

Report on Examination
of
Hannover Life
Reassurance Company of America
Orlando, Florida
as of
December 31, 2009

By The
Florida Office of Insurance Regulation

Kevin M. McCarty, Commissioner
Florida Office of Insurance Regulation
200 E. Gaines Street
Tallahassee, Florida 32399-0305

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

Joseph Torti, III, Superintendent
Rhode Island Division of Insurance
Chair, NAIC Financial Condition (E) Committee
1511 Pontiac Avenue, Building 69-2
Cranston, Rhode Island 02920-4409

Dear Commissioners McCarty and Clark and Superintendent Torti:

In accordance with Section 624.316, Florida Statutes, and the *Financial Condition Examiners Handbook* of the National Association of Insurance Commissioners, we have completed a financial condition examination of Hannover Life Reassurance Company of America as of December 31, 2009. Our report on the examination follows.

Florida Office of Insurance Regulation
February 4, 2011

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SCOPE OF EXAMINATION

We have completed a financial condition examination as of December 31, 2009 of Hannover Life Reassurance Company of America (the "Company"), a multi-state insurer domiciled in Florida. The last financial condition examination of the Company by the Florida Office of Insurance Regulation (the "Office") was as of December 31, 2004.

This examination covered the period of January 1, 2007 through December 31, 2009. We conducted our examination in accordance with the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook*. The Handbook required that we plan and perform our examination to evaluate the financial condition and identify prospective risks of the Company. It required that we do so by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. Our examination included assessing the principles used and significant estimates made by management. It also included evaluating overall financial statement presentation and management's compliance with statutory accounting principles and annual statement instructions when applicable to domestic state regulations. All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

The Company's main administrative office was located in Orlando, Florida, where this examination was conducted.

SUMMARY OF SIGNIFICANT FINDINGS

In its 2009 annual statement, the Company understated its 'other amounts receivable under reinsurance contracts' account by \$450,700,323, overstated its 'receivables from parent, subsidiaries and affiliates' account by \$464,734,576, and overstated its capital and surplus by \$14,034,253, as discussed on page 15. Recommendations relating to examination findings are included on page 16 of this report.

COMPANY HISTORY

The Company was incorporated in Florida on June 16, 1988. It was licensed by the Office as an insurer on September 30, 1988 and commenced business on October 1, 1988. The Company was authorized by the State of Florida to operate as an insurer in accordance with Section 624.401, Florida Statutes (F.S.), in the following lines:

- Life and variable life
- Credit life
- Accident and health
- Credit disability
- Variable annuities
- Group life and annuities

Dividends and Capital Contributions

During the period of this examination, the Company did not distribute shareholder dividends, nor did it receive contributions to its capital.

CORPORATE RECORDS

The minutes of the meetings of the Board of Directors, Audit Committee and Investment Committee were reviewed for the period examined. The minutes of the Board adequately documented its meetings and approval of Company transactions in accordance with Section 607.1601, F.S., including the authorization of investments as required by Section 625.304, F.S.

The Company was required by Section 607.0701(1), F.S., to hold annual shareholder meetings for the election of directors and transaction of other business. However, it was unable to provide examiners with written records of shareholder meetings for the period examined.

The Company was required by Rule 69O-143.042(2), Florida Administrative Code (F.A.C.), to have its securities custody agreements authorized by a resolution of the Board of Directors or an authorized committee of the Board. We found that the Company had entered into a securities custody agreement which had not been so authorized.

MANAGEMENT AND CONTROL

The Company was wholly owned by Hannover Life Re AG, which was wholly owned by Hannover Rückversicherung AG. It was affiliated with numerous other entities through common ownership.

The Company's senior officers, directors, and members of the Audit, Investment and Compensation Committees were as shown below.

Senior Officers

Name	Title
Peter R. Schaefer	President & Chief Executive Officer
Jeffrey R. Burt	Executive Vice President
Steven B. Najjar	Executive Vice President & General Counsel
Christopher S. Shanahan	Executive Vice President
Glen E. Martin	Senior Vice President, Secretary & Treasurer
Joseph A. Sikora	Senior Vice President & Chief Actuary

Board of Directors

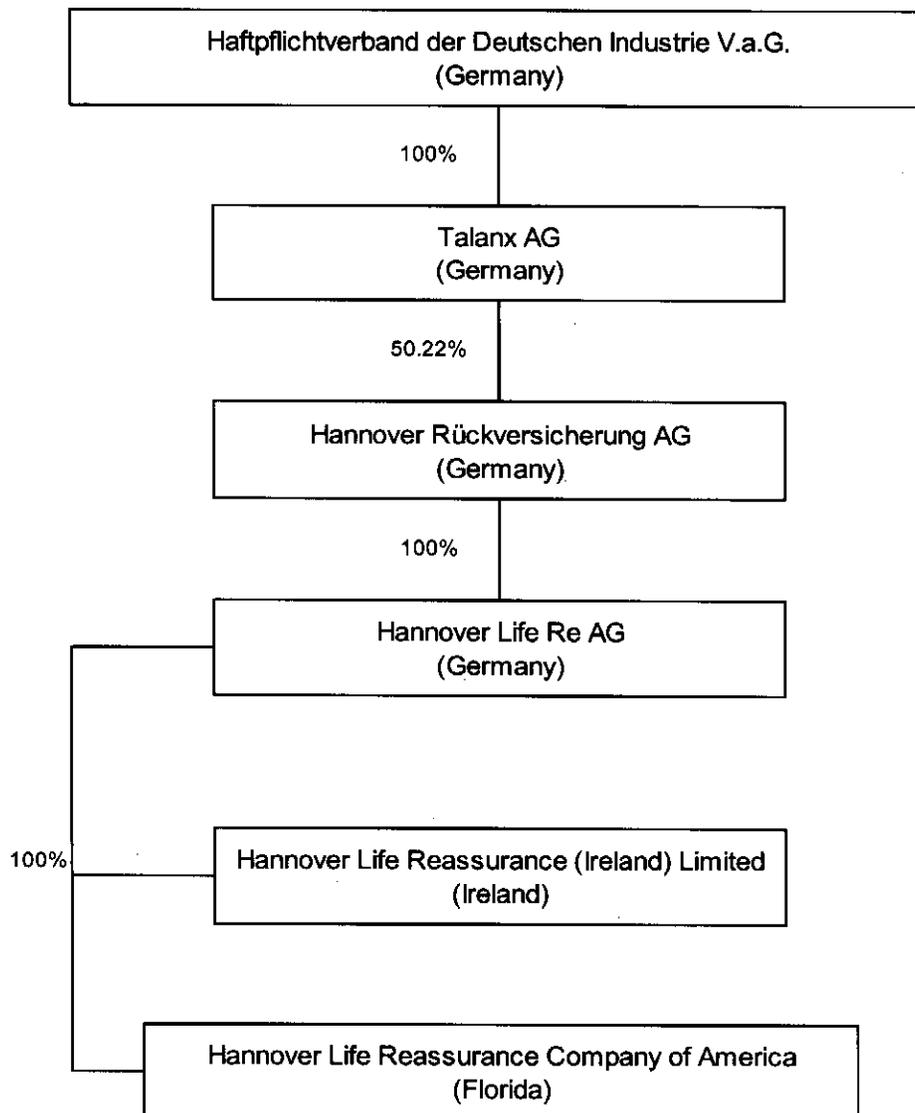
Name	Location
Wolf S. Becke	Hannover, Germany
Dennis D. Braziel	Orlando, Florida
Curt R. Hagelman	Orlando, Florida
William J. Kelty	Washington, D.C.
Peter R. Schaefer	Orlando, Florida
Roland H. Vogel	Hannover, Germany
Ulrich M. Wallin	Hannover, Germany

Audit Committee	Investment Committee	Compensation Committee
Dennis D. Braziel	Peter R. Schaefer	Wolf S. Becke
William J. Kelty	Roland H. Vogel	William J. Kelty
Peter R. Schaefer		Peter R. Schaefer
Roland H. Vogel		Ulrich M. Wallin

The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), F.A.C. Its latest holding company registration statement was filed with the State of Florida as required by Section 628.801, F.S., and Rule 69O-143.046, F.A.C., on June 22, 2010.

An abbreviated organizational chart reflecting the holding company system is shown below.

**Hannover Life Reassurance Company of America
Abbreviated Organizational Chart
December 31, 2009**



The following agreements were in effect with affiliates:

Investment Management Agreement

AmpegaGerling Asset Management GmbH provided investment management services to the Company pursuant to an agreement effective July 1, 2005.

Master Administrative Services Agreement

Effective January 1, 2009, the Company provided administrative services to Hannover Life Reassurance (Ireland) Limited (HLR Ireland) related to a ceded block of business.

Services Only Agreement

Effective January 1, 2003, the Company provided services to HLR Ireland for the administration of reinsurance treaties between HLR Ireland and various other insurers.

FIDELITY BONDS AND OTHER INSURANCE

As of December 31, 2009, the Company maintained fidelity bond coverage of \$10,000,000 with a deductible of \$100,000 which adequately provided for the suggested minimum amount of coverage for the Company as recommended by the NAIC of \$3,500,000.

PENSION; STOCK OWNERSHIP AND INSURANCE PLANS

The Company offered benefits to eligible employees including health, vision, dental, life, and disability insurance, a health savings plan, educational assistance, and participation in a Section 401(k) retirement plan.

TERRITORY AND PLAN OF OPERATION

The Company was exclusively engaged in the reinsurance of life and accident and health insurance policies in the United States, and relied on its ability to reinsure significant business with affiliates Hannover Rückversicherung AG, HLR Ireland and Hannover Life Reassurance Bermuda Limited.

The Company was authorized or accredited to transact reinsurance in the District of Columbia, Puerto Rico and 39 U.S. states. It was licensed in the following states:

Alaska	California	Florida	Indiana
Kansas	Massachusetts	Michigan	Nebraska
Ohio	Utah	Washington	

COMPANY GROWTH

The Company reported the following for years 2007, 2008 and 2009:

(In millions)	<u>2007</u>	<u>2008</u>	<u>2009</u>
Net premiums	\$295.5	\$ 788.3	\$ 403.0
Total revenues	\$561.1	\$5,669.6	\$2,088.4
Net income (loss)	\$ 30.3	\$ (11.4)	\$ (6.1)
Capital and surplus	\$136.6	\$ 128.1	\$ 140.8

SURPLUS DEBENTURES

At December 31, 2009, the Company was obligated to Hannover Finance Inc., an affiliate, for surplus debentures in the amounts of \$19,219,401, \$25,000,000, and \$25,000,000, bearing interest at 2.78%, 5.965%, and 7.2%, respectively. In accordance with Section 628.401, F.S., the notes were approved by the Office and the debt was included in the Company's surplus.

REINSURANCE

The Company assumed life and accident and health insurance and ceded risks in retrocession transactions to other reinsurers pursuant to numerous reinsurance agreements with affiliated and unaffiliated insurers and reinsurers.

On February 20, 2009, the Company completed the acquisition of a block of individual life reinsurance business. The reinsurance was ceded by retrocession agreements to HLR Ireland and other reinsurers.

STATUTORY DEPOSITS

The following securities were deposited with the State of Florida as required by Section 624.411, F.S., and the Commonwealth of Massachusetts as follows:

Holder	Description	Par Value	Market Value
Florida	U.S. Treasury bond	\$ 525,000	\$ 649,892
Florida	U.S. Treasury bond	475,000	524,875
Florida	U.S. Treasury bond	600,000	613,125
Total Florida deposits		1,600,000	1,787,892
Massachusetts	U.S. Treasury note	200,000	221,000
Total deposits		\$ 1,800,000	\$ 2,008,892

Hannover Life Reassurance Company of America
Assets
December 31, 2009

	Per Company	Examination Adjustments	Per Examination
Bonds	\$ 1,441,031,991	\$ -	\$ 1,441,031,991
Preferred stocks	1,339,609	-	1,339,609
Mortgage loans on real estate	37,141,286	-	37,141,286
Properties held for the production of income	638,216	-	638,216
Cash, cash equivalents and short-term investments	243,178,074	-	243,178,074
Contract loans	29,357,400	-	29,357,400
Other invested assets	3,000,000	-	3,000,000
	1,755,686,576	-	1,755,686,576
Investment income due and accrued	30,459,886	-	30,459,886
Uncollected premiums and agents' balances	161,107,589	-	161,107,589
Amounts recoverable from reinsurers	2,858,007	-	2,858,007
Funds held by or deposited with reinsured companies	810,375,738	-	810,375,738
Other amounts receivable under reinsurance contracts	257,659,164	450,700,323	708,359,487
Net deferred tax asset	10,655,000	-	10,655,000
Electronic data processing equipment and software	4,120,543	-	4,120,543
Receivables from parent, subsidiaries and affiliates	466,944,697	(464,734,576)	2,210,121
Total assets	\$ 3,499,867,200	\$ (14,034,253)	\$ 3,485,832,947

Hannover Life Reassurance Company of America
Liabilities, Surplus and Other Funds
December 31, 2009

Liabilities	Per Company	Examination Adjustments	Per Examination
Aggregate reserve for life contracts	\$ 707,143,853	\$ -	\$ 707,143,853
Aggregate reserve for accident and health contracts	52,581,072	-	52,581,072
Contract claims - life	88,772,303	-	88,772,303
Contract claims - accident and health	104,052,359	-	104,052,359
Policyholders' dividends	115,085	-	115,085
Other amounts payable on reinsurance	179,858,586	-	179,858,586
Interest maintenance reserve	2,672,494	-	2,672,494
Commissions payable on reinsurance assumed	124,944,705	-	124,944,705
General expenses due or accrued	17,205,596	-	17,205,596
Taxes, licenses and fees due or accrued	1,364,498	-	1,364,498
Current federal and foreign income taxes	1,115,496	-	1,115,496
Amounts withheld or retained by company	24,840	-	24,840
Remittances and items not allocated	64,165,620	-	64,165,620
Borrowed money and interest thereon	2,119,328	-	2,119,328
Asset valuation reserve	4,327,804	-	4,327,804
Reinsurance in unauthorized companies	489,547	-	489,547
Funds held under reinsurance treaties	1,994,733,586	-	1,994,733,586
Funds held under coinsurance	13,414,663	-	13,414,663
Total liabilities	3,359,101,435	-	3,359,101,435
Capital and Surplus			
Common capital stock	2,500,000	-	2,500,000
Surplus notes	69,219,401	-	69,219,401
Gross paid in and contributed surplus	110,404,632	-	110,404,632
Unassigned funds (deficit)	(41,358,268)	(14,034,253)	(55,392,521)
Total capital and surplus	140,765,765	(14,034,253)	126,731,512
Total liabilities, capital and surplus	\$ 3,499,867,200	\$ (14,034,253)	\$ 3,485,832,947

Hannover Life Reassurance Company of America
Summary of Operations
(As reported by the Company)
For The Year Ended December 31, 2009

Premiums and annuity considerations	\$ 403,006,360
Net investment income	60,584,232
Amortization of interest maintenance reserve	(1,459,380)
Commissions and expense allowances on reinsurance ceded	537,141,192
Reserve adjustments on reinsurance ceded	1,032,321,678
Aggregate write-ins for miscellaneous income	56,802,921
	<hr/> 2,088,397,003
Death benefits	131,580,343
Matured endowments	24,997
Annuity benefits	8,696,298
Disability benefits and benefits under accident and health contracts	147,767,944
Surrender benefits and withdrawals for life contracts	52,128,957
Interest and adjustments on contract or deposit-type contract funds	473,114
Payments on supplementary contracts with life contingencies	74,114
Increase in aggregate reserves	23,555,099
	<hr/> 364,300,866
Commissions and expense allowances on reinsurance assumed	571,575,704
General insurance expenses	65,135,329
Insurance taxes, licenses and fees	4,230,630
Aggregate write-ins for deductions	1,078,740,670
	<hr/> 2,083,983,199
	4,413,804
Dividends to policyholders	218,727
	<hr/> 4,195,077
Net gain before income taxes and capital losses	4,195,077
Federal and foreign income taxes	8,337,172
	<hr/> (4,142,095)
Net gain (loss) before capital losses	(4,142,095)
Net realized capital gains or (losses)	(1,914,585)
	<hr/> (6,056,680)
Net income (loss)	<hr/> <hr/> \$ (6,056,680)

Hannover Life Reassurance Company of America
Statement of Changes in Capital and Surplus
For The Three Years Ended December 31, 2009

Capital and surplus - December 31, 2006	\$ 111,395,657
Net income (loss)	30,319,189
Change in net unrealized capital gains and losses	174,300
Change in net deferred income tax	(10,256,059)
Change in nonadmitted assets	9,250,726
Change in liability for reinsurance in unauthorized companies	219,198
Change in asset valuation reserve	(1,198,418)
Change in surplus notes	(1,904,761)
Change in surplus as a result of reinsurance	(1,429,371)
<hr/>	
Capital and surplus - December 31, 2007	136,570,461
Net income (loss)	(11,357,003)
Change in net unrealized capital gains and losses	(669,755)
Change in net deferred income tax	6,157,465
Change in nonadmitted assets	(3,954,579)
Change in liability for reinsurance in unauthorized companies	(31,651)
Change in asset valuation reserve	2,064,006
Change in surplus notes	744,649
Change in surplus as a result of reinsurance	(1,450,839)
<hr/>	
Capital and surplus - December 31, 2008	128,072,754
Net income (loss)	(6,056,680)
Change in net unrealized capital gains and losses	576,485
Change in net deferred income tax	7,447,573
Change in nonadmitted assets	(17,700,703)
Change in liability for reinsurance in unauthorized companies	(417,666)
Change in asset valuation reserve	(2,422,617)
Change in surplus notes	25,000,000
Change in surplus as a result of reinsurance	(473,381)
Aggregate write-ins for gains and losses in surplus	6,740,000
<hr/>	
	140,765,765
Examination adjustments	(14,034,253)
<hr/>	
Capital and surplus - December 31, 2009	\$ 126,731,512
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Hannover Life Reassurance Company of America
Comparative Analysis of Changes in Capital and Surplus
December 31, 2009

The following is a reconciliation of capital and surplus between that reported by the Company and as determined by the examination.

Capital and surplus, December 31, 2009 - per annual statement				\$ 140,765,765
	<u>Per</u> <u>Company</u>	<u>Per</u> <u>Examination</u>	<u>Increase</u> <u>(Decrease)</u>	
Other amounts receivable under reinsurance contracts	\$ 257,659,164	\$ 708,359,487	\$ 450,700,323	
Receivables from parent, subsidiaries and affiliates	\$ 466,944,697	\$ 2,210,121	<u>\$ (464,734,576)</u>	
Net change in capital and surplus				<u>(14,034,253)</u>
Capital and surplus, December 31, 2009 - per examination				<u>\$ 126,731,512</u>

COMMENTS ON FINANCIAL STATEMENTS

Other Amounts Receivable Under Reinsurance Contracts	\$708,359,487
Receivables From Parent, Subsidiaries and Affiliates	\$2,210,121

The amount reported by the Company in its 2009 annual statement as 'other amounts receivable under reinsurance contracts' has been increased by \$450,700,323 to \$708,359,487, and the amount reported as 'receivables from parent, subsidiaries and affiliates' has been decreased by \$464,734,576 to \$2,210,121. The Company provided administrative services to HLR Ireland pursuant to a January 1, 2009 agreement, as described on page 6 of this report, and reported \$14,034,253 as being due from HLR Ireland under the agreement at December 31, 2009. The \$14,034,253 was included in the amount reported as 'other amounts receivable under reinsurance contracts'. The Company was required by the agreement to bill HLR Ireland for provided services within five business days after the end of each calendar quarter. In return, HLR Ireland was required by the agreement to pay the Company for those services not later than fifteen days after receipt of the billing. However, the Company did not bill HLR Ireland for the services during 2009. Further, it did not bill HLR Ireland for the amount due under the agreement as of December 31, 2009 within five business days as required, and did not collect the accrued amount until May 20, 2010. Paragraph 2 of Statement of Statutory Accounting Principles No. 96 provides that such amounts owed to the reporting entity over 90 days from the due date are to be nonadmitted. Accordingly, \$14,034,253 was nonadmitted upon examination and 'other amounts receivable under reinsurance contracts' was reduced by that amount. In addition, the Company reported \$464,734,576 recoverable from Hannover Rückversicherung AG as 'receivables from parent, subsidiaries and affiliates'. Because the recoverable was due under reinsurance agreements, it should have been reported as 'other amounts receivable under reinsurance contracts'. As a result, it was reclassified upon examination.

SUMMARY OF RECOMMENDATIONS

Annual Shareholder Meeting

As reported on page 3, the Company was unable to provide examiners with written records of shareholder meetings for the period examined. **We recommend that the Company hold annual shareholder meetings as required by Section 607.0701(1), F.S., and maintain written records of those meetings in accordance with Section 607.1601, F.S.**

Custodial Agreement

As reported on page 3, the Company entered into a securities custody agreement which had not been authorized by a resolution of the Board of Directors or an authorized committee of the Board, as required by Rule 69O-143.042(2), F.A.C. **We recommend that the Company comply with Rule 69O-143.042(2), F.A.C.**

Accounting and Reporting Errors

As reported on page 15, in its 2009 annual statement the Company understated its 'other amounts receivable under reinsurance contracts' account by \$450,700,323, overstated its 'receivables from parent, subsidiaries and affiliates' account by \$464,734,576, and overstated its capital and surplus by \$14,034,253. **We recommend that, in future statements filed with the Office, the Company accurately report its assets in accordance with Part I of Chapter 625, F.S., and the annual statement instructions.**

SUBSEQUENT EVENTS

On June 30, 2010, the Company issued an additional \$25 million surplus debenture to Hannover Finance Inc.

In its 2010 annual statement, the Company reported net income of \$217,329 and capital and surplus of \$166,599,634.

CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of Hannover Life Reassurance Company of America as of December 31, 2009, consistent with the insurance laws of the State of Florida.

The Company's capital and surplus at December 31, 2009 was determined to be \$126,731,512, which was in compliance with Section 624.408, F.S. Its required minimum capital and surplus was \$100,000,000.

In addition to the undersigned, the following individuals participated in this examination: Cathy S. Jones, CPA, Financial Examiner/Analyst Supervisor; Kerry A. Krantz, Actuary; and Robert Y. Meszaros, Financial Specialist.

Respectfully submitted,

Darlene L. Lenhart-Schaeffer, CFE
Financial Examiner/Analyst
Florida Office of Insurance Regulation