

REPORT ON EXAMINATION

OF THE

GLOBAL REINSURANCE CORPORATION – U.S. BRANCH

AS OF

DECEMBER 31, 2010

DATE OF REPORT

FEBRUARY 17, 2012

EXAMINER

MOSES EGBON

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NEW YORK STATE
DEPARTMENT *of*
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Benjamin M. Lawsky
Superintendent

February 17, 2012

Honorable Benjamin M. Lawsky
Superintendent of Financial Services
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 30727 dated June 14, 2011 attached hereto, I have made an examination into the condition and affairs of the Global Reinsurance Corporation – U.S. Branch as of December 31, 2010, and submit the following report thereon.

Wherever the designation “the Branch” appears herein without qualification, it should be understood to indicate the Global Reinsurance Corporation – U.S. Branch.

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

The examination was conducted at the Branch’s home office located at 7 Times Square, 37th Floor, New York, NY 10036.

1. SCOPE OF EXAMINATION

The previous examination was conducted as of December 31, 2006. This examination covered the four-year period from January 1, 2007 through December 31, 2010, and was limited in scope to these balance sheet items considered by this Department to require analysis, verification or description, including: Invested assets, losses and loss adjustment expenses, reinsurance recoverable and provision for reinsurance. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

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

This report on examination is confined to the target areas investigated pursuant to the limited scope examination instructions, financial statements and comments on those matters that involve departures from laws, regulations or rules, or that are deemed to require explanation or description.

The examiners also relied upon audit work performed by the Branch's independent public accountants when appropriate.

This examination report includes a summary of significant findings for the following items as called for in the National Association of Insurance Commissioners Financial Condition Examiners Handbook:

- Significant subsequent events
- Branch history
- Corporate records
- Management and control
- Fidelity bonds and other insurance
- Pensions, stock ownership and insurance plans
- Territory and plan of operation
- Growth of Branch
- Loss experience
- Reinsurance
- Accounts and records
- Statutory deposits
- Financial statements
- Summary of recommendations

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 BRANCH

The Branch was licensed in the State of New York on January 29, 1963 as the United States Branch of Gerling-Konzern Globale Rueckversicherungs Aktiengesellschaft (now known as GLOBALE Rueckversicherungs Aktiengesellschaft (“the Home Office”)), an insurer organized under the laws of the Federal Republic of Germany on April 23, 1954. The Branch adopted its current title in 2004.

From 1963 through 1997, the Home Office conducted reinsurance operations in the United States through the Branch. Pursuant to Section 1315 of the New York Insurance Law, the Home Office maintains assets sufficient to cover the Branch’s liabilities and statutory requirements in a trust account for the security of its policyholders and creditors in the United States. The trusted assets may not be withdrawn without the consent of the New York State Department of Financial Services.

In 1997, the Branch ceased assuming new business due to adverse underwriting results on long-tail liability business, including exposure to asbestos and environmental liabilities and other latent exposures relating to reinsurance contracts entered into during 1984 and prior years. After 1997, all domestic reinsurance activities were written through the Home Office’s U.S.-based reinsurance subsidiary, GLOBAL Reinsurance Corporation of America (“GRCA”). Effective January 1, 1997, the Branch entered into a quota share reinsurance agreement with GRCA, whereby GRCA assumed 100% of the Branch’s net liabilities in force as of that date. Effective July 31, 2009, the 100% quota share reinsurance agreement was commuted. GRCA paid the Branch the sum of \$854,045 in full satisfaction of all obligations under the agreement.

In 2008, the Branch received a contributed capital from its home office of \$10,000,000, which was deposited into the Branch’s non-trusted account.

A. Management

The operations of the Branch are managed by Global U.S. Holdings, Inc. (“GUSHI”), a subsidiary of the Home Office, pursuant to a management agreement effective March 31, 2000. Pursuant to the management agreement, GUSHI provides all staff and office accommodations required to run the business of the Branch. The Branch reimburses GUSHI for actual expenses incurred during the year plus a basic fee.

Citibank was appointed as the United States Trustee by a deed of trust dated December 13, 1962. This instrument, duly approved by the Superintendent, contains provisions that empower the Trustee to purchase and sell securities or other personal property as the Branch may direct, subject to the laws of the State of New York.

The by-laws of GUSHI provide that its corporate powers shall be exercised by a board of directors consisting of not less than three members. At December 31, 2010, the board of directors was comprised of the following five members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Bard E. Bunaes Irvington, NY	Vice Chairman, GLOBAL Reinsurance Corporation of America
Thomas K. Freudenstein Alfter, Germany	Chief Operating Officer, Global Reinsurance Corporation of America
Christian Neukamp Bruhl, Germany	Director, GLOBAL Reinsurance Corporation of America
David W. Smith Locust Valley, NY	Executive Vice President, General Counsel and Corporate Secretary, Global Reinsurance Corporation of America
Volker D. Weisbrodt Cologne, Germany	Chairman, President and Chief Executive Officer Global Reinsurance Corporation of America

As of December 31, 2010, the principal officers of the Branch were as follows:

<u>Name</u>	<u>Title</u>
Volker D. Weisbrodt	Chairman, President & Chief Executive Officer
Thomas K. Freudenstein	Chief Operating Officer
Burton I. Henry	Executive Vice President & Chief Financial Officer
David W. Smith	Executive Vice President, General Counsel & Secretary

B. Territory and Plan of Operation

At December 31, 2010, the Branch was licensed to write business in twenty-seven states and the District of Columbia. Additionally, the Branch was an accredited reinsurer in seventeen states.

As of the examination date, the Branch was licensed 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 and 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
22	Residual value
24	Credit unemployment
26(A)(B)(C)(D)	Gap insurance
27	Prize indemnification
28	Service contract reimbursement
29	Legal services

The Branch is also empowered 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 803, 69th Congress, as amended; 33 USC Section 901 et seq. as amended).

Effective October 15, 2004, the Branch surrendered its authority to reinsure under Section 4102(c) of the New York Insurance Law.

Based on the lines of business for which the Branch is licensed, and pursuant to the requirements of Article 13 of the New York Insurance Law, the Branch is required to maintain a minimum surplus to policyholders and a trusteed surplus in the amount of \$11,100,000.

C. Reinsurance

Assumed Reinsurance

The Branch voluntarily ceased writing business in 1997. Prior to that time, the Branch's principal business was to write property and casualty treaty reinsurance through intermediaries. Since entering into run-off, the Branch has commuted various reinsurance agreements where it was either a ceding or an assuming reinsurer. During the period covered by this examination, commutations of assumed and ceded reinsurance treaties have resulted in a net gain of \$9,264,316 to the Branch's surplus. The commutation of assumed business is a significant activity for the Branch, and it has been trying to significantly reduce its overhead costs to effectively runoff its business.

Ceded Reinsurance

In 1997, the Company discontinued writing new business. Consequently, its ceded reinsurance program then in place was not renewed and was terminated on a run-off basis.

Reinsurance Agreement between the Branch and GLOBAL Reinsurance Corporation of America ("GRCA")

On July 31, 2009, the Branch and GRCA entered into a Commutation and Mutual Release Agreement whereby GRCA agreed to pay the sum of \$854,045 in full satisfaction of all of its past, present and future obligations assumed from the Branch pursuant to a 100% quota share reinsurance agreement that was effective January 1, 1997. The 100% quota share reinsurance agreement was originally entered into when the Branch ceased writing new business and went into runoff.

Examination review of the Schedule F data reported by the Branch 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 the NAIC Accounting and Procedures Manual, Statements of Statutory Accounting Principles ("SSAP") No. 62. Representations were supported by an attestation from the Branch's chief executive officer pursuant to Department Circular Letter No. 8 (2005).

A review of the aging of the Branch's reinsurance recoverables on paid losses and loss adjustment expenses reported in Schedule F – Part 4 of its 2010 annual statement revealed that the Branch reported 58.6% as more than 120 days overdue. The Branch advised that this had to do with

the fact that it was commuting a large number of its assumed treaties, which affected the timing of and the amounts recoverable on the retrocessions.

The Branch's management has indicated that settlements for these recoverables are being negotiated, and others are being pursued through arbitration or litigation. The outcome of these actions by the Branch to recoup the ceded reinsurance balances recoverable is difficult to determine. As the Branch continues to commute assumed reinsurance contracts, there are likely to continue to be issues when these commutation costs are billed out through the Branch's ceded reinsurance contracts.

There is a significant risk that the Branch will continue to experience delays in collecting some of its reinsurance recoverables. Additionally, although the Branch has established a provision for reinsurance based on the formula prescribed in the annual statement instructions, there is a significant risk that such provision may not fully reflect the amount of recoverable balances that will ultimately prove to be uncollectible.

It is recommended that the Branch continue to carefully monitor its reinsurance recoverables and write-off all recoverables that are of doubtful value. This recommendation is based on the materiality of the risk involved in this area rather than on any past failure of the Branch to properly reflect its reinsurance recoverables.

D. Holding Company System

The Branch is a member of a German holding company system known as the GLOBAL Re Group. The GLOBAL Re Group is comprised of a large number of related entities in Germany, as well as throughout the world.

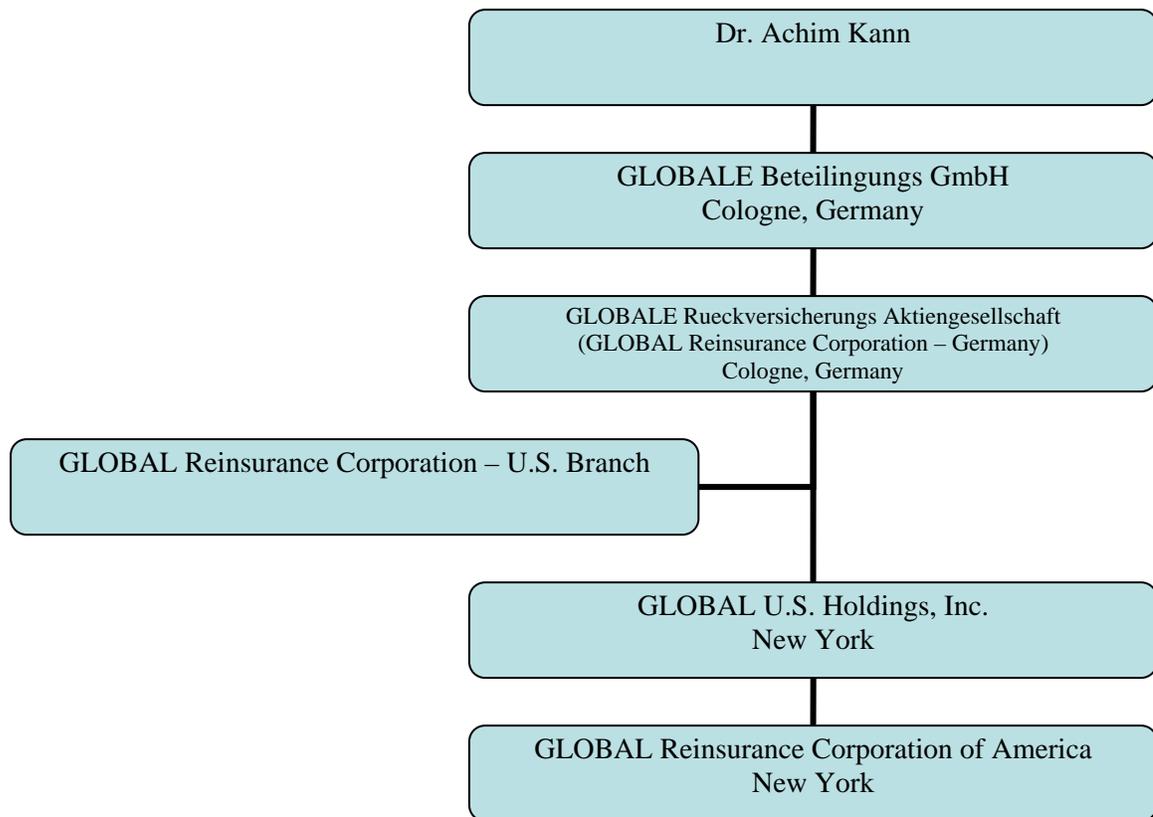
On December 28, 2007, the Department approved the sale of the GLOBAL Re Group, including the Home Office, by Winsor Verwaltungs – AG, to GLOBALE Management GmbH (“GMG”), and its parent, GLOBALE Beteiligungs GmbH (“GBG”). On October 13, 2010, GMG was merged with GBG.

Prior to December 2009, Dr. Achim Kann owned 100% of the outstanding shares of GBG. In December 2009, Dr. Kann transferred 99% of his shares to his two daughters (49.5% each); however, each of his daughters exercised Powers of Attorney, which indicate that they have provided Dr. Kann with complete voting rights and other shareholder's rights to which they are entitled. Therefore, Dr.

Kann is considered the ultimate controlling person by virtue of his power to vote 100% of the shares of GBG.

A review of the holding company registration statements filed with the 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, 2010:



At December 31, 2010, the Branch was party to the following agreements with other members of its holding company system:

Expense Sharing Agreement

Effective November 1, 2005, the Branch and several members of its affiliates are party to an expense sharing agreement. The agreement provides for GRCA to make available to its affiliates, the employees and facilities necessary for the conduct of their business, which includes but is not limited

to: claims and underwriting services; accounting, legal, and IT services; assistance with report preparation; assistance with retrocession programs; and human resource services.

Management Agreement

Effective March 31, 2000, the Branch has a management agreement with GUSHI, whereby GUSHI provides all staff and office accommodations required to run the business of the Branch. The Branch reimburses GUSHI for actual expenses incurred during the year, plus a basic fee.

E. Significant Operating Ratios

The following ratio has been computed as of December 31, 2010, based upon the results of this examination:

Liabilities to liquid assets (cash and invested assets less investments in affiliates)	81%
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The above ratio falls within the benchmark range set forth in the Insurance Regulatory Information System of the National Association of Insurance Commissioners. The net premiums written to surplus as regards policyholders and premiums in course of collection to surplus as regards policyholders ratios were not computed due to the fact that the Branch has been in runoff since 1997 and therefore, those ratios would not be relevant.

The underwriting ratios presented below are on an earned/incurred basis and encompass the four-year period covered by this examination:

	<u>Amounts</u>	<u>Ratios</u>
Losses and loss adjustment expenses incurred	\$ 6,357,496	(2,282)%
Other underwriting expenses incurred	13,136,832	(4,715)
Net underwriting loss	<u>(19,772,972)</u>	<u>7,096</u>
Premiums earned	\$ <u>(278,644)</u>	<u>100%</u>

3. FINANCIAL STATEMENTS

A Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2010 as determined by this examination and as reported by the Branch:

<u>Assets</u>	<u>Assets</u>	<u>Examination</u>	<u>Net Admitted</u>
		<u>Assets Not Admitted</u>	<u>Assets</u>
Bonds	\$230,436,710	\$ 0	\$230,436,710
Cash, cash equivalents and short-term investments	10,870,232	0	10,870,232
Other invested assets	1,365,647	0	1,365,647
Receivables for securities	908	0	908
Investment income due and accrued	2,907,354	0	2,907,354
Uncollected premiums and agents' balances in the course of collection	102,030	0	102,030
Amounts recoverable from reinsurers	10,286,889	0	10,286,889
Funds held by or deposited with reinsured companies	43,540	0	43,540
Receivables from parent, subsidiaries and affiliates	<u>126,697</u>	<u>0</u>	<u>126,697</u>
Totals	<u>\$256,140,007</u>	<u>\$ 0</u>	<u>\$256,140,007</u>

Liabilities, surplus and other funds

	<u>Examination</u>
Losses and Loss Adjustment Expenses	\$178,540,565
Reinsurance payable on paid losses and loss adjustment expenses	1,046,709
Other expenses (excluding taxes, licenses and fees)	2,575,290
Taxes, licenses and fees (excluding federal and foreign income taxes)	41,000
Current federal and foreign income taxes	98,996
Ceded reinsurance premiums payable (net of ceding commissions)	197,405
Funds held by company under reinsurance treaties	213,866
Amounts withheld or retained by company for account of others	98
Provision for reinsurance	15,402,705
Payable for securities	102,021
Accounts payable miscellaneous	<u>74,172</u>
Total liabilities	<u>\$198,292,827</u>

Surplus and Other Funds

Statutory deposit	\$ 4,200,000	
Unassigned funds (surplus)	<u>53,647,180</u>	
Surplus as regards policyholders		<u>57,847,180</u>
Totals		<u>\$256,140,007</u>

NOTE: The examiner is unaware of any potential exposure of the Branch to any tax assessment and no liability has been established herein relative to such contingency.

B. Income Statement

Surplus as regards policyholders increased \$49,665,524 during the four-year examination period January 1, 2007 through December 31, 2010, detailed as follows:

Underwriting Income

Premiums earned			(\$278,644)
Deductions:			
Losses and loss adjustment expenses incurred	\$6,357,496		
Other underwriting expenses incurred	<u>13,136,832</u>		
Total underwriting deductions			<u>19,494,328</u>
Net underwriting gain or (loss)			(\$19,772,972)
<u>Investment Income</u>			
Net investment income earned	\$50,993,112		
Net realized capital gain or (loss)	<u>(6,568,621)</u>		
Net investment gain or (loss)			<u>\$44,424,491</u>
<u>Other Income</u>			
Net gain or (loss) from agents' or premium balances charged off	(\$58,850)		
Aggregate write-ins for miscellaneous income	<u>982,211</u>		
Total other income			<u>\$923,361</u>
Net income before federal and foreign income taxes			<u>\$25,574,880</u>
Federal and foreign income taxes incurred			<u>152,996</u>
Net Income			<u>\$25,421,884</u>

C. Capital and Surplus Account

Surplus as regards policyholders per report on examination as of December 31, 2006				\$8,181,655
		Gains in <u>Surplus</u>	Losses in <u>Surplus</u>	
Net income	\$25,421,884			
Net transfers (to) from protected cell accounts				
Net unrealized capital gains or (losses)			1,445,652	
Change in net deferred income tax			102,432,292	
Change in non-admitted assets	101,653,864			
Change in provision for reinsurance	15,712,800			
Cumulative effect of changes in accounting principles	754,920			
Net remittances from or (to) home office	10,000,000			
Net increase (decrease) in surplus	<u>\$153,543,468</u>	<u>\$103,877,944</u>		<u>\$49,665,524</u>
Surplus as regards policyholders per report on examination as of December 31, 2010				<u>\$57,847,179</u>

D. Trusteed Surplus Statement

The following shows the trustee surplus statement of the Branch at December 31, 2010, as determined by this examination and as reported by the Branch:

<u>Assets</u>	<u>Examination</u>
Securities deposited with state insurance departments for the protection of all policyholders and creditors within the United States:	
New York	\$ 4,216,853
Ohio	<u>150,602</u>
	\$ 4,367,455
Vested in and held by United States trustees for the protection of all of the Branch's policyholders and creditors within the United States:	
Bonds	\$ 5,190,224
Cash	209,512,838
Accrued Investment Income	1,365,647
Other Invested Assets	<u>2,735,220</u>
Total gross assets	<u>\$223,171,384</u>
<u>Liabilities and Trusteed Surplus</u>	
Total liabilities	\$198,292,827
<u>Deductions from Liabilities</u>	
Reinsurance recoverable on paid losses from authorized companies	5,694,931
Reinsurance recoverable on paid losses from unauthorized companies	3,417,019
Special state deposits	2,229,418
Accrued interest on special state deposits	43,540
Agents balances under 90 days	
Funds held with reinsured companies	
Other assets	-
Total deductions	<u>\$11,384,908</u>
Total adjusted liabilities	\$186,907,919
Trusteed surplus (Section 1312)	<u>36,263,465</u>
Total adjusted liabilities and trustee surplus	<u>\$223,171,384</u>

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of \$178,540,565 is the same as reported by the Company as of December 31, 2010. 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.

It should be noted that as of the examination date most of the Branch's net loss reserves were attributable to asbestos, hazardous waste and other toxins claims exposure. The estimation of these claims is unusually difficult for several reasons, including: a lack of historical data; the uncertain nature of legal interpretations of coverage; regulatory procedures for claim resolution; and the inability to apply standard actuarial techniques to data that is only available by calendar year but represents multiple policy years.

5. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination contained one comment and five recommendations as follows (page numbers refer to the prior report):

<u>ITEM</u>	<u>PAGE NO.</u>
<p>A. <u>Trusted Surplus Insolvency and Impairment</u></p> <p>The examination determined that as of December 31, 2006, the Branch's trusted surplus was insolvent in the amount of \$13,595,680 and its required to be maintained trusted surplus of \$11,100,000 was impaired in the amount of \$24,695,680. It is noted that the Branch's surplus as regards policyholders was impaired, but not insolvent as of December 31, 2006.</p> <p>Subsequent to the examination date, in January 2008, the Branch received a capital contribution from its home office in the amount of \$10 million, which was deposited into the Branch's non-trusted account. Additionally, the Branch subsequently collected approximately \$13.4 million of reinsurance recoverables that were in dispute as of December 31, 2006 and, therefore, were not eligible to be included in trusted surplus at that date. Additionally, the Branch had approximately \$5.6 million in non-trusted assets available for the disposition of trusted liabilities at December 31, 2006.</p> <p>The recognition of the \$13.4 million subsequently collected for reinsurance recoverables in dispute at the examination date, combined with the \$10 million capital contribution and the \$5.6 million in available non-trusted assets was enough to eliminate both the trusted surplus impairment and insolvency at the examination date. While these funds were not transferred to the trusted asset account they have been used to pay down the Branch's liabilities, thereby increasing the trusted surplus of the Branch.</p>	<p>1, 15, 19</p>
<p>B. <u>Reinsurance Recoverables</u></p> <p>It is recommended that the Branch carefully monitor its reinsurance collectibles and write-off all recoverables that are of dubious value. This recommendation is based on the materiality of the risk involved in this area rather than on any past failure of the Branch to properly reflect its reinsurance recoverables.</p> <p>It is noted that during the examination period, the Branch has significantly reduced its reinsurance recoverables from \$47.3 million at December 31, 2006 to \$10.3 million as of the current examination date. Therefore, the Branch has complied with this recommendation.</p>	<p>7</p>

<u>ITEM</u>	<u>PAGE NO.</u>
C. <u>Investments</u>	
It is recommended that the Branch take the necessary steps to ensure future compliance with Section 1402(a) and Section 1402(b) of the New York Insurance Law.	10
The Branch has complied with this recommendation.	
D. <u>Claim Documentation</u>	
It is recommended, that the Branch establish procedures to ensure that it be sufficiently informed regarding the status of each claim.	11
The Branch has complied with this recommendation.	
E. <u>Adjusting and Other Unpaid Expenses</u>	
Given the run-off status of the Branch, it is recommended that the Branch closely monitor its unallocated loss adjustment expense reserve and make modifications, where appropriate.	16
The Branch has complied with this recommendation.	
F. <u>Trusted surplus</u>	
It is recommended that the Branch take credit, on future trusted surplus statements, for liabilities reflected on the statutory filing that were set up as a reserve against assets not admitted on the trusted surplus statement. This credit is taken on the trusted surplus statement as a deduction from reported liabilities.	19
The Branch has complied with this recommendation.	

6. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Reinsurance Recoverables</u>	
It is recommended that the Branch continue to carefully monitor its reinsurance recoverables and write-off all recoverables that are of doubtful value. This recommendation is based on the materiality of the risk involved in this area rather than on any past failure of the Branch to properly reflect its reinsurance recoverables.	7

Respectfully submitted,

_____/s/
Moses Egbon, CFE
Senior Insurance Examiner

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

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

_____/s/
Moses Egbon

Subscribed and sworn to before me

this _____ day of _____, 2010.

Appointment No. 30727

**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:

Moses Egbon

as proper person to examine into the affairs of the

**GLOBAL REINSURANCE CORPORATION
UNITED STATES BRANCH**

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

BRANCH

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 14th day of June, 2011



James J. Wrynn

JAMES J. WRynn
Superintendent of Insurance