

REPORT ON EXAMINATION

OF THE

AMERICAN OFFSHORE INSURANCE SYNDICATE

AS OF

NOVEMBER 30, 2010

DATE OF REPORT

MARCH 23, 2011

EXAMINER

JOHN CONLEY

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

March 23, 2011

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 30645 dated January 25, 2011 attached hereto, I have made an examination into the condition and affairs of American Offshore Insurance Syndicate as of November 30, 2010, and submit the following report thereon.

Wherever the designation “the Syndicate” appears herein without qualification, it should be understood to indicate American Offshore Insurance Syndicate.

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 Syndicate’s administrative office located at 30 Broad Street, New York, NY 10004.

## **1. SCOPE OF EXAMINATION**

The previous examination was conducted as of November 30, 2005. This examination covered the five-year period from December 1, 2005 through November 30, 2010, and was limited in scope to these balance sheet items considered by this Department to require analysis, verification or description, including: invested assets, loss and loss adjustment expense reserves and the provision for reinsurance. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

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

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

The Syndicate does not retain assets corresponding to the amount of its liabilities. As a result, the financial statements contained in this report demonstrate an excess of liabilities over assets. The subscriber is held accountable for the resulting deficiency.

## **2. DESCRIPTION OF SYNDICATE**

American Offshore Insurance Syndicate is an unincorporated association of insurance companies (“Subscribers”) authorized to transact the business of marine insurance in the United States.

The Syndicate was organized on March 15, 1978, to provide underwriting facilities in the United States to insure the offshore oil industry’s equipment, installations, and support facilities used for exploration and development of oil, gas, mineral reserves and other offshore natural resources. The Syndicate consists of subscribers which are insurance companies authorized to write marine insurance. The subscribers severally, but not jointly, accept, adopt and bind themselves in respect to all risks bound and underwritten by the Syndicate to the extent of their participation. As such, assets and liabilities presented in the statutory statement of net accountability of subscriber companies are not those of the Syndicate itself, but rather those of the subscriber companies.

The Syndicate agreement provides that each of its subscribers maintain a deposit with the Syndicate to be used as a contingency reserve fund for the payment of losses, return premiums and refunds prior to collection from subscribers.

Effective November 30, 2009, the Syndicate's sole remaining subscriber, St. Paul Fire and Marine Insurance Company ("St. Paul"), withdrew from the Syndicate and it is now in runoff.

A. Management

Pursuant to the Syndicate Agreement, the business and affairs of the Syndicate shall be governed by the Board of Managers, which shall consist of representatives of all subscribers. Prior to November 30, 2009, the Board of Managers was comprised of Mr. Richard Gustafson, representing St. Paul, the Syndicate's sole subscriber. Subsequent to that date, there were no subscribers; therefore, there is currently no Board of Managers.

As of November 30, 2010, the officers of the Syndicate were as follows:

<u>Name</u>	<u>Title</u>
Richard G. Gustafson	Chairman of the Board
Dianne F. Bowers	Assistant Vice President
Eileen Fellin	Vice President & Claims Manager

B. Territory and Plan of Operation

American Offshore Insurance Syndicate is a syndicate of insurance companies that are authorized to write marine insurance policies in New York State on behalf of its Subscribers. The Subscribers severally, but not jointly, accept, adopt and bind themselves in respect to all risks bound and underwritten by the Syndicate to the extent of their participation. During the exam period, the only Subscriber was St. Paul. St Paul terminated its participation in the Syndicate effective November 30, 2009 and the Syndicate has been in runoff status since December 1, 2009.

C. Reinsurance

During the period under review, the Syndicate assumed no reinsurance.

The examiner reviewed the ceded reinsurance contract in effect during the examination period. This contract contained all the standard clauses, including insolvency clause, as required by Section 1308 of the New York Insurance Law.

The Syndicate had the following ceded reinsurance in effect during the examination period:

<u>Type of Contract</u>	<u>Cession</u>
<u>Ex-Gulf of Mexico Wind Loss</u>	
First Casualty Excess of Loss Treaty	\$10,000,000 excess of \$5,000,000 each occurrence.

A review of premiums written and reinsurance ceded reported by the Syndicate found that it accurately reflects its reinsurance transactions. Additionally, management has represented that all material ceded reinsurance agreements transfer both underwriting and timing risk as set forth in the NAIC Accounting Practices and Procedures Manual, Statements of Statutory Accounting Principles, (“SSAP”) No. 62. Representations were supported by appropriate risk transfer analyses. Additionally, examination review indicated that the Syndicate was not a party to any finite reinsurance agreements. All ceded reinsurance agreements were accounted for utilizing reinsurance accounting as set forth in paragraphs 25, 26, and 27 of SSAP No. 62.

D. Significant Operating Ratios

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

	<u>Amounts</u>	<u>Ratios</u>
Losses and Loss Adjustment Expenses Incurred	\$ 21,216,616	64%
Other underwriting expenses incurred	14,630,187	44
Net underwriting gain	<u>(2,753,797)</u>	<u>(8)</u>
Premiums earned	<u>\$ 33,093,006</u>	<u>100%</u>

E. Accounts and Records

The Syndicate does not prepare an annual statement using the Property and Casualty Annual Statement Instructions as prescribed by the National Association of Insurance Commissioners (“NAIC”).

It was recommended in the prior examination that the Syndicate prepare various exhibits and schedules using the NAIC Annual Statement Instructions. This would provide detail support for the amounts presented in the financial statement. In addition, it would serve as an internal check of amounts and balances from the general ledger to the financial statement.

It is recommended that the following schedules and exhibits be submitted to the Department on an annual basis:

- 1) A balance sheet showing assets (including assets not admitted), liabilities, and subscribers’ accountability.
- 2) A statement of income similar to that included in the Underwriting and Investment Exhibit of the NAIC Annual Statement Instructions.
- 3) An exhibit showing all expenses paid and incurred, allocated among loss adjustment expenses, other underwriting expenses, and investment expenses.

### 3. FINANCIAL STATEMENTS

#### A Balance Sheet

The following shows the assets, liabilities and subscribers' accountability as determined by this examination:

<u>Assets</u>	<u>Assets</u>	<u>Examination</u> Assets Not <u>Admitted</u>	Net Admitted <u>Assets</u>
Cash and cash equivalents	\$1,647,216	\$ 0	\$1,647,216
Reinsurance recoverable on paid losses	<u>7,916,030</u>	<u>0</u>	<u>7,916,030</u>
Total assets	<u>\$9,563,246</u>	<u>\$ 0</u>	<u>\$9,563,246</u>
 <u>Liabilities</u>			
Reserve for losses and loss adjustment expenses			\$13,192,036
Reserve for unearned premiums			<u>4,576</u>
Total liabilities			<u>\$13,196,612</u>
Net accountability of subscriber companies			\$(3,633,366)
Total liabilities and members accountability			<u>\$9,563,246</u>

Note: Since 2003, St. Paul has been the only subscriber to the Syndicate. The Reserve for losses and loss adjustment expenses reported above includes approximately \$2.8 million of reserves for accident years 2002 and prior, when the Syndicate had five subscribers. The four other subscribers from before 2003 were: Fireman's Fund Insurance Company; General Reinsurance Corporation; Gerling America Insurance Company; and American Reinsurance Company.

B. Underwriting and Investment Exhibit

The subscribers' accountability decreased \$(2,632,413) during the five-year examination period December 1, 2005 through November 30, 2010, detailed as follows:

Statement of Income

Underwriting Income

Premiums earned		\$33,093,006
Loss incurred and loss adjustment expenses incurred	\$21,216,616	
Other underwriting expenses incurred	<u>14,630,187</u>	
Total underwriting deductions		<u>35,846,803</u>
Net underwriting gain or (loss)		\$(2,753,797)

Investment Income

Net investment income earned		<u>121,384</u>
Net income (loss)		<u>\$(2,632,413)</u>

Change in Subscribers' Accountability

Subscribers' accountability per report on examination as of November 30, 2005			\$(64,449,499)
	<u>Gains</u>	<u>Losses</u>	
Net income/(loss)		\$2,632,414	
Change in non-admitted assets		26,976	
Net remittances to and from subscribers	\$63,475,523	<u>0</u>	
Total gains and losses	\$63,475,523	\$2,659,390	
Net increase in subscribers' accountability			<u>60,816,133</u>
Subscribers' accountability per report on examination as of November 30, 2010			<u>\$(3,633,366)</u>

**4. LOSSES AND LOSS ADJUSTMENT EXPENSES**

The examination liabilities for losses and loss adjustment expenses of \$13,192,036 are the same as reported by the Syndicate as of November 30, 2010. The examination analysis was based on information contained in the Syndicate's internal records.

**5. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION**

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

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Reinsurance</u>	

It was recommended that the Syndicate amend its reinsurance contracts to be governed by the laws of New York State. 4

The Syndicate has complied with this recommendation.

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<p>B. <u>Abandoned Property Law</u></p> <p>It was recommended that the Syndicate file its abandoned property reports on a timely basis pursuant to the provisions of Section 1316 of the New York Abandoned Property Law.</p> <p>Although the Syndicate did not comply with this requirement, this recommendation will not be repeated as the Syndicate did not have any unclaimed property.</p>	5
<p>C. <u>Accounts and Records</u></p> <p>It was again recommended that the Syndicate prepare and submit to the Department, on an annual basis:</p> <p>i. A balance sheet showing assets (including assets not-admitted), liabilities, and subscribers' accountability.</p> <p>ii. A statement of income similar to that included in the Underwriting and Investment Exhibit of the NAIC Annual Statement Instructions.</p> <p>iii. An exhibit showing all expenses, other underwriting expenses, and investment expenses.</p> <p>The Syndicate has not complied with this recommendation and it will be repeated.</p>	6

## **6. SUMMARY OF COMMENTS AND RECOMMENDATIONS**

<u>ITEM</u>	<u>PAGE NO.</u>
<p>C. <u>Accounts and Records</u></p> <p>It is recommended that the following schedules and exhibits be submitted to the Department on an annual basis:</p> <p>1) A balance sheet showing assets (including assets not admitted), liabilities, and subscribers' accountability.</p> <p>2) A statement of income similar to that included in the Underwriting and Investment Exhibit of the NAIC Annual Statement Instructions.</p> <p>3) An exhibit showing all expenses paid and incurred, allocated among loss adjustment expenses, other underwriting expenses, and investment expenses.</p>	5

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. 30645

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*

**AMERICAN OFFSHORE INSURANCE SYNDICATE**

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

**Syndicate**

*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 25th day of January, 2011*



*James J. Wrynn*  
\_\_\_\_\_  
JAMES J. WRINN  
Superintendent of Insurance