REPORT ON EXAMINATION

OF

AIU INSURANCE COMPANY

AS OF

JUNE 30, 2013

DATE OF REPORT APRIL 21, 2014

EXAMINER PATRICK R. WHITE, CFE

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Andrew M. Cuomo
Governor

Benjamin M. Lawsky
Superintendent

April 21, 2014

Honorable Benjamin M. Lawsky
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 31025 dated August 6, 2013 attached hereto, I have made an examination into the condition and affairs of the AIU Insurance Company as of June 30, 2013, and submit the following report thereon.

Wherever the designations the "Company" and "AIU" appear herein without qualifications, they should be understood to indicate the AIU Insurance Company.

Wherever the designation "Japan Branch" appears herein without qualification, it should be understood to indicate the AIU Japan Branch.

Wherever the term "Department" appears herein without qualification, it should be understood to mean the New York State Department of Financial Services.

The examination was conducted both at the Company's office located at 80 Pine Street, New York, New York 10270 and at its Japan Branch's administrative office located at the Kamiyacho MT Building, 4-3-20 Toranomon, Minato-Ku, Tokyo105-0001.

1. SCOPE OF EXAMINATION

The previous filed examination report for the Company was as of December 31, 2005. This examination covers the seven and one half year period from January 1, 2006 through June 30, 2013. The examination was initially planned to be conducted as of December 31, 2010. Due to the earthquake and tsunami that hit the Japanese coast in 2011, the examination was postponed. The scope of the examination was narrowed due to the AIU Japan branch restructuring in 2013. AIU Japan Branch business was novated to a newly formed Japanese domestic insurer, AIU Insurance Company Ltd ("AIUI"), effective April 1, 2013.

AIU may begin to write other lines of insurance in the U.S. in the future, including workers' compensation. AIU business will be ceded 100% to the AIG Combined Pool starting January 1, 2014. Further details are included under the captions Plan and Territory of Operations, Reinsurance, and Subsequent Events.

The current examination was organized, planned, and conducted based upon the application of the risk surveillance approach in accordance with the guidelines and procedures established in the Financial Condition Examiners Handbook of the National Association of Insurance Commissioners ("NAIC"). To the extent considered appropriate, work performed by the Company's independent public accountants and the Sarbanes Oxley documentation was considered.

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
Territory and plan of operation
Growth of Company
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 an explanation or description.

2. DESCRIPTION OF COMPANY

The Company was formed as Pacific Fire Insurance Company on December 1, 1913. The title was changed to Pacific Insurance Company of New York on May 23, 1957, then to American International Insurance Company on July 23, 1969 and to the present name on November 4, 1976.

On April 1, 2013, the Company effected a transfer of substantially all the assets and liabilities of its Japan branch to AIU Insurance Company, Ltd. ("AIUI"), a Japanese-domiciled insurance company that is 100% owned by AIG Japan Holdings Kabushiki Kaisha in exchange for 1,000 Class A shares of AIUI capital stock ("the AIUI Shares"). Upon being received by the Company, the AIUI shares were dividended to Chartis International, LLC. On April 1, 2013, to facilitate this and future restructuring transactions, the Company effected a quasi-reorganization pursuant to the provisions of Section 4105 of New York Insurance Law. The quasi- reorganization transferred $400 million from gross paid-in and contributed surplus to unassigned funds. The above transactions were approved by the Company's Board of Directors, the Department and Japan Financial Services Agency.

Common Capital Stock is $5,627,800 consisting of 200,000 shares of capital stock at a par value of $28.139 per share. All authorized shares are outstanding. Gross paid in and contributed surplus was $13,267,260.

A. Management

Pursuant to the Company's charter and by-laws, management of the Company is vested in a board of directors consisting of not less than seven or more than twenty-one members. At June 30, 2013, the board of directors was comprised of the following seven members:

Name and Residence	Principal Business Affiliation
Alexander Baugh Rumson, NJ	President, Global Casualty
James Bracken New York, NY	Chief Financial Officer, AIG Property Casualty
John Quinlan Doyle Rye, NY	Chief Executive Officer, Global Commercial Insurance, AIG Property Casualty
Peter Douglas Hancock Rye, NY	President and Chief Executive Officer, AIG Property Casualty
Richard Hoskins Glencoe, IL	Chief Financial Officer, AIG Property Casualty, Americas
Siddhartha Sankaran New York, NY	Chief Risk Officer, AIG, Inc.
Robert S. H. Schimek Newtown, PA	CEO and President, AIG Property Casualty, Americas

A review of the minutes of the board of directors' meetings held during the examination period indicated that the meetings were generally well attended.

As of June 30, 2013, the principal officers of the Company were as follows:

Name	Title
Robert Scott Schimek	Chairman, CEO and President
Justin Jerome Walls Caulfield	Treasurer
Denis Martin Butkovic	Secretary

B. Territory and Plan of Operation

As of June 30, 2013, the Company was licensed to write business in all states except Hawaii and Wyoming, and the District of Columbia.

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:

Paragraph	Line of Business
3	Accident and health
4	Fire
5	Miscellaneous property
6	Water damage
7	Burglary and theft
8	Glass
9	Boiler and machinery
10	Elevator
11	Animal
12	Collision
13	Personal injury liability
14	Property damage liability
15	Workers' compensation and employers' liability
16	Fidelity and surety
17	Credit
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine
21	Marine protection and indemnity
22	Residual value
24	Credit unemployment
26	Gap
27	Prize indemnification
28	Service contract reimbursement
29	Legal services

The Company is also authorized to write workers' compensation insurance as may be incident to coverages contemplated under paragraphs 20 and 21 of Section 1113(a) of the New York Insurance Law, including coverages described in the Longshoremen's and Harbor Workers' Compensation Act and the kinds of insurance and reinsurance of every kind or description, except with respect to life insurance, title insurance and contracts for the payment of annuities, as specified in Section 4102(c) of the New York Insurance Law. The Company is authorized to transact business of special risk insurance as defined in Article 63 of the New York Insurance Law.

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 $35 million.

The following chart shows the growth of direct premiums written in New York State, the United States, Japan, and in total during the most recent five year and six month period:

	Direct Premiums Written			
Calendar Year	New York State	Total US	Total Japan	Total Premiums
2008	$ 4,309,980	$168,833,610	$ 2,601,920,911	$ 2,770,742,249
2009	$ (997,859)	$ 97,319,319	$ 2,561,917,009	$ 2,659,236,328
2010	$ 3,217,102	$ 28,545,083	$ 2,756,470,312	$ 2,785,015,395
2011	$10,774,177	$ 10,591,915	$ 3,191,227,190	$ 3,201,824,319
2012	$ 627,371	$ 6,929,897	$ 2,866,519,294	$ 2,873,449,191
Through 6/30/2013	$ 1,530,386	$ 1,852,191	$(2,287,793,729)	$(2,285,941,538)

During the period of this examination the Company wrote the majority of its business through its Japanese Branch office in a wide variety of lines of business in Japan. The Company used an agency network system as well as brokers. While Consumer Lines made up a majority of the Company's book of business, the Company did sell Commercial Lines policies to Japanese corporate customers as well.

Effective April 1, 2013 the Company and AIUI entered into a Transfer Agreement which memorializes the terms of the transfer of virtually all of the Company's insurance contracts and reinsurance.

Under the Transfer Agreement, the Company transferred to AIUI substantially all of the assets and liabilities and associated risks and rewards of the Company's business in Japan. In addition, as part of this transaction, the Company has restructured its inter-company reinsurance and exit treaty arrangements (see Reinsurance Section in this Report). According to the Company, the restructuring would:

- Simplify American International Group, lnc.'s ("AIG") structure in Japan;
- Increase transparency to U.S. and Japanese regulators; and
- Eliminate dual regulation of the Branch by surrender of the Company's Branch license.

Sections 135 through 141 and 210 of the Japan Insurance Business Act provide a statutory notice procedure to facilitate the transfer of the Branch's in-force insurance policies to AIUI without the need to obtain consent from each policyholder individually. This Act also allows for the transfer of reinsurance contracts assumed by the Branch to AIUI without a novation.

The Company's Japanese Branch has terminated its Japanese insurance business and has surrendered its Japanese insurance license. The transaction was approved by the Department.

After the transfer, the Company continues to write an insignificant amount of insurance business in the United States and assumes some business from its affiliate in Malaysia.

C. <u>Reinsurance</u>

Prior to the transfer of the Company's Japan Branch business, the Company maintained intercompany exit treaties with members and nominees of the American International Overseas Association ("AIOA"). Some of these treaties also included American International Reinsurance Company ("AIRCO"), a Bermuda-domiciled affiliate, as a reinsurer. The Company also ceded business to other affiliated and non-affiliated insurers by treaty and facultative reinsurance agreements. The following transactions were filed and approved by the Department as part of the transfer of the Japan Branch business:

A. <u>Novations of Ceded Reinsurance Agreements:</u>

1.) Novation of Intercompany Exit Treaties: The Company entered into novation agreements with the AIOA members or nominees, AIRCO, where applicable, and AIUI. The novations changed the ceding party on the reinsurance agreements listed from the Company to AIUI.
2.) Novation of Other Ceded Intercompany Treaties with Affiliates: The Company had in place other ceded intercompany treaties with affiliates. These agreements were novated.
3.) Novations of Facultative Certificates Placed with Affiliates: The Department, per an agreed upon practice, does not require facultative certificates with affiliates to be filed for non-disapproval. However, the Company had facultative placements with affiliated companies and these arrangements were novated.
4.) Facultative Certificates and Treaties Placed with Non-Affiliates: The Company had reinsurance certificates and treaties with unaffiliated reinsurers. These agreements also were novated.

B. Assumed Reinsurance Treaties with Affiliated and Non-Affiliated Companies:

While assumed reinsurance transfers automatically under Japanese Law, the Company sent its unaffiliated cedants written notifications of the change in the identity of the reinsurer from the Company to AIUI to assure that they were made aware of the transfer. The Company's treaties assumed from affiliates in effect as of April 1, 2013 were transferred to AIUI as well.

The following is a summary of the Company's reinsurance program as of June 30, 2013:

Ceded:

Direct business written is ceded under two treaties as follows:

1.) The Company maintains a 100% Quota Share reinsurance agreement with National Union Fire Insurance Company of Pittsburgh, PA. ("NUFIC"), effective January 1, 2008, for the business written on AIU paper for the AIG Domestic Brokerage Group.

2.) The Company maintains a 100% Quota Share reinsurance agreement with AIG Property Casualty Company effective July 1, 2009, whereby it cedes 100% of its Non-Admitted Pool Private Client Group ("PCG") new and renewal business.

These contracts were approved by the Department. Both agreements were commuted effective January 1, 2014, in connection with the Company joining the Combined Pool (further described under the caption "Subsequent Event") and ceding such business to the Combined Pool. These commutation and pooling arrangements also were approved by the Department.

Retroceded Business:

Of the business that the Company assumes from AIG General Insurance (Malaysia) Berhad ("AIG Malaysia"), the Company retrocedes a portion to AIOA, which was comprised of three Admitted Pool members: American Home Assurance Company, New Hampshire Insurance Company and NUFIC and American International Overseas Limited (effective December 1, 2013, American International Overseas Limited was removed from AIOA). Some of the business that the Company assumes from AIG Malaysia is not retroceded but is rather retained net subject to pooling as described below.

Pre-January 1, 2008 Business

Further, in connection with its January 1, 2008 withdrawal from the AIG Property Casualty commercial lines intercompany pooling arrangement, cessions from the Company to the commercial lines pool were run off. This arrangement was also effectively commuted and re-ceded as of January 1, 2014, due to the Company joining the Combined Pool. These contracts were approved by the Department.

Assumed:

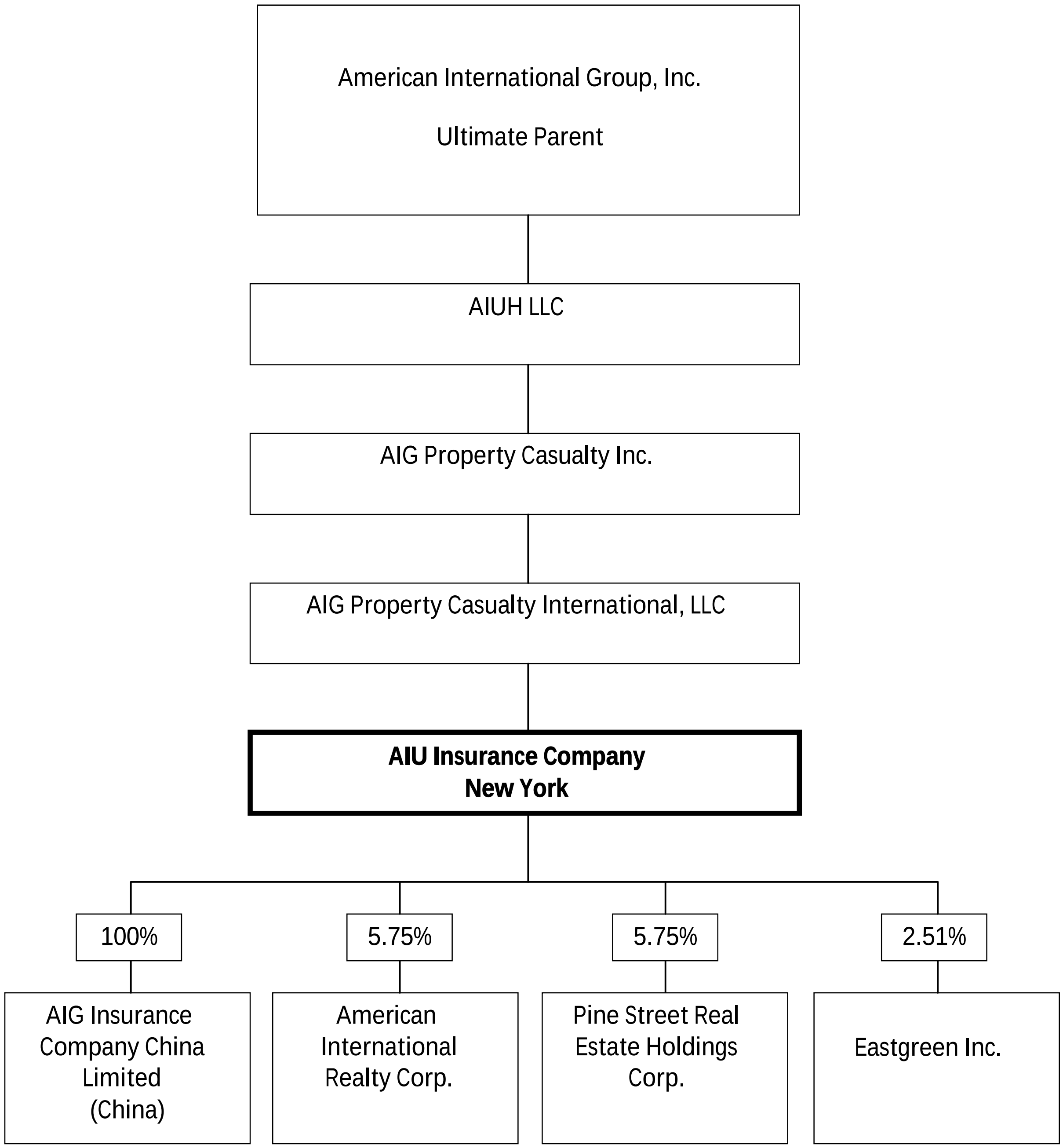
AIG Malaysia writes a diversified portfolio of Malaysian general insurance business. The largest lines of business include Personal Lines and Accident and Health. Additional lines of business include Commercial Property and Casualty, and Financial Lines. AIG Malaysia cedes these lines of business to the Company through a combination of Quota Share and Excess of Loss treaties. The Company then retrocedes a portion of the business to the members of AIOA and retains a net portion (see "Retroceded Business" above).

Effective January 1, 2014, the Company cedes 100% of the remaining net portion of the business it assumes from AIG Malaysia to the Combined Pool (via NUFIC as lead pool member) such that the Company retains no net position with respect to such business.

D. Holding Company System

The Company is a wholly-owned subsidiary of AIG Property Casualty International, LLC (“AIGPCI”). Ownership of the Company was transferred to AIGPCI during 2008. The Company was previously owned by several other AIG affiliates. The Company is the parent of AIG Insurance Company China Limited.

The following is an abridged organizational chart as of June 30, 2013 showing the Company, its subsidiary, and direct ownership by the ultimate parent, American International Group, Inc. (AIG):


American International Group, Inc.
Ultimate Parent
AIUH LLC
AIG Property Casualty Inc.
AIG Property Casualty International, LLC
AIU Insurance Company
New York
100%
5.75%
5.75%
2.51%
AIG Insurance Company China Limited (China)
American International Realty Corp.
Pine Street Real Estate Holdings Corp.
Eastgreen Inc.

At June 30, 2013, the Company was party to the following agreements with other members of its holding company system:

Service and Expense Sharing Agreement

The Company and other affiliates are party to a Service and Expense Sharing Agreement, as amended, with AIG. Pursuant to the terms of this agreement, AIG and/or any of its affiliates may provide the services and facilities specified in the agreement, at cost, to any named party to the agreement. Services include but are not limited to Law, Investment, EDP, Internal Audit, Actuarial, Claims, Underwriting, Accounting, Tax, and Employee Benefits.

Service Agreement

The Company, AIOA and certain of its members and their respective affiliates, subsidiaries and branches are party to an intercompany service agreement to provide services for a fee, which permits the allocation of expenses in order to meet U.S. and worldwide transfer pricing requirements.

Capital Maintenance Agreement

The Company, together with the Surplus Lines Pool members and the members of the AIG Property Casualty Admitted Pool (collectively, the Fleet), are parties to a Capital Maintenance Agreement ("AIG CMA") with AIG and AIG Property Casualty Inc. The AIG CMA provides that in the event that the Fleet's Total Adjusted Capital ("TAC") falls below the specified minimum percentage ("SMP") of 325% of the Fleet's Authorized Control Level ("ACL") Risk Based Capital ("RBC"), as estimated by AIG Property Casualty Inc. on a semi-annual basis, AIG will contribute cash, cash equivalents, securities or other acceptable instruments that qualify as admitted assets to the Fleet so that the Fleet's TAC is projected to be equal to or greater than the SMP as of the upcoming year-end. Additionally, each AIG Property Casualty and each Fleet member agreed, subject to approval by their board of directors and, if necessary, their domestic regulator, as applicable, to pay dividends that will be paid to AIG up to an amount equal to the lesser of (i) the amount necessary to reduce the Fleet's ACL RBC to an amount not materially greater than the SMP or (ii) the maximum ordinary dividends permitted by any applicable domiciliary regulator.

The Fleet is also party to a Capital Maintenance Agreement ("AIG PC CMA") with AIG Property Casualty Inc., AIG Property Casualty U.S., Inc. and AIG Property Casualty International, LLC (the "AIG PC entities"). The AIG PC CMA provides that in the event that the Fleet's TAC exceeds the SMP, while at the same time any Fleet member has a TAC below 275% of such Company's ACL RBC (the "Individual Entity Minimum Percentage"), the AIG PC Entities and each Fleet member agree to make contributions, pay dividends or cause other transactions to occur that would result in each Fleet member's TAC being above the Individual Entity Minimum Percentage. No Fleet member is required to pay any dividend which would trigger the extraordinary dividend provisions of its domiciliary state or that is otherwise prohibited by such state.

Investment Advisory Agreement

The Company is a party to an Amended and Restated Investment Advisory Agreement with AIG Asset Management (U.S.), LLC (the "Manager") dated July 1, 2011, pursuant to which the Manager provides investment advisory services for the Company's portfolios.

Tax Sharing Agreement

The Company is a party to a tax sharing agreement with AIG, effective for tax years beginning January 1, 2012. Pursuant to this agreement, the Company's separate company tax liabilities are cash settled with AIG.

For tax years beginning January 1, 2010 and January 1, 2011, the Company was a party to a Tax Sharing agreement with AIG Property Casualty Inc., its upstream indirect parent, and was considered to be a part of a tax Subgroup that was formed with AIG Property Casualty Inc., as the Subgroup Parent. AIG Property Casualty Inc. in turn entered into a separate tax sharing agreement with AIG, Inc., the upstream parent company. These agreements provided that AIG would not charge AIG Property Casualty Inc., a greater portion of the consolidated tax liability than would have been paid by the Tax Subgroup if it had filed a separate federal income tax return, and AIG Property Casualty Inc., in turn would not charge the Company a greater portion of the consolidated tax liability than would have been paid by the Company if it had filed a separate federal income tax return. The Company settled inter-company income taxes with AIG Property Casualty Inc., as if the Company was filing its own separate tax return, and any net liability was settled between AIG Property Casualty Inc., and AIG.

Guarantee Agreement

The Company is party to a support agreement whereby it agrees to support the liquidity needs and net worth of its wholly owned subsidiary, AIG Insurance Company China Limited. The Company is also a party to an agreement with AIG whereby AIG has agreed to make any payment under such support agreement in place and instead of the Company.

ISDA Agreement

The Company is party to an ISDA Master Agreement with AIG Markets, Inc. which provides the framework for the Company and AIG Markets, Inc. to enter into Over-the-Counter ("OTC") derivative transactions with one another.

Claims Service Agreement

The Company is a party to a Claims Services Agreement with Chartis Claims, Inc. (the "Third Party Administrator") to provide claims administration and adjusting services on behalf of the Company.

E. Account and Records

The accounts and records reviewed included an evaluation of the Company's operational and organizational controls. The areas evaluated included computer systems, accounting systems, organizational structure, and the processing structure. The Company operates in a computer-dominated environment. A review of the Company's information system controls was based on the NAIC's Exhibit C, Information Systems Questionnaire ("ISQ").

The results of the review have been provided to the Company, incorporated and relied upon within the examination process where appropriate.

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of June 30, 2013 as determined by this examination and as reported by the Company:

Assets	Assets	Assets Not Admitted	Net Admitted Assets
Bonds	$ 123,261,977	$ 0	$123,261,977
Common stocks	101,501,410	570,935	100,930,475
Cash, cash equivalents and short-term investments	49,168,402	0	49,168,402
Other invested assets	20,138	0	20,138
Receivable for securities	100,000	0	100,000
Investment income due and accrued	895,605	0	895,605
Uncollected premiums and agents' balances in the course of collection	7,033,892	0	7,033,892
Amounts recoverable from reinsurers	122,016	0	122,016
Current federal and foreign income tax recoverable and interest thereon	9,736,107	9,736,107	0
Receivables from parent, subsidiaries and affiliates	4,739,370	309,615	4,429,755
Other Assets	2,145,147	2,145,147	0
Totals	$298,724,065	$12,761,804	$285,962,261

Liabilities, surplus and other funds

Losses and loss adjustment expenses	$ 29,437,750
Reinsurance payable on paid losses and loss adjustment expenses	689,914
Taxes, licenses and fees	3,415,086
Current federal and foreign income taxes	401,308
Unearned premiums	6,522,770
Ceded reinsurance premiums payable	10,586,889
Provision for reinsurance	5,833,554
Payable to parent, subsidiaries and affiliates	18,989,096
Other liabilities	1,192,964
Total liabilities	$ 77,069,331
Common capital stock	$ 5,627,800
Gross paid in and contributed surplus	13,267,260
Unassigned funds (surplus)	189,997,870
Surplus as regards policyholders	$208,892,930
Totals	$285,962,261

Note 1:

The Internal Revenue Service has completed its audits of the AIG's consolidated Federal Income Tax returns through tax year 2000. All material adjustments, if any, made subsequent to the date of examination and arising from said audits, are reflected in the financial statements included in this report. Audits covering tax years 2000 through 2006 are currently under examination. The Internal Revenue Service has not yet begun to audit tax returns covering tax years 2007 through 2012. 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.

Note 2:

Gross paid in and contributed surplus was changed from $155 million as of December 31, 2005 to $13 million as of June 30, 2013 due to numerous restructuring transactions for the branch business with the largest adjustment associated with April, 2013 novation of Japan Branch business of $400 million.

B. Statement of Income

Surplus as regards policyholders decreased $829,247,095 during the seven-year and six month examination period January 1, 2006 through June 30, 2013. The decrease was due to the significant restructuring transactions, which took place in April, 2013. The results of operations during the examination period are not relevant to the current operations of the Company; therefore, an income statement is not included herein.

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of $29,437,750 is the same as reported by the Company as of June 30, 2013. The examination analysis of the Loss and loss adjustment expense reserves was conducted in accordance with generally accepted actuarial principles and statutory accounting principles, including the NAIC Accounting Practices & Procedures Manual, Statement of Statutory Accounting Principle No. 55 ("SSAP No. 55").

While the Statement of Actuarial Opinion states that the Appointed Actuary reconciled the data to Schedule P - Part 1, no reconciliation exhibit is included in the Actuarial Report. In accordance with the NAIC Instructions to the Annual Statement, we recommend that the Actuarial Report underlying the Statement of Actuarial Opinion contain both narrative and technical components in sufficient detail to clearly explain how all the memos and exhibits tie together, as well as including an exhibit that reconciles and maps the data used by the Actuary to the Annual Statement Schedule P line of business reporting.

5. SUBSEQUENT EVENTS

On November 4, 2013, AIG filed with the Department a request to consolidate its Admitted Lines Pool (defined below) and Surplus Lines Pool (defined below) effective January 1, 2014 ("Consolidation"). The Department issued a non-disapproval of the transaction on December 13, 2013.

Prior to the Consolidation, AIG Property Casualty Inc. ("AIGPC") operated two insurance pools in the United States. One pool was made up of U.S. insurance companies that wrote in the admitted market (the "Admitted Lines Pool"). The operations of the Admitted Lines Pool were governed by the Amended and Restated Inter-Company Pooling Agreement effective as of October 1, 2011. The second pool was made up of U.S. insurance companies that wrote in the excess or surplus lines market (the "Surplus Lines Pool"). The operations of the Surplus Lines Pool were governed by the Amended and Restated Inter-Company Pooling Agreement effective as of January 1, 2010, as amended.

Under the Consolidation, the AIGPC Insurers entered into a new Intercompany Pooling Agreement (the "Combined Agreement") effective January 1, 2014. The Combined Agreement supersedes both the Admitted Lines Pool and Surplus Lines Pool agreements. The new pool (the "Combined Pool") consists of the former members of the Admitted Lines Pool, the former members of the Surplus Lines Pool and AIU Insurance Company.

The parties to the Combined Agreement, and their respective participating percentages in pooled business, are as follows:

Company	Domicile	Participation
National Union Fire Insurance Company	PA	30%
American Home Assurance Company	NY	30%
Lexington Insurance Company	DE	30%
Commerce and Industry Insurance Company	NY	5%
AIG Property Casualty Company	PA	5%
New Hampshire Insurance Company	PA	0%
The Insurance Company of the State of Pennsylvania	PA	0%
AIG Specialty Insurance Company	IL	0%
AIU Insurance Company	NY	0%
AIG Assurance Company	PA	0%
Granite State Insurance Company	PA	0%
Illinois National Insurance Company	IL	0%

As a result, the Company cedes 100% of its business to the Combined Pool and retains no net position effective January 1, 2014.

6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

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

ITEM		PAGE NO.
A.	Reinsurance	
i.	It is recommended that all AIRCO "exit treaties" with the American Home and AIU Japan Branches contain all the required security clauses pursuant to Part 79.5 of Department Regulation No. 133.	15
	The Company has complied with the recommendation.	
ii.	It is recommended that the Japan Branch include insolvency clauses in its facultative certificates in compliance with Section 1308 of the New York State Insurance Law.	17
	The Company has complied with the recommendation.	
iii.	It is recommended that the Company obtain insolvency clauses in all of its locally placed treaties in compliance with Section 1308 of the New York Insurance Law.	18
	The Company has complied with the recommendation.	
iv.	It is recommended that the Company account for reinsurance contracts that lack a proper insolvency clause by disallowing all reserve credits and reinsurance recoverables under these agreements in accordance with the provisions of Section 1308(a)(2)(A) of the New York Insurance Law.	19
	The Company has complied with the recommendation.	
B.	Holding Company System	
i.	It is recommended that the Company file all of its inter-company agreements pursuant to Section 1505 of the New York Insurance Law and maintain complete documentation to evidence such filing.	23
	The Company has complied with this recommendation.	
ii.	It is recommended that the Company file the service agreement between AIG, Inc. and the AIG East Asia Management Holdings, Inc. with the Department pursuant to Section 1505(d)(3) of the New York Insurance Law as AIG East Asia Management Holdings, Inc. performs services for AIG, Inc. that directly relate to Japan Branch operations and would, customarily, be billed to the insurance entities.	24
	The Company has complied with this recommendation.	

ITEM		PAGE NO.
iii.	It is recommended that the Company continue to file all indirect agreements with New York whenever filing is required under the materiality thresholds set forth in the Pennsylvania Insurance Department’s Holding Company Act.	25
	The Company has complied with this recommendation.	
C.	Accounts and Records	
i.	Custodian Agreements	
	It is recommended that the Company amend its foreign custodian agreements to conform to Section J of the NAIC Financial Examiners Handbook. Any specific local governmental requirements for descriptions of the branch and/or descriptions of the securities held under custody can be included in these agreements provided that these inclusions do not conflict with the requirements of Section J of the NAIC Financial Examiners Handbook.	26
	The Company’s Japan branch custodial agreements were amended to conform to Part I, Section IV-J of the NAIC Financial Examiners Handbook. As a result of the Company converting its branches in Japan, the People’s Republic of China and Taiwan into subsidiaries, this finding is no longer a concern since the Company terminated all of its foreign custodian agreements.	
ii.	Proper Aging of Reinsurance Premium Receivable Balances	
	It is recommended that the Company include assumed premium receivable balances in its calculation of statutory overdue balance calculations for ceding companies not authorized in New York in compliance with the provisions of Section 1301(a)(11) of the New York Insurance Law.	27
	The Company has complied with the recommendation.	
iii.	Uncollected Premiums and Agents’ Balances in Course of Collection	
	It is recommended that the Company segregate its direct bill receivable balances from those due from agents when applying the unearned premium offset for the determination of over 90 days past due balances in accordance with the provisions of SSAP No. 6.	27
	The Company has complied with this recommendation.	

ITEM		PAGE NO.
D.	Internal Control Review	
i.	Controls over Income Tax Accounting	
	It is recommended that the Company continue its efforts to remediate the material weaknesses related to controls over federal income tax.	28
	The Company has complied with this recommendation.	
ii.	Controls Over the Accounting for Certain Derivative Transactions	
	It is recommended that the Company continue its efforts to strengthen its internal controls over accounting for certain derivative transactions.	28
	The Company has complied with this recommendation.	
iii.	Controls Over Certain Balance Sheet Reconciliations	
	It is recommended that the Company continue its efforts to strengthen internal controls over its balance sheet reconciliations.	29
	The Company has complied with this recommendation.	
iv.	Premium Key Functional Activity	
	It is recommended that the Company continue its efforts to strengthen internal controls over its premium processing.	30
	The Company has complied with this recommendation.	
v.	Non-Machine Key Functional Activity	
	It is recommended that the Company continue its efforts to strengthen internal controls over its "non-machine key functional activity".	31
	The Company has complied with this recommendation.	
vi.	DBG-Fusion	
	It is recommended that the Company continue its efforts to strengthen internal controls over its "Fusion" accounts.	32
	The Company has complied with this recommendation.	

ITEM		PAGE NO.
vii.	OLD Accounts	
	It is recommended that the Company continue its efforts to reconcile and strengthen internal controls over the "OLD" accounts.	33
	The Company has complied with this recommendation.	

7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

ITEM		PAGE NO.
A.	Loss and Loss Adjustment Expenses	
	In accordance with the NAIC Instructions to the Annual Statement, we recommend that the Actuarial Report underlying the Statement of Actuarial Opinion contain both narrative and technical components in sufficient detail to clearly explain how all the memos and exhibits tie together, as well as including an exhibit that reconciles and maps the data used by the Actuary to the Annual Statement Schedule P line of business reporting.	16

Respectfully submitted,

___________/s/_______________
Patrick R. White, CFE

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

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

____________/s/____________
Patrick R. White

Subscribed and sworn to before me

this__________day of ____________________, 2014.

APPOINTMENT NO. ***<u>31025</u>***

NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

*I, **<u>BENJAMIN M. LAWSKY</u>**, Superintendent of Financial Services of the State of New York, pursuant to the provisions of the Financial Services Law and the Insurance Law, do hereby appoint:*

Patrick White

as a proper person to examine the affairs of the

AIU Insurance Company

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

COMPANY

with such other information as she shall deem requisite.

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

this <u>6th</u> day of <u>August</u>, 2013

BENJAMIN M. LAWSKY
Superintendent of Financial Services

By:

Jean Marie Cho
Deputy Superintendent