<u>ASSOCIATION REPORT ON EXAMINATION</u>

<u>OF THE</u>

<u>AIU INSURANCE COMPANY</u>

<u>AS OF</u>

<u>DECEMBER 31, 1996</u>

<u>EXAMINER</u>	<u>STATE</u>	<u>ZONE</u>
DONALD CARBONE	NEW YORK	NORTHEASTERN
JOSEPH M. PIRES	MISSISSIPPI	SOUTHEASTERN
ROSIE PAGHUNASAN	CALIFORNIA	WESTERN

Honorable Alfred W. Gross
Chairman, Financial Condition
Subcommittee, NAIC
2301 McGee Street, Suite 800
Kansas City, Missouri 64108-2604

Honorable Alfred W. Gross
Secretary-Treasurer, Southeastern Zone
Insurance Commissioner
State Corporation Commission
Bureau of Insurance
Commonwealth of Virginia
P.O. Box 1157
Richmond, Virginia 23218

Honorable Diane Koken
Secretary-Treasurer, Northeastern Zone
Insurance Commissioner
Pennsylvania Insurance Department
1326 Strawberry Square, 13th Floor
Harrisburg, Pennsylvania 17120

Honorable Charles Cohen
Director
Secretary-Treasurer, Western Zone
Arizona Department of Insurance
2910 North 44th Street, Suite 210
Phoenix, Arizona 85018-7256

Commissioners:

In accordance with your several instructions, an Association Examination has been made as of December 31, 1996 into the financial condition and affairs of the AIU Insurance Company and the following report thereon is respectfully submitted.

REPORT ON EXAMINATION

OF THE

AIU INSURANCE COMPANY

AS OF

DECEMBER 31, 1996

DATE OF REPORT	JULY 19, 2000
EXAMINER	DONALD CARBONE

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

July 19, 2000

Honorable Neil D. Levin
Superintendent of Insurance
Albany, New York 12257

Sir:

Pursuant to instructions contained in Appointment Number 21102 dated March 28, 1997, I have made an examination as of December 31, 1996, into the condition and affairs of the AIU Insurance Company, a New York corporation and respectfully submit the following report thereon.

Wherever the designations shown below appear in this report, they should be understood to indicate the following:

Designation	Name of Company
Company or American Home	American Home Assurance Company
AIU	AIU Insurance Company (AIU)
American Home/ National Union Group or Group or AIG pool companies	National Union Fire Insurance Company of Pittsburgh, Pennsylvania (NU) American Home Assurance Company (AHAC) Commerce and Industry Insurance Company (C & I) The Insurance Company of the State of Pennsylvania Birmingham Fire Insurance Company of Pennsylvania New Hampshire Insurance Company AIU Insurance Company (AIU) American International Pacific Insurance Company American International South Insurance Company Granite State Insurance Company Illinois National Insurance Company
AIG	American International Group, Inc.,

1. SCOPE OF EXAMINATION

The prior examination was conducted as of December 31, 1991. This examination covers the five year period from January 1, 1992 to December 31, 1996. Transactions subsequent to this period were reviewed where deemed appropriate.

The examination comprised a complete verification of assets and liabilities as of December 31, 1996, a review of income and disbursements deemed necessary to accomplish such verification, and utilized, to the extent considered appropriate, work performed by the Company's independent certified public accountants. A review or audit was also made of the following items as called for in the Examiners Handbook of the National Association of Insurance Commissioners ("N.A.I.C."):

History of the Company
Management and control
Corporate records
Fidelity bond and other insurance
Employees' welfare and pension plans
Territory and plan of operation
Market conduct activities
Growth of the Company
Business in force
Loss experience
Reinsurance
Accounts and records

Concurrently examined with the Company were ten affiliated insurers with whom business, (with the exception of business written in Japan by AIU Insurance Company and American Home Assurance Company), is shared in accordance with the terms of an Inter-Company Reinsurance Pooling Agreement, ("Pooling Agreement"). This agreement is more fully discussed in Item 2C herein, "Reinsurance".

The examination was conducted at 70 Pine Street, New York, New York, where the executive, administrative and principal operational functions are conducted and its records, except for the Japanese records, are maintained. The Japanese records are maintained in Tokyo, Japan. Those records were reviewed to the extent possible by visits to that location. In addition, certain accounts were reviewed by an independent CPA engaged by the Company using an agreed upon procedure format. Additionally, visits were made to branch offices outside New York for claim review. (See Item 2F, "Accounts and Records").

This report on examination is confined to financial statements and comments on those matters that involve departures from laws, regulations or rules, or which are deemed to require explanation or description.

A review was also made to ascertain what action the Company took with regard to comments in the prior report on examination.

2. DESCRIPTION OF COMPANY

The Company was incorporated in New York on April 24, 1851 as the Pacific Fire Insurance Company. In 1913, the Company merged with Greenwich Insurance Company. The name was changed to Pacific Fire Insurance Company of New York on May 20, 1957. It was changed to American International Insurance Company on July 23, 1969 and to its present corporate title on November 4, 1976. Since 1970, complete financial control has been held directly or indirectly by AIG. AIG directly owns a majority interest (52%) with the remaining minority interest, since December 29, 1981, being held by National Union Fire Insurance Company of Pittsburgh, Pennsylvania (32%), Birmingham Fire Insurance Company of Pennsylvania (8%) and The Insurance Company of the State of Pennsylvania (8%).

As of December 31, 1996, the Company's paid-up capital totaled $8,000,000, consisting of 200,000 shares of $40 par value per share common stock. Changes in the capital structure and gross paid in contributed surplus since organization are summarized in the following exhibit:

	Capital Paid-in	Surplus paid-in and Contributed
From organization through December 31, 1996	$8,000,000	
Cash contributed from parent:		
From organization through December 31, 1982		$13,000,000
1984		250,000
1985		5,750,000
1986		9,000,000
1987		5,000,000
Totals	$8,000,000	$33,000,000

All contributions were approved by this Department. The financial records of the Company for the years 1992 through 1996 as reflected in its Annual Statements filed with this Department indicated the following:

Year	Net Premiums Written	Admitted Assets	Liabilities	Surplus to Policyholders
1992	$320,882,008	$1,625,998,812	$1,410,599,385	$215,399,427
1993	$386,873,015	$1,708,563,821	$1,488,782,802	$219,781,019
1994	$436,422,877	$1,877,176,600	$1,527,288,598	$349,888,002
1995	$456,025,323	$1,879,120,021	$1,479,013,288	$400,106,733
1996	$413,585,835	$1,821,457,571	$1,391,725,948	$429,731,623

A. Management

Pursuant to its charter and by-laws, the Company's corporate powers are exercised by a board of directors consisting of not less than thirteen or more than twenty-five members. The following were members of the board of directors as of December 31, 1996:

Name and Residence	Principal Occupation
Ronald James Anderson Tokyo, Japan	Senior Vice President, AIG
Florence Davis New York, NY	Vice President and General Counsel, AIG
Evan G. Greenberg Bedford Hills, NY	Director and Executive Vice President, AIG
Maurice R. Greenberg New York, NY	Chairman and Chief Executive Officer, AIG
John G. Hughes Warren, NJ	Senior Vice President, AIG
Chiharu Igaya Tokyo, Japan	Director, AIU Insurance Company
Edwin Alfred G. Manton New York, NY	Honorary Director and Senior Adviser, AIG

Name and Residence	Principal Occupation
Edward E. Matthews Princeton, NJ	Director and Vice Chairman, AIG
Win Jay Neuger Princeton, NJ	Senior Vice President, AIG
Takaki Sakai Tokyo, Japan	Director, American Home Assurance Company
Howard Ian Smith Woodbury, NY	Executive Vice President and Chief Financial Officer, AIG
Thomas Ralph Tizzio Middletown, NJ	President, AIG
Fumio Tokuhira Tokyo, Japan	Director, AIU Insurance Company
Nicholas Shaw Tyler Montclair, NJ	Treasurer, American International Underwriters Overseas Association

A review of the minutes of the board of directors meetings indicated that meetings were generally well attended. However, it was noted that the following directors attended less than 50% of the board meetings that they were eligible to attend:

Directors	1992	1993	1994	1995	1996	Number Attended	Number Eligible	% Attended
Ronald J. Anderson	4	3	0	0	0	7	20	35%
Evan G. Greenberg	N/A	N/A	0	2	1	3	9	33%
Maurice R. Greenberg	0	0	2	3	1	6	20	30%
Chiharu Igaya	0	0	0	0	0	0	20	0%
Takaki Sakai	0	0	0	0	0	0	20	0%
Fumio Tokuhira	0	0	0	0	0	0	20	0%

Members of the board have fiduciary responsibilities and must evince an on-going interest in the affairs of the insurer. It is essential that board members attend meetings consistently and set forth their views on relevant matters so that the board may reach appropriate policy decisions. Individuals who fail to attend at least one-half of the board's regular meetings, unless appropriately excused, do not fulfill such criteria. It is recommended that board members who are unable or unwilling to attend meetings consistently should resign or be replaced.

A review of the minutes of the board of directors meetings, as well as the meetings of the various committees thereof revealed that there was no mention of the company's Japanese business segment. As the Company's Japanese business segment represents 80% of the Company's total 1996 premium written, it is recommended that the Company include mention of its Japanese segment in its board of directors' minutes.

The senior officers of the Company at December 31, 1996 were:

Name	Title
Thomas R. Tizzio	President
Frank M. Douglas Jr.	Senior Vice President and Actuary
Edward E. Matthews	Senior Vice President
Christian M. Milton	Senior Vice President
David B. Pinkerton	Senior Vice President
Robert Beier	Vice President
John Blumenstock	Vice President
Michael J. Castelli	Vice President and Treasurer
Brian S. Frisch	Vice President
Kumar Gursahaney	Vice President
Vincent J. Masucci	Vice President
Robert B. Meyer	Vice President
David Walsh	Vice President
Mark T. Willis	Vice President
Elizabeth M. Tuck	Corporate Secretary

B. Territory and Plan of Operation

The Company is authorized to transact the kinds of business as specified 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
20	Marine
21	Marine protection and indemnity

The Company is also authorized to write workers’ compensation insurance as may be incidental to coverages contemplated under paragraphs 20 and 21 of Section 1113, 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 within the State of New York the business of special risk insurance as defined in Article 63 of the New York Insurance Law.

Based upon 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, AIU Insurance Company is required to maintain a minimum surplus to policyholders in the amount of $35,000,000.

In addition to New York, the Company is authorized to transact business in Japan, the District of Columbia and in all states and territories of the United States except Hawaii and Wyoming. The following schedule shows the direct premiums written by the Company by calendar year during the period covered by this examination, 1992 to 1996 in New York State, countrywide, Japan and worldwide, and the percentage that the New York State premiums bear to the countrywide and worldwide premiums:

Direct Premiums Written ($000 omitted)

	1992	1993	1994	1995	1996
New York State	$ 2,968	$ 4,112	$ 51,114	$ 247,411	$ 240,475
Countrywide	$ 34,543	$ 47,961	$ 109,519	$ 339,063	$ 483,968
Japan	$1,442,889	$1,715,201	$1,938,935	$2,181,610	$1,948,463
Worldwide	$1,477,456	$1,763,163	$2,048,390	$2,521,304	$2,434,351
% of New York State to Countrywide	8.59%	8.57%	46.67%	72.97%	49.69%
% of New York State to Worldwide	.20%	.23%	2.50%	9.81%	9.88%

Related companies of the American Home/National Union Group operate as specialty multiple line carriers with emphasis on business developed and serviced by brokers. Underwriting facilities of AIG are maintained for handling virtually all forms of property and casualty insurance and reinsurance. Marketing efforts are directed mainly towards commercial and industrial risks. Affiliated American companies of AIG specialize in assumed reinsurance, surplus lines and risk management programs for large national insureds. The American Home/National Union Group obtains a significant portion of its business from and/or through these related companies. As noted earlier the Company writes approximately 80% of its direct business in Japan.

C. Reinsurance

The majority of the Company's assumed reinsurance emanates from its participation in an Inter-Company Reinsurance Pooling Agreement. Pursuant to the terms of this agreement, the Company and ten affiliated entities share in premiums, losses, and expenses based on their respective pool participation. Business written in Japan by AIU Insurance Company and American Home Assurance Company is not included in this pooling agreement. The pooling agreement, which became effective in 1978, included six Companies.

Three amendments were made to the pooling agreement during the period covered by this examination. On January 1, 1994 the Company amended its Pooling Agreement to include the following wholly owned subsidiaries of AIG:

American International Pacific Insurance Company
American International South Insurance Company
Granite State Insurance Company
Illinois National Insurance Company
New Hampshire Indemnity Company, Inc.
New Hampshire Insurance Company

A second amendment, dated January 1, 1995 required that the interests of National Union and each of the pool members, shall be their respective pooling percentage share of the combined sum of all parties underwriting and other related expenses and transactions. This amendment encompasses agents' balances, including past due balances, balances charged off and any penalties for overdue balances. This amendment also includes all reinsurance transactions as recorded in Schedule "F" of each of the pooled companies' statutory statements.

The third amendment, dated June 30, 1995 effectively deletes the New Hampshire Indemnity Company Inc. as a pool member for 1995 and subsequent calendar years.

As of December 31, 1996, the insurers included in this pooling agreement and their proportions of participation were as follows:

Pool Company	State of Domicile	Percentage Of Participation
National Union Fire Insurance Company of Pittsburgh, Pennsylvania	PA	38%
American Home Assurance Company	NY	36%
Commerce and Industry Insurance Company	NY	10%
The Insurance Company of the State of Pennsylvania	PA	5%
Birmingham Fire Insurance Company of Pennsylvania	PA	5%
New Hampshire Insurance Company	PA	5%
AIU Insurance Company	NY	1%
American International Pacific Insurance Company*	CO	0%
American International South Insurance Company*	PA	0%
Granite State Insurance Company*	PA	0%
Illinois National Insurance Company*	IL	0%
Total Pool		100%

* These companies cede 100% of their writings to the pool but do not assume any of the pool's liabilities.

Ceded Reinsurance

The American Home/National Union Group has in effect numerous reinsurance agreements that limit its net exposure. A general outline of the principal agreements in effect at December 31, 1996, is as follows:

Line of Business	Cession
American Home - Division 10	
Accident & Health Indiv. Acc. Q/S 100% Authorized	100% Q/S of $1,000,000, any one life.
Ind. Acc. 1st Surplus 100% Authorized	$500,000 surplus of $1,000,000, any one life.
Priority Surplus 100% Authorized	All other insureds - $250,000, per life. Pilots & aircrews – 50% of limits.
Underlying Excess of Loss 100% Authorized	$7,500,000 excess of $2,500,000 per event. Retention: $250,000 per Life, $2,500,000 per event.
American Home-Casualty American Home - Division 30	
Casualty Excess (Clash)	
First layer 73.12% Authorized 26.88% Unauthorized	$20,000,000 excess of $20,000,000, per occurrence.
Second layer 68.5% Authorized 31.5% Unauthorized	$10,000,000 excess of $40,000,000, per occurrence.
International Casualty Excess General Casualty 60.46% Authorized 39.54% Unauthorized	$15,000,000 excess of $10,000,000, per occurrence.
American Home - Division 50 AH (Divs. 02, 03, 09, 21, 29 & 58) Workers' Compensation Catastrophe	
First layer 100% Authorized	$7,500,000 excess of $7,500,000, per occurrence.

Line of Business	Cession
Second layer 100% Authorized	$10,000,000 excess of $15,000,000, per occurrence.
Third layer 100% Authorized	$15,000,000 excess of $25,000,000, per occurrence.
Fourth layer 100% Authorized	$10,000,000 excess of $40,000,000, per occurrence.
Fifth layer 100% Authorized	$40,000,000 excess of $50,000,000, per occurrence.
Sixth layer 100% Authorized	$30,000,000 excess of $90,000,000, per occurrence.
Seventh layer 95.0% Authorized 5.0% Unauthorized	$50,000,000 excess of $120,000,000, per occurrence.
Eighth layer 92.97% Authorized 7.03% Unauthorized	$50,000,000 excess of $170,000,000, per occurrence.
Ninth layer 85.0% Authorized 15.0% Unauthorized	$100,000,000 excess of $220,000,000, per occurrence.
Tenth layer 81.5% Authorized 18.5% Unauthorized	$150,000,000 excess of $320,000,000, per occurrence.
Casualty Catastrophe Excess of Loss General Casualty	
First layer 55.83% Authorized 44.17% Unauthorized	$10,000,000 excess of $25,000,000, per occurrence.
Second layer 53.61% Authorized 46.39% Unauthorized	$10,000,000 excess of $35,000,000, per occurrence.
Workers' Compensation First Excess of Loss 100% Authorized	$7,500,000 excess of $2,500,000, per occurrence.

Line of Business	Cession
Workers' Compensation Catastrophe Excess of Loss	
First layer 100% Authorized	$7,500,000 excess of $10,000,000, per occurrence.
Second layer 100% Authorized	$10,000,000 excess of $17,500,000, per occurrence.
Third layer 100% Authorized	$15,000,000 excess of $27,500,000, per occurrence.
Fourth layer 100% Authorized	$10,000,000 excess of $42,500,000, per occurrence.
Fifth layer 100% Authorized	$40,000,000 excess of $52,500,000, per occurrence.
Sixth layer 83.50% Authorized 16.50% Unauthorized	$30,000,000 excess of $92,500,000, per occurrence.
Seventh layer 95% Authorized 5% Unauthorized	$50,000,000 excess of $122,500,000, per occurrence.
Eighth layer 94% Authorized 6% Unauthorized	$50,000,000 excess of $172,500,000, per occurrence.
Ninth layer 100% Authorized	$100,000,000 excess of $222,500,000, per occurrence.
Tenth layer 79.37% Authorized 20.63% Unauthorized	$150,000,000 excess of $322,500,000, per occurrence.
AIG - Aviation Agency (Property)	
Aviation Quota Share (Treaty "B") 68.60% Authorized 31.40% Unauthorized	Up to 55% of 100% of US $90 million or currency equivalent, any one accident or occurrence, each aircraft, not to exceed $15 million, any one hull.

Line of Business	Cession
Aviation Excess of Loss (Hull & Liability combined)	
First layer 40.72% Authorized 59.28% Unauthorized	$10,000,000 excess of $20,000,000, per occurrence.
Second layer 42.50% Authorized 57.50% Unauthorized	$15,000,000 excess of $30,000,000, per occurrence.
Third layer 42.06% Authorized 57.94% Unauthorized	$15,000,000 excess of $45,000,000, per occurrence.
Fourth layer 52.10% Authorized 47.90% Unauthorized	$27,500,000 excess of $60,000,000, per occurrence.
AIAA Fgn. Industrial Aid Products Liability 32.73% Authorized 67.27% Unauthorized	$50,000,000 Liability plus, $25,000,000 Hull Obligatory Liab. ins, $30,000,000 excess of $20,000,000, each aircraft.
Aviation Quota Share (Treaty "A") 68.42% Authorized 31.58% Unauthorized	Hull and Liability combined 55% of 100% limits: US and/or CAN $15 million, any one Hull; US and/or CAN $75 million each aircraft/accident/occurrence and/or class of business in respect of Ground Liability.
AIGA Hull Surplus 64.00% Authorized 36.00% Unauthorized	Up to $30 million any one accident or occurrence, each aircraft; only on aircraft with values over $5 million.
AIGA Excess of Loss (Hull and Liability combined)	
First layer 38.19% Authorized 61.81% Unauthorized	$10,000,000 excess of $10,000,000, per occurrence.
Second layer 29.92% Authorized 70.08% Unauthorized	$10,000,000 excess of $20,000,000, per occurrence.

Line of Business	Cession
Third layer 36.19% Authorized 63.81% Unauthorized	$17,500,000 excess of $30,000,000, per occurrence.
Fourth layer 35.86% Authorized 64.14% Unauthorized	$17,500,000 excess of $47,500,000, per occurrence.
AIMA - (Property) Bluewater Hull	
Obligatory Hull Quota Share 84.66% Authorized 15.34% Unauthorized	70% of $3,000,000; maximum limit: $2,100,000.
Marine Cargo Excess of Loss	
First layer 68.50% Authorized 31.50% Unauthorized	$9,250,000 excess of $750,000, any one loss, any one occurrence.
Second layer 67.00% Authorized 33.00% Unauthorized	$10,000,000 excess of $10,000,000, any one loss, any one occurrence.
Third layer 54.50% Authorized 45.50% Unauthorized	$15,000,000 excess of $20,000,000, any one loss, any one occurrence.
Hull Specific Excess of Loss 25% Authorized 75% Unauthorized	$500,000 excess of $250,000, any one loss, any one occurrence.
General Marine Excess of Loss	
First layer 77.75% Authorized 22.25% Unauthorized	$4,250,000 excess of $750,000 - Cargo, Hull, $4,000,000 excess of $1,000,000 – Liability, any one loss or series of losses from one event.
Second layer 68.25% Authorized 31.75% Unauthorized	$5,000,000 excess of $5,000,000, any one loss or series of losses from one event.
Third layer 54.50% Authorized 45.50% Unauthorized	$7,500,000 excess of $10,000,000, any one loss or series of losses from one event.

Line of Business	Cession
Fourth layer 47.50% Authorized 52.50% Unauthorized	$7,500,000 excess of $17,500,000, any one loss or series of losses from one event.
Cargo & Liability Excess of Loss (Clash cover) 62.50% Authorized 37.50% Unauthorized	$25,000,000 excess of $25,000,000 – Liability $25,000,000 excess of $35,000,000 – Cargo, (max. limit $25,000,000 any one loss or series of losses from one event).
AIMA - (Liability)	
Marine Liability Excess of Loss	
First layer 60.75% Authorized 39.25% Unauthorized	$4,000,000 excess of $1,000,000, per occurrence.
Second layer 60.75% Authorized 39.25% Unauthorized	$5,000,000 excess of $5,000,000, per occurrence.
Third layer 60.75% Authorized 39.25% Unauthorized	$7,500,000 excess of $10,000,000, per occurrence.
Fourth layer 61.00% Authorized 39.00% Unauthorized	$7,500,000 excess of $17,500,000, per occurrence.
C & I (Property)	
C & I Excess of loss	
First layer 76.50% Authorized 23.50% Unauthorized	$20,000,000 excess of $10,000,000, limit: $20,000,000 per risk, $60,000,000, per occurrence.
Second layer 65.24% Authorized 34.76% Unauthorized	$25,000,000 excess of $30,000,000, limit: $25,000,000 per risk, $50,000,000, per occurrence.
Third layer 73.33% Authorized 26.67% Unauthorized	$30,000,000 excess of $55,000,000, limit: $30,000,000 per risk, $60,000,000, per occurrence.

Line of Business	Cession
Fourth layer 83.28% Authorized 16.72% Unauthorized	$35,000,000 excess of $85,000,000, per occurrence. limit: $35,000,000 per risk, $70,000,000, per occurrence.
NU Division 36	
2nd BLKT Cas Excess of Loss D & O / Pension 100% Authorized	$10,000,000 excess of $15,000,000.
Casualty Clash Excess of Loss D & O/ Pension/ E&O 97.50% Authorized 2.50% Unauthorized	$25,000,000 excess of $25,000,000, per loss, per occurrence.
Domestic Variable Surplus Surety 71.48% Authorized 28.52% Unauthorized	Maximum limit: 40% of $50,000,000 or $20,000,000.
Worldwide Surety Excess of Loss	
First layer 43.90% Authorized 56.10% Unauthorized	95% of $10,000,000 excess of $12,500,000.
Second layer 47.88% Authorized 52.12% Unauthorized	95% of $10,000,000 excess of $22,500,000.
Third layer 48.63% Authorized 51.37% Unauthorized	95% of $10,000,000 excess of $32,500,000.
Fourth layer 46.34% Authorized 53.66% Unauthorized	95% of $7,500,000 excess of $42,500,000.
Fidelity Surplus Fidelity Bond 15.35% Authorized 84.65% Unauthorized	$20,000,000 part of $35,000,000.
Liability Quota Share	
Lawyer Prof. Liability 100% Authorized	50% Q/S max. $5,000,000 each policy, each claim made.

Line of Business	Cession
Patent Infringement 100% Authorized	62.5% of $15,000,000.
Employment Practices Liability 100% Authorized	80% of $5,000,000.
Oil Pollution Quota Share 29.49% Authorized 70.51% Unauthorized	61.72% of max. $100,000,000 each policy, each claim made.
Liability Excess of Loss	
Lawyer Professional Liability 81.43% Authorized 18.57% Unauthorized	$15,000,000 excess of $5,000,000.
Miscellaneous Errors and Omissions 100% Authorized	$20,000,000 excess of $5,000,000.
NASD Fidelity Bond Quota Share Fidelity Bond 100% Unauthorized	$500,000 each and every loss in the aggregate.
Executive Deferred Income Insurance Quota Share (EDII) Employment Benefits Liability 89.57% Authorized 10.43% Unauthorized	80% of $30,000,000.
Insurance Company E&O 91.81% Authorized 8.19% Unauthorized	Two limits depending on risk: $5,000,000 excess of $5,000,000. $10,000,000 excess of $5,000,000.
Security Bonds SIPC Excess of Loss	
Security Bonds - First layer 84.42% Authorized 15.58% Unauthorized	$15,000,000 excess of $10,000,000.
Security Bonds - Second layer 100% Authorized	$25,000,000 excess of $25,000,000.

Line of Business	Cession
Casualty Clash Excess of Loss	
Clash cover - First layer 55.64% Authorized 44.36% Unauthorized	$10,000,000 excess of $5,000,000, per occurrence.
Clash cover - Second layer 67.61% Authorized 32.39% Unauthorized	$10,000,000 excess of $15,000,000, per occurrence.
Clash cover - Third layer 72.68% Authorized 27.32% Unauthorized	$15,000,000 excess of $25,000,000, per occurrence.
Clash cover - Fourth layer 74.70% Authorized 25.30% Unauthorized	$10,000,000 excess of $40,000,000, per occurrence.
Umbrella Liability Commercial Umbrella Liability 100% Authorized	90% of $5,000,000.
Excess of Loss Fire Arms Dealers	
First layer 100% Authorized	$250,000 excess of $250,000.
Second layer 100% Authorized	$500,000 excess of $500,000.
Quota Share Treaty Boiler & Machinery (misc. accounts) 100% Authorized	100% of $30,000,000.
General Liability Excess of Loss Social Services 100% Authorized	$562,500 excess of $187,750.
Auto Liability Excess of Loss Social Services - First layer 100% Authorized	$250,000 excess of $500,000.
Social Services - Second layer 100% Authorized	$500,000 excess of $500,000.

Line of Business	Cession
Quota Share Treaty	
Boiler & Machinery (Mud use) 100% Authorized	 100% of $30,000,000.
Boiler & Machinery (Church use) 100% Authorized	 100% of $30,000,000.
Boiler & Machinery (Florida Condo use) 100% Authorized	 100% of $30,000,000.
Quota Share Treaty	
Boiler & Machinery 100% Authorized	 100% of $30,000,000.
Boiler & Machinery 100% Authorized	 100% of $30,000,000.
Property Per Risk Excess of Loss Property coverage for Special Programs	
First layer (includes treaties 1111, 1311 & 1511) 100% Authorized	 $4,000,000 excess of $1,000,000. $4,000,000 excess of $1,000,000. $4,750,000 excess of $250,000.
Second layer 95.92% Authorized 4.08% Unauthorized	 $5,000,000 excess of $5,000,000.
Third layer 67.50% Authorized 32.50% Unauthorized	 $15,000,000 excess of $10,000,000.
Property Excess of Loss Non-Profit Social Services - First layer 100% Authorized	 $500,000 excess of $500,000.
Non-Profit Social Services - Second layer 100% Authorized	$4,000,000 excess of $1,000,000.
Property Per Risk Excess of Loss Property coverage for Special Programs 74.85% Authorized 25.15% Unauthorized	 $1,000,000 excess of $1,000,000. $4,000,000 maximum per occurrence.

Line of Business	Cession
Quota Share Treaty Property Petrochemical 41.73% Authorized 58.27% Unauthorized	Maximum limit $50,000,000, per risk.
Worldwide Property Excess of Loss Common account - protect net	
First layer 69.24% Authorized 30.76% Unauthorized	$20,000,000 excess of $30,000,000, per risk, per loss.
Second layer 56.71% Authorized 43.29% Unauthorized	$50,000,000 excess of $50,000,000, per risk, per loss.
Umbrella Excess Casualty Quota Share National Ski Areas Liability	
First layer 100% Authorized	66% Q/S of $5,000,000 excess on General Liability or Umbrella Policies.
Second layer 100% Authorized	62.5% of $5,000,000 excess of $5,000,000. ($5,000,000 excess of underlying Policies of $5,000,000 or more).
Property CAT Corporate Covers	
First layer 19.69% Authorized 80.31% Unauthorized	$25,000,000 excess of $50,000,000, per occurrence.
Second layer 20.58% Authorized 79.42% Unauthorized	$35,000,000 excess of $75,000,000, per occurrence.
Third layer 26.78% Authorized 73.22% Unauthorized	$50,000,000 excess of $110,000,000, per occurrence.
Fourth layer 37.06% Authorized 62.94% Unauthorized	$60,000,000 excess of $160,000,000, per occurrence.

Line of Business	Cession
Fifth layer 21.93% Authorized 78.07% Unauthorized	$60,000,000 excess of $220,000,000, per occurrence.
Sixth layer 100% Unauthorized	$25,000,000 excess of $280,000,000, per occurrence.
Casualty CAT Covers	
Corporate Casualty Catastrophe 68.34% Authorized 31.66% Unauthorized	$50,000,000 excess of $50,000,000, per occurrence.
Worldwide Common Account 72.01% Authorized 27.99% Unauthorized	$20,000,000 excess of $30,000,000, per risk, per loss.
Worldwide Excess 60.5% Authorized 39.5% Unauthorized	$50,000,000 excess of $50,000,000, per risk, per loss.
A. I. Transport Division 27	
Large fleet Commercial Truckmen Quota Share 81.00% Authorized 19.00% Unauthorized	Up to $1,000,000 per vehicle, per accident.
Large fleet Commercial Truckmen Excess of Loss 96.00% Authorized 4.00% Unauthorized	$4,000,000 excess of $1,000,000, per accident or occurrence. SIR Policies: SIR/Deductible + $500,000. Limit = Difference bet. $5M & SIR/Ded. + $500,000.
Commerce & Industry (Casualty)	
Casualty Quota Share Pollution Legal Liability Quota Share 100% Authorized	$35,000,000 aggregate limit of liability, each policy.
AHAC Industrial Aid Aircraft Excess Workers' Compensation 100% Authorized	$7,500,000 original insured's event.

Line of Business	Cession
Occupational Accident Excess Workers' Compensation 100% Authorized	$2,500,000 excess of $5,000,000 plus original insured.
US Longshoremen and Harbor Workers' Compensation Act Program Workers' Compensation 100% Authorized	$5,500,000 excess of $2,000,000, each loss occurrence.
AHAC Workers' Compensation First Excess of Loss - U. S. L & H 100% Unauthorized	$4,000,000 excess of $1,000,000, per occurrence.
Corporate Covers Aggregate loss ratio trust 100% Unauthorized	Two per occurrence limits depending on risk: $10,000,000 excess of $10,000,000, $15,000,000 excess of $20,000,000, Aggregate limit of $660,000,000.
AIU Japan Branch	
Accident & Health	
Personal Accident Act of God 100% Unauthorized	100% Q/S of Y100,000,000, any one life.
Personal Accident Q/S 41.00% Authorized 59.00% Unauthorized	83.5% Q/S of Y35,000,000, any one life.
Personal Lines	
Automobile Quota Share 36.00% Authorized 64.00% Unauthorized	70% Q/S max. $2,000,000, each policy, each claim made.
Casualty Quota Share 37.38% Authorized 62.62% Unauthorized	80% Q/S max. limit $5,000,000, any one accident or occurrence.
Property Quota Share 61.11% Authorized 38.89% Unauthorized	93.5% Q/S max. limit $15,000,000, any one risk.

An inordinate amount of time was needed by the Company to provide the examiners with copies of reinsurance treaties selected for testing. Based on discussions with management personnel, treaty reinsurance contracts and facultative reinsurance certificates are now being electronically scanned in order for the Company to maintain a central repository for this documentation.

It is recommended that the Company continue in its effort to electronically scan treaty reinsurance contracts and facultative reinsurance certificates, and that such scanned documentation be maintained in a secure central repository.

Aggregate Stop Loss

In addition to the Company's reinsurance program described above, the Company enters into aggregate stop loss agreements on a calendar year basis to minimize adverse loss development.

D. Holding Company System

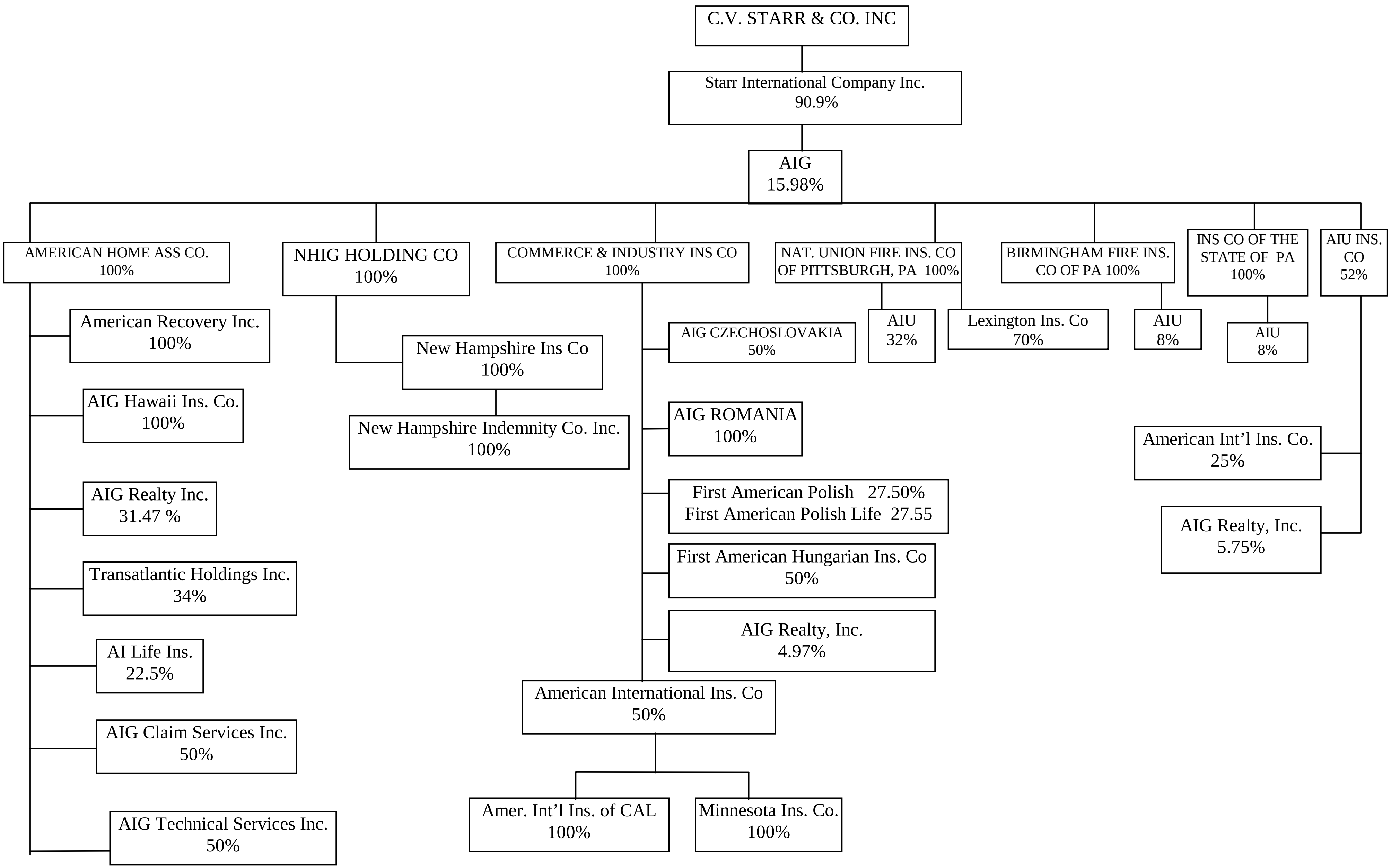
Ownership of the Company is held by AIG and its subsidiaries detailed as follows:

Company	Percentage of Ownership
American International Group, Inc.	52%
National Union Fire Insurance Company of Pittsburgh, Pennsylvania	32
Birmingham Fire Insurance Company of Pennsylvania	8
The Insurance Company of the State of Pennsylvania	8
Total	100%

The Company, in turn, owns part of the companies listed below which are within its holding company system:

Company	Percentage of Ownership
AIG Realty, Inc.	5.75%
American International Insurance Co.	25.00%

C.V. Starr and Company Incorporated is the ultimate parent in the holding company system. An organization chart as of December 31, 1996 which details members of the system, is shown on the following page:



(Excerpts from Company organization charts showing relevant New York companies.)

The Company is a party to numerous agreements with affiliated entities. A description of the principal agreements follows:

Service and Expense Agreement

The Company is a party to a service and expense agreement with AIG, whereby AIG provides essentially all space, services and personnel necessary for the conduct of its business.

Tax Payment Allocation Agreement

The company is a party to a consolidated tax return of the AIG holding company. Under the terms of the agreement, companies are able to consolidate their incomes to effectuate a lower federal income tax. This agreement was approved by this Department.

The Company failed to submit a total of 170 service and reinsurance agreements to the Department prior to their implementation as required by Section 1505(d)(2) and (3) of the New York Insurance Law. It is recommended that the Company establish an effective method of monitoring its holding company filings and submit them to the Department prior to their implementation, in accordance with the provisions of Section 1505(d)(2) and (3) of the New York Insurance Law. It is noted that the agreements were filed subsequent to the date of this examination and are currently under review.

Members of the AIG Pool entered into various reinsurance and service agreements with other members of the AIG holding company. Although the Company was not a direct party to these agreements it was indirectly affected by these agreements by virtue of the pooling agreement. Since these indirect transactions affect the Company, it is recommended that the Company disclose these arrangements with the Department.

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 1996, based upon the results of this examination:

Net premiums written in 1996 to Surplus as regards policyholders	1.87 to 1
Liabilities to Liquid assets (cash and invested assets less investments in affiliates)	100.78%
Premiums in course of collection to Surplus as regards policyholders	16.11%

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 ratios presented below are on an earned-incurred basis and encompass the five-year period covered by this examination:

	Amounts	Ratios
Losses incurred	$1,069,017,047	53.92%
Loss adjustment expenses incurred	199,936,849	10.08%
Other underwriting expenses incurred	318,356,429	16.05%
Net underwriting gain	395,658,480	19.95%
Premiums earned	$1,982,968,805	100.00%

F. Accounts and Records

Japan Records

Both AIU and American Home have branch offices in Japan. The Japanese branch represents 80% of the Company's total premiums written during 1996. Summary records for the business produced by the

Japanese branch are maintained in the United States. All detail records for premiums, losses, expenses, investments, other assets and liabilities reside in Japan. The Company's home office receives, on a quarterly basis, a Standard Internal (SI) financial statement package that is in Annual Statement summary form only. The general ledger and subsidiary ledgers with supporting detail reside in Japan.

Section 325(b) of the New York Insurance Law states,

> "A domestic insurer may keep and maintain its books of account without the state if, in accordance with a plan adopted by its board of directors and approved by the Superintendent, it maintains in this state suitable records in lieu thereof; provided, however, that the superintendent may... direct such insurer to return all or any of its books of account to this state if such is reasonably necessary... to permit the inspection in this state..."

Although the Company has filed a plan pursuant to Section 325(a) of the New York Insurance Law it appears that it should be updated to reflect the details of certain accounts that are kept in Tokyo, Japan. Such plan should be filed with this Department pursuant to Section 325(b) of the New York Insurance Law.

High Deductible Policies Written in New York State

Section 3443 of the New York Insurance Law allows for the issuance of certain workers' compensation and employers' liability insurance policies containing deductible features. Pursuant to this section of the law, the insurer pays from the first dollar on a compensable claim and is then reimbursed by the policyholder for the applicable deductible. It is the opinion of this Department's Office of General Counsel that the premium calculated at the beginning of the policy period plus all losses and accompanying expenses for which the company is ultimately reimbursed by the insured is subject to premium tax imposed by Section 1510 of the New York Corporate Franchise Tax Law.

The Company did not include deductible reimbursements when computing its New York corporate franchise tax return. It is recommended that these amounts be included when computing the tax imposed by Section 1510 of the New York Corporate Franchise Tax Law.

Annual Statement general Interrogatory 31 requires an insurer to respond to the following question:

> “Are letters of credit or collateral and other funds received from insureds being utilized by the company to secure premium or promissory notes taken by the company, or to secure any of the company’s reported direct unpaid loss reserves, including unpaid losses under deductible features of commercial policies.”

The Company responded ‘no” to this interrogatory when in fact the Company had been utilizing letters of credit or collateral and other funds to secure unpaid loss reserves, including unpaid losses under deductible features of commercial policies.

It is recommended that the Company exercise greater care when responding to this general interrogatory.

Maturity Refund Reserve

The Company markets Maturity Refund type policies in Japan, an insurance policy with a maturity refund rider. The policy combines a normal insurance risk feature and a savings feature. The savings portion guarantees a percentage return of the premium to the policyholders and is recorded as Policyholders’ Funds on Deposit in the balance sheet. The fund is segregated and invested by a Fund Manager to produce the best possible yield in order to meet the guaranteed return to the policyholder. The guaranteed stipulated return interest rate is normally up to 6%, depending on the term of the policy.

The Company has established a liability for policyholders' funds on deposit in its December 31, 1996 annual statement of $437,443,991. This amount represents policies issued in Japan that contain a savings provision. The Company owes these balances to its insureds, and were confirmed during the course of this examination. Additionally, the Company has segregated certain assets equal to their liabilities. The Company has not disclosed these segregated assets in its 1996 annual statement. Neither did it indicate that they were restricted for Japanese policyholders.

It is recommended that the Company disclose the fact that certain of its assets have been earmarked for the benefit of its Japanese maturity refund policyholders in Schedule E- Part 2 of its annual statement.

Record Retention

As a result of the agreed upon procedures performed in Japan by an independent CPA firm, it was discovered that certain original documentation had not been retained by the Company. Management's response was that Japanese law does not require companies to maintain records for the same period of time as the New York Insurance Law.

It is recommended that the Company update its record retention policy to maintain documents in accordance with the Department's Regulation 152.

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and surplus as determined by this examination as of December 31, 1996 and as reported by the Company:

Liabilities	Examination	Company	Surplus Increase (Decrease)
Losses	$ 249,130,202	$ 280,127,202	$ (30,997,000)
Loss adjustment expenses	50,729,038	50,729,038	
Other expenses	23,554,666	23,554,666	
Taxes, licenses and fees	287,866	287,866	
Federal income tax recoverable	41,741,088	41,741,088	
Unearned premiums	196,529,339	156,529,339	40,000,000
Dividends declared and unpaid: Stockholders	2,400,000	2,400,000	
Funds held by Company under reinsurance treaties	274,389,523	274,389,523	
Amounts withheld or retained by company for account of others	6,389,223	6,389,223	
Provision for reinsurance	128,383,519	46,021,519	82,362,000
Excess of statutory reserves over statement reserves	159,866	159,866	
Payable for securities	13,989,592	13,989,592	
Policyholder funds on deposit	437,443,991	437,443,991	
Other Liabilities	21,255,860	21,255,860	
Servicing carrier liability	35,670	35,670	
Liability for pension and severance pay	36,671,505	36,671,505	
Total liabilities	$ 1,483,090,948	$ 1,391,725,948	$ 91,365,000
Policyholders' Surplus			
Capital paid up	$ 8,000,000	$ 8,000,000	$ -
Gross paid in and contributed surplus	33,000,000	33,000,000	
Unassigned funds	170,089,456	388,731,623	(218,642,167)
Surplus as regards policyholders	$ 211,089,456	$ 429,731,623	$ (218,642,167)
Total liabilities and surplus	$ 1,694,180,404	$ 1,821,457,571	

Liabilities	Examination	Company	(Decrease)
Losses	$ 280,127,202	$ 280,127,202	
Loss adjustment expenses	50,729,038	50,729,038	
Other expenses	23,554,666	23,554,666	
Taxes, licenses and fees	287,866	287,866	
Federal income tax recoverable	41,741,088	41,741,088	
Unearned premiums	156,529,339	156,529,339	
Dividends declared and unpaid: Stockholders	2,400,000	2,400,000	
Funds held by Company under reinsurance treaties	274,389,523	274,389,523	
Amounts withheld or retained by company for account of others	6,389,223	6,389,223	
Provision for reinsurance	127,291,519	46,021,519	$ (81,270,000)
Excess of statutory reserves over statement reserves	159,866	159,866	
Payable for securities	13,989,592	13,989,592	
Policyholder funds on deposit	437,443,991	437,443,991	
Other liabilities	21,255,860	21,255,860	
Servicing carrier liability	35,670	35,670	
Liability for pension and severance pay	36,671,505	36,671,505	
Total liabilities	1,472,995,948	1,391,725,948	$ (81,270,000)
Capital paid up	$ 8,000,000	$ 8,000,000	
Gross paid in and contributed surplus	33,000,000	33,000,000	
Unassigned funds	180,184,456	388,731,623	$ (208,547,167)
Surplus as regards policyholders	$ 221,184,456	$ 429,731,623	$ (208,547,167)
Total liabilities and surplus	$ 1,694,180,404	$ 1,821,457,571	

NOTE 1: The Internal Revenue Service has completed its audit of the consolidated tax returns filed on behalf of the Company through tax year 1986. All material adjustments, if any, made subsequent to the date of the examination and arising from said audits, are reflected in the financial statements included in this report. Audits covering tax years 1987 to 1990 are currently in appeal. The audits for the years 1991 through 1993 are still in progress. The examiner is unaware of any potential exposure of the Company to any further tax assessment and no liability has been established herein relative to such contingency.

NOTE 2: With the exception of investments, this balance sheet is on a fiscal year ending November 30, 1996.

B. Underwriting and Investment Exhibit

Surplus as regards policyholders increase $3,612,705 during the five-year period January 1, 1992 through December 31, 1996, inclusive of examination adjustments, as follows:

Statement of Income

Underwriting Income

Premiums earned		$1,982,968,805
Deductions:		
Losses incurred	$ 1,069,017,047	
Loss adjustment expenses incurred	199,936,849	
Other underwriting expenses incurred	318,356,429	
Total underwriting deductions		1,587,310,325
Net underwriting gain		$ 395,658,480

Investment Income

Net investment income earned	$ 133,410,545	
Net realized capital gains	2,581,476	
Net investment gain		135,992,021

Other Income

Miscellaneous income (loss)	$ (807,815)	
Total other income (loss)		(807,815)
Net income before dividends to policyholders and federal and foreign income taxes		$530,842,686
Dividends to policyholders		379,692
Net income before federal and foreign income taxes		$ 530,462,994
Federal and foreign income taxes incurred		170,560,287

Capital and Surplus Account

	Gains in Surplus	Losses in Surplus	
Surplus as regards policyholders per report on examination, as of December 31, 1991			$217,571,751
Net income	$ 359,902,707		
Net unrealized capital gains		$ 11,765,215	
Change in not admitted assets		179,859,476	
Change in provision for reinsurance		118,372,959	
Change in excess of statutory reserves over statement reserves		159,866	
Dividends to stockholders		60,075,812	
Federal and foreign income tax adjustment	5,442,624		
Unrealized foreign exchange adjustment	8,500,702		
Total gains and losses	$ 373,846,033	$ 370,233,328	
Net increase in surplus as regards policyholders			3,612,705
Surplus as regards policyholders per report on examination, as of December 31, 1996			$ 221,184,456

4. FEDERAL INCOME TAX RECOVERABLE

The examination admitted asset of $16,257,119 is $127,277,167 less than the $143,534,286 reported by the Company as of December 31, 1996.

Pursuant to the provisions in Circular Letter 15 (1975), “balance due as a result of participation in a consolidated tax return,” should be paid over promptly by the parent. Since $127,277,167 of this asset has not been received up to the completion date of the examination, it has been not admitted for the purpose of this report.

It is recommended that the Company’s parent company settle its federal income tax recoverable with its affiliate promptly.

Subsequent to the completion of the examination, the Company collected $77,524,775. The remaining balance was written off.

5. LOSSES

The examination liability of $280,127,202 is the same as the amount reported by the Company as of December 31, 1996. The examination analysis was conducted in accordance with generally accepted actuarial principles and practices and was based on statistical information contained in the Company’s internal records and in its filed annual statements.

In conjunction with the actuarial review of loss and loss adjustment expense reserves, certain deficiencies were noted relative to the Company's internal actuarial analyses. It is recommended that AIG strive to improve the clarity and consistency of its actuarial analyses. Each reserve review should contain a clear summary of the estimates, separately by business segment and in total for all business segments combined. These summaries should be prepared on a consistent basis for each reserve review.

It was also noted that, for some divisions, it was difficult to determine exactly what the final estimates were because the results were not clearly presented in a uniform manner. It is recommended that the findings resulting from each review be clearly presented.

6. LOSS ADJUSTMENT EXPENSES

The examination liability of $50,729,038 is the same as the amount reported by the Company as of December 31, 1996. The examination analysis was conducted in accordance with generally accepted actuarial principles and practices and was based on statistical information contained in the Company's internal records and in its filed annual statements.

7. PROVISION FOR REINSURANCE

The examination liability of $127,291,519 is $81,270,000 more than the $46,021,519 reported by the Company as of December 31, 1996.

The increase is mostly due to the fact that thirty-seven of the Company's Japanese reinsurance contracts did not have the required "insolvency clause" as required by Section 1308(a)(2)(B) of the New York Insurance Law. Such clause is required in order for an insurer to be allowed credit for its reinsurance cessions.

It is recommended that the Company include the necessary language pursuant to Section 1308(a)(2)(B) of the New York State Insurance Law prior to taking credit for reinsurance.

Subsequent to the completion of this examination, the Company, upon renewal of the reinsurance contracts disallowed, amended six of the contracts to include the required insolvency clause. Additionally, twenty-one cover notes relating to the renewals of contracts disallowed, reflected that an insolvency clause will be included in the renewed contract wording. These contract and cover notes accounted for approximately $32,000,000 of the disallowed balance.

8. MARKET CONDUCT ACTIVITIES

In the course of this examination, a review was made of the manner in which the Company conducts its business practices and fulfills its contractual obligations to policyholders and claimants. The review was general in nature and is not to be construed to encompass the generally more precise scope of a market conduct investigation, which is performed by the Market Conduct Section of the Property Bureau of this Department.

The general review was directed at practices of the Company in the following areas:

A. Sales and advertising
B. Underwriting
C. Rating
D. Claims

No exceptions were noted in this examination.

9. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The following recommendations cited in the prior report on examination as of December 31, 1991, are summarized below (page numbers refer to the prior report):

ITEM		PAGE NO.
A.	Management	
	It is recommended, as it was in the prior examination, that board members who are unable or unwilling to attend meetings consistently should resign or be replaced.	7
	The Company has not complied with this recommendation. A similar comment is contained in the current report on examination.	
B.	Agreement with Coral Reinsurance	
	1. The Company, on the portion of the treaty pertaining to commutations, does not record the ceded premium to Coral Re or the loss on the commutation. Only a memo entry is made to replace the named reinsurer. This is inappropriate statutory accounting. It is recommended that the Company properly reflects the transactions in the corresponding general ledger accounts to fully disclose the separate transactions; the loss on the commutation and the subsequent cession to Coral Re.	18
	2. The quota share reinsurance agreement with Coral Re does not transfer underwriting risk. Therefore, it is recommended that the Company not take credit for the treaty with Coral Re.	19

ITEM			PAGE NO.
	3.	It is recommended that all transactions between the Company and its affiliates be evidenced by written agreements and such agreements be filed with the New York Insurance Department in accordance with Section 1505(d)(1) of the New York Insurance Law. The Company for the most part has commuted its contract with Coral Reinsurance Company Ltd.	20
	4.	It is recommended that the Company draw down the parental LOC as required under Regulation 20. The Company has complied with this recommendation.	21
	5.	It is recommended that the Company comply with Section 310(a)(3) of the New York Insurance Law and provide information requested to facilitate the examination. The Company has generally complied with this recommendation. A similar comment is contained in the current report on examination. See item 2B "Reinsurance."	27
C.	Accounts and Records		
	1.	General	
		Considerable delays were encountered in obtaining information from the Company. It is recommended, as it was in the prior report on examination, that more efficient procedure in gathering information from various information centers be put in place to expedite future examinations. Although the Company has made improvements in this area, the Company has not completely complied with this recommendation. A similar comment is contained in the current report on examination. See item 2B "Reinsurance."	30
	2.	Japan Records	
		It is recommended that the Company file and receive prior approval from the Superintendent a plan adopted by its board of directors, to keep and maintain its books and records without the state in accordance with Section 325(b) of the New York Insurance Law. Although the Company has submitted a plan in accordance with Section 325 (b) of the New York Insurance Law, it must be updated to reflect that certain records are kept outside the State of New York.	32

ITEM		PAGE NO.
D.	Cash on Hand and on Deposit	
	It is recommended that there be closer monitoring, or a dual system processing whenever a new system is installed in order to prevent similar reconciliation problems and unnecessary delays in the examination process.	32
	The Company has complied with this recommendation.	
E.	Common Stocks	
	1. It is recommended that the pool companies and the Company's affiliates submit consistent values of subsidiary stocks jointly owned.	37
	The Company has complied with this recommendation.	
	2. It is recommended that the Company submit its securities to the Securities Valuation Office of the N.A.I.C. for valuation in a more timely manner, as required by Section 1414(g) of the New York Insurance Law.	37
	The Company has complied with this recommendation.	
F.	Reinsurance Recoverable on Paid Losses and Loss Adjustment Expense Payments	
	It is recommended that the Company report treaty reinsurance recoverable on paid losses in the proper annual statement account and corresponding Schedule F.	39
	The Company has complied with this recommendation.	
G.	Loss Funds on Deposit	
	It is recommended that the Company reclassify reinsurance recoverable on paid losses to its proper asset, "Reinsurance Recoverable on Losses and Loss Adjustment Expense Payments" and in Schedule "F" in accordance with the N.A.I.C. Annual Statement Instructions.	41
	The Company has complied with this recommendation.	
H.	Losses	
	1. It is recommended that developments of reserves regarding the toxic waste, environmental, and asbestos exposures be monitored closely to detect any changes in patterns of claims frequency and severity, as soon as possible.	43
	The Company has complied with this recommendation.	

ITEM		PAGE NO.
	2. It is recommended that the Company establish loss reserves in its filed Annual Statement for its share of the judgments made against the Group, in accordance with Section 1303 of the New York Insurance Law. The Company has complied with this recommendation.	44
I.	Loss Adjustment Expenses	
	The annual statement blank, in the form prescribed by the Superintendent of Insurance of New York pursuant to Section 307 of the New York Insurance Law, requires proper segregation be maintained between the reserves for losses and loss adjustment expenses. The Company presently segregates reserves for losses and allocated loss adjustment expenses. However, it does not segregate reserves for unallocated loss adjustment expenses. It is recommended that the Group complies with this requirement. The Company has complied with this recommendation.	45

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13. SUMMARY OF COMMENTS AND RECOMMENDATIONS

ITEM		PAGE NO.
A.	Management	
	i. It is recommended that board members who are unable or unwilling to attend meetings consistently should resign or be replaced.	7
	ii. It is recommended that the company include mention of its Japanese segment in its board of directors' minutes.	7
B.	Reinsurance	
	It is recommended that the Company continue in its effort to electronically scan treaty reinsurance contracts and facultative reinsurance certificates, and that such scanned documentation be maintained in a secure central repository.	25
C.	Holding company system	
	i. It is recommended that the inter-company agreements be submitted to the Department prior to their implementation, in accordance with the provisions of Section 1505(d)(2) and (3) of the New York Insurance Law.	28

AIU INSURANCE COMPANY
70 Pine Street, New York, New York 10270
212-770-7000

RECEIVED

MAR 4, 2001

JOHN R. CASHIN
DEPUTY SUPERINTENDENT

March 16, 2001

Sonia Llera
Associate Insurance Examiner
Property & Casualty Bureau
Department of Insurance
25 Beaver Street
New York, N.Y. 10004

Re: AIU Insurance Company
Report on Examination as of December 31, 1996

Dear Ms. Llera:

We are in receipt of your letter of February 9, 2001 transmitting the draft report on examination of the above-referenced Company. Please be advised that with the following comments the Company deems this report to be acceptable.

A. Management

In the Report the Department commented on the attendance of certain Board members. It appears the Department only looked at the regularly scheduled quarterly meetings of the Board. When one takes into account the attendance of these members at the Executive Committee of the Board, the meetings attended by these Board members increases materially. The Company will take appropriate action to insure that board members discharge their fiduciary responsibilities to the Company.

The Company has adopted procedures to include a report of its Japanese business in the quarterly meeting of the Company's board of directors.

B. Reinsurance

The Company has established and will continue to electronically scan all treaty reinsurance contracts and maintain them in a secured central repository. The Company will continue its efforts to electronically scan facultative reinsurance certificates and maintain them in secured repositories.

C. Holding Company System

During the course of the examination it became apparent that there was insufficient documentation to determine whether certain inter-company agreements subject to the provisions of §1505(d) had been submitted to the Department for prior non-disapproval. As noted in the report all of these agreements had been filed (or refiled) with the Department. The Company is making every effort to identify such agreements and so submit them to the Department in accordance with the requirements of §1505.

The Department has noted that certain indirect transactions affect the Company by virtue of a pooling agreement and that the Company disclose these arrangements with the Department. While we do not agree that New York law requires filing of these inter-company agreements with the New York Department, the Company understands the concern of the Department and will work with the Department to determine which indirect transactions materially affect the Company.

D. Accounts and Records

i. Section 325 Plan

The Company agrees to submit a revised 325(b) Plan with the Department amending its previously filed plan.

ii High Deductible on Policies Written in New York State

(a) The Company continues to take the position that New York law does not clearly require that deductible reimbursements be included when computing the tax imposed by §1510 of the New York Corporate Franchise Tax Law.

(b) The Company agrees to exercise greater care when responding to the annual statement general interrogatory.

iii <u>Maturity Refund Reserve</u>

The Company agrees with the Department's recommendation regarding the maturity refund reserve.

iv <u>Record Retention</u>

The Company is in the process of updating its record retention policy and will insure that the Company's documents are maintained in accordance with Department Regulation 152.

E. <u>Federal Income Tax Recoverable</u>

The tax recoverables were a result of special deductions or credits that materialized after the filing of the IRS tax returns. These deductions or credits were filed as a claim to the IRS as "affirmative adjustments" during their routine audit of AIG and its subsidiaries. Procedurally the IRS substantiates these adjustments. The difference or non-substantiated portion is trued-up and charged to policyholder surplus as a prior period adjustment in compliance with statutory accounting practices. This balance is not written-off.

F. <u>Losses</u>

i. The Company believes its actuarial analysis accurately depicts the liabilities of the Company. The Company agrees to consider this recommendation regarding clarity and consistency in its continuing review of the methodology used in its actuarial analysis.

G. <u>Provision for Reinsurance</u>

In the examination report the Department pointed out that certain of the Company's reinsurance treaties, in particular those covering certain of its Japan segment business, did not contain the necessary language of New York law regarding insolvency. The Company has undertaken a complete review of all of its reinsurance contracts covering the Japanese segment of its business. Many of these agreements have been amended to include this insolvency clause as required by New York law. Certain of these agreements are with government-sponsored pools (e.g. an earthquake pool, an automobile insurance pool, an atomic energy pool, etc.). The Company is required to participate in these pools as a condition of its licensure to do business in Japan. As it is believed that the Company is likely to be the only New York corporation participating in these pools, it is anticipated that the government-sponsored reinsurers will be unwilling to amend these reinsurance treaties to comply with New York law. During the course of the examination, the Department indicated an understanding of the situation and we look forward to working with the Department to find a mutually acceptable procedure for dealing with this problem.

Sincerely,

Thomas R. Tizzio
President

Robert J. Beier
Comptroller

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Respectfully submitted,

/S/
Donald Carbone
Principal Insurance Examiner

STATE OF NEW YORK)
) SS.
)
COUNTY OF NEW YORK)

DONALD CARBONE, being duly sworn, deposes and says that the foregoing report submitted by him is true to the best of his knowledge and belief.

/S/
Donald Carbone

Subscribed and sworn to before me

this _____ day of _________ 2000.

Respectfully submitted,

____________/S/____________________

Rosie Paghunasan, CFE

Senior Insurance Examiner

STATE OF CALIFORNIA)

)SS.

)

COUNTY OF LOS ANGELES)

ROSIE PAGHUNASAN, being duly sworn, deposes and says that the foregoing report submitted by her is true to the best of her knowledge and belief.

_______________/S/_________________

Rosie Paghunasan

Respectfully submitted,

__________/S/_______________________

Joseph Pires, CFE, CIE

Mississippi Insurance Examiner

STATE OF MISSISSIPPI)
)SS.
)
COUNTY OF HINDS)

JOE PIRES, being duly sworn, deposes and says that the foregoing report submitted by him is true to the best of his knowledge and belief.

______________/S/___________________

Joseph Pires, CFE, CIE

Appointment No. 21102

STATE OF NEW YORK
INSURANCE DEPARTMENT

I, GREGORY V. SERIO *, Acting Superintendent of Insurance of the State of New York, pursuant to the provisions of the Insurance Law, do hereby appoint:*

Donald Carbone

as proper person to examine into the affairs of the

AIU 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 28th *day of* March *1997*

GREGORY V. SERIO
Acting Superintendent of Insurance

Miriam G. Beggio
(by) Deputy Superintendent