

**REPORT ON EXAMINATION**

**OF THE**

**HSBC INSURANCE COMPANY OF DELAWARE**

**AS OF**

**DECEMBER 31, 2009**

Karen Weldin Stewart, CIR-ML  
Commissioner



Delaware Department of Insurance

REPORT ON EXAMINATION  
OF THE  
HSBC INSURANCE COMPANY OF DELAWARE  
AS OF  
DECEMBER 31, 2009

The above-captioned Report was completed by examiners of the Delaware Department of Insurance.

Consideration has been duly given to the comments, conclusions and recommendations of the examiners regarding the status of the Company as reflected in the Report.

This Report is hereby accepted, adopted and filed as an official record of this Department.

A handwritten signature in black ink, appearing to read "Karen Weldin Stewart".

---

Karen Weldin Stewart, CIR-ML  
Insurance Commissioner

Dated this 23rd day of June 2011

Karen Weldin Stewart, CIR-ML  
Commissioner



Delaware Department of Insurance

I, Karen Weldin Stewart, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of December 31, 2009 of the

**HSBC INSURANCE COMPANY OF DELAWARE**

is a true and correct copy of the document filed with this Department.

Attest By:           *Sonia C. Harris*          

Date: 23 June 2011



In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 23rd day of June, 2011.

A handwritten signature in black ink, appearing to read "Karen Weldin Stewart".

\_\_\_\_\_  
Karen Weldin Stewart, CIR-ML  
Insurance Commissioner

## TABLE OF CONTENTS

SALUTATION .....	1
SCOPE OF EXAMINATION.....	2
SUMMARY OF SIGNIFICANT FINDINGS .....	3
SUBSEQUENT EVENTS .....	3
COMPANY HISTORY .....	4
Dividends.....	5
MANAGEMENT AND CONTROL .....	5
HOLDING COMPANY SYSTEM .....	7
AGREEMENTS .....	9
Affiliated Agreements .....	9
Agreement for Investment and Cash Management Services.....	9
Service Agreement - HSBC Financial Corporation .....	10
Tax Allocation Agreement .....	10
External Agreements .....	11
CORPORATE GOVERNANCE .....	11
TERRITORY AND PLAN OF OPERATION .....	12
GROWTH OF THE COMPANY .....	13
REINSURANCE.....	14
ACCOUNTS AND RECORDS .....	16
FINANCIAL STATEMENTS .....	17
ASSETS.....	18
LIABILITIES, CAPITAL AND SURPLUS .....	19
STATEMENT OF INCOME .....	20
RECONCILIATION OF CAPITAL AND SURPLUS .....	21
ANALYSIS OF CHANGES IN THE FINANCIAL STATEMENTS.....	21
NOTES TO FINANCIAL STATEMENTS.....	22
CONCLUSION.....	23

## SALUTATION

April 7, 2011

Honorable Joseph Torti, III  
Chairman, NAIC Financial Condition (E)  
Committee,  
Deputy Director and Superintendent of  
Insurance and Banking  
Division of Insurance  
Department of Business Regulation  
State of Rhode Island  
1511 Pontiac Avenue, Bldg # 69-2  
Cranston, Rhode Island 02920

Honorable Stephen W. Robertson,  
Secretary, Midwestern Zone  
Commissioner of Insurance  
Indiana Department of Insurance  
311 West Washington Street, Suite 300  
Indianapolis, Indiana 46204-2787

Honorable Sharon P. Clark,  
Secretary, Southeastern Zone  
Commissioner of Insurance  
Kentucky Department of Insurance  
P.O. Box 517  
Frankfort, Kentucky 40602-0517

Mila Kofman  
Secretary, Northeastern Zone  
Superintendent  
Department of Professional & Financial  
Regulation  
Maine Bureau of Insurance  
34 State House Station  
Augusta, Maine 04333-0034

Monica J. Lindeen  
Secretary, Western Zone  
Commissioner of Securities and Insurance  
Montana Office of the Commissioner of  
Securities and Insurance  
840 Helena Avenue  
Helena, Montana 59601

Honorable Karen Weldin Stewart, CIR-ML  
Commissioner  
Delaware Department of Insurance  
Rodney Building  
841 Silver Lake Blvd.  
Dover, Delaware 19904

Dear Commissioners:

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority No. 10-018B, an Association examination has been made of the affairs, financial condition and management of the

### **HSBC INSURANCE COMPANY OF DELAWARE**

hereinafter referred to as “Company” or “HSBC” incorporated under the laws of the State of Delaware as a stock company. The Company’s statutory office is 90 Christiana Road, New Castle,

Delaware. The examination was conducted at the administrative office of the Company located at 545 Washington Boulevard, Jersey City, New Jersey.

The examination was conducted concurrently with that of the Company's affiliate, Household Life Insurance Company of Delaware (HLI). Separate reports of examination have been completed and filed for each Company.

The report of this examination is submitted herewith.

### **SCOPE OF EXAMINATION**

The last examination was as of December 31, 2004. This examination is a comprehensive risk-focused examination which covers the five year period from January 1, 2005 to December 31, 2009, and encompassed a general review of the Company's business policies and practices, as well as management and relevant corporate matters, with a determination of financial condition at December 31, 2009. Transactions and operations subsequent to the examination date were reviewed where deemed necessary.

We conducted our examination in accordance with the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook (Handbook). The NAIC Handbook requires that we plan and perform the examination to assess financial condition and identify prospective risks by evaluating Company information including operations, corporate governance, identifying and assessing material inherent risks to which the Company is considered exposed and evaluating processes, systems, controls and other procedures used to mitigate those risks. The examination also included assessing principles used and significant estimates made by management, as well as evaluating overall financial statement presentation and management's compliance with Statutory Accounting Principles and annual statement instructions.

During the course of this examination, consideration was given to work performed by the Company's external accounting firm, KMPG, LLP. Certain auditor work papers of their 2009 audit have been incorporated into the work papers of this examination and have been utilized principally in the area of tests of controls, risk mitigation and substantive tests of account balances. In addition to items hereinafter incorporated as a part of this report, the following were reviewed without material exception and made part of the work papers of this examination.

- Corporate Records
- Conflict of Interest
- Fidelity Bonds and Other Insurance
- Pensions, Stock Ownership and Insurance Plans
- NAIC Ratios
- Legal Actions
- Regulatory Agency Correspondence
- Statutory Deposits
- Compliance with Prior Report on Examination
- All other Assets and Liabilities not mentioned

### **SUMMARY OF SIGNIFICANT FINDINGS**

No significant findings were determined as a result of the examination.

### **SUBSEQUENT EVENTS**

The Company amended its 2009 Annual Statement to correctly report a 2009 dividend in the amount of \$66,000,000 that was inadvertently taken from "Unassigned Surplus" rather than from "Gross Paid in and Contributed Surplus."

Effective June 1, 2010, involuntary unemployment insurance business earned in Canada from reinsurance assumed from American Bankers Insurance Company (FL) was recaptured. The transaction resulted in an initial gain of \$12.8 million.

On December 10, 2010, the Company received approval from the Department to pay an extraordinary dividend to its parent, Household Insurance Group Holding (HIGH) in the amount of

\$64,000,000. In addition, the Company received approval to pay \$14,000,000 of this dividend from “Gross Paid in and Contributed Surplus” and \$50,000,000 from “Unassigned Surplus.”

The 2010 Annual Statement “Notes to Financial Statement” stated that \$6,876,118 was paid on December 10, 2010 to HSBC Finance Corporation Canada (HFCC) for a one-time transfer for the period of 2003-2006 with respect to Canadian income taxes due for income on credit involuntary unemployment insurance products sold to customers of HFCC and assumed from American Bankers Insurance Company. The Company notified the Department via Amended Form B and C Registration Statements on February 10, 2011.

On February 28, 2011, the Company made changes to its Board of Directors and officer positions for new and existing members. Patrick Cozza became Chairman and CEO, and newly employed; Harpal Karlcut was elected as President and board member as Marilou Sullivan, COO resigned as board member.

### **COMPANY HISTORY**

The Company was incorporated under the laws of Ohio on June 23, 1965 as Service General Insurance Company. The Company was formed as a for-profit, stock company for the purpose of transacting a general insurance business, except life insurance.

The Company was acquired through the acquisition of its parent, Capital Financial Services, Inc., on December 19, 1979, by H.L.G., Inc., a subsidiary of Beneficial Corporation. On December 31, 1979, Beneficial Insurance Group Holding Company (BIG) purchased all of the outstanding stock of the Company. BIG was a wholly owned subsidiary of Beneficial Corporation. On June 30, 1998, Beneficial Corporation was merged into Household International, Inc (HII). On March 23, 2003, HII was merged into HSBC Holdings, plc, a corporation organized in the United Kingdom.

On August 1, 2005, the Company re-domesticated to Delaware and changed its name from Service General Insurance Company to HSBC Insurance Company of Delaware

At the examination date, all outstanding shares of the Company were owned by HIGH, a Delaware corporation. The ultimate parent is HSBC Holdings, plc. The Company itself has one wholly-owned, non-insurance subsidiary: Service Management Corporation, which wholly owns B. I. G. Insurance Agency.

### **Dividends**

The Company paid \$435,285,000 in approved ordinary and extraordinary dividends to its parent, HIGH, during the examination period.

The Company paid extraordinary dividends for each year under examination to its parent (except 2006), HIGH totaling \$435,285,000, of that \$76,000,000 was paid in 2009 of that \$66,000,000 was paid from gross paid-in and contributed surplus and the remaining \$10,000,000 from unassigned surplus.

## **MANAGEMENT AND CONTROL**

### **Board of Directors**

The Company's bylaws as amended to date, state that the business, property, and affairs of the Company shall be conducted and managed by its Board of Directors. The number of directors fixed by the Charter or by the bylaws may, by the vote of a majority of the entire Board of Directors, be not less than three (3) and no more than eighteen (18). As of the examination date the Company had three (3) directors per the 2009 Shareholder meeting minutes. Directors are elected at the annual meeting of the stockholder and each director serves until his successor shall have been elected and qualified or until he shall die or resign, or shall have been removed.

The Board of Directors shall hold an annual meeting for the purpose of organization and the transaction of any business immediately after the annual meeting of the stockholders, provided

a quorum is present. Special meetings of the Board of Directors may be held as designated by the Chairman of the Board, or in his absence the Vice Chairman, or a majority of the Board.

The minutes of the meetings of the stockholder and the Board of Directors which were held during the period of examination were reviewed. Attendance at meetings, election of directors and officers, approval of dividends, and approval of investment transactions were also noted.

Directors serving at December 31, 2009 were as follows:

<u>Name</u>	<u>Principal Occupation</u>
Patrick Anthony Cozza	Chairman, President and CEO
Charles Emory Compton III	Vice President, Treasury, CFO
Anthony Joseph Del Piano	Secretary

#### Officers

The Company's bylaws state that the officers of the Company shall be chosen by the Board of Directors and shall be a Chairman of the Board, a President, one or more Vice Presidents, a Secretary and a Treasurer. One person may hold two positions with the exception of President and Secretary.

The following officers had been elected by the Board of Directors and were serving at December 31, 2009:

<u>Name</u>	<u>Title</u>
Patrick Anthony Cozza	Chairman, President and CEO
Charles Emory Compton III	Vice President, CFO, and Treasurer
Anthony Joseph Del Piano	Secretary

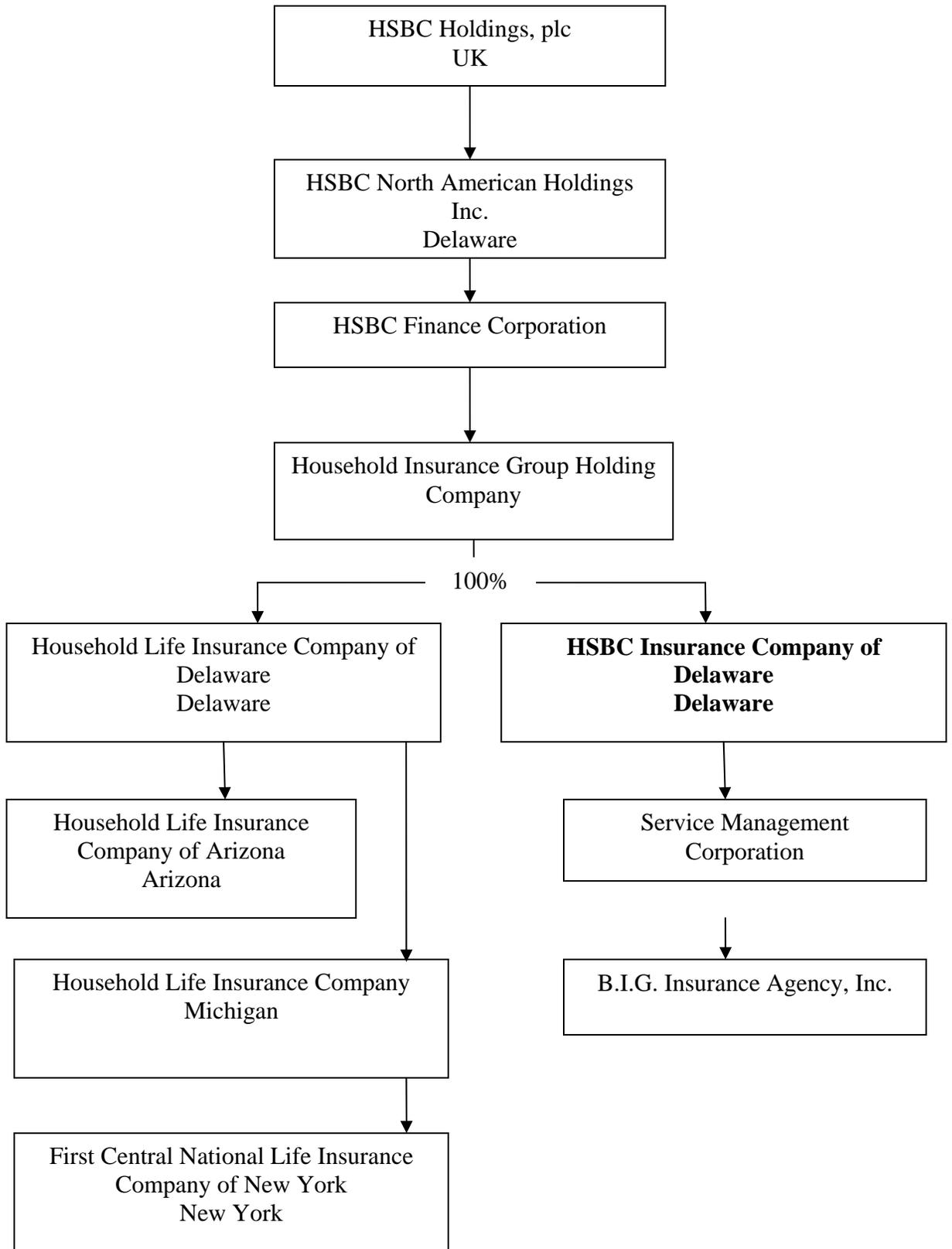
Richard Leigh Besse	VP, Senior Investment Officer
Gary Richard Esposito	Vice President, Life Business
William Heynacher Kesler	Vice President, Treasury
Gerard Lunemann	Vice President and Chief Actuary
Jeffery Joseph Medeiros	Assistant Secretary
Perry Joseph Morelli	Vice President, Treasury
Michael Palace	AVP, Product Design and Pricing
Michael Edward Pisano	Assistant Secretary
Robert Daniel Rotondi	VP, General Insurance
Reynold Francis Sbrilli	VP, Agent Relationships
Marilou Sullivan	VP, Chief Operating Officer
Akiva Zohar	AVP, Assistant Actuary

#### HOLDING COMPANY SYSTEM

The Company is a member of an Insurance Holding Company System. The ultimate parent of the system is HSBC Holdings, plc (HSBCH), which is based in the United Kingdom and is a China domicile. HSBCH provides a comprehensive range of financial services to more than 110 million customers in 77 countries, through 253,000 employees in 9,800 offices.

HSBCH is traded on the NYSE as “HBC”. As of December 31, 2009, HSBCH reported assets of \$2.4 trillion and stockholders’ equity of \$135.6 billion on a IFRS basis.

The following is a partial organizational chart that reflects the identities and interrelationships between the Company, parent, and other members of the system as of December 31, 2009:



A review of the Insurance Holding Company Annual Registration Statement filings (Form B and Form C) made by the Company for all years under examination revealed that the Company had complied with the requirements of 18 Del.C.50.

## **AGREEMENTS**

### **AFFILIATED AGREEMENTS**

The Company was a party to numerous inter-company agreements, which were disclosed by the Company in its Form B Registration Statement filings with the Department. The agreements of significance are summarized as follows:

#### **Agreement for Investment and Cash Management Services**

Effective January 1, 2001, by amendment the Company entered into an existing agreement for investment and cash management services with Household International, Inc. Services provided to the Company in this agreement included, but were not limited to the following: purchasing and selling of securities in the Company's portfolio, administration of the Company's portfolio, assisting the Company in assuring that investments are within applicable insurance investment laws and compliance with investment regulations, monitoring of investments to ensure the applicable investment strategies are executed, management and oversight of external asset managers, preparing and posting appropriate accounting entries to reflect the investment activities in the Company's general ledger and financial statements, reconciliation of various investment custody statements with accounting records and cash activity, and maintenance of investment rating and security valuations.

Service Agreement - BFC Agency

Effective December 31, 2006, the Company entered into a service agreement with BFC Insurance Agency of Nevada (BFC Agency). BFC Agency collects premiums as part of loan payments and they then disburse the premium to the appropriate insurance entity. Similarly, BFC Agency reimburses HSBC Finance Company for electronic claims payments initiated by the insurance companies which are then applied to pay down the customer's loan. Products serviced by BFC Agency are the premium and claims related to the credit life product offered by Household Life Insurance Company of Delaware and credit property and involuntary unemployment products offered by the Company.

Service Agreement - HSBC Finance Corporation

Effective December 31, 2006, the Company entered into a service agreement with its parent, HSBC Finance Corporation. Services provided to the Company included, but are not limited to the following: human services, marketing and advertising, finance including the provision of treasury services, group accounting policies and guidelines and associated support services, advice and support on adherence to Sarbanes Oxley. In addition, the parent performs reconciliation services and production of U.S. and IAS GAAP accounts, regulatory and management reports, federal, state and local tax compliance and tax return preparation, internal audit, administrative, legal, strategic and management consulting, facilities, property and management services, and government relations.

Tax Allocation Agreement

Effective December 15, 2005, the Company was included as a part of the affiliated group that files a consolidated federal income tax return with HSBC North America Holdings Inc., a Delaware corporation. Per this agreement and beginning December 31, 2005, the Company and

each participating affiliate file a consolidated federal income tax return for each taxable year and for any subsequent taxable period for which the group is permitted to file a consolidated return. Each affiliate shall determine its tax liability consistent with the calculation of tax as shown in the affiliate pro-forma tax return, taking into consideration the separate tax attributes of the affiliate. Tax balances are settled as soon as practicable after these amounts have been determined.

#### External Agreements

In addition to the above intercompany agreements, the Company had the following external agreements in effect at December 31, 2009:

#### Custodial Agreements

The Company is party to a custodial agreement with Comerica Bank, NA for the purpose of safekeeping invested assets. A review of the agreement showed it contains necessary and required safeguards protecting the Company's investments being held by the custodian.

#### Investment Accounting Service Agreement

Effective July 1, 2009 the Company entered into an investment accounting service agreement with State Street Bank and Trust Company (State Street). Services provided by State Street in this agreement include performing certain investment accounting and recordkeeping services valuation, reconciliation and reporting the Company's invested assets and cash.

### **CORPORATE GOVERNANCE**

The Company is not a public company and is not required to be compliant with the Sarbanes-Oxley Act (SOX); however, the parent, HSBCH has implemented a well defined SOX process including semi-annual reviews and certifications by management, which is likewise reviewed and tested by both Internal Audit and the external CPA. As applicable to the Company, this SOX documentation was extensively reviewed during the examination.

The Company does have a corporate governance framework. The framework is in writing and is memorialized in the Company's Certificate of Incorporation, bylaws and Board of Directors meeting minutes as well as its consents in lieu of meeting minutes.

The Company has a very well developed risk management system that incorporates key senior officers and process owners from the insurance and banking units with responsibilities and oversight over insurance, operational, market and liquidity risks.

The Company does not have its own Internal Audit Department (IAD) but is subject to the internal audit function of its London based parent, HSBCH. A review of internal audits performed noted that most audits were performed at the corporate level but also covered the common processes that affect all insurance entities within HIGH.

The Company does not have its own Audit Committee, but is subject to the Audit Committee of HIGH and the Group Audit Committee of HSBCH. While the audit committee members of HIGH are senior officers, the members of the Group Audit Committee are independent of HSBCH.

## **TERRITORY AND PLAN OF OPERATION**

### Territory

The Company is licensed to write business in all states and the District of Columbia except Florida, New Hampshire, and North Carolina as of the examination period. The top five producing states for the Company's direct business were Indiana, Texas, Georgia, Tennessee and Ohio. These five states produced \$2,099,352 or about 52 percent of the Company's \$4,036,747 in direct premiums in 2009.

### Plan of Operation

At December 31, 2009, the Company was authorized to write all lines of property and casualty business. The Company's only direct business in 2009 was a small amount of credit

accident and health and credit business on long term loans which was about 8.12 percent of its net premiums written and represented run-off business. Effective October 1, 2002, the Company elected to discontinue the sale of credit personal property insurance and has been in runoff since that time.

### **GROWTH OF THE COMPANY**

The following information was extracted from the Company's filed Annual Statements and covers the five years (5) from its last examination as of December 31, 2004, through this examination, December 31, 2009:

<u>Year</u>	<u>Net Written Premiums</u>	<u>Net Admitted Assets</u>	<u>Liabilities</u>	<u>Surplus as Regards Policyholders</u>	<u>Net Income (Loss)</u>
2009	\$ 49,723,902	\$ 277,539,804	\$ 31,025,059	\$ 246,514,745	\$ 32,227,030
2008	92,117,887	385,075,328	104,484,304	280,591,024	23,665,487
2007	106,877,398	507,819,496	109,334,001	398,485,495	55,482,887
2006	125,995,053	480,437,008	128,917,682	351,519,326	67,805,183
2005	126,846,368	264,477,460	154,393,524	110,083,936	(7,885,993)
2004	(255,370)	20,537,207	4,872,933	15,664,274	1,791,765

The changes from 2004 to 2009 in the examination period are as follows:

- A 19571.3 % increase in Net Written Premiums
- A 1251.4 % increase in Net Admitted Assets
- A 536.7 % increase in Liabilities
- A 1473.7 % increase in Surplus as Regards Policyholders
- A 1698.6 % increase in Net Income

Except for increases between the years 2004 and 2005 due to intercompany assumed reinsurance, the general decreases over the examination period was attributed to its run-off operations and approved dividends paid to its parent.

## REINSURANCE

As of December 31, 2009, the Company reported the following distribution of net premiums written:

Direct Written	\$	4,036,747
Reinsurance Assumed from Affiliates	\$	9,760,606
Reinsurance Assumed from Non-Affiliates		43,306,824
Subtotal Reinsurance Assumed	\$	53,067,430
Reinsurance Ceded to Affiliates	\$	0
Reinsurance Ceded to Non-Affiliates		7,380,275
Subtotal Reinsurance Ceded	\$	7,380,275
Net Premiums Written During Year	\$	49,723,902

The Company is in run-off as a result of its upstream parent, HSBC Finance Corporation's decision to cease all loan originations in the Household, Beneficial branches and HSBC credit centers in the United States. As such, a general outline of the significant assumed and ceded reinsurance agreements in effect at December 31, 2009 are as follows:

### **Assumed Reinsurance - Affiliates**

#### **50% Quota Share with Household Life Insurance Company (HLIC)**

On October 1, 2005, the Company entered into a reinsurance agreement with an affiliate, HLIC, a Michigan domicile insurance company, to assume 50% of the accident and health business of HLIC. On September 1, 2009, the Company terminated this agreement.

### **Assumed Reinsurance - Non-Affiliated**

#### **100% Quota Share with Wesco Insurance Company (Wesco) and "Substitution of Parties Agreement"**

Effective August 31, 2005, the Company entered into a reinsurance agreement with Wesco, (an affiliate as of the effective date of the contract). Wesco was sold to a third party on June 1, 2006.

In anticipation of its sale, a “Substitution of Parties Agreements” between Wesco (Non-affiliated) and the Company was entered into, effective April 30, 2006 that transferred those reinsurance agreements originally entered into by Wesco to the Company. The three largest lines covered by the reinsurance agreements were involuntary unemployment, leave of absence and property risks. The specific contracts are listed below:

- Reinsurance Contract with American Bankers Insurance Company of Florida (American Bankers) – Original 100% assumption agreement with Wesco was effective, October 1, 2000.
- Canadian Property and Casualty Reinsurance Agreement with American Bankers – Original and later amended 75% coinsurance agreement with Wesco was effective, March 1, 1999. (See **SUBSEQUENT EVENTS**)
- Credit Property Reinsurance Contract with American Security Insurance Company (American Security) – Original 100% assumption agreement with Wesco was effective, October 1, 2000.

20% Quota Share Reinsurance Agreement with American Security, Standard Guaranty Insurance Company, Voyager Indemnity Insurance Company and American Bankers

Effective May 1, 2008, the Company entered into a 20% quota share reinsurance agreement with the above referenced insurance companies to assume Hazard Plus property insurance written through or on behalf of those HSBC affiliate companies currently providing Company’s Hazard Plus property insurance in the U.S.

**Ceded - Affiliate**

Property Catastrophe Excess of Loss Reinsurance Agreement with HSBC Reinsurance Limited (HSBC Re)

Effective January 1, 2010, the Company entered into a property catastrophe excess of loss reinsurance agreement with HSBC Re, a Republic of Ireland company and an unauthorized reinsurer. This Agreement protects the Company’s 20% share of the HSBC Bank USA lender placed mortgage portfolio.

**Ceded – Non-Affiliate**

**100% Quota Share with London Life and Casualty Corporation (London Life)**

The Company entered into a quota share reinsurance agreement with London Life effective December 31, 2008 to cede 100% of all involuntary unemployment policies, both written and assumed, which have been issued through Credit Card Services.

**ACCOUNTS AND RECORDS**

All accounting, administration and services required by the Company are provided under various agreements with affiliated (primarily) and external service providers.

The accounts and records review included an evaluation of the Company's operational and organizational controls. Areas evaluated included computer systems, structure and control, accounting systems, Company organizational structures, and account processing. During the examination, the consulting firm of INS Services, Inc. performed an Exhibit C desk review of the Company's IT operations.

The independent certified public accounting firm, KPMG, LLP audited the Company's accounts and records for years under examination and issued an unqualified audit opinion in each year. Audit reports and applicable work papers were made available for the examiners' use.

The accounts and records review also included an assessment of the Company's risk management process in identifying and controlling risks in the key operational areas of the Company. In making the assessment in each key area, processes were reviewed, risks were identified, operational and organizational controls were identified and tested, and the Company's methodology for assessing the effectiveness of the established mitigation factors was evaluated.

Depending on each functional activity, Company records and operations are maintained in the following cities:

- Corporate Governance – Jersey City, NJ and Mettawa, IL
- Accounting and Financial reporting – Jersey City, NJ
- Investment and Treasury – Mettawa, IL
- Policyholder Service and Claims – Wilmington, DE

## **FINANCIAL STATEMENTS**

The following statements show the assets, liabilities, surplus and other funds of the Company, as determined by this examination, as of December 31, 2009.

Assets

Liabilities, Surplus and Other Funds

Statement of Income

Capital and Surplus Account

Reconciliation of surplus for the period since the last examination

Analysis of Financial Statement Changes resulting from the examination

**ASSETS**

**As of December 31, 2009**

	<u>Assets</u>	<u>Non-Admitted Assets</u>	<u>Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 242,841,362	\$	\$ 242,841,362	1
Common Stocks	1		1	
Cash	26,546,649		26,546,649	
Subtotals, cash and invested assets	<u>\$ 269,388,012</u>	<u>\$ -</u>	<u>\$ 269,388,012</u>	
Investment income due and accrued	3,289,954		3,289,954	
Uncollected premiums, agents' balance in the course of collections	1,267,998		1,267,998	
Reinsurance:				
Amounts recoverable from reinsurers	331,881		331,881	
Net deferred tax asset	4,569,146	\$ 1,543,387	3,025,759	
Receivables from parent, subsidiaries and affiliates	65,795		65,795	
State premium tax recoverable	170,405		170,405	
<b><i>Totals</i></b>	<u><u>\$ 279,083,191</u></u>	<u><u>\$ 1,543,387</u></u>	<u><u>\$ 277,539,804</u></u>	

**LIABILITIES, CAPITAL AND SURPLUS**

**As of December 31, 2009**

		<u>Notes</u>
Losses	\$ 8,635,274	2
Loss adjustment expenses	140,593	2
Other expenses	347,954	
Current federal and foreign income taxes	6,772,083	
Unearned premiums	11,669,651	
Amounts withheld or retained by company for account of others	9,038	
Remittances and items not allocated	(51,666)	
Payable to parent, subsidiaries and affiliates	3,502,132	
<b><i>Total Liabilities</i></b>	<u>\$ 31,025,059</u>	
Special surplus funds - Additional admitted deferred tax assets	\$ 1,553,574	
Capital stock	4,200,000	
Gross paid in and contributed surplus	\$ 199,170,790	
Unassigned funds (surplus)	<u>41,590,381</u>	
Surplus	<u>240,761,171</u>	
Surplus as regards policyholders	<u>\$ 246,514,745</u>	
<b><i>Totals</i></b>	<u>\$ 277,539,804</u>	

## STATEMENT OF INCOME

**FOR THE YEAR END AS OF DECEMBER 31, 2009**

<b>Underwriting Income</b>	
Premiums earned	\$ <u>73,788,807</u>
<b>Deductions</b>	
Losses incurred	\$ 26,951,023
Loss adjustment expenses incurred	719,466
Other underwriting expenses incurred	<u>15,805,585</u>
Total underwriting deductions	<u>\$ 43,476,074</u>
Net underwriting gain or (loss)	<u>\$ 30,312,733</u>
<b>Investment Income</b>	
Net investment income earned	\$ 13,003,170
Net realized capital gains or (losses)	<u>(6,490,406)</u>
Net investment gain or (loss)	<u>\$ 6,512,764</u>
<b>Other Income</b>	
Net gain or (loss) from agents' or premium balances charged off	\$ 0
Retention income	6,896,534
Interest received on reinsurance	2,054,790
Transfer fee on cession termination	1,868,025
Miscellaneous loss	<u>(684,666)</u>
Total other income (loss)	<u>\$ 10,134,683</u>
Net income before dividends to policyholders and before federal income taxes	\$ 46,960,180
Dividends to policyholders	<u>0</u>
Net income after dividends to policyholders and before federal income taxes	<u>\$ 46,960,180</u>
Federal income taxes incurred	<u>\$ 14,733,151</u>
Net income (loss)	<u><u>\$ 32,227,029</u></u>

**RECONCILIATION OF CAPITAL AND SURPLUS**

December 31, 2004 to December 31, 2009

Capital and Surplus, December 31, 2004	<u>\$ 15,664,274</u>
Net Income	\$ 171,294,594
Change in net unrealized capital gains	38,520,999
Change in net unrealized foreign exchange capital gain	(272,220)
Change in net deferred income tax	4,450,385
Change in non-admitted assets and related items	167,745,083
Capital changes in paid in	1,950,000
Surplus adjustments paid in	89,016,649
Surplus adjustments transferred surplus (stock dividend)	(1,950,000)
Dividends to stockholders	(369,285,000)
Aggregate Write-Ins for Gains and Losses in Surplus	129,379,981
Change in surplus as regards policyholders for the years	<u>\$ 230,850,471</u>
Capital and Surplus, December 31, 2009	<u><u>\$ 246,514,745</u></u>

**ANALYSIS OF CHANGES IN THE FINANCIAL STATEMENTS**

There were no financial adjustments to the Company's financial statements as a result of this examination.

## NOTES TO FINANCIAL STATEMENTS

### Assets

(Note 1) - Bonds: \$242,841,362

The Company's bond holdings totaled \$242.84 million and were approximately 87.5% of total admitted assets and 90.2% of the Company's total invested assets. Security composition for the year ending 2009 was comprised of the following:

U.S. Governments	\$ 44.10 million
Industrial & Miscellaneous	<u>198.74 million</u>
	<u>\$ 242.84 million</u>

The Company's bond holdings were categorized with respect to NAIC credit quality standards which were all above Class 2 rating with Class 1 having the largest percentage to the total with approximately 96.9%.

### Liabilities

(Note 2) - Losses \$ 8,635,274  
(Note 2) - Loss Adjustment Expenses (LAE) \$ 140,593

The Company's aggregate reserve for Losses and LAE was reviewed during the examination and accepted.

INS Consultants, Inc. (INS) was retained by the Department to conduct a review of the Company's reserve methodologies and adequacy. The review was based on information provided by the Company's staff, and the reserve analysis performed by Tillinghast, Tower and Perrin. The INS reserve analysis was performed on both a gross and net of reinsurance basis and did not address the collectability of reinsurance recoverables.

**CONCLUSION**

As a result of this examination, the financial condition of the HSBC Insurance Company of Delaware, as of December 31, 2009, was determined as follows:

Description	12/31/2004 <u>Prior Examination</u>	12/31/2009 <u>Current Examination</u>	Increase <u>(Decrease)</u>
Assets	\$ 20,537,207	\$ 277,539,804	\$ 257,002,597
Liabilities	\$ 4,872,933	\$ 31,025,059	\$ 26,152,126
Special surplus funds - Increase in admitted DTA due to adoption of SSAP 10R		\$ 1,553,574	\$ 1,553,574
Common capital stock	\$ 2,250,000	4,200,000	1,950,000
Gross paid in and contributed capital	112,104,141	199,170,790	87,066,649
Unassigned funds (surplus)	(98,689,867)	41,590,381	140,280,248
Total surplus as regards policyholders	\$ 15,664,274	\$ 246,514,745	\$ 230,850,471
Totals Liabilities and Surplus	\$ 20,537,207	\$ 277,539,804	\$ 257,002,597

The assistance of Delaware's consulting actuarial firm, INS Consultants, Inc. and INS Services, Inc. is acknowledged.

Respectfully submitted,



Darryl Reese, CFE, CIE, CFE  
 Examiner-In-Charge  
 State of Delaware  
 Northeastern Zone, NAIC