

REPORT ON EXAMINATION
OF THE
MUNICH REINSURANCE AMERICA, INC.
AS OF
DECEMBER 31, 2008

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, 2008 of the

MUNICH REINSURANCE AMERICA, INC.

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

Attest By: Sonia C. Harris

Date: 24 June 2010



In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 24th day of June 2010.

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

Karen Weldin Stewart, CIR-ML
Insurance Commissioner



REPORT ON EXAMINATION
OF THE
MUNICH REINSURANCE AMERICA, INC.
AS OF
DECEMBER 31, 2008

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 24th day of June, 2010

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SALUTATION

June 24, 2010

Alfred W. Gross
Chairman, Financial Condition (E) Committee,
NAIC
Commissioner Bureau of Insurance
Virginia State Corporation Division
P.O. Box 1157
Richmond, Virginia 23219

Paulette J. Thabault
Secretary, Northeastern Zone
Commissioner Vermont Insurance Division
Dept. of Banking, Insurance, Securities, and
Health Care Administration
89 Main Street
Montpelier, Vermont 05620-3101

James J. Donelon
Secretary, Southeastern Zone
Commissioner Louisiana Dept. of Insurance
1702 N. 3rd Street
P.O. Box 94214
Baton Rouge, Louisiana 70802-9214

Mary Jo Hudson
Secretary, Midwestern Zone
Director Ohio Department of Insurance
50 West Town Street
Third Floor, suite 300
Columbus, Ohio 43215

Christina Urias
Secretary, Western Zone
Director Arizona Department of Insurance
2910 N. 44th Street, suite 210
Phoenix, Arizona 85018-7269

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. 09.007, dated December 24, 2008, an Association examination has been made of the affairs, financial condition and management of the

MUNICH REINSURANCE AMERICA, INC.

hereinafter referred to as “Company”, “Munich Re America” or “MRAM” and incorporated under the laws of the State of Delaware as a stock company with its home office located at, 2711 Centerville Road, Suite 400 Wilmington, Delaware 19808. The examination was conducted at the main administrative office of the Company, located at 555 College Road East, Princeton, New Jersey 08543.

SCOPE OF EXAMINATION

The last examination was conducted as of December 31, 2005. This examination covers the period since that date through December 31, 2008, and consisted of a general review of the Company's business policies and practices, management, any corporate matters incident thereto, a verification and evaluation of assets and determination of liabilities. Transactions subsequent to the latter date were reviewed where deemed necessary.

The format of this report is designed to explain the procedures employed on examination and the text will explain changes wherever made. If necessary, comments and recommendations have been made in those areas in need of correction or improvement. In such cases, these matters were thoroughly discussed with responsible officials during the course of the examination.

The general procedures of the examination followed rules established by the Committee on Financial Condition Examiners Handbook of the National Association of Insurance Commissioners ("NAIC") and generally accepted statutory insurance examination standards consistent with the Insurance Laws and Regulations of the State of Delaware. In accordance with the aforementioned Handbook, the consulting firm of INS Services, Inc performed an information systems review.

This examination ran concurrently with the examinations of two Delaware domestic affiliated insurers: American Alternative Insurance Corporation ("AAIC") and The Princeton Excess and Surplus Lines Insurance Company ("PESLIC").

In addition to items hereinafter incorporated as a part of the written report, the following items were reviewed without exception and made part of the workpapers of this examination:

Corporate Records
Conflict of Interest
Fidelity Bonds and Other Insurance
Legal Actions
All Asset and Liability Items not mentioned

HISTORY

MRAm was originally incorporated in the State of Pennsylvania on March 15, 1917, and began business as a casualty reinsurer on April 2, 1917. The Company subsequently changed its state of domicile twice, to New York on July 25, 1933, and then to Delaware on January 1, 1978. Aetna Life and Casualty Company (Aetna) acquired the Company in May 1979 pursuant to a cash tender offer for all of the Company's shares and continued as the Company's ultimate controlling parent until 1992. At the direction of Kohlberg Kravis Roberts & Co., LP (KKR), an investment firm, and certain members of MRAm management; American Re Corporation was organized to acquire MRAm from Aetna. The acquisition was completed on September 30, 1992 pursuant to a stock purchase agreement dated as of June 8, 1992.

On August 13, 1996, American Re Corporation (name changed on September 5, 2006 to Munich Re America Corporation –“MRAC”) entered into an Agreement and Plan of Merger with Munchener Ruckversicherungs-Gesellschaft Aktiengesellschaft (“Munich Re Germany” or “MRG”) and Puma Acquisition Corporation, a Delaware corporation and a wholly-owned subsidiary of MRG. Pursuant to terms of the Merger Agreement, on November 25, 1996, following approval of the merger by MRAC's stockholders and applicable regulatory authorities, Puma Acquisition Corporation was merged with MRAC with the latter being the surviving company.

Munich Reinsurance America, Inc.

During July 1997, MRAC and MRG completed the merger of Munich American Reinsurance Company (“MARC”). At that time, the insurance assets and liabilities of the U.S. Branch of MRG also were transferred into MRAC. After the merger, MRG’s ownership of MRAC stood at 91%. The remaining outstanding shares in MRAC were acquired from Victoria Versicherung AG in 1998 and from Allianz Aktiengesellschaft in 1999, bringing MRG’s ownership interest in MRAC to 100%.

Munich-American Holding Corporation (“MAHC”), a Delaware Holding Company, was organized in September 2000. After regulatory approval, MRG contributed all of the issued and outstanding stock of MRAC (and therefore its subsidiaries) to MAHC.

No changes in ownership occurred during the current examination period.

CAPITALIZATION

Common Capital Stock

The Certificate of Incorporation, as amended, provides that authorized capital stock of the Company shall be 6,000,000 shares of \$1.50 par value common stock. At December 31, 2008, shares issued and outstanding were 5,490,514. All issued shares were owned by MRAC.

Dividends

On June 25, 2008, after approval from the Delaware Insurance Department, the Company paid an extraordinary dividend of \$500 million in the form of cash. The dividend was recorded as a reduction of Gross Paid In and Contributed Surplus.

MANAGEMENT AND CONTROL

Stockholders

In accordance with Article I, Section 1 of the Company's bylaws, the annual meeting of the stockholders shall be held during the months of March or April of each calendar year, on a date and place as the Board of Directors may prescribe. The quorum for each meeting of the shareholders shall consist of a majority of the voting power of shares entitled to vote at such meeting. Special meetings of the shareholders may be called by the Board, the Chairman or the President of the Company.

Board of Directors

The Company's bylaws provide for the Company to be managed by "a Board of Directors whose number shall consist of not less than three and not more than fifteen Directors. The number of directorships may at any time range with a minimum and maximum of six or such other number as may be fixed by vote of the Stockholders or Directors." Regular meetings of the Board shall be held at such place and on such day at such periodic intervals as the Board may designate. A quorum shall consist of a majority of the Directors, but not less than two.

The Company's bylaws were amended on November 6, 2008 in order to enhance corporate governance and clarify and realign various functions of the committees of the Board, revise Charters of the following Committees as adopted by the Board: Risk Management Committee, Audit Oversight Committee, Investment Committee, Pension and Savings Committee.

At December 31, 2008, the members of the Board of Directors, together with their principal business affiliation, were as follows:

<u>Name</u>	<u>Principal Business Affiliation</u>
Dr. Peter J. Röder	Munich Reinsurance Company
Anthony J. Kuczinski	Munich Reinsurance America, Inc.
Wolfgang R. Engshuber	Munich Reinsurance America, Inc.
Pina C. Albo	Munich Reinsurance America, Inc.
M. Steven Levy	Munich Reinsurance America, Inc.
Robin H. Willcox	Munich Reinsurance America, Inc.

Officers

Article IV, Section 1 of the Company's bylaws state that elected officers of the Corporation shall consist of a President (elected from the members of the Board of Directors) and a Secretary appointed by the Board. The Board may also appoint one or more Executive Vice Presidents. Any two or more offices may be held by the same person, except the offices of President and Secretary.

Article IV, Section 2 of the bylaws state that the President, as the chief executive officer of the Company, shall be responsible (under the direction of the Board) for the general supervision, management, direction and control of the general operations of the Company and is provided with the authority required to perform such duties.

At December 31, 2008, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Anthony J. Kuczinski	President and Chief Executive Officer
Wolfgang Engshuber	Executive Vice President
Pina C. Albo	Senior Vice President
Dominic J. Addesso	Senior Vice President
Gregory Coda	Senior Vice President
Edward Griese	Senior Vice President
M. Steven Levy	Senior Vice President and Chief Financial Officer
Stephen J. Morello	Senior Vice President and Chief Underwriting Officer
John W. Rodgers	Senior Vice President and Chief Claims Officer
Philip Roeper	Senior Vice President and Chief Information Officer
Melissa A. Salton	Senior Vice President and Chief Results Monitoring and Reporting Officer
Craig R. Smiddy	Senior Vice President
Robin H. Willcox	Senior Vice President, General Counsel and Secretary

CORPORATE GOVERNANCE

Our review of corporate governance was designed to assess the impact of the Board of Directors and management on the control environment within the organization. The control environment is heavily influenced by the decisions at the top of an organization and the control consciousness of its people is influenced in the establishment of the process. Control consciousness is developed through such intangibles as integrity, ethical values and competence of the entity's people, management's philosophy and operating style, but also through more concrete expressions such as the way management assigns authority and responsibility, and organizes and develops its people. The Company is a member of a much larger publicly traded foreign corporation, therefore external earnings pressure exists. This pressure, however, is tempered in that the investment strategy is overseen by the Parent. In addition, the governance process establishes the role of the Board and its' committees in the establishment of a sound risk management process that has a pervasive influence on the way business activities are structured, objectives and strategies are established, and risks identified. It also influences risk assessment, control activities, information and communication systems, monitoring activities, and anti-fraud programs. The Audit Committee and Board of Directors assist management in significantly influencing the tone at the top. In its fiduciary role, the Board is responsible for overseeing internal controls over financial reporting established by management and the process by which management satisfies itself that internal controls are working effectively. The Board is also responsible for assessing risk of financial fraud by management and ensuring that controls are in place to prevent, deter, and detect fraud by management. Oversight controls of the Board extend to understanding management's strategic initiatives, risk management processes and controls, as well as the internal and external audit plans and procedures for addressing risks within the

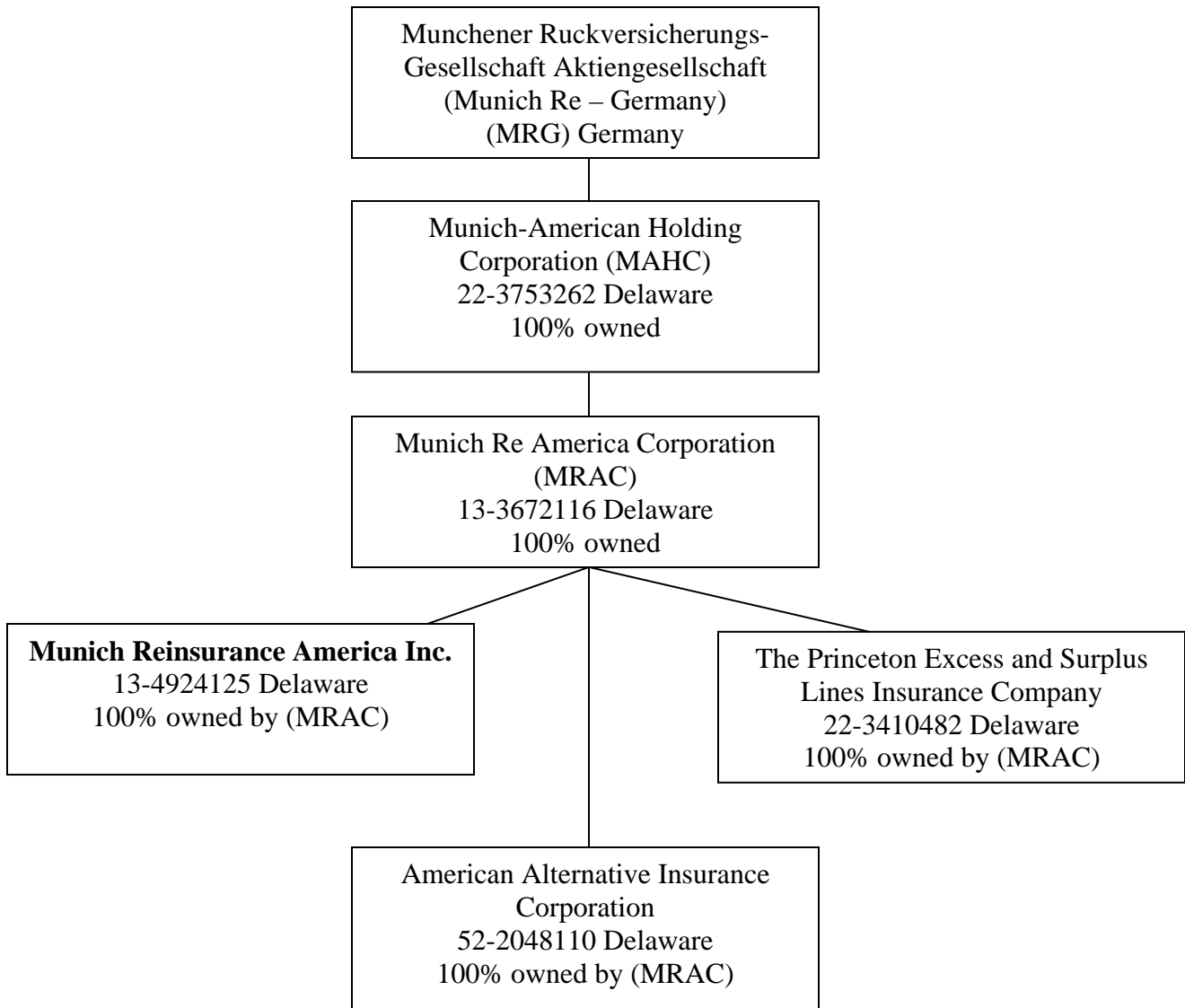
organization. In addition, the Risk Management Committee provides oversight procedures that include a review of significant routine and non-routine transactions entered into by the Company. Examples include new business initiatives and pandemic concerns that may affect the Company. Strategic business plans, budgets, and all new products are approved by the Board prior to implementation or introduction into the market. Oversight procedures also extend to a review of accounting principles, and the policies and estimation processes used by management in determining significant estimates. In addition, significant estimates are reviewed annually with the Audit Committee.

INSURANCE HOLDING COMPANY SYSTEM

The Company is a member of an Insurance Holding Company System as defined under Chapter 50 of the Delaware Insurance Code. As previously noted, the immediate parent of the Company at December 31, 2008 was MRAC and the Ultimate Parent is MRG. The Munich Re Group, lead by MRG, maintains liaison offices in approximately 50 locations serving clients worldwide. The 2008 amounts below were reported in the most recent MRG annual report based on International Financial Reporting Standards (IFRS), converted from the Euro to US dollars at the December 31, 2008, conversion rate of 1.39 (rounded).

Assets -	\$299,353,000,000
Equity -	29,339,000,000
Net premiums written -	50,406,000,000
Gain from Operations (pre-tax) -	5,329,000,000

The following organizational chart, as of December 31, 2008, reflects only identities and interrelationships between the Company and its direct parent, its intermediate parent, its ultimate parent, and affiliates concurrently examined.



A review of the Annual Form B and Form C filings made by MRAM for all years under examination revealed that the Company had complied with the requirements of Regulation 13 of the Delaware Insurance Code.

GROWTH OF THE COMPANY

The following information was extracted from the Company's filed Annual Statements and covers the period from its last examination (2005), and the intervening period to this examination (2008):

<u>Year</u>	Net Admitted <u>Assets</u>	Surplus as Regards <u>Policyholders</u>	Assumed <u>Premiums</u>	Premiums <u>Earned</u>	Net Income/ <u>(Loss)</u>
2008	\$16,355,173,043	\$3,546,644,863	\$2,876,087,904	\$2,137,606,935	\$ (2,813,487)
2007	17,948,045,778	4,321,634,756	3,147,970,020	2,345,981,004	456,487,086
2006	17,207,194,585	3,773,907,382	3,353,665,954	2,529,904,686	615,768,527
2005	\$17,160,846,547	\$3,041,384,074	\$3,403,185,754	(\$4,779,533,806)	\$(1,401,010,712)

The following comments describe Company growth and results of operations:

- Net Admitted Assets have fluctuated primarily as a result of net income/loss and payment of \$500,000,000 in dividends during 2008.
- Assumed Premiums have fluctuated primarily as a result of tighter underwriting standards in soft market conditions over the examination period.
- Premiums Earned reflect the Loss Portfolio Transfer (LPT) to MRG in 2005, increased retentions, and assumed premiums. See Reinsurance.
- Net Income/Loss has fluctuated primarily due to the LPT in 2005 and catastrophe losses from Hurricanes Ike and Gustav and Midwest Windstorms in 2008. Excluding 2008, the increase in underwriting gains reflects the Company's increased emphasis on profitable risk premiums and higher operational efficiencies resulting from reorganized underwriting and staff reductions.

The Company's net admitted investment portfolio decreased \$1,753.6 million, or 11.2%, in 2008. This decline was primarily due to the following: 1) the settlement of investment transactions in 2008 that had occurred at the end of 2007 and is reflected in the \$680.5 million decline in payable for securities, 2) the \$500.0 million extraordinary dividend payment, and 3) an increase of \$143.7 million in unrealized losses on investments related to market valuations.

Beginning in 2007, the Company implemented an investment strategy that involved a shift from investments in equity securities to fixed income securities. This decision was

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premised on the equity market environment, in addition to tax planning strategies within the Munich Re Group. At that time the Company invested in equity futures contracts to minimize the down-side risk of the equity portfolio. The hedges remained in place until the equity positions were sold in 2008. The Company realized net gains of \$224.1 million and \$5.4 million for equity and fixed income futures contracts for the years ended December 31, 2008 and 2007, respectively.

TERRITORY AND PLAN OF OPERATION

Territory

As of December 31, 2008, the Company was licensed to write insurance and reinsurance business in all fifty states, the District of Columbia, Puerto Rico, Canada, the United Kingdom and Australia.

The Company writes most of its treaty business through its home office in Princeton, NJ. The Company also maintains eight domestic branch offices in: Atlanta, Chicago, Columbus, Hartford, Kansas City, New York, Philadelphia, and San Francisco. These branch offices primarily write facultative business.

During the current examination the Company announced their intentions to consolidate branch operations into three main hubs and two satellite offices. The regional hubs will be San Francisco, Chicago and Princeton. Princeton will be the hub for Atlanta, and Chicago for Columbus. The implementation of the new regional branch structure will include the closing of four physical branch locations: Hartford, Philadelphia, Kansas City (closed 2009), and New York.

Plan of Operation

The Company is a leading property and casualty reinsurer providing coverage to insurance and reinsurance companies and is an integral member of the MRAC plan of operation. In recent years, MRAC's business segments have been structured by distribution and product type. The property and casualty business segments were: Direct Treaty, Direct Facultative, Specialty Markets, and Broker Market.

In September 2007, the Munich Re Group announced a new strategy to achieve sustainable profitable growth over the course of the market cycle. As part of this strategy, beginning in 2008, the MRAC group implemented a new underwriting structure aligned by client divisions, including: National Clients, Regional Clients, Specialty Markets, and Broker Market. National Clients manages business placed by ceding companies through both direct production channels as well as through reinsurance intermediaries. Regional Clients manages business placed by regional insurance companies through a direct production channel. Specialty Markets focuses on alternative market clients including large commercial insurance buyers, captives, governmental entities, and self insureds. Broker Market focuses marketing efforts primarily on the top five reinsurance intermediaries (who control 90-95% of total domestic brokered reinsurance premium), but also markets to the smaller, more specialized and boutique brokers. Each U.S. property-casualty reinsurance client has a single client manager to ensure a consistent approach across business units and channels (direct and broker). The client manager serves a client's needs throughout the reinsurance life cycle, including reinsurance placement structuring, underwriting, actuarial, claims, and other services for that client. The new strategy employs a client-centric approach to develop client strategies and reinsurance solutions that leverage MRAC's expertise and risk appetite, develop closer relationships to support clients' needs, and

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build a dominant presence in niche primary insurance segments. In addition to these segments, MRAC has a health care division, Munich Re America HealthCare (MRAHC), which is closely aligned with MRG's global health business, provides risk management services, and innovative health care solutions that use reinsurance and other risk related products and services in the health care marketplace. MRAHC has also established business relationships with a select group of health care management providers that offer catastrophic care and health care management services to Munich Re America's clients.

MRAC has become more conservative during the examination period in terms of business being solicited and underwritten. The corporate philosophy is that risks underwritten should have adequate risk premium and MRAC appears to have applied this underwriting discipline over the past few years.

MRAC has appointed a Chief Risk Officer and heightened its awareness of risks assumed as a whole. With regard to Underwriting Risk Management, the Company has centralized the direction of underwriting guidelines. The Chief Risk Officer is closely aligned with the Integrated Risk Management Division of MRG in Germany. MRAC intends to continue to integrate itself into MRG's operations. MRAC underwriting goals and limitations are developed, reviewed, and approved subsequently by MRG. MRG has an international (or group-wide) Business Plan of which MRAC is a significant part.

In terms of Gross Premiums Written the Company wrote \$2.9 billion in 2008 of which \$2.5 billion was assumed from non-affiliates. Of that amount, \$1.2 billion was non-proportional assumed liability reinsurance and \$474 million was related to Healthcare business all from non-affiliates. The Company also assumed \$323.3 million from two affiliates, AAIC & PESLIC.

A.M. Best Rating

Based on A.M. Best's current opinion of the consolidated financial condition and operating performance of the Company, MRAm was assigned an A.M. Best rating of A + (Superior) for the year ending 2008. A.M. Best notes that the rating reflects the Company's solid returns and substantial improvement in risk adjusted capitalization.

REINSURANCE

Assumed Reinsurance

MRAm reported the following distribution of its assumed premiums written for 2008:

Assumed from Affiliates	\$ 409,746,448
Assumed from Non-Affiliates	<u>2,466,341,456</u>
Total Assumed Premiums	<u>\$2,876,087,904</u>

The Company reported the following assumed premiums written by underwriting divisions during 2008:

National Clients	\$ 1,042,959,738
Regional Clients	413,046,513
Broker Markets	416,787,242
Specialty Markets	485,774,500
Healthcare	477,553,038
Other	<u>39,966,874</u>
Total Assumed Premiums	<u>\$ 2,876,087,904</u>

The Company's book of business is split approximately 65% casualty and 35% property and 59% excess of loss and 41% pro rata business. The Company writes excess of loss business on all layers but concentrates on providing clients with working layer reinsurance protection.

The Company intends to build its presence in the broker market segment of the reinsurance market. Traditionally, MRAm concentrated in the direct treaty and direct facultative markets. MRAm believes that expansion into the broker market, where there is a significant amount of

capacity, will further MRAM's ability to underwrite only the business it deems to meet its more conservative underwriting standards.

Ceded Reinsurance

For 2008, MRAM reported the following distribution of its ceded or retrocessional premiums:

To affiliated entities	\$ 574,880,451
To non-affiliates	<u>11,353,960</u>
Total retrocessional premiums	<u>\$ 586,234,411</u>

Of the retrocessional premiums ceded to affiliates, \$573,419,000 or 97.8% were ceded to MRG. The size and extent of the support that MRG provides MRAM in the form of retrocessional coverage is significant. The following salient points should be noted:

- Commencing in 2002, MRG has provided almost all the ceded reinsurance covering the Company's business. This coverage is referred as the "Corporate Retrocessional Program". As part of this program, which will be discussed more fully below, MRG provides the following specific coverage on several lines of business, catastrophe protection, variable quota share coverage, and accident year stop loss coverage.
- Effective July 1, 2005, MRAM ceded to MRG via a Loss Portfolio Transfer (LPT) all carried loss and allocated loss adjustment expense reserves, net of the discount on workers' compensation related reserves, for accident years 2001 and prior. The reserves transferred to MRG for the LPT were \$5,958,292,069; the premium for the LPT matched the reserves transferred and no initial surplus gain was recognized. MRG is responsible for the amount in excess of \$5,958,292,069 to an overall aggregate limit of \$10,082,377,395. The LPT was approved by the Delaware Insurance Department. Going forward, the LPT affords MRAM a significant advantage; the Company is effectively insulated from the continuing negative effects of asbestos and environmental claims that plague the entire property and casualty industry.
- At December 31, 2008, MRAM had ceded the following Loss and LAE reserves to MRG:

Case Reserves	\$3,952,007,000
Incurred But Not Reported Claims	<u>4,321,052,000</u>
Total Loss and LAE cessions to MRG	<u>\$8,273,059,000</u>
- For the LPT and the variable quota share coverage provided by MRG, MRAM retains or holds almost all associated premiums. This provision allows MRAM immediate access to funds for reimbursement of claims. The Company reported Funds Held by Company under Reinsurance Treaties for MRG at December 31, 2008, of \$7,018,935,000.

- For losses resulting from the terrorist attacks of September 11, 2001, MRG provided \$1,000,000,000 in coverage in excess of the Company's initial gross reserves of \$1,218,642,573. Under the treaty, MRAm is permitted to immediately bill MRG for any amounts exceeding the retention. This means that the Company receives amounts from MRG before it pays the ceding insurer.
- Having MRG provide almost all the ceded coverage for MRAm is part of a discernable plan of the Munich Reinsurance Group to write profitable business and keep a significant portion of the insurance risk "in-house." In concert with this effort, MRAm has significantly increased its retentions prior to ceding business to MRG.

It should also be noted that in addition to the corporate retrocessional program detailed below, MRAm cedes amounts to MRG under "Specific Retro" programs. These programs usually involve smaller amounts and result in 100% cessions to MRG. The Company normally assumes the business for the express purpose of ceding the business to the parent.

Summary of Coverage: Corporate Retrocessional Program

MRAm uses a layering system for its retrocessional reinsurance program. There are five layers: Stop Loss Protection, Corporate Quota Share Protection, Property Catastrophe Protection, Excess of Loss Protection (non-Munich), and Specific Surplus Share Protection.

These layers are listed in the order in which they inure. This means the Specific Surplus Share Protection is deducted before the Excess of Loss Protection is calculated and all other reinsurance is deducted before the Accident Year Stop Loss is calculated.

Specific Surplus Share Protection

For Alternative Market Business the Company cedes 90% of the property portion. The healthcare reinsurance, up through 2007 was a 90% Quota share. Effective January 1, 2008, the healthcare business was ceded to MRG under an accident year stop loss. The loss ratio for 2008 was 79.4%.

Excess of Loss Protection

The Company has a multi-line excess of loss coverage with a non-affiliated reinsurer. The contract has two sections. Section A provides coverage for property business, \$50 million of coverage in excess of \$650 million retention, and Section B provides Workers' Compensation coverage, \$20 million in excess of \$650 million retention.

Catastrophe Protection

MRG provides property catastrophe coverage in two layers, \$450 million in excess of \$200 million retention, each occurrence, and \$200 million in excess of \$700 million.

Corporate Quota Share Protection

Commencing in 2002, MRG began supporting MRAm through a variable quota share program that is adjusted regularly. The following chart shows the extent of MRG's support:

<u>Variable Quota Share Percent</u>	<u>Effective Date</u>
54.72%	December 31, 2001
25%	March 31, 2002
75%	June 30, 2002
60%	December 31, 2002
45%	January 1, 2004
75%	July 1, 2005
25%	December 31, 2005
25%	December 31, 2008

At December 2008, the Company terminated the Variable Quota share resulting in a return of ceded unearned premium of \$214.6 million. All of the variable quota share coverages provide for a 32% provisional ceding commission to MRAm that can increase up to 36.5% for good loss experience, but does not decrease due to poor experience.

Stop Loss Protection

For each of the years under examination, MRG provided the Company accident year stop loss coverage. In 2006, accident year stop loss protection was restructured under which MRG provides coverage of \$500 million after combined ratios, as follows:

Accident year	Loss ratio
2006	108%
2007	112%
2008	125%

Cessions to Non-Related Insurers

As noted above, MRAm ceded \$11,353,960 in premiums to non-related reinsurers in 2008. These premiums were just 1.9% of total ceded premiums for 2008 and demonstrate the extent of the Company's reliance on its parent for reinsurance support. A review of premiums ceded to non-related reinsurers in 2008 shows the majority of ceded premiums were under a multi-line excess program. The remainder of premiums was for specific retro programs whereby MRAm assumes business and concurrently cedes all or a portion of the coverage to a designated reinsurer. This reinsurer usually has a relationship with the insurer ceding business to MRAm. At December 31, 2008, MRAm reported total Reinsurance Recoverable of \$1,384,275,000 from non-related reinsurers. These recoverables mainly derive from MRAm's retrocessional programs in place prior to the assumption by MRG.

Approximately \$1,117,860,000 of these recoverables is due from authorized reinsurers. The examination reviewed the collectibility of these balances, and noted no exceptions.

INTERCOMPANY AGREEMENTS

The Company had the following significant intercompany agreements and arrangements in effect as of December 31, 2008:

Consolidated Income Tax Allocation Agreement

In accordance with an amended and restated agreement dated September 1, 2008, the Company participates in a consolidated Federal Income Tax Return with Munich-American Holding Corporation (MAHC) and all of its subsidiaries including AAIC and PESLIC. Under this agreement, income tax expenses are computed on a separate company basis as if each affiliate filed a separate tax return. Intercompany balances are settled on a quarterly basis.

General Service and Administrative Agreements

The Company is a party to various General Services and Administrative Agreements with certain affiliated companies. The two most significant agreements are between MRAM and AAIC, and MRAM and PESLIC. On April 1, 2004, the Company entered into an administrative services agreement with AAIC and PESLIC for the performance of such management services as: corporate finance, investment strategy, communications, public relations policies, actuarial, audit, executive, legal, personnel, benefits and benefit plans, accounting, tax, and other financial services. The agreement requires that charges and expenses incurred be allocated according to Delaware Insurance Laws and NAIC Accounting Practices and Procedures. Costs and expenses are allocated and payable each quarter. The terms of this agreement were considered fair and equitable. During this examination, the Company submitted to the Delaware Insurance Department a General Service Agreement between MAHC and numerous affiliates, including the Company, which was approved on July 1, 2009, with an effective date of September 1, 2009.

Investment Management Agreement

The Company is a party to an Investment Management Agreement with MEAG New York Corporation (MEAG-NY), an affiliated company. The agreement, effective August 1, 2001, and most recently amended on March 31, 2006, provides that MEAG-NY is to manage the investment and reinvestment of invested assets held by State Street Bank, the Company's most significant custodian.

MEAG-NY is required to adhere to strict Investment Guidelines attached to the agreement and amended periodically whenever the Company amends its investment policy. The Company retains the sole authority to modify Investment Guidelines and MEAG-NY is not permitted to trade assets that are designated by the Company as regulatory or trust deposits.

MEAG-NY does not act as custodian and does not physically hold any of the Company's invested assets. Regular reviews of the performance and actions of MEAG-NY are performed and the terms of the agreement were considered fair and equitable. Timely settlement occurs within 30 days after the end of each fiscal quarter.

The Company is party to several additional intercompany service agreements and investment management agreements all with affiliates. The terms of these agreements are similar in nature to the agreements discussed above.

EXTERNAL AGREEMENTS

In addition to the above intercompany agreements, the Company had the following significant external agreements in effect at December 31, 2008:

Custodial Agreements

The Company has entered into several custodial agreements, the purpose of which provides for the safekeeping of Company's invested assets. The agreements with State Street

Munich Reinsurance America, Inc.

Bank, GmbH, Royal Trust Corporation of Canada, and JP Morgan Chase all contain required protective language specified by NAIC guidelines. The SAS 70 Reports for all custodians utilized by the Company were obtained and reviewed without exception.

Investment Accounting Services Agreement

The Company entered into an Investment Accounting Services Agreement (IASA) effective June 1, 2000, with BlackRock Financial Management, Inc. (BlackRock). Per the IASA, BlackRock performs MRAM's investment accounting transaction entry along with; asset reconciliations, income and dividend projections, foreign exchange calculations, and review of all investment results. Further, BlackRock performs the monthly closing process and provides MRAM with a transaction journal and transaction ledger along with a Client Holding Report showing MRAM's investment portfolio sorted by CUSIP Number and by investment classification. The PAM investment accounting application system provides detailed information necessary for the Company to complete investment schedules for its statutory financial reports.

BlackRock provides MRAM with a SAS 70 Report annually and MRAM has the right to audit BlackRock operations. The terms of the agreement were considered fair and equitable.

NAIC RATIOS

Based on 2008 financial results, one of the NAIC's IRIS ratios was outside to the "usual" range as follows:

Gross Change in Policyholders' Surplus: The 2008 change in policyholder' surplus result of negative 18% is greater than the NAIC ratio benchmark of negative 10%. The decrease in Surplus as Regards Policyholders of \$775.0 million is mainly attributable to an extraordinary dividend payment of \$500 million to MRAC in the 2nd Qtr. This dividend was paid with the permission of the Delaware Insurance Department and, also with the Department's permission, was recorded as a reduction of Gross paid in and contributed capital.

The Company reported no “unusual “ratios in 2007 related to IRIS results.

Based on 2006 financial results, one of the NAIC's IRIS ratios was outside of the "usual" range as follows:

Change in Net Writings: The 2006 change in writings ratio had a result of "999" signifying that the calculation of the ratio was invalid due to the negative net premiums written amount for 2005. The unusual 2005 negative net premium written is attributable to the 2005 LPT. Excluding the effects of the LPT, the ratio result would be 108.3%. This would have been higher than the ratio's upper limit of 33.0%. The high ratio is caused by the lower 2006 ceding percentage related to the variable quota share agreement and the termination of the health care quota share treaty, both with Munich Re Germany.

ACCOUNTS AND RECORDS

Accounting System

All necessary accounting records of the Company are maintained on electronic data processing equipment, which is also shared by AAIC & PESLIC. The general ledger system allows the Company to capture information necessary to produce financial statements on a Statutory Accounting Principles (SAP) basis, as well as U.S. Generally Accepted Accounting Principles (U.S. GAAP) basis, and International Financial Reporting Standards (IFRS) basis. The Company's database was tested during the examination without material exception.

Information Systems

INS Services, Inc. reviewed the Company's responses to the Evaluation of Controls in Information Systems Questionnaire (Exhibit C) and performed tests of the systems. INS Services analysis concluded that:

- the Company's responses to Exhibit C present fairly, in all material respects, the aspects of the Company's policies and procedures that may be relevant to their internal control structure,

- the control structure policies and procedures were suitably designed to achieve the control objectives implicit in the questionnaire, if those policies and procedures were complied with, and
- such policies and procedures have been placed in operation as of December 31, 2008.

FINANCIAL STATEMENTS

The following pages contain a statement of assets, liabilities, surplus and other funds as of December 31, 2008, a statement of income for the period 2008, and the capital and surplus account, from 2007 to 2008, as determined by this examination:

Analysis of Assets, December 31, 2008

Statement of Liabilities, Surplus and Other Funds, December 31, 2008

Statement of Income, for the year ending December 31, 2008

Capital and Surplus Account, December 31, 2008

Analysis of Assets

	<u>Gross Assets</u>	Non-admitted <u>Assets</u>	Net Admitted <u>Assets</u>	<u>Note</u>
Bonds	\$12,770,064,703	\$26,471,140	\$12,743,593,563	1
Preferred Stocks	60,605,835		60,605,835	
Common Stocks	77,290,403		77,290,403	
Properties Occupied by the Company	81,541,402		81,541,402	
Cash, Cash Equivalents and Short-term Investments	612,223,557		612,223,557	
Other Invested Assets	251,479,517		251,479,517	
Receivable for Securities	10,259,662		10,259,662	
Investment Income Due and Accrued	118,982,046		118,982,046	
Uncollected Premiums and Agents' Balances in Course of Collection	122,846,333		122,846,333	
Deferred Premiums, Agents' Balances And Installments Booked But Deferred and Not Yet Due	690,836,227		690,836,227	
Accrued Retrospective Premiums	33,027,597		33,027,597	
Amounts Recoverable from Reinsurers	132,144,110		132,144,110	
Funds Held by Reinsured Companies	204,299,055	2,826,079	201,472,976	
Other Amounts Receivable under Reinsurance Contracts	609,408,951		609,408,951	4
Federal Income Taxes Recoverable	10,612,978		10,612,978	
Net Deferred Tax Asset	1,911,710,194	1,591,669,388	320,040,806	
EDP Equipment and Software	21,300,085	18,491,173	2,808,913	
Furniture and Equipment	3,626,808	3,626,808		
Receivable from Parent, Subsidiaries and Affiliates	34,895,169	749,455	34,145,715	
Aggregate Write-ins for Other than Invested Assets	<u>251,870,448</u>	<u>10,017,996</u>	<u>241,852,451</u>	
Total Assets	<u>\$18,009,025,082</u>	<u>\$1,653,852,039</u>	<u>\$16,355,173,043</u>	

Liabilities, Surplus and Other Funds

		<u>Note</u>
Losses	\$3,546,713,472	2
Reinsurance Payable on Paid Losses and Loss Adjustment Expenses	339,889,963	
Loss Adjustment Expenses	224,683,683	2
Other Expenses	322,419,082	
Unearned Premiums	764,612,439	
Ceded Reinsurance Premiums Payable	221,249,598	
Funds Held By Company under Reinsurance Treaties	7,103,184,071	3
Provision for Reinsurance	4,242,831	
Payable to Parent, Subsidiaries and Affiliates	9,357,593	
Payable for Securities	125,212,915	
Aggregate Write-ins for Liabilities	<u>146,962,534</u>	
 Total Liabilities	 <u>\$12,808,528,181</u>	
 Aggregate Write-ins for Special Surplus Funds	 \$80,074,671	
Common Capital Stock	8,235,771	
Gross Paid In and Contributed Surplus	4,446,998,348	
Unassigned Funds (Surplus)	<u>(988,663,927)</u>	
 Surplus as Regards Policyholders	 <u>\$3,546,644,863</u>	
 Total Liabilities, Surplus and Other Funds	 <u>\$16,355,173,043</u>	

Statement of Income

UNDERWRITING INCOME

Premiums Earned \$2,137,606,935

DEDUCTIONS:

Losses Incurred \$1,619,075,939

Loss Adjustment Expenses Incurred 60,557,232

Other Underwriting Expenses Incurred 870,575,447

Total Underwriting Deductions \$2,550,208,617

Net Underwriting Gain (Loss) \$(412,601,682)

INVESTMENT INCOME

Net Investment Income Earned \$622,167,836

Net Realized Capital Gains (Losses) 79,583,208

Net Investment Gain (Loss) \$701,751,044

OTHER INCOME

Net Gain or (Loss) from Agents' Balances or Premium Balances Charged Off \$(17,000,000)

Aggregate Write-ins for Miscellaneous Income (269,278,365)

Total Other Income \$(286,278,365)

Net Income after Dividends to Policyholders, After Capital Gains Tax and Before All Other Federal and Foreign Income Taxes \$2,870,996

Federal and Foreign Income Taxes Incurred 5,684,482

Net Income \$(2,813,487)

CAPITAL AND SURPLUS ACCOUNT

Surplus as Regards Policyholders, December 31, 2007 \$4,321,634,756

Net Income (2,813,487)

Change in Net Unrealized Capital Gains or (Losses) (93,718,524)

Change in Net Unrealized Foreign Exchange Capital Gains or (Losses) 606,400

Change in Net Deferred Income Tax 4,627,730

Change in Non-admitted Assets (121,406,310)

Change in Provision for Reinsurance 1,316,706

Surplus Adjustment- Paid In (500,000,000)

Aggregate Write-Ins for Gains and Losses in Surplus (63,602,409)

Change in Surplus as Regards Policyholders for the Year (774,989,893)

Surplus as Regards Policyholders, December 31, 2008 \$3,546,644,863

SUMMARY OF EXAMINATION ADJUSTMENTS

No financial adjustments were made as a result of this examination.

NOTES TO FINANCIAL STATEMENTS

(1) Bonds: \$12,743,593,563

The above-captioned amount, which is the same as that reported by the Company in its Annual Statement, has been accepted for purposes of this report. An evaluation of the Company's bond portfolio noted that 99.7% of the portfolio consists of bonds with an NAIC rating of 1 or 2. With the exception of bonds held for statutory purposes, investments are held by State Street Bank, JP Morgan Chase, and Royal Trust Corporation of Canada, under separate custodial agreements.

A review of corporate records indicated that the Board of Directors has approved all of the Company's investment transactions made during the examination period in accordance with 18 Del.C. §1304.

(2) Losses \$3,546,713,472
Loss Adjustment Expenses \$ 224,683,683

The above-captioned amount, which is the same as that reported by the Company in its Annual Statement, has been accepted for purposes of this report. The balance reported by the Company was comprised of the following:

<u>Losses</u>	
<u>Reported Losses (Case)</u>	
Direct	\$ 282,640,942
Reinsurance Assumed	5,175,781,724
Reinsurance Ceded	<u>(4,525,044,461)</u>
Net Reported Losses	\$ 933,378,205
<u>Incurred but not reported (IBNR)</u>	
Direct	\$ 197,770,916
Reinsurance Assumed	6,731,461,192
Reinsurance Ceded	<u>(4,315,896,841)</u>
Net IBNR	<u>\$2,613,335,267</u>
Net Losses Unpaid	<u>\$3,546,713,472</u>
<u>Loss Adjustment Expenses (LAE)</u>	<u>\$ 224,683,683</u>

The examination retained the firm of INS Consultants, Inc. (INS or Consulting Actuary) to review the Company's stated reserves. The Consulting Actuary was provided with the Company's statement of actuarial opinion and an actuarial report as supporting documentation of the actuarial opinion with loss and loss adjustment expense reserves evaluated as of December 31, 2008. In addition, INS was provided with other reports, schedules, exhibits and relevant information as requested.

The Consulting actuary's review of loss and allocated loss adjustment expenses (ALAE) reserves consisted of separately analyzing the Company's property and casualty books of business on a gross and net basis. In addition, for unallocated loss adjustment expenses (ULAE), the consulting actuary reviewed the methodology employed by the Company's actuaries. INS accepted the methodology and factor selections utilized by the Company's actuaries and ultimately found the Company's reserves to be reasonable.

In conjunction with the actuarial review, the examination team validated loss data used by the Company without material exception.

(3) Funds held by company under reinsurance treaties \$7,103,184,071

The above-captioned amount, which is the same as that reported by the Company in its Annual Statement, has been accepted for purposes of this report.

The Company's funds held liability has decreased during the period under examination, from \$10.3 billion at December 31, 2005 to \$7.1 billion at December 31, 2008. Over \$7.0 billion represents funds held on the LPT and Variable Quota Share Agreements with MRG, which was confirmed.

4) Other Amounts Receivable under Reinsurance Contracts \$609,408,951

The Company participated in a variable quota share retrocessional program covering the majority of business written, net of inuring reinsurance, in place from January 1, 2002 through December 31, 2008 with MRG.

The ceded premiums less commissions under this program, which was on a funds held basis for the payment of subject losses, was \$6,057,334,843 at year-end 2008. Interest expense, accruing at varying rates over the term of the program, was also credited to the funds withheld balance and available for the payment of subject losses. Total interest expense credited to funds withheld since inception of the program was \$1,082,998,663.

The funds held balance under the program at December 31, 2008 was \$3,327,560,306, and subsequently reduced to \$2,783,741,457 at December 31, 2009. In accordance with loss sensitive features of the contracts and as a result of decreases in ultimate ceded loss and loss adjustment expenses for prior contract year under this program, the Company has recognized an amount receivable under reinsurance contracts at December 31, 2008 of \$581,516,610, and subsequently increased to \$739,510,522 at December 31, 2009. This receivable, along with all of the Company's balances from MRG, are fully collateralized by a combination of funds withheld

and letters of credit. The \$581,516,610 balance from the Company's parent represented the majority of the \$609,408,951 reported at December 31, 2008.

COMPLIANCE WITH PRIOR REPORT RECOMMENDATIONS

A review was performed of appropriate balance sheet and forepart files to verify corrective action had been taken with regards to prior examination report comments and recommendations. Based on that review, it has been determined that the Company has complied with these comments and recommendations.

SUMMARY OF RECOMMENDATIONS

There are no examination recommendations.

SUMMARY COMMENTS

- 1) The Company's bylaws were amended on November 6, 2008, in order to enhance corporate governance, clarify and realign various functions of the committees of the Board, revise Charters of the following Committees as adopted by the Board: Risk Management Committee, Audit Oversight Committee, Investment Committee, Pension and Savings Committee.
- 2) On June 25, 2008, after approval from the Delaware Insurance Department, the Company paid an extraordinary dividend of \$500 million in the form of cash. The dividend was recorded as a reduction of Gross Paid In and Contributed Surplus.
- 3) Beginning in 2008, MRAC implemented a new underwriting structure aligned by client type. The new underwriting divisions are: National Clients, Regional Clients, Specialty Markets, and Broker Market.

4) Effective July 1, 2005, MRAM ceded to MRG via a LPT all carried loss and allocated loss adjustment expense reserves, net of the discount on workers' compensation related reserves, for accident years 2001 and prior. The reserves transferred to MRG for the LPT were \$5,958,292,069; the premium for the LPT matched the reserves transferred and no initial surplus gain was recognized. MRG is responsible for amounts in excess of the \$5,958,292,069 to an overall aggregate limit of \$10,082,377,395. Going forward, the LPT affords MRAM significant advantages; the Company is effectively insulated from the continuing negative effects of asbestos and environmental claims and it holds almost all associated premiums for the reimbursement of claims. The Company reported Funds Held by Company under Reinsurance Treaties for MRG at December 31, 2008 of \$7,018,935,000.

CONCLUSION

The following schedule shows the results of this examination and the results of the prior examination with changes between the examination periods:

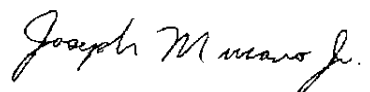
<u>Description</u>	<u>December 31, 2005</u>	<u>December 31, 2008</u>	<u>Increase/ (Decrease)</u>
Assets	\$17,190,971,608	\$16,355,173,043	(\$835,798,565)
Liabilities	\$14,149,587,534	\$12,808,528,181	(\$1,341,059,353)
Surplus as regards policyholders	\$3,041,384,074	\$3,546,644,863	505,260,789

In addition to the undersigned, Anthony Cardone, CPA, CFE, Andy Chiodini, CFE, Kelly Willison, CPA, CFE, Greg Bealuk, CFE, and Ann Pruett, CFE participated in the examination. James J. Blair, Jr, CPA, CFE participated in the examination and served as the examination supervisor. The assistance of Gene Thompson, ACAS, MAAA of the actuarial consulting firm,

Munich Reinsurance America, Inc.

INS Consultants, Inc. is acknowledged along with the information systems consulting firm of
INS Services, Inc.

Respectfully submitted,



Joseph Murano, Jr. CFE
Examiner-In-Charge
State of Delaware
Northeastern Zone, NAIC

SUBSEQUENT EVENTS

1) In April 2009, management commenced a long-term, active cost management program designed to significantly reduce annual administrative expenses and enhance market competitiveness. This program included realignment of the MRAC's property and casualty business segments aimed at realizing greater operational efficiencies, a voluntary and involuntary staff reduction (about 200 employees out of 1200 employees), a freeze on the MRAC's two defined pension plans and changes to the retiree health care benefits plan. Estimated severance and related costs of approximately \$16,000,000 were recognized in the second quarter of 2009.

2) During this current examination the Company announced their intentions to consolidate branch operations into three main hubs and two satellite offices. The regional hubs will be San Francisco, Chicago and Princeton. Princeton will be the hub for Atlanta, and Chicago for Columbus. The implementation of the new regional branch structure will include the closing of four physical branch locations: Hartford, Philadelphia, Kansas City (closed 2009) and New York.

3) During the current examination MRAM submitted to the Delaware Insurance Department a General Service Agreement between MAHC and numerous affiliates including the Company which was approved on July 1, 2009, with an effective date of September 1, 2009.

4) Effective July 1, 2009 the Company commuted all of its prior reinsurance contracts with AAIC and PESLIC as a first step in the establishment of a pooling agreement which covers 100% of the affiliates' net liabilities (defined as gross liability net of specific cessions to other reinsurers). The previously ceded business, along with the affiliates' retained business at June 30, 2009, is subject to the pooling agreement. The pooling agreement, effective July 1, 2009, covers all direct and assumed current and prior policies and contracts issued by PESLIC and AAIC. Under the pooling arrangement, AAIC and PESLIC cede 100% of net liabilities to the pool. MRAM is the lead company for the pooling arrangement and retains 100% of the business.