

REPORT ON EXAMINATION

OF THE

UNITED INTERNATIONAL INSURANCE COMPANY

AS OF

DECEMBER 31, 2009

DATE OF REPORT

DECEMBER 3, 2010

EXAMINER

JOHN CONLEY

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

December 3, 2010

Honorable James J. Wrynn
Superintendent of Insurance
Albany, New York 12257

Sir:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 30598 dated September 16, 2010 attached hereto, I have made an examination into the condition and affairs of United International Insurance Company as of December 31, 2009, and submit the following report thereon.

Wherever the designation "the Company" appears herein without qualification, it should be understood to indicate United International Insurance Company.

Wherever the term "Department" appears herein without qualification, it should be understood to mean the New York Insurance Department.

The examination was conducted at the Company's administrative office located at 2250 Chapel Avenue West, Cherry Hill, NJ 08002.

1. SCOPE OF EXAMINATION

The Department has performed a single-state examination of United International Insurance Company. The previous examination was conducted as of December 31, 2005. This examination covered the four year period from January 1, 2006 through December 31, 2009. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

This examination was conducted in accordance with the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners Handbook (“Handbook”), which requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the company including corporate governance, identifying and assessing inherent risks within the Company and evaluating system controls and procedures used to mitigate those risks. This examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management’s compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All accounts and activities of the company were considered in accordance with the risk-focused examination process. This examination also included a review and evaluation of the Company’s own control environment assessment. The examiners also relied upon audit work performed by the Company’s independent public accountants when appropriate.

This examination report includes a summary of significant findings for the following items as called for in the Handbook:

- Significant subsequent events
- Company history
- Corporate records
- Management and control
- Fidelity bonds and other insurance
- Stock ownership
- Territory and plan of operation
- Loss experience
- Reinsurance
- Accounts and records
- Statutory deposits
- Financial statements
- Summary of recommendations

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

This report on examination is confined to financial statements and comments on those matters, which involve departures from laws, regulations or rules, or which are deemed to require explanation or description.

2. DESCRIPTION OF COMPANY

United International Insurance Company (“UIIC”) was incorporated under the laws of the State of New York on September 25, 1986. It became licensed to transact insurance business on May 10, 1988.

The Company is a wholly-owned subsidiary of American European Insurance Company, a New Hampshire insurer. The ultimate controlling persons are HSI Partnership and Diaco Investments, LP, which own 45.56% and 27.34 %, respectively, of the voting stock of American European Group, Inc. Prior to April 10, 2009, the Company was directly owned by American European Group, Inc.

As a result of significant losses and with the consent of the Department, the Company ceased writing new and renewal business effective July 1, 1997.

At December 31, 2009, capital paid in was \$1,000,000 consisting of 1,000,000 shares of \$1.00 par value per share common stock. Gross paid in and contributed surplus is \$2,612,467 and has remained the same during the examination period.

The Company’s surplus included a surplus note issued to American European Insurance Company in the amount of \$1,700,000. The note carries an interest rate equal to the published prime rate on the last day of each calendar quarter. The principal on the note as well as interest cannot be paid by the Company without the prior approval of the Department. Interest payable on the note also cannot be accrued without the prior approval of the Department. As of December 31, 2009, interest on the note which has not been recorded was approximately \$1,439,388. There have been no principal or interest payments on the note since it was issued. The surplus note was initially issued to

American European Group, Inc. It was purchased on May 1, 2009, by the Company's current direct parent American European Insurance Company.

A. Management

Pursuant to the Company's charter and by-laws, management of the Company is vested in a board of directors. The board met once during each calendar year. At December 31, 2009, the board of directors was comprised of the following nine members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Abraham Biderman Brooklyn, NY	Chairman, Eagle Advisors
Ari Chitrik Brooklyn, NY	Vice President & Financial Manager, Citra Trading Corporation
David Allen Combs Lexington, KY	Vice President, Cypress Insurance Group
Daniel Friedman Far Rockaway, NY	Counsel, Sole Practice
Alexander Hasenfeld Brooklyn, NY	President, Hasenfeld & Stein
Steve Klein Flushing, NY	Investment Accounting Officer, American European Insurance Group
Vincent Victor Nieroda New York, NY	President and Chief Executive Officer, American European Insurance Company
David Manuel Singer Brooklyn, NY	Executive Senior Vice President, Broadway Management
Nachum John Stein Brooklyn, NY	Chairman, American European Group, Inc.

A review of the minutes of the board of directors' meetings held during the examination period indicated that the meetings were generally well attended with the exception of David Allen Combs who attended less than 50% of the meetings for which he was eligible to attend.

Members of the board have a fiduciary responsibility and must evince an ongoing interest in the affairs of the insurer. It is essential that board members attend meetings consistently and set forth their views on relevant matters so that the board may reach appropriate decisions. Individuals who fail to attend at least one-half of the regular meetings do not fulfill such criteria.

It is recommended that board members who are unable or unwilling to attend meetings consistently should resign or be replaced.

The examination of the Company's investment transactions included a review of the minutes of the board's meetings in order to ascertain its authorization or approval of such transactions as required by Section 1411(a) of the New York Insurance Law. Section 1411(a) of the New York Insurance Law reads as follows:

“No domestic insurer shall make any loan or investment, except as provided in subsection (h) hereof, unless authorized or approved by its board of directors or a committee thereof responsible for supervising or making such investment or loan. The committee's minutes shall be recorded and a report submitted to the board of directors at its next meeting.”

The examiner found that, although the minutes for meetings of 2006 through 2009 referred to the topic of investments as a matter of discussion, there was no mention of the required authorizations or approvals. Therefore, the examiner could not determine the Company's compliance with Section 1411(a) of the New York Insurance Law.

It is recommended that the Company authorize or approve its investment transactions in accordance with the provisions of Section 1411(a) of the New York Insurance Law. This recommendation was also made in the previous report on examination.

As of December 31, 2009, the principal officers of the Company were as follows:

Name

Title

Vincent Victor Nieroda
Steve Klein

President/Chief Executive Officer
Treasurer/Secretary

B. Territory and Plan of Operation

As of December 31, 2009, the Company was licensed to write business in New York only. It ceased accepting new and renewal business in 1997, and subject to the provisions of Section 1203(b) of the New York Insurance Law, must obtain prior approval of the Superintendent before it can resume any insurance business. The Company is currently in run-off status.

As of the examination date, the Company was authorized to transact the kinds of insurance as defined in the following numbered paragraphs of Section 1113(a) of the New York Insurance Law:

<u>Paragraph</u>	<u>Line of Business</u>
4	Fire
5	Miscellaneous property
6	Water damage
12	Collision
13	Personal injury liability
14	Property damage liability
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine

Based on the lines of business for which the Company is licensed and the Company's current capital structure, and pursuant to the requirements of Articles 13 and 41 of the New York Insurance Law, the Company is required to maintain a minimum surplus to policyholders in the amount of \$1,200,000.

C. Reinsurance

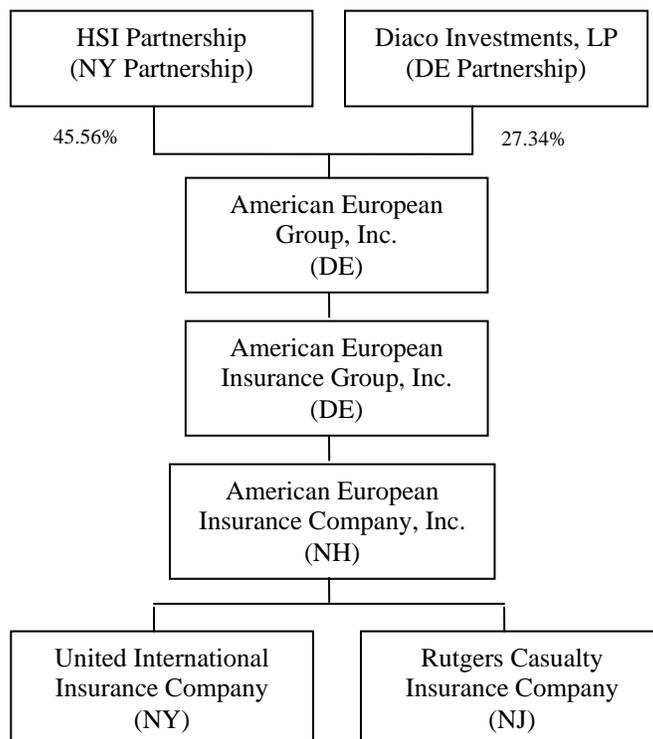
The Company has been in run-off since 1997. There are no material recoverables on any ceded reinsurance contracts in runoff.

D. Holding Company System

The Company is 100% owned by American European Insurance Company, a New Hampshire corporation, which is owned by American European Insurance Group, a Delaware corporation, which is owned by American European Group, Inc. a Delaware corporation. HSI Partnership and Diaco Investments, LP each own 45.56% and 27.34%, respectively, of the voting stock of American European Group, Inc.

A review of the holding company registration statements filed with this Department indicated that such filings were complete and were filed in a timely manner pursuant to Article 15 of the New York Insurance Law and Department Regulation 52.

The following is an abbreviated chart of the holding company system at December 31, 2009:



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

Services Agreement

The Company entered into a services agreement with its intermediate parent, American European Group, Inc., for the performance of investment advisory services, effective January 1, 2009. This agreement was non-disapproved by the New York State Insurance Department pursuant to Section 1505 (d)(3) of the New York Insurance Law on September 24, 2009.

Tax Allocation Agreement

The Company entered into a tax allocation agreement with its parent and affiliates effective December 31, 2009. This agreement was non-disapproved by the New York State Insurance Department pursuant to Section 1505 (d) of the New York Insurance Law on February 2, 2010.

Surplus Note

The Company's surplus note, originally issued to the Company's former direct parent, American European Group, Inc., was sold and reassigned to the Company's current direct parent, American European Insurance Group. The surplus note was sold and reassigned without the approval of the Department as is required by Section 1307(d) of the New York Insurance Law which states:

“No such insurance company or reciprocal insurer shall directly or indirectly make any agreement for any advance or borrowing pursuant to this section unless such agreement is in writing and shall have been approved by the superintendent as not unfair, misleading, or contrary to law.”

It is recommended that the Company obtain approval before authorizing the transfer of its surplus notes to a different entity.

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2009, based upon the results of this examination:

Net premiums written to surplus as regards policyholders	N/A*
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	1.35%
Premiums in course of collection to surplus as regards policyholders	N/A*

*The Company is in run-off and has no net written premiums written or premiums in course of collection.

The liability to liquid assets ratio falls within the benchmark ranges set forth in the Insurance Regulatory Information System of the National Association of Insurance Commissioners.

F. Accounts and Records

i. Investment Limitation

Section 1402(a) of the New York Insurance Law states, in part:

(a) “Before investing its funds in any other investments, every domestic insurer shall invest and maintain an amount equal to the greater of the minimum capital required by law or the minimum surplus to policyholders required to be maintained by law for a domestic stock corporation authorized to transact the same kinds of insurance, only in investments of the types specified in this section which are not in default as to principal and interest... (b) Not less than sixty percent of the amount of the required minimum capital or surplus to policyholder investments shall consist of the types specified in paragraphs one and two hereof:

(1) Obligations of the United States or any agency thereof provided such agency obligations are guaranteed as to principal and interest by the United States.

(2) Direct obligations of this state or of any country, district or municipality thereof.

(3) Direct obligations of any state of the United States.

(4) Obligations secured by first mortgage loans which meet the standards specified in paragraph four of subsection (a) of section one thousand four hundred four of this article on property located in this state.”

The Company had investments meeting the requirements of Section 1402 of the New York Insurance Law, totaling \$1,165,279 as of December 31, 2009. The amount of minimum capital or surplus investment required by Section 1402(a) of the New York Insurance Law is \$1,200,000.

It is recommended that the Company comply with Section 1402 of the New York Insurance Law and maintain the required investments. It is noted that this situation was corrected in the 4th quarter of 2010 with the purchase of additional treasury bonds.

ii. Investment Limitation

Section 1409(a) of the New York Insurance Law states, in part:

“. . . no domestic insurer shall have more than ten percent of its admitted assets as shown by its last statement on file with the superintendent invested in, or loaned

upon, the securities (including for this purpose certificates of deposit, partnership interests and other equity interests) of any one institution”.

The Company had an investment in Western Asset Money Market Fund, Class A, in the amount of \$992,933 as of December 31, 2009. The amount of this investment exceeds 10% of the Company’s admitted assets.

It is recommended that the Company comply with Section 1409(a) of the New York Insurance Law and limit its investment in any one financial institution to 10% of its admitted assets.

iii. Custodial Agreement Provisions

The Company states on page 15.3 of its 2009 Annual Statement that Morgan Stanley is a custodian for its securities. However, the Company also states that it did not have with Morgan Stanley a custodian agreement that complies with the NAIC Financial Condition Examiner’s Handbook but “expects to have an agreement in place by March 31, 2010.”

The Company states that it was not able to obtain from Morgan Stanley a custodian agreement that complies with the NAIC Financial Condition Examiner’s Handbook. Therefore, the Company dropped its account with Morgan Stanley. Subsequently, the Company opened a custodian account with US Bank on February 8, 2010. A copy of the custodian agreement with US Bank was provided. However, it did not include the safeguard and control recommended by the NAIC that the custodian will notify the insurer’s domiciliary commissioner within three business days if the custodian agreement has been terminated or if 100% of the account assets in any custody account have been withdrawn,

It is recommended that the Company include all applicable NAIC provisions in its custodian agreements.

3. FINANCIAL STATEMENTS

A Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2009 as determined by this examination and as reported by the Company:

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$1,800,047	\$ 0	\$1,800,047
Common stocks	62,033	0	62,033
Cash, cash equivalents and short-term investments	2,305,962	0	2,305,962
Other invested assets	128,000	0	128,000
Investment income due and accrued	17,657	0	17,657
Amounts recoverable from reinsurers	65,848	0	65,848
Net deferred tax asset	13,962	1,830	12,132
Receivables from parent, subsidiaries and affiliates	<u>131,952</u>	<u>131,952</u>	<u>0</u>
Total assets	<u>\$4,525,461</u>	<u>\$133,782</u>	<u>\$4,391,679</u>

Liabilities, Surplus and Other FundsLiabilities

Losses		\$ 27,612
Loss adjustment expenses		32,191
Other expenses (excluding taxes, licenses and fees)		1,000
Retroactive reinsurance ceded		<u>(4,191)</u>
Total liabilities		\$ 56,612

Surplus and Other Funds

Special surplus from Retroactive Reinsurance	\$ 4,191	
Common capital stock	1,000,000	
Surplus notes	1,700,000	
Gross paid in and contributed surplus	2,612,467	
Unassigned funds (surplus)	<u>(981,591)</u>	
Surplus as regards policyholders		<u>4,335,067</u>
Total liability, surplus and other funds		<u>\$4,391,679</u>

NOTE: The Internal Revenue Service has not audited tax returns covering tax years 2006 through 2009. The examiner is unaware of any potential exposure of the Company to any tax assessment and no liability has been established herein relative to such contingency.

B Statement of Income

Underwriting Income

Premiums earned		\$ 0
Deductions:		
Losses incurred	\$(239,313)	
Loss adjustment expenses incurred	(68,772)	
Other underwriting expenses incurred	<u>24,487</u>	
Total underwriting deductions		<u>(283,598)</u>
Net underwriting gain or (loss)		\$283,598

Investment Income

Net investment income earned	\$668,262	
Net realized capital gain	<u>(49,040)</u>	
Net investment gain or (loss)		619,222

Other Income

Write-off, furniture and equipment	<u>\$ (79,202)</u>	
Total other income		<u>(79,202)</u>
Net income before federal income taxes incurred		\$823,618
Federal income taxes incurred		<u>267,462</u>
Net income		<u>\$556,156</u>

C. Capital and Surplus Account

Surplus as regards policyholders increased \$772,097 during the four-year examination period January 1, 2006 through December 31, 2009, detailed as follows:

Surplus as regards policyholders per report on examination as of December 31, 2005			\$3,562,970
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income	\$556,156		
Net unrealized capital gains or (losses)	7,696		
Change in net deferred income tax	4,494		
Change in non-admitted assets	<u>203,751</u>	<u>0</u>	
Total gains and losses	<u>\$772,097</u>	<u>0</u>	
Net increase in surplus			<u>772,097</u>
Surplus as regards policyholders per report on examination as of December 31, 2009			<u>\$4,335,067</u>

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of \$59,804 is the same as reported by the Company as of December 31, 2009. The examination analysis was conducted in accordance with generally accepted actuarial principles and practices and was based on statistical information contained in the Company's internal records and in its filed annual statements.

5. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

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

<u>ITEM</u>		<u>PAGE NO.</u>
A. <u>Management</u>		
i.	It is recommended that board members who are unable or unwilling to attend meetings consistently should resign or be replaced.	5

The Company has not complied with this recommendation. A similar comment is made in this report.

<u>ITEM</u>		<u>PAGE NO.</u>
ii.	It is recommended that the Company comply with Article II, Section 2.01 of its by-laws and hold annual shareholder meetings to elect its board of directors.	5
	The comment is no longer applicable as there is only one shareholder.	
iii.	It is recommended that the Company authorize or approve its investment transactions in accordance with the provisions of Section 1411(a) of the New York Insurance Law.	5
	The Company has not complied with this recommendation. A similar comment is made in this report.	
B.	<u>Abandoned Property</u>	
	It is recommended that the Company file its abandoned property reports on a timely basis pursuant to the provisions of Section 1316 of the New York Abandoned Property Law.	11
	The Company has complied with this recommendation.	
C.	<u>Accounts and Records</u>	
	It is recommended that the Company establish a reasonable dollar threshold, above which a second signature would be required for any cash or investment transaction.	11
	The Company has complied with this recommendation.	
	It is recommended that the Company amend its contract with its CPA to comply with the provisions of Section 307(b)(1) of the New York Insurance Law and Part 89.2 of Department Regulation 118.	11
	The Company has complied with this recommendation.	
	It is recommended that the Company comply with the disclosure requirements of paragraph 18 of SSAP No. 10 when preparing its annual statement.	12
	The Company has complied with this recommendation.	
	It is recommended that the Company comply with Section 1505(c) of the New York Insurance Law and request the Superintendent's prior approval for transactions within the holding company system involving five percent or more of its admitted assets.	13
	The Company has complied with this recommendation.	

<u>ITEM</u>	<u>PAGE NO.</u>
It is recommended that the Company comply with its filed service agreement and settle inter-company balances according to its terms.	13

The Company has complied with this recommendation.

6. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Management</u>	
i. It is recommended that board members who are unable or unwilling to attend meetings consistently should resign or be replaced.	5
ii. It is recommended that the Company authorize or approve its investment transactions in accordance with the provisions of Section 1411(a) of the New York Insurance Law.	5
B. <u>Holding Company System</u>	
It is recommended that the Company obtain approval before authorizing the transfer of its surplus notes to a different entity.	8
C. <u>Accounts and Records</u>	
i. It is recommended that the Company comply with Section 1402 of the New York Insurance Law and maintain the required investments.	9
ii. It is recommended that the Company comply with Section 1409(a) of the New York Insurance Law and limit its investment in any one financial institution to 10% of its admitted assets.	10
iii. It is recommended that the Company include all applicable NAIC provisions in its custodian agreements.	10

Respectfully submitted,

_____/s/_____
John Conley
Senior Insurance Examiner

STATE OF NEW YORK)
)SS:
)
COUNTY OF NEW YORK)

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

_____/s/_____
John Conley

Subscribed and sworn to before me
this _____ day of _____, 2011.

Appointment No. 30598

STATE OF NEW YORK
INSURANCE DEPARTMENT

I, James J. Wrynn Superintendent of Insurance of the State of New York,
pursuant to the provisions of the Insurance Law, do hereby appoint:

John Conley

as proper person to examine into the affairs of the

UNITED INTERNATIONAL INSURANCE COMPANY

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

Company

with such other information as he shall deem requisite.

*In Witness Whereof, I have hereunto subscribed by the
name and affixed the official Seal of this Department, at
the City of New York,*

this 16th day of September, 2010



James J. Wrynn

JAMES J. WRynn
Superintendent of Insurance