

REPORT ON EXAMINATION

OF THE

UNITED AMERICAS INSURANCE COMPANY

AS OF

DECEMBER 31, 2014

DATE OF REPORT

FEBRUARY 27, 2016

EXAMINER

KAREN GARD

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NEW YORK STATE  
DEPARTMENT *of*  
FINANCIAL SERVICES

Andrew M. Cuomo  
Governor

Maria T. Vullo  
Superintendent

February 27, 2016

Honorable Maria T. Vullo  
Superintendent  
New York State  
Department of Financial Services  
Albany, New York 12257

Madam:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 31347 dated April 27, 2015, attached hereto, I have made an examination into the condition and affairs of United Americas Insurance Company as of December 31, 2014, 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 State Department of Financial Services.

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 an individual examination of the Company, a multi-state insurer. The previous examination was conducted as of December 31, 2009. This examination covered the five-year period from January 1, 2010 through December 31, 2014. 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 Handbook:

- Significant subsequent events
- Company history
- Corporate records
- Management and control
- 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 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. It has been in run-off since 1994.

Capital paid in is \$2,500,000 consisting of 25,000 shares of \$100 par value per share common stock and 5,000,000 outstanding shares of Class A preferred stock at \$0.01 par value per share. Gross paid in and contributed surplus increased by \$2,170,393 during the examination period, as follows:

<u>Year</u>	<u>Description</u>	<u>Amount</u>
2010	Beginning gross paid in and contributed surplus	\$23,627,646
2011	Surplus contribution	<u>2,170,393</u>
2014	Ending gross paid in and contributed surplus	<u>\$25,798,039</u>

### 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 nor more than thirteen members. The board meets two times during each calendar year. At December 31, 2014, the board of directors was comprised of the following six members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Ellen Brain Somerville, New Jersey	Retired
Douglas Burnett Westfield, New Jersey	Partner Squire Patton Boggs LLP
Gisele de Lima C. Campos	General Manager

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Rio de Janeiro, Brazil	IRB – Brasil Re S.A.
Elisabete Thomé Coelho Rio de Janeiro, Brazil	Specialist, Risk Management IRB – Brasil Re S.A.
Akira Ensiki New York, New York	President United Americas Insurance Company
Robert Romano Scarsdale, New York	Partner Locke Lord LLP

On December 1, 2014, Mr. Scott Schley resigned from the Board. On February 12, 2015, Mr. Michael Murphy was elected as Board member. 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 had an acceptable record of attendance.

As of December 31, 2014, the principal officers of the Company were as follows:

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

B. Territory and Plan of Operation

As of December 31, 2014, the Company was licensed to write business in five states; however, the Company has been in run-off since 1994 and has not underwritten any business since then. When the Company was actively writing, it was engaged in the reinsurance of risks, including asbestos and environmental risks.

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, 69th 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

After ceasing to write new or renewal business in 1984, the Company went through a period of reorganization and restructuring. These changes were made as a result of statutory examinations concerning the Company's financial statements as of December 31, 1983 and as of December 31, 1985. To address the Company's financial condition, the Department ordered the Company to submit plans to remove existing impairments. As part of the plans to cure its impairment, the Company entered into two retroactive excess of loss reinsurance treaties with its ultimate parent, IRB-Brasil Resseguros S.A. ("IRB"), an unauthorized reinsurer. These treaties covered losses and loss adjustment expenses related to all business issued or renewed by the Company since its inception through December 31, 1985. These agreements provided for a maximum coverage. The agreements were accounted for as a loss portfolio transfer pursuant to the provisions of Department Regulation 108, and are fully exhausted.

In 1991, the Company experienced adverse development on its casualty book of business relating to the pre-1985 years. Effective September 1, 1991, the Company entered into an Assumption Retrocession Agreement with IRB. Pursuant to the terms of this agreement, the Company retrocedes to IRB 100% of the contract liabilities relating to contracts of assumed reinsurance made by the Company prior to December 31, 1985. This agreement is accounted for as a loss portfolio transfer pursuant to the provisions of Department Regulation 108.

Effective January 1, 2011, the Company executed a Memorandum of Understanding ("MOU") with IRB regarding the expenses incurred in connection with the administration of the contracts covered under the Assumption Retrocession Agreement. The Memorandum clarified that incurred expenses shall include all loss adjustment expenses, including administrative costs incurred in connection with administering the contracts.

It is the Company's policy to obtain the appropriate collateral for its cessions to unauthorized reinsurers. Since the Company changed its trustee during the examination period, the examiner reviewed the trust account obtained by the Company to take credit for cessions to its parent, an unauthorized reinsurer, for compliance with Department Regulation 114.

Examination review found that the Schedule F data reported by the Company in its filed annual statement accurately reflected its remaining reinsurance transactions.

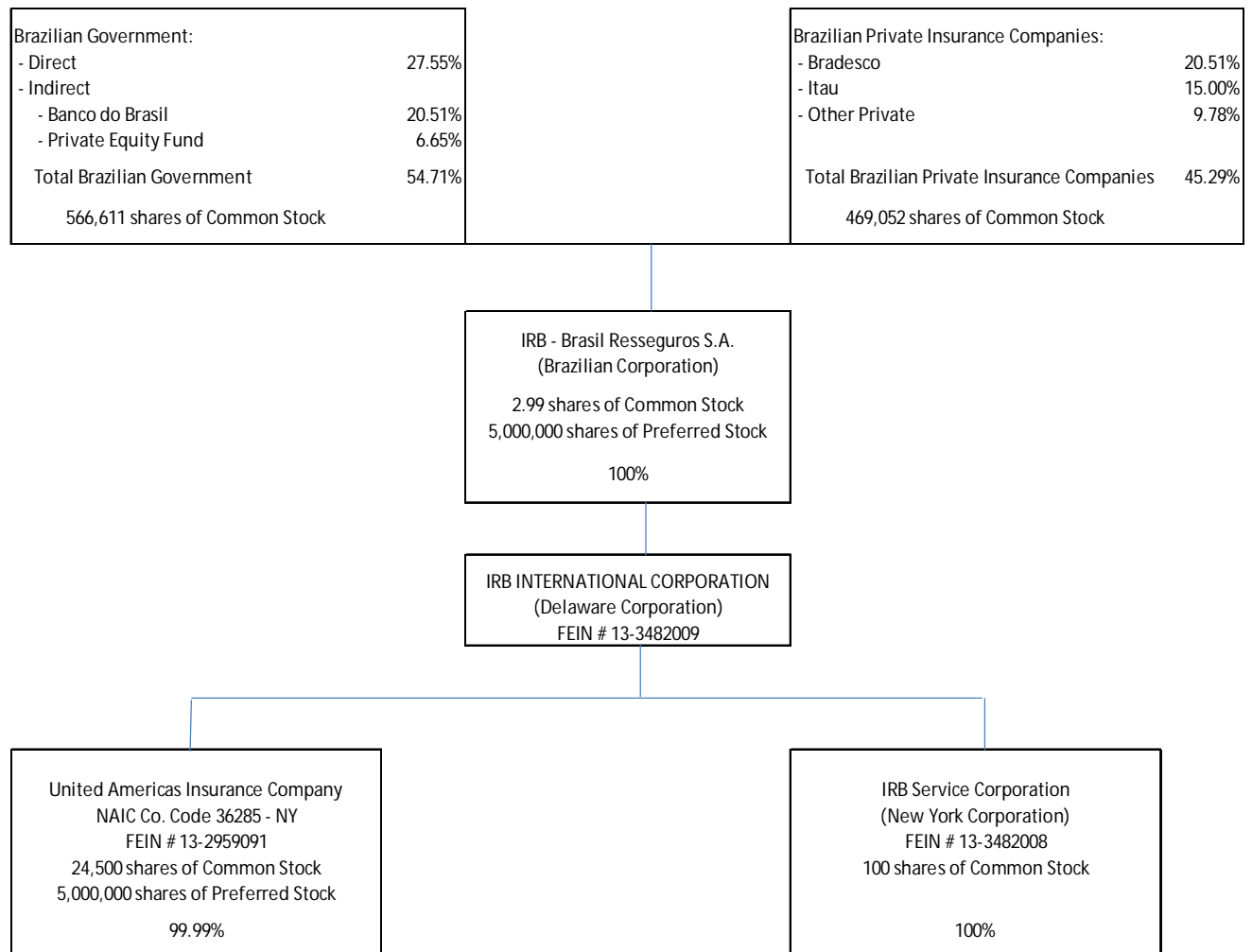


D. Holding Company System

The Company is a member of the IRB holding company system. The Company is 99.99% owned by IRB International Corporation (“IRB-IC”, fka UA Holding Corporation), a Delaware corporation, which is controlled by IRB, a Brazilian reinsurer. 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 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 unabridged chart of the holding company system at December 31, 2014:



At December 31, 2014, the Company was party, in addition to the Assumption Retrocession Agreement described in the reinsurance section of this report, 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 IRB-IC and its affiliate, IRB Service Corporation (“IRB-SC”) 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 party to an expense allocation agreement with IRB-SC and IRB-IC. The agreement was effective December 7, 1988 and amended on October 1, 1997. The agreement was filed with this Department pursuant to Section 1505 of the New York Insurance Law and was non-disapproved by the Department on November 6, 1997.

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2014, based upon the results of this examination:

Net premiums written to surplus as regards policyholders*	N/A
Liabilities to liquid assets	14%
Premiums in course of collection to surplus as regards policyholders*	N/A

*\*Due to the Company’s run-off status, these ratios have not been calculated. The remaining ratio falls within the benchmark range set forth in the Insurance Regulatory Information System of the National Association of Insurance Commissioners.*

The underwriting financial information presented below is on an earned/incurred basis and encompass the five-year period covered by this examination (ratios are not presented because they do not represent meaningful information):

	<u>Amounts</u>
Losses and loss adjustment expenses incurred	\$6,257,382
Other underwriting expenses incurred	405,460
Net underwriting loss	<u>(6,663,023)</u>
Premiums earned	\$ <u>    (181)</u>

### 3. FINANCIAL STATEMENTS

#### A Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2014 as reported by the Company, with the exception of two liability items which were changed as a result of the examination. The Department made the following changes to the Company's financials:

1. The Company's reserves were increased by \$1,780,000.
2. The contra-liability under the retroactive stop loss agreement was increased by \$1,780,000. This effectively reversed the surplus affect of the increase in loss reserves.
3. A statutory liability entitled 'Reserve For Unsecured Reinsurance Cessions' was created in the amount of \$909,824. This reflected the fact that the reinsurer that provides coverage under the above referenced stop loss agreement is not authorized in New York State and must provide collateral for the statutory reinsurance credit claimed by the Company. As a result of the examination change to the Company's loss reserves, the collateral was deficient in the amount of \$909,824.

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$5,900,217	\$ 0	\$5,900,217
Cash, cash equivalents and short-term investments	847,091	0	847,091
Investment income due and accrued	41,217	0	41,217
Amounts recoverable from reinsurers	50,508	0	50,508
Funds held by or deposited with reinsured companies	4,542	0	4,542
Electronic data processing equipment and software	6,665	6,665	0
Receivables from parent, subsidiaries and affiliates	254,047	0	254,047
Pre-paid expenses	<u>4,633</u>	<u>4,633</u>	<u>0</u>
 Total assets	 <u>\$7,108,920</u>	 <u>\$11,298</u>	 <u>\$7,097,622</u>

Liabilities, surplus and other funds

	<u>Examination</u>	<u>Company</u>	<u>Surplus Increase/ (Decrease)</u>
Losses and Loss Adjustment Expenses	\$12,878,000	\$11,098,000	\$(1,780,000)
Reinsurance payable on paid losses and loss adjustment expenses	822,847	822,847	0
Other expenses (excluding taxes, licenses and fees)	49,593	49,593	0
Taxes, licenses and fees (excluding federal and foreign income taxes)	1,800	1,800	0
Ceded reinsurance premiums payable (net of ceding commissions)	1,470	1,470	0
Funds held by company under reinsurance treaties	5,402	5,402	0
Amounts withheld or retained by company for account of others	2,448	2,448	0
Remittances and items not allocated	1,720	1,720	0
Provision for reinsurance	46,150	46,150	0
Stop loss agreement	(12,876,998)	(11,096,998)	1,780,000
Reserve for unsecured reinsurance cessions	909,824	0	(909,824)
Pension liability	25,548	25,548	0
Rent payable	<u>1,546</u>	<u>1,546</u>	<u>0</u>
Total liabilities	<u>\$ 1,869,350</u>	<u>\$ 959,526</u>	<u>\$(909,824)</u>

Surplus and other funds

Segregated surplus	\$12,876,998	\$11,096,998	\$ 1,780,000
Common capital stock	2,500,000	2,500,000	0
Preferred capital stock	50,000	50,000	0
Gross paid in and contributed surplus	25,798,039	25,798,039	0
Unassigned funds (surplus)	<u>(35,996,765)</u>	<u>(33,306,941)</u>	<u>(2,689,824)</u>
Surplus as regards policyholders	<u>\$ 5,228,272</u>	<u>\$ 6,138,096</u>	<u>\$ (909,824)</u>
Total liabilities, surplus and other funds	<u>\$ 7,097,622</u>	<u>\$ 7,097,622</u>	<u>\$ 0</u>

Note: The Company has not been notified by the Internal Revenue Service that an audit of the consolidated federal income tax returns for tax year 2010 through 2014 is scheduled. 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

The Company's net loss for the examination period was \$1,078,467 as detailed below:

Premiums earned		\$ (181)
Deductions:		
Losses and loss adjustment expenses incurred	\$6,257,382	
Other underwriting expenses incurred	<u>405,460</u>	
Total underwriting deductions		<u>6,662,842</u>
Net underwriting gain or (loss)		\$(6,663,023)
 <u>Investment Income</u>		
Net investment income earned	\$ 426	
Net realized capital gain	<u>103,408</u>	
Net investment gain or (loss)		\$ 103,834
 <u>Other Income</u>		
Net gain or (loss) from agents' or premium balances charged off	\$ 240,024	
Loss reimbursements under retroactive reinsurance	5,240,800	
Miscellaneous	<u>(102)</u>	
Total other income		<u>\$ 5,480,722</u>
Net Income (Loss)		<u>\$(1,078,467)</u>

The difference between the deduction for losses and loss adjustment expenses incurred and the loss reimbursements under retroactive reinsurance is mainly attributable to the 2010 loss adjustment expenses that were not reimbursed. These expenses are outside of the MOU effective date. The MOU is described in section 2C reinsurance of this report.

C. Capital and Surplus

Surplus as regards policyholders decreased \$146,833 during the five-year examination period January 1, 2010 through December 31, 2014, detailed as follows:

Surplus as regards policyholders per report on examination as of December 31, 2009				\$5,375,105
		<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net loss			\$1,078,467	
Change in non-admitted assets	\$ 147,128			
Change in provision for reinsurance	8,416			
Cumulative effect of changes in accounting principles			78,765	
Surplus adjustments paid in	2,170,393			
Change in pension liability			405,714	
Reserve for unsecured reinsurance cessions	<u>0</u>		<u>909,824</u>	
Net increase (decrease) in surplus	<u>\$2,325,937</u>	<u>\$2,472,770</u>		<u>\$(146,833)</u>
Surplus as regards policyholders per report on examination as of December 31, 2014				<u>\$5,228,272</u>

#### 4. **LOSSES AND LOSS ADJUSTMENT EXPENSES**

The examination liability for the captioned items of \$12,878,000 is \$1,780,000 more than the \$11,098,000 as reported by the Company as of December 31, 2014. 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 and Procedures Manual, Statement of Statutory Accounting Principle No. 55 (“SSAP No. 55”).

Section 1303 of the New York Insurance Law states, in part:

“Every insurer shall . . . maintain reserves in an amount estimated in the aggregate to provide for the payment of all losses or claims incurred on or prior to the date of statement, whether reported or unreported, which are unpaid as of such date and for which such insurer may be liable, and also reserves in an amount estimated to provide for the expenses of adjustment or settlement of such losses or claims.”

Further, Paragraph 10 of SSAP No. 55 states, in part:

“The liability for claim reserves and claim liabilities, unpaid losses, and loss/claim adjustment expenses shall be based upon the estimated ultimate cost of settling the claims (including the effects of inflation and other societal and economic factors), using past experience adjusted for current trends, and any other factors that would modify past experience...”

The examiner recommends that the Company address the reserving inadequacy and increase its carried reserves to an appropriate level, pursuant to the provisions of Section 1303 of the New York Insurance Law and Paragraph 10 of SSAP No. 55.

**5. STOP LOSS AGREEMENT**

The examination contra-liability for the captioned item of \$12,876,998 is \$1,780,000 more than the \$11,096,998 reported by the Company in its December 31, 2014 filed annual statement. The Company's loss reserves are subject to a stop loss reinsurance agreement; therefore, cessions under this agreement which are reported as a contra-liability were increased as a result of the examination increase of the Company's loss and loss adjustment expense reserves.

**6. RESERVE FOR UNSECURED REINSURANCE CESSIONS**

The Company did not report a liability under this caption as of December 31, 2014. This examination has established the captioned liability in the amount of \$909,824. This exam change is due to the examination increase in loss and loss adjustment expense reserves, which resulted in an increase to cessions to the Company's unauthorized reinsurer that were not fully collateralized.



## 7. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

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

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Holding Company System</u>	
i. 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.	6
The Company has complied with this recommendation.	
B. <u>Accounts and Records</u>	
i. It was recommended that the Company ensure that all future engagement letters entered into with its certified public accounts comply with Department Regulation 118.	9
The Company has complied with this recommendation.	
ii. It was recommended that the Company amend its method of allocating general expenses to the three expense categories pursuant to the provisions of SSAP No. 70.	9
The Company has complied with this recommendation.	

**8. SUMMARY OF COMMENTS AND RECOMMENDATIONS**ITEMPAGE NO.A. Losses and Loss Adjustment Expenses

- i. The examiner recommends that the Company address the reserving inadequacy and increase its carried reserves to an appropriate level, pursuant to the provisions of Section 1303 of the New York Insurance Law and Paragraph 10 of SSAP No. 55. 13



**APPOINTMENT NO. 31347**

**NEW YORK STATE**

**DEPARTMENT OF FINANCIAL SERVICES**

I, **BENJAMIN M. LAWSKY**, 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:

**Karen Gard**

as a proper person to examine the affairs of the

**United Americas Insurance Company**

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

**COMPANY**

with such other information as he 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 27th day of April, 2015

**BENJAMIN M. LAWSKY**  
Superintendent of Financial Services



By:

Rolf Kaumann  
Deputy Chief Examiner