

REPORT ON EXAMINATION

OF THE

UNITED AMERICAS INSURANCE COMPANY

AS OF

DECEMBER 31, 2009

DATE OF REPORT

OCTOBER 15, 2010

EXAMINER

GILBERT DENTON

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

October 15, 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 30471 dated January 14, 2010 attached hereto, I have made an examination into the condition and affairs of United Americas 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 Americas 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 home office located at 110 East 55<sup>th</sup> Street, New York, New York 10022.

## **1. SCOPE OF EXAMINATION**

The Department has performed a multi-state examination of the United Americas Insurance Company. The previous examination was conducted as of December 31, 2004. This examination covered the five-year period from January 1, 2005 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 financially significant accounts and activities of the Company were considered in accordance with the risk-focused examination process. 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 Financial Condition Examiners Handbook of the NAIC:

- Significant subsequent events
- Company history
- Corporate records
- Management and control
- 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 that involve departures from laws, regulations or rules, or that are deemed to require explanation or description.

## 2. **DESCRIPTION OF COMPANY**

United Americas Insurance Company was incorporated under the laws of the State of New York on October 4, 1978 and commenced business on November 28, 1978.

At December 31, 2009, capital paid in was \$2,500,000 consisting of 25,000 shares of common stock at \$100 par value per share and 5,000,000 outstanding shares of class A preferred stock at \$.01 par value per share. Gross paid in and contributed surplus was \$23,627,646 and has remained the same since last examination date.

Since organization, ultimate control of the Company has been held by Instituto de Resseguros do Brasil, Brazil (“IRB”). In 1988, direct control of the Company was transferred to UA Holding Corporation (“UA Holding”), an intermediate holding company owned 100% by IRB. Further, an affiliate, UA Services Corporation (“UAS”) is 100% owned by UA Holding and is engaged in the business of rendering services ancillary to the insurance business, including consulting and management services, reinsurance intermediary business, insurance brokerage services, loss adjustment and similar services.

### A. **Management**

As of the examination date, the Company’s charter and by-laws stipulated that management of the Company is vested in a board of directors consisting of not less than thirteen members; however, the Company’s board of directors had only eight members. Subsequent to the examination date and pursuant to an amended Section 1201(a)(5)(B)(v) of the New York Insurance Law, the Company amended its charter and by-laws to reduce the required number of directors from not less than thirteen members to not less than seven nor more than thirteen members. The amended charter and by-laws were approved by the Department on July 13, 2010; therefore, the Company is now in compliance with its charter, by-laws and Section 1201(a)(5)(B)(v) of the New York Insurance Law.

As of December 31, 2009, the board of directors was comprised of the following eight members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
David B. Adams Southampton, NY	Retired,
Ellen Brain Somerville, NJ	Retired,
Douglas R. Burnett Westfield, NJ	Partner, Squire, Sanders & Dempsey L.L.P.
Gisele de Lima C. Campos Rio de Janeiro, Brazil	General Manager, IRB – Brasil Re S.A.
Elisabete Thome Coelho Rio de Janeiro, Brazil	Deputy General Manager, IRB – Brasil Re S.A.
Akira Ensiki New York, NY	President, United Americas Insurance Company
Robert Romano Scarsdale, NY	Partner, Locke, Lord, Bissell & Liddell
Scott Schley Gladwyne, PA	Managing Director & General Counsel, Essex Equity Management, LLC

A review of the minutes of the board of directors' meetings held during the examination period indicated that the meetings were generally well attended and each board member has an acceptable record of attendance.

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

<u>Name</u>	<u>Title</u>
Akira Ensiki	President
Kathleen Ann Wodzinski	Vice President, Secretary and Treasurer

B. Territory and Plan of Operation

As of December 31, 2009, the Company was licensed to write business in five states. However, the Company has been in runoff since 1994 and has not written any business since then.

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>
3	Accident & 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

The Company is also empowered to transact such workers' compensation insurance as may be incidental to coverage contemplated under paragraphs 20 and 21 of Section 1113(a) of the New York Insurance Law, including insurance described in the Longshoremen's and Harbor Workers' Compensation Act (Public Law 803, 69<sup>th</sup> Congress as amended, 33 USC Section 901 et. Seq. as amended).

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 \$2,200,000.

C. Reinsurance

The Company has been in runoff status since 1994 and has not assumed any business in subsequent years, as stated in Section 2B (Territory and plan of operation) of this report.

The Company's outstanding liabilities are divided between "old" and "new" business. The old business comprises over 99% of the Company's remaining liabilities and consists primarily of casualty contracts underwritten prior to 1985. The old business is ceded 100% to the Company's parent, IRB, pursuant to an Assumption Retrocession Agreement, which was entered into in September 1991. There is no cap on the coverage provided by this agreement. The Assumption Retrocession Agreement is accounted for as a loss portfolio transfer pursuant to the provisions of Department Regulation 108. The new business is mainly property business assumed from IRB after 1985. Approximately 99% of the new business is retroceded by the Company to third parties.

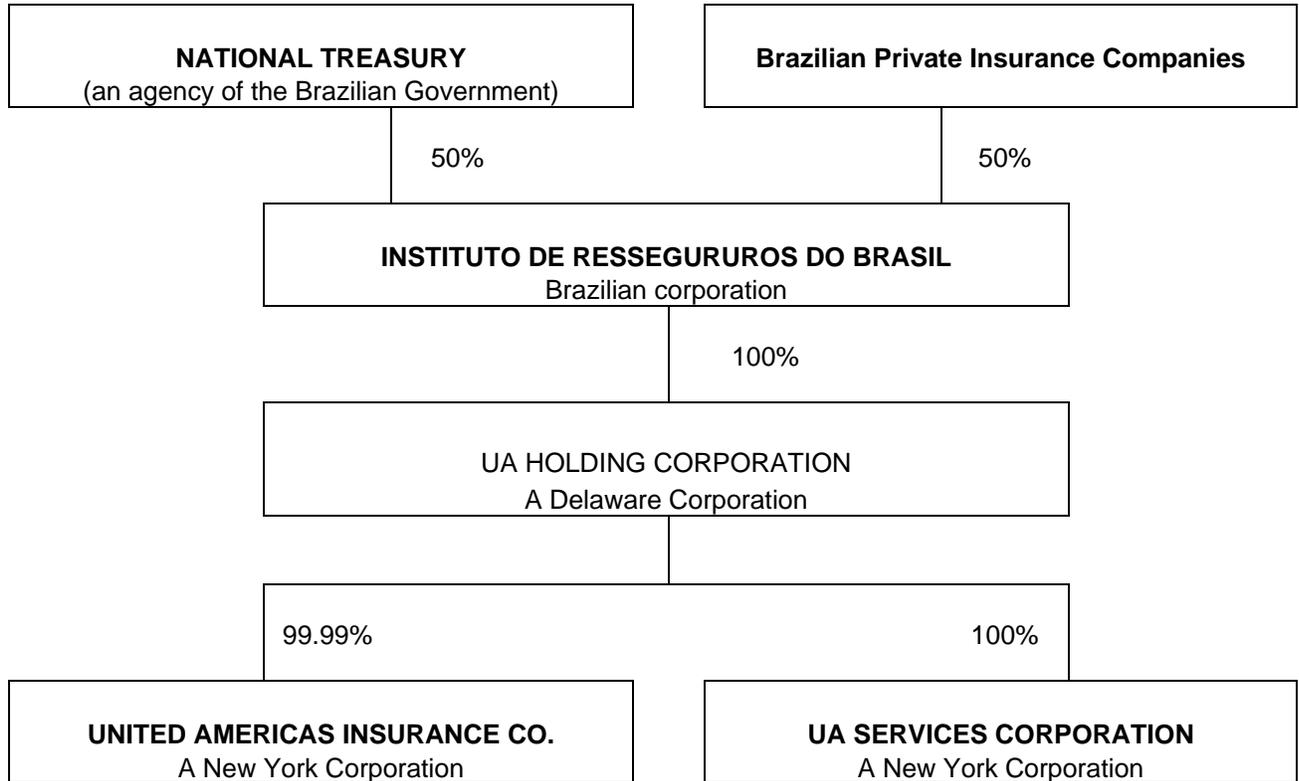
The Schedule F data as contained in the Company's annual statement files for the years covered by the examination accurately reflected its remaining reinsurance transactions.

D. Holding Company System

The Company is a member of the IRB holding company system. The Company is 99.99% owned by UA Holding Corporation ("UA Holding"), a Delaware Corporation system, which is ultimately controlled by IRB. The remaining capital stock of the Company is held by two international companies.

A review of the holding company registration statements filed with this Department indicated that such filings were not entirely completed and were not filed in a timely manner pursuant to Article 15 of the New York Insurance Law and Department Regulation 52. Pursuant to Part 80-1.4 of New York Regulation 52, all controlled insurers are required to file an annual holding company registration statement (Form HC1) within 120 days following the end of its ultimate holding company's fiscal year end. All of the annual holding company registration statements during the examination period were filed outside the 120 days following the end of its ultimate holding company's fiscal year end. It is recommended that the Company file its annual holding company registration statements in a timely manner pursuant to the provisions of Part 80-1.4 of Department Regulation 52.

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



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

1. Tax Allocation Agreement

The Company files a consolidated federal income tax return with UA Holding and its affiliates, UA Services Corporation (“UAS”) pursuant to the provisions of the a tax allocation agreement effective December 7, 1988 and subsequently amended. The agreement was filed pursuant to Section 1505 of the New York Insurance Law and was approved by the Department on May 6, 1994.

## 2. Expense allocation Agreement

The Company is a party to an expense allocation agreement with UA Holding and its affiliate, UAS. The agreement was effective December 7, 1988 and was amended October 1, 1997. The agreement was filed pursuant to Section 1505 of the New York Insurance Law and was approved by the Department on November 6, 1997.

### 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	0%
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	30%
Premiums in course of collection to surplus as regards policyholders	5%

All of the above ratios fall within the benchmark ranges set forth in the Insurance Regulatory Information System of the National Association of Insurance Commissioners.

The underwriting amounts presented below are on an earned/incurred basis and encompass the five year period covered by this examination (ratios are not presented as the Company is in runoff and therefore, the ratios are meaningless):

	<u>Amounts</u>
Losses and loss adjustment expenses incurred	\$12,299,029
Other underwriting expenses incurred	1,498,212
Net underwriting loss	<u>(13,797,234)</u>
Premiums earned	<u>\$ _____ 7</u>

### F. Accounts and Records

#### Certified Public Accountant (“CPA”) Engagement Letter

Upon review of the Company’s CPA contract (“engagement letter”), it was noted that the engagement letter did not incorporate the provisions of Part 89.2(c) of Department Regulation 118, which states:

“the workpapers and any communication between the CPA and the insurer relation to the audit of the insurer shall be made available for review by the superintendent at the offices of the insurer, at the Insurance Department or at any other reasonable place designated by the superintendent. The CPA must retain for review such workpapers and communication in accordance with the provisions of Part 243 of this Title (Regulation 152). More specifically, such workpapers and communication must be retained by the CPA for the period specified in sections 243.2(b)(7) and (c) of this Title. For the purposes of this subdivision, the workpapers and communications shall be deemed to have been created on the date the filings required by section 89.2(a) of this Part was submitted to the superintendent.”

It is recommended that the Company ensure that all future engagement letters entered into with its certified public accountants comply with Department Regulation 118.

#### Allocation of Expenses

A review of the Underwriting and Investment Exhibit, Part 3 – Expenses, included in the Company’s 2009 annual statement revealed that the Company allocated its 51.8% of its expenses paid to “Loss adjustment expenses”; 35.4% to “Other underwriting expenses”; and 12.8% to “Investment expenses.” Pursuant to paragraph 6 of SSAP No. 70, allocation of expenses to the three expense categories “should be based on a method that yields the most accurate results.” Given the fact that the Company has been in runoff since 1994, it does not appear reasonable to allocate expenses to the other underwriting expense category.

It is recommended that the Company amend its method of allocating general expenses to the three expense categories pursuant to the provisions of SSAP No. 70.

### 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>Examination Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$3,445,469		\$3,445,469
Cash, cash equivalents and short-term investments	2,948,242		2,948,242
Investment income due and accrued	43,800		43,800
Uncollected premiums and agents' balances in the course of collection	253,244		253,244
Amounts recoverable from reinsurers	49,938		49,938
Funds held by or deposited with reinsured companies	455,363		455,363
Electronic data processing equipment and software	4,554	\$ 4,554	
Furniture and equipment, including health care delivery assets	44,193	44,193	
Receivables from parent, subsidiaries and affiliates	136,876		136,876
Aggregate write-ins for other than invested assets	<u>109,682</u>	<u>109,682</u>	<u>          </u>
Total assets	<u>\$7,491,361</u>	<u>\$158,429</u>	<u>\$7,332,932</u>

Liabilities, Surplus and Other Funds

	<u>Examination</u>	<u>Company</u>	Surplus Increase <u>(Decrease)</u>
<u>Liabilities</u>			
Losses	\$15,384,000	\$14,616,000	\$(768,000)
Reinsurance payable on paid losses and loss adjustment expenses	981,611	981,611	0
Other expenses (excluding taxes, licenses and fees)	63,871	63,871	0
Taxes, licenses and fees (excluding federal and foreign income taxes)	2,000	2,000	0
Ceded reinsurance premiums payable (net of ceding commissions)	1,384	1,384	0
Funds held by company under reinsurance treaties	5,402	5,402	0
Amounts withheld or retained by company for account of others	2	2	0
Remittances and items not allocated	6,909	6,909	0
Provision for reinsurance	54,566	54,566	0
Payable to parent, subsidiaries and affiliates	43,601	43,601	0
Miscellaneous account payable	17,739	17,739	0
Rent payable	18,636	18,636	0
Pension liability	749,104	749,104	0
Stop loss agreement	<u>(15,370,998)</u>	<u>(14,602,998)</u>	<u>768,000</u>
Total liabilities	<u>\$ 1,957,827</u>	<u>\$ 1,957,827</u>	<u>\$ 0</u>
<u>Surplus and other funds</u>			
Segregated Surplus	\$15,370,998	\$14,602,998	\$768,000
Common capital stock	2,500,000	2,500,000	0
Preferred capital stock	50,000	50,000	0
Gross paid in and contributed surplus	23,627,646	23,627,646	0
Unassigned funds (surplus)	<u>(36,173,539)</u>	<u>(35,405,539)</u>	<u>(768,000)</u>
Surplus as regards policyholders	<u>\$ 5,375,105</u>	<u>\$ 5,375,105</u>	<u>\$ 0</u>
Total liabilities, surplus and other funds	<u>\$ 7,332,932</u>	<u>\$ 7,332,932</u>	

NOTE: The Internal Revenue Service has not audited the Company's consolidated Federal Income Tax returns through tax year 2009. 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. 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. Underwriting and Investment Exhibit

Surplus as regards policyholders decreased \$2,720,925 during the five-year examination period January 1, 2005 through December 31, 2009, detailed as follows:

Underwriting Income

Premiums earned		\$7
Deductions:		
Losses incurred	\$8,852,416	
Loss adjustment expenses incurred	3,446,613	
Other underwriting expenses incurred	<u>1,498,212</u>	
Total underwriting deductions		<u>13,797,241</u>
Net underwriting gain or (loss)		\$(13,797,234)

Investment Income

Net investment income earned	\$1,008,583	
Net realized capital gain	<u>116,809</u>	
Net investment gain or (loss)		\$1,125,392

Other Income

Net gain or (loss) from agents' or premium balances charged off	\$ 812	
Stop loss reduction	(1,088,988)	
Miscellaneous income	<u>11,969,132</u>	
Total other income		<u>10,880,956</u>
Net income before dividends to policyholders and before federal and foreign income taxes		<u>\$(1,790,886)</u>
Federal and foreign income taxes incurred		<u>0</u>
Net income		<u>\$(1,790,886)</u>

Capital and Surplus Account

Surplus as regards policyholders per report on examination as of December 31, 2004			\$8,096,030
	<u>Gains in</u>	<u>Losses in</u>	
	<u>Surplus</u>	<u>Surplus</u>	
Net income		\$1,790,886	
Change in non admitted assets		155,056	
Change in provision for reinsurance		25,879	
Cumulative effect of changes in accounting principles		349,196	
Transfer from segregated surplus	\$4,391,936		
Transfer to unassigned funds		4,391,936	
Change in pension liability	<u>0</u>	<u>399,908</u>	
Total gains and losses	<u>\$4,391,936</u>	<u>\$7,112,861</u>	
Net increase (decrease) in surplus			<u>(\$2,720,925)</u>
Surplus as regards policyholders per report on examination as of December 31, 2009			<u>\$5,375,105</u>

**4. LOSSES AND LOSS ADJUSTMENT EXPENSES**

The examination liability for the captioned items of \$15,384,000 is \$768,000 more than the \$14,616,000 reported by the Company in its December 31, 2009, filed annual statement.

The examination analysis of the loss and loss adjustment expense reserves was conducted in accordance with generally accepted actuarial principles and was based on statistical information contained in the Company's internal records and in its filed annual statements.

The examination reserve increase is on the old business, which is subject to the Assumption Retrocession Agreement, which is discussed in Item 2C (Reinsurance) of this report. Therefore, there is an offsetting increase to the contra-liability under the caption "Stop loss agreement," which results in a \$0 impact on surplus.

## **5. STOP LOSS AGREEMENT**

The examination contra-liability for the captioned items of \$15,370,998 is \$768,000 more than the \$14,602,998 reported by the Company in its December 31, 2009, filed annual statement.

The examination increase represents an offset to the increase in the examination loss and loss adjustment expense reserves, which are covered by the Assumption Retrocession Agreement.

## **6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION**

The prior report on examination contained 2 recommendations as follows (page numbers refer to the prior report):

<u>ITEM</u>	<u>PAGE NO.</u>
<p>A.     <u>Management</u></p> <p>It was recommended that the Company maintain at least thirteen directors on its board at all times in compliance with its charter and Section 1201(a)(5)(B)(v) of the New York Insurance Law.</p> <p>Subsequent to the examination period, Section 1201(a)(5)(B)(v) of the New York Insurance Law was amended to decrease the minimum number of directors required to seven and the Company amended its charter and by-laws to bring the minimum number of required directors to seven. Therefore, the Company has complied with the recommendation.</p>	<p>4</p>
<p>B     <u>Holding Company System</u></p> <p>It was recommended that the Company file its annual holding company registration statements in a timely manner pursuant to the provisions of Part 80-1.4 of Department Regulation 52.</p> <p>The Company has not complied with this recommendation. A similar comment is made in this report.</p>	<p>7</p>

7. **SUMMARY OF COMMENTS AND RECOMMENDATIONS**

<u>ITEM</u>	<u>PAGE NO.</u>
<p>A. <u>Holding Company System</u></p> <p>It is recommended that the Company file its annual holding company registration statements in a timely manner pursuant to the provisions of Part 80-1.4 of Department Regulation 52.</p>	<p>6</p>
<p>B. <u>Account and Records</u></p> <p><u>Certified Public Accountant (“CPA”) Contract</u></p> <p>It is recommended that the Company ensure that all future engagement letters entered into with its certified public accounts comply with Department Regulation 118.</p>	<p>9</p>
<p><u>Allocation of Expenses</u></p> <p>It is recommended that the Company amend its method of allocating general expenses to the three expense categories pursuant to the provisions of SSAP No. 70.</p>	<p>9</p>

Respectfully submitted,

\_\_\_\_\_/s/\_\_\_\_\_  
Gilbert Denton,  
Senior Insurance Examiner

STATE OF NEW YORK     )  
  )ss:  
COUNTY OF NEW YORK    )

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

\_\_\_\_\_/s/\_\_\_\_\_  
Gilbert Denton

Subscribed and sworn to before me

this \_\_\_\_\_ day of \_\_\_\_\_, 2011.

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:

**Gilbert Denton**

*as proper person to examine into the affairs of the*

**UNITED AMERICAS 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 14 day of January, 2010*



A handwritten signature in cursive script, reading "James J. Wrynn".

JAMES J. WRYNN

Superintendent of Insurance