest payable to Rampart at a rate equal to that earned on the Company's investment portfolio. Groupama, Rampart's ultimate parent, has provided a guarantee for Rampart's obligations under this contract. The amount of funds in the cash and investment account is $27.3 million at December 31, 2009. The Company does not have a legal right to the funds in the account and accordingly the amounts are not included as assets in the accompanying balance sheet.

The Company entered into an excess of loss agreement with Sorema Paris (now SCOR Global P&C) on January 1, 1998, which covers all business underwritten by the Company for all underwriting years 1988 and prior. Sorema Paris (SCOR Global P&C) is liable for the amount by which the Company's net ultimate incurred losses from January 1, 1989, to extinction for all underwriting years 1988 and prior exceed $15 million. This deductible has already been exceeded. The amounts recovered on this contract during 2009 and 2008 were $2.1 million and $1.2 million, respectively. Reserves ceded at December 2009 and December 2008 were $9.4 million and $6.9 million, respectively. This agreement is in force until all losses are paid out to extinction. The reserves on this contract are secured by a trust account.

In 2008, the Company exhausted a stop loss agreement with its parent, SCOR Re and recovered $7.1 million. The Company reduced reserves by the same amount and did not incur any losses.

Deposit Accounting

During the period 1996 through 2002, the Company entered into various reinsurance agreements that were determined not to transfer both components of insurance risk (underwriting risk and timing risk) and therefore, should have been accounted for utilizing deposit accounting pursuant to SSAP 62. At the end of 2008, the Company had twenty-six contracts that were accounted for using deposit accounting. During 2009, eight of those contracts were commuted, leaving eighteen contracts that were accounted for using deposit accounting at December 31, 2009. Prior to the merger with CRRIC, GSNIC had no net deposit liability balance. As a result of the merger, GSNIC reflected a deposit liability balance of $12.7 million, net of interest income of $(1,421) and cash payments of $(13.5) million in 2009.

| (In Thousands) | Year 2009 | Year 2008 |
|---|---|---|
| Balance at January 1 | $ 27,618 | $ 39,671 |
| Losses paid | (13,524) | (8,071) |
| Reserve (decrease) increase on deposit contracts | ( 1,395) | (3,982) |
| Interest on funds withheld | (1) | 0 |
| Balance at December 31 | $ 12,698 | $ 27,618 |

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 examination review indicated that the Company maintained the documentation required by the regulations.

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

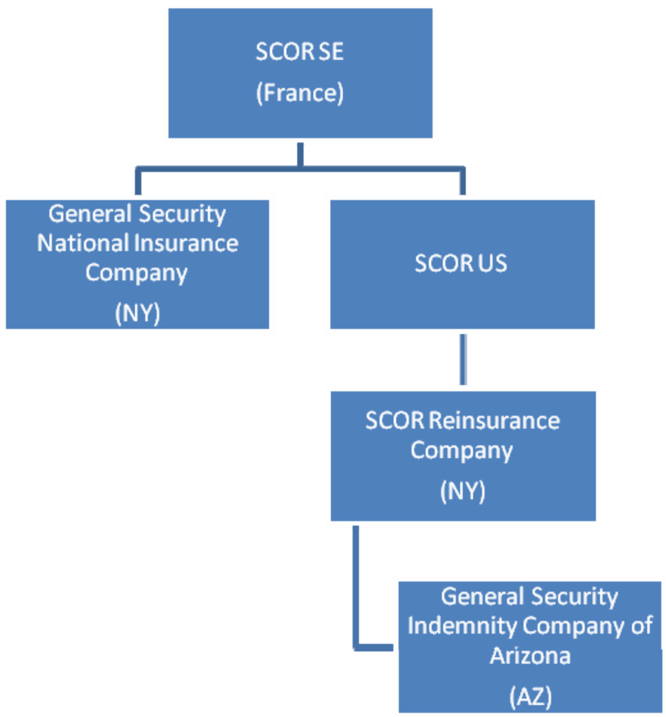
Examination review of the Schedule F data reported by the Company in its filed annual statement was found to accurately reflect its reinsurance transactions. Additionally, management has represented that all material ceded reinsurance agreements transfer both underwriting and timing risk as set forth in NAIC Accounting Practices and Procedures Manual, Statements of Statutory Accounting Principles (“SSAP”) No. 62 with the exception of those treaties that were accounted for as deposit accounting, noted above, in accordance with Paragraph of SSAP No. 75.

D. Holding Company System

The Company is a member of the SCOR SE Group. The Company is 100% owned by, or a wholly-owned subsidiary of SCOR SE, a French 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, 2009:




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

<u>Cost Sharing Agreement</u>

Effective July 28, 2008, SCOR Re has agreed to provide services related to data information services, human resources, legal, risk management, treasury and actuarial, accounting/financial management, claims, investment management, office space, marketing. The parties to the agreement are the Company, SCOR RE, GSINDA, SCOR US and other affiliates. The agreement was filed with this Department pursuant to Section 1505 of the New York Insurance Law.

<u>Parental Guarantee</u>

Effective December 27, 2002, the Company’s parent SCOR SE unconditionally guaranteed all of CRRIC's payment obligations under all of its issued insurance and reinsurance contracts to the extent that the subsidiary fails, refuses or is unable to satisfy such payment obligations; provided, however, that this guaranty shall not apply to any of the subsidiary's payment obligations under the contracts which have, or could have, been avoided or rescinded by the subsidiary for any reason whatsoever other than by reason of the subsidiary's financial impairment or insolvency. The guarantee is a continuing guarantee. CRRIC was merged into the Company during 2009.

Effective August 27, 2003, the Company’s parent SCOR SE unconditionally guaranteed all of Commercial Risk Re-Insurance Company Ltd’s (“CRRIC-ltd”) payment obligations under all of its issued insurance and reinsurance contracts to the extent that the subsidiary fails, refuses or is unable to satisfy such payment obligations; provided, however, that this guaranty shall not apply to any of the subsidiary's payment obligations under the contracts which have, or could have, been avoided or rescinded by the subsidiary for any reason whatsoever other than by reason of the subsidiary's financial impairment or insolvency. The guarantee is a continuing guarantee. CRRIC-ltd merged into CRRIC, which then merged into the Company during 2009.

Effective August 27, 2003, the Company’s parent SCOR SE unconditionally guaranteed all of GSNIC's payment obligations under all of its issued insurance and reinsurance contracts to the extent that the subsidiary fails, refuses or is unable to satisfy such payment obligations; provided, however, that this guaranty shall not apply to any of the subsidiary's payment obligations under the contracts which have, or could have, been avoided or rescinded by the subsidiary for any reason whatsoever other than by reason of the subsidiary's financial impairment or insolvency. The guarantee is a continuing guarantee.

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 | 0% |
| Liabilities to liquid assets (cash and invested assets less investments in affiliates) | 71% |
| Premiums in course of collection to surplus as regards policyholders | 2% |

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 three year period covered by this examination:

| | Amounts | Ratios |
|---|---|---|
| Losses and loss adjustment expenses incurred | $ 8,025,731 | (885.33)% |
| Other underwriting expenses incurred | 22,271,647 | (2,456.82) |
| Net underwriting loss | (31,203,903) | 3,442.14 |
| Premiums earned | $ (906,525) | 100.00% |

F. Subsequent Events

Starting in 2011, the Company intends to commence underwriting property and casualty insurance and reinsurance business. The insurance business will initially focus on equine lines, in particular bloodstock coverages which include equine mortality, loss of use, barrenness, specified perils and other related risks. In addition, the Company will begin assumption of reinsurance on a quota share basis from its U.S. affiliates, SCOR Reinsurance Company and General Security Indemnity Company of Arizona. The Company also intends to resume underwriting other lines of property and casualty business in the future.

The company has proposed a reactivation plan of operation. Under the plan, the Company intends to write business through a managing general agent. The plan would permit the Company to write direct equine business and assume business from SCOR Reinsurance Company under a 25% quota share agreement. The plan was approved pursuant to requirements of Section 1203(b) of the Insurance law. The approval date of the plan was March 6, 2011.

# 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:

| Assets | Assets | Assets Not Admitted | Net Admitted Assets |
|---|---|---|---|
| Bonds | $259,012,537 | $ 0 | $259,012,537 |
| Cash, cash equivalents and short-term investments | 35,577,712 | 0 | 35,577,712 |
| Investment income due and accrued | 1,813,068 | 0 | 1,813,068 |
| Uncollected premiums and agents' balances in the course of collection | 3,639,916 | 1,150,000 | 2,489,916 |
| Deferred premiums, agents' balances and installments booked but deferred and not yet due | 18,142 | 0 | 18,142 |
| Amounts recoverable from reinsurers | 1,859,096 | 0 | 1,859,096 |
| Funds held by or deposited with reinsured companies | 13,368,166 | 0 | 13,368,166 |
| Current federal and foreign income tax recoverable and interest thereon | 3,855,857 | 0 | 3,855,857 |
| Net deferred tax asset | 36,651,382 | 34,891,955 | 1,759,427 |
| Receivables from parent, subsidiaries and affiliates | 331,129 | 0 | 331,129 |
| Goodwill | 15,421,287 | 15,421,287 | 0 |
| Miscellaneous receivables | 3,348,169 | 0 | 3,348,169 |
| Remittances and items not allocated | 1,630,859 | 0 | 1,630,859 |
| Reinsurance balances receivable | 580,191 | 0 | 580,191 |
| Cash deposited with claim administrators | 490,956 | 0 | 490,956 |
| Receivable for securities | 30,423 | 30,423 | 0 |
| Total assets | $377,628,890 | $51,493,665 | $326,135,225 |

| Liabilities, Surplus and Other Funds | Examination | Company | Surplus Increase (Decrease) |
|---|---|---|---|
| Liabilities | | | |
| Losses and loss adjustment expenses | $190,290,974 | $180,590,974 | $ (9,700,000) |
| Reinsurance payable on paid losses and loss adjustment expenses | 9,653,599 | 9,653,599 | 0 |
| Commissions payable, contingent commissions and other similar charges | 614,350 | 614,350 | 0 |
| Other expenses (excluding taxes, licenses and fees) | 1,875,030 | 1,875,030 | 0 |
| Taxes, licenses and fees (excluding federal and foreign income taxes) | 174 | 174 | 0 |
| Unearned premiums | 3,007 | 3,007 | 0 |
| Ceded reinsurance premiums payable (net of ceding commissions) | 400,700 | 400,700 | 0 |
| Funds held by company under reinsurance treaties | 206,434 | 206,434 | 0 |
| Provision for reinsurance | 1,267,330 | 1,267,330 | 0 |
| Retroactive reinsurance reserves assumed on deposits | 12,698,284 | 12,698,284 | 0 |
| Accrued minimum pension liability | 3,558,543 | 3,558,543 | 0 |
| Accrued return retrospective premiums | 31,275 | 31,275 | 0 |
| Total liabilities | $220,599,700 | $210,899,700 | $ (9,700,000) |
| Surplus and Other Funds | | | |
| Common capital stock | $ 5,000,000 | $ 5,000,000 | $ 0 |
| Gross paid in and contributed surplus | 297,207,000 | 297,207,000 | 0 |
| Unassigned funds (surplus) | (196,671,475) | (186,971,475) | (9,700,000) |
| Surplus as regards policyholders | $105,535,525 | $115,235,525 | $ (9,700,000) |
| Total liabilities, surplus and other funds | $326,135,225 | $326,135,225 | |

NOTE: The Internal Revenue Service has not yet begun to audit tax returns covering tax years 2003 through 2008. 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 increased $38,935,165 during the three year examination period January 1, 2007 through December 31, 2009, detailed as follows:

| | | |
|---|---|---|
| Underwriting Income | | |
| Premiums earned | | $ (906,525) |
| Deductions: | | |
| Losses and loss adjustment expenses incurred | $ 8,025,731 | |
| Other underwriting expenses incurred | 22,271,647 | |
| Total underwriting deductions | | 30,297,378 |
| Net underwriting gain or (loss) | | $(31,203,903) |
| Investment Income | | |
| Net investment income earned | $27,685,230 | |
| Net realized capital gain | (7,776,772) | |
| Net investment gain or (loss) | | 19,908,458 |
| Other Income | | |
| Net gain or (loss) from agents' or premium balances charged off | $ 8,405,378 | |
| Finance and service charges not included in premiums | 0 | |
| Other income | 5,699,019 | |
| Interest on funds held by or deposited with reinsurers | 2,929,673 | |
| Interest on borrowed money | (2,280,904) | |
| Prior year federal income tax adjustment | 619,433 | |
| Total other income | | $ 15,372,599 |
| Net income before federal and foreign income taxes | | $ 4,077,154 |
| Federal and foreign income taxes incurred | | 1,137,249 |
| Net income | | $ 2,939,905 |

| | Gains in Surplus | Losses in Surplus | |
|---|---|---|---|
| Surplus as regards policyholders per report on examination as of December 31, 2006 | | | $ 66,600,360 |
| Net income | $ 2,939,904 | | |
| Net transfers (to) from protected cell accounts | | | |
| Net unrealized capital gains or (losses) | | $27,192,140 | |
| Change in net unrealized foreign exchange capital gain (loss) | 23,926,345 | | |
| Change in net deferred income tax | | 66,210,793 | |
| Change in nonadmitted assets | 70,624,709 | | |
| Change in provision for reinsurance | 1,545,623 | | |
| Capital changes transferred to surplus | | | |
| Surplus adjustments paid in | | 743,840 | |
| SCOR SE loan forgiveness granted to Commercial Risk Reinsurance (Bermuda) | 65,678,875 | | |
| Prior year surplus adjustments | 14,229,863 | | |
| Minimum liability for pensions | | 1,013,210 | |
| Prior year deferred tax adjustment | 334,140 | | |
| Realized foreign exchange adjustment | 1,961,479 | | |
| Aggregate write-ins for gains and losses in surplus | | | |
| Result of Restatement of 2008 surplus due to Statutory Merger of Commercial Risk-Re ("CRR") (VERMONT) | 0 | 47,145,790 | |
| Total gains and losses | $181,240,938 | $142,305,773 | |
| Net increase (decrease) in surplus | | | 38,935,165 |
| Surplus as regards policyholders per report on examination as of December 31, 2009 | | | $105,535,525 |

## 4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of $190,290,974 is $9.7 million more than the $180,590,974 reported by the Company in its December 31, 2009, filed annual statement. The examination change is due to the Department actuaries' independent analysis of the Company's loss development. The Department actuaries also note that the Company has already recognized $6.4 million of this development as of December 31, 2010.

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

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

| ITEM | | PAGE NO. |
|---|---|---|
| A. | Territory and Plan of Operation | |
| | It is recommended that the Company comply with Section 1102(b) of the New York Insurance Law by amending its Florida license to only include those lines of business it is authorized to do in accordance with its New York license. | 6 |
| | The Company has complied with this recommendation. | |
| B. | Holding Company System | |
| | It is recommended that the Company settle its inter-company receivable and payable balances in a timely manner consistent with its filed expense allocation agreement and Department Circular Letter No. 15 (1975). | 9 |
| | The Company has complied with this recommendation. | |
| C. | Account and Record | |
| i. | Letters of Credit | |
| a. | It is recommended that the Company take greater care to ensure that it accurately report the balances of the letters of credit in the annual statement. | 11 |
| | The Company has complied with this recommendation. | |
| b. | It is recommended that the Company amend its letters of credit to comply with Department Regulation 133. | 11 |
| | The Company has complied with this recommendation. | |
| ii. | Agents' Balances | |
| | It is recommended that the Company calculate and report its nonadmitted agents' balances in accordance with SSAP No. 6 and Section 1301 of the New York Insurance Law. | 11 |
| | The Company has complied with this recommendation. | |

| ITEM | | PAGE NO. |
|---|---|---|
| iii. | Other Assets and Liabilities | |
| | It is recommended that the Company properly account for write-in assets and liabilities and timely write off any balances that do not meet the provisions of SSAP No. 4 and SSAP No. 5. | 12 |
| | The Company has complied with this recommendation. | |
| iv. | Pledged Assets | |
| | It is recommended that the Company correctly categorize its assets and properly report the entire funds held with Rampart as pledged assets and report the item in line 23 as aggregate write-ins for other than invested assets in the assets page. | 12 |
| | The Company has complied with this recommendation. | |

## 6. SUMMARY OF RECOMMENDATIONS

There are no recommendations in the report on examination.

Respectfully submitted,

/S/
Anthony Cardone, CFE
Examiner–in Charge

STATE OF NEW YORK )

)ss:

COUNTY OF NEW YORK )

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

/S/
Anthony Cardone, CFE

Subscribed and sworn to before me

this__________ day of ___________________, 2011.

*Appointment No.* 30617

*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:*

**Anthony Cardone**

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

**GENERAL SECURITY NATIONAL 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* 1st *day of* November *2010*

STATE OF NEW YORK ★ SUPERINTENDENT OF INSURANCE ★
EXCELSIOR

*JAMES J. WRYNN*
*Superintendent of Insurance*