

REPORT ON EXAMINATION
OF THE
AMERICAN OFFSHORE INSURANCE SYNDICATE
AS OF
NOVEMBER 30, 2005

DATE OF REPORT

JULY 31, 2008

EXAMINER

GILBERT DENTON

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

July 11, 2008

Honorable Howard Mills
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 22465, dated February, 27 2006, attached hereto, I have made an examination into the condition and affairs of the American Offshore Insurance Syndicate as of November 30, 2005 and respectfully submit the following report thereon.

Wherever the term "the Syndicate" appears herein, it should be understood to indicate the American Offshore Insurance Syndicate.

Whenever the term "Department" appears in this report, it should be understood to mean the New York State Insurance Department.

The examination was conducted at the Syndicate's home office located at 30 Broad Street, New York, NY 10004.

1. SCOPE OF EXAMINATION

The prior examination was conducted as of November 30, 2000. The current examination covers the five year period from December 1, 2000 through November 30, 2005, and was limited in its scope to a review or audit of only those 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. The examination included a review of income, disbursements and Syndicate records deemed necessary to accomplish such analysis or verification and utilized to the extent deemed appropriate, work performed by the Syndicate's independent public accountants.

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 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

The 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 the 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.

A. Management

The business and affairs of the Syndicate is the responsibility of the Chairman of the Board, which consist of one representative of the Syndicates' subscriber.

As of November 30, 2005, the Chairman of the Board was as follows:

<u>Subscriber</u>	<u>Representative</u>
St. Paul Fire and Marine Insurance Company	Richard Gustafson

As of November 30, 2005 the officers were as follows:

<u>Name</u>	<u>Title</u>
Richard G. Gustafson	Chairman of the Board
John J. Segreto	President & Chief Executive Officer
Mark Glade	Vice President
Brian Sales	Vice President
Warren C. Dietz	Vice President, Chief Financial Office and Secretary
Dianne F. Bowers	Assistant Vice President

B. Syndicate Agreement

The current Syndicate agreement, effective January 1, 2003, was revised because there is only one subscriber, the St. Paul Fire and Marine Insurance Company, to the Syndicate. The Syndicate conducts business for and on behalf of this one subscriber, under the provisions of the Syndicate agreement. The subscriber executed an individual power of attorney authorizing the Board of Managers (a board consisting of representatives of the subscribers), the Syndicate manager and the Syndicate underwriters to obligate and bind the subscriber under the terms of the agreement.

C. Syndicate Members

Syndicate members (“Subscribers”) are insurance companies authorized to write marine insurance in New York State. 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 of November 30, 2005, the Syndicate’s only Subscriber was the St. Paul Fire and Marine Insurance Company.

D. Territory and Plan of Operation

As of November 30, 2005, the Syndicate, through its licensed subscriber, wrote insurance in the following jurisdictions:

United States

New York

Other Jurisdictions

Bermuda	Italy	South Korea
Brazil	Japan	Spain
Canada	Malta	Sweden
England	Mexico	Switzerland
Finland	Norway	Taiwan
France	Peru	Turkey
Germany	Poland	U.S.S.R.
Greece	Republic of China	Venezuela
Hong Kong	Saudi Arabia	

E. Reinsurance

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

The examiner reviewed all ceded reinsurance contracts in effect during the examination period, all of which contained the required standard clauses, including insolvency clauses as required by Section 1308 of the New York Insurance Law. However, there are provisions in the excess of loss reinsurance contracts which state that they are subject to the laws of the state of Minnesota.

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

As of November 30, 2005, the Syndicate had the following non-obligatory, excess of loss reinsurance program in effect:

<u>Type of Contract</u>	<u>Cession</u>
First excess of loss 39.5% Authorized 60.5% Unauthorized	\$1,500,000 excess of \$1,000,000 each net loss.
Second excess of loss 39.5% Authorized 60.5% Unauthorized	\$2,500,000 excess of \$2,500,000 each net loss.
Third excess of loss 39.5% Authorized 60.5% Unauthorized	\$5,000,000 excess of \$5,000,000 each net loss.
Fourth excess of loss 39.5% Authorized 60.5% Unauthorized	\$5,000,000 excess of \$10,000,000 each net loss.
Catastrophe excess of loss 39.5% Authorized 60.5% Unauthorized	\$15,000,000 excess of \$15,000,000 each net loss.

F. Abandoned Property Law

Section 1316 of the New York Abandoned Property Law provides that amounts payable to resident of this state from a policy of insurance, if unclaimed for three years, shall be deemed to be abandoned property. Such abandoned property shall be reported to the comptroller on or before the first day of April each year. Such filing is required of all insurers regardless of whether or not they have any abandoned property to report.

The Syndicate's abandoned property reports for the period of this examination were not filed pursuant to the provisions of Section 1316 of the New York Abandoned Property Law.

It is 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.

G. 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	\$74,656,371	283.0%
Other underwriting expenses incurred	12,628,576	47.9
Net underwriting gain	<u>(60,904,568)</u>	<u>(230.9)</u>
Premiums earned	<u>\$26,380,379</u>	<u>100.0%</u>

H. 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 company 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 the subscribers' accountability as determined by this examination and is the same as that reported by the Company in its filed annual statement as of November 30, 2005.

<u>Assets</u>	<u>Ledger Assets</u>	<u>Assets Not Admitted</u>	<u>Admitted Assets</u>
Cash	\$2,079,071	\$ 0	\$2,079,071
Premium receivable	<u>3,433,480</u>	<u>220,431</u>	<u>3,213,049</u>
Total assets	<u>\$5,512,551</u>	<u>\$ 220,431</u>	<u>\$5,292,120</u>

Liabilities

Losses and loss adjustment expenses	\$57,265,610
Other expenses	7,861,009
Provision for authorized reinsurance	<u>4,615,000</u>
Total liabilities	\$69,741,619
Net accountability of subscriber companies	<u>(64,449,499)</u>
Total liabilities and accountability	<u>\$ 5,292,120</u>

B. Underwriting and Investment Exhibit

The subscribers' accountability increased \$54,857,644 during the five-year examination period, December 1, 2000 through November 30, 2005, detailed as follows:

Statement of Income

Underwriting Income

Premiums earned		\$ 26,380,379
Losses incurred and loss adjustment expenses incurred	\$74,656,371	
Other underwriting expenses incurred	<u>12,628,576</u>	
Total underwriting deductions		<u>87,284,947</u>

Total underwriting gain		\$(60,904,568)
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Investment Income

Net investment income earned		<u>259,649</u>
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Net income (loss)		<u>\$(60,644,919)</u>
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Change in Subscribers' Accountability

Subscribers' accountability per report on examination as of November 30, 2000		\$(9,591,855)
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	<u>Gains</u>	<u>Losses</u>	
Net loss		\$60,644,919	
Change in non- admitted assets		44,731	
Provision for Reinsurance	\$3,485,422		
Net remittances to and from subscribers	<u>2,346,584</u>	<u>0</u>	
Total gains and losses	<u>\$5,832,006</u>	<u>\$60,689,650</u>	
Net increase in subscribers' accountability			<u>(54,857,644)</u>
Subscribers' accountability per report on examination as of November 30, 2005			<u>\$(64,449,499)</u>

5. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liabilities for losses and loss adjustment expenses totaling \$57,265,610 is the same amount as reported by the Syndicate in its November 30, 2005 financial statements.

The examination analysis was conducted in accordance with generally accepted actuarial principles and practices and was based on statistical information contained in the Syndicate's internal control records and its filed annual statements. The results indicated that the reserves as established by the Syndicate as of the examination date were adequate.

The examiners reviewed the Syndicate's advertising material, applications, policy forms, correspondence files, and claims.

No problem areas were encountered.

6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The previous report on examination as of November 30, 2000 contained two comments and recommendations (page numbers refer to the prior report).

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Management</u>	
It was recommended that the Syndicate amend its Syndicate agreement by revising the minimum number of board managers who attend board meetings. The Syndicate has fewer subscribers than the amount needed to attend meetings.	8
The Syndicate has complied with this recommendation.	
B. <u>Annual Statement</u>	
It was recommended that the Syndicate prepare and submit to the Department, on an annual basis:	8
i) A balance sheet showing assets (including non-ledger and not admitted), liabilities, and subscribers' accountability.	8
ii) A statement of income similar to that included in the Underwriting and Investment Exhibit of the NAIC Blank.	8

<u>ITEM</u>	<u>PAGE NO.</u>
iii) An exhibit showing all expenses paid and incurred, allocated among loss adjustment expenses, other underwriting expenses, and investment expenses.	8
iv) A reconciliation of ledger assets similar to that included in the NAIC Blank.	8

The Syndicate has not complied with this recommendation. A similar recommendation is repeated herein.

7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Reinsurance</u>	
It is recommended that the Syndicate amend its reinsurance contracts to be governed by the laws of the New York State.	4
B. <u>Abandoned Property Law</u>	
It is recommended that the Syndicate files its abandoned property reports on a timely basis pursuant to the provisions of Section 1316 of the New York Abandoned Property Law.	5
C. <u>Accounts and records</u>	
It is again recommended that the Syndicate prepare and submit to the Department, on an annual basis:	6
i) A balance sheet showing assets (including assets not-admitted), liabilities, and subscribers' accountability.	
ii) A statement of income similar to that included in the Underwriting and Investment Exhibit of the NAIC Annual Statement Instructions.	
iii) An exhibit showing all expenses paid and incurred, allocated among loss adjustment expenses, other underwriting expenses, and investment expenses.	

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 submitted by him is true to the best of his knowledge and belief.

_____/s/
Gilbert Denton

Subscribed and sworn to before me
this ____ day of _____ 2008.

Appointment No 22465

STATE OF NEW YORK
INSURANCE DEPARTMENT

I, HOWARD MILLS, 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

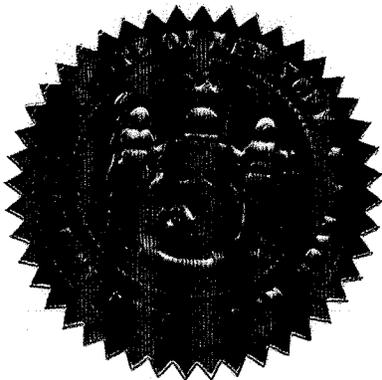
AMERICAN OFFSHORE INSURANCE SYNDICATE

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 27th day of February, 2006

A handwritten signature in dark ink, appearing to read "Howard Mills", written over a horizontal line.

HOWARD MILLS
Superintendent of Insurance