

REPORT ON EXAMINATION
OF THE
AMERICAN OFFSHORE INSURANCE SYNDICATE
AS OF
NOVEMBER 30, 2000

DATE OF REPORT

OCTOBER 12, 2001

EXAMINER

ROBERT A. VARGAS

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

October 12, 2001

Honorable Gregory Serio
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 21718, dated April 9, 2001, attached hereto, I have made an examination into the condition and affairs of the American Offshore Insurance Syndicate as of November 30, 2000 and respectfully submit the following report thereon.

Wherever the term "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.

1. SCOPE OF EXAMINATION

The prior examination was conducted as of November 30, 1995. The current examination covers the five year period from December 1, 1995 through November 30, 2000, 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 company 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.

The examination was conducted at the Syndicate's home office located at 14 Wall Street, New York, New York 10005.

A review was also made to ascertain what action was taken by the Company with regard to comments and recommendations contained in the prior report on examination.

This report on examination is confined to financial statements and comments on those matters which involve departures from laws, regulations or rules, or which are deemed to require 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 subscribers are 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 statements 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 are the responsibility of the board of managers, which consist of no fewer than fifteen, nor more than twenty-four representatives of the Syndicates' subscribers.

As of November 30, 2000, the board of managers was as follows:

Subscriber

Fireman's Fund Insurance Company
 General Reinsurance Corporation Financial Center
 Gerling America Insurance Company
 St. Paul Fire & Marine Insurance Company
 American Reinsurance Company

Representative

Mr. Arthur E. Moosmann
 Mr. James T. Entwistle
 Mr. Fred McDermott
 Mr. Richard DeSimone
 Mr. Robert V. Huffert

Article VIII of the Syndicate agreement was not adhered to regarding the minimum number of the Syndicate's subscribers, previously set at fifteen. The minimum number of representatives of the Syndicate's subscribers was less than 15 during the years 1991 through 2000.

It is again recommended that the Syndicate amend its Syndicate agreement to reflect its actual membership and revise its minimum number of board managers to attend board meetings.

As of November 30, 2000, the officers were as follows:

<u>Name</u>	<u>Title</u>
Robert V. Huffert	Chairman of the Board
James T. Entwistle	Vice Chairman of the Board
John A. Hickey	Manager
John J. Segreto	President
Warren C. Dietz	Secretary and Treasurer

B. Syndicate Agreement

The Syndicate conducts business for and on behalf of the subscribers, under the provisions of the Syndicate Agreement. The subscribers execute an individual power of attorney authorizing the board of managers, the Syndicate manager, and the Syndicate underwriters to obligate and bind the subscribers 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, 2000, the subscribers to the Syndicate were as follows:

<u>Subscribers</u>	<u>Participation</u>	<u>Share of Contingency Reserve Fund</u>
Fireman’s Fund/McGee Marine Underwriters	25.0000%	\$151,250
American Alternative Insurance Company	16.6726	100,869
General Reinsurance Corporation	13.3274	80,631
Gerling America Insurance Company	20,0000	121,000
St. Paul Fire and Marine Insurance Company	<u>25,0000</u>	<u>151,250</u>
Totals	<u>100%</u>	<u>\$605,000</u>

D. Territory and Plan of Operation

The Syndicate’s subscribers are authorized to write the kinds of marine risks as specified on Section 1113(a), paragraphs 20 and 21 of the New York Insurance Law.

As of November 30, 2000 the Syndicate through its licensed subscribers, wrote insurance and reinsurance in the following jurisdictions:

United States

New York

Rhode Island

Virginia

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

The Syndicate assumes no reinsurance. The information produced by the Syndicate, equivalent to an insurance company's Schedule F, accurately reflected its reinsurance transactions for the five-year examination period.

The examiner reviewed all ceded reinsurance contracts effected during the examination period, all of which contained the required standard clauses, including clauses as required by Section 1308 of the New York Insurance Law.

As of November 30, 2000, the Syndicate had the following non-obligatory, excess of loss reinsurance program in effect:

<u>Type of Contract</u>	<u>Cession</u>
First Layer (100% Authorized)	\$250,000 excess of \$250,000, any one loss or series of losses from one event with an aggregate deductible of \$750,000.
Second Layer (100% Authorized)	\$4,500,000 excess of \$500,000, any one loss or series of losses arising from one event.
Third Layer (100% Authorized)	\$5,700,000 excess of \$5,000,000, any one loss or series of losses arising from one event.
Fourth Layer (100% Authorized)	\$9,300,000 excess of \$10,700,000, any one loss or series of losses arising from one event.

The excess of loss coverage was provided on a non-obligatory basis to those subscribers and quota share reinsurers.

F. 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 incurred	\$9,072,623	107.6%
Loss adjustment expenses incurred	597,485	7.1
Other underwriting expenses incurred	3,191,738	37.9
Net underwriting gain (loss)	<u>(4,429,307)</u>	<u>(52.6)</u>
Premiums earned	<u>\$8,432,539</u>	<u>100.00%</u>

G. Accounts and Records

The Syndicate does not prepare an annual statement which is in the form of the Fire and Casualty blank which is approved by the National Association of Insurance Commissioners (“NAIC”). It was recommended in the prior report examination that the Syndicate prepare various exhibits and schedules using the NAIC blank. This would provide details to support the amounts shown 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 again recommended that the following schedules and exhibits be submitted to the Department on an annual basis:

- 1) A balance sheet showing assets (including non-ledger and not admitted), liabilities and subscribers’ accountability.
- 2) A statement of income similar to that included in the Underwriting and Investment Exhibit of the NAIC Blank.
- 3) An exhibit showing all expenses paid and incurred, allocated among loss adjustment expenses, other underwriting expenses and investment expenses.
- 4) A reconciliation of ledger assets similar to that included in the NAIC Blank.

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 Syndicate in its filed annual statement as of November 30, 2000:

<u>Assets</u>	<u>Ledger Assets</u>	<u>Non-Ledger Assets</u>	<u>Assets Not Admitted</u>	<u>Admitted Assets</u>
Cash	\$1,653,831	\$	\$	\$1,653,831
Short-term investments	1,000,000			1,000,000
Uncollected premiums	111,013			111,013
Reinsurance recoverable on paid losses	1,332,716			1,332,716
Other assets	<u>154,484</u>	<u> </u>	<u> </u>	<u>154,484</u>
Total assets	<u>\$4,252,044</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$4,252,044</u>

Liabilities

Losses	\$7,551,991
Loss adjustment expenses	240,528
Unearned premiums	525,968
Reinsurance premiums payable	716
Accrued expenses	49,007
Funds held under reinsurance contracts	669,267
Provision for unauthorized reinsurance	3,485,422
Contingency reserve fund	<u>1,321,000</u>
Total liabilities	\$13,843,899
Net accountability of subscriber companies	<u>(9,591,855)</u>
Total liabilities and accountability	<u>\$4,252,044</u>

Note: As an association, the Syndicate does not file a Federal Income Tax return.

B. Underwriting and Investment Exhibit

The subscribers' accountability decreased \$2,634,636 during the five-year examination period, December 1, 1995 through November 30, 2000, detailed as follows:

Statement of Income

Underwriting Income

Premiums earned		\$8,432,539
Losses incurred	\$9,072,623	
Loss adjustment expenses incurred	597,485	
Other underwriting expenses incurred	<u>3,191,738</u>	
Total underwriting deductions		<u>12,861,846</u>
Total underwriting (loss)		\$(4,429,307)

Investment Income

Net investment income earned		<u>542,178</u>
Net income (loss)		<u>\$(3,887,129)</u>

Change in Subscribers' Accountability

Subscribers' accountability per report on examination as of November 30, 1995			\$(6,957,219)
	<u>Gains</u>	<u>Losses</u>	
Net (loss)		\$3,887,129	
Change in unauthorized penalty		2,840,470	
Net remittances to and from subscribers	\$4,056,427		
Increase in operating fund	<u>120,000</u>		
Other		44,607	
Prior period adjustment		<u>38,857</u>	
Total gains and losses	<u>\$4,176,427</u>	<u>\$6,811,063</u>	
Net decrease in Subscribers' accountability			<u>(2,634,636)</u>
Subscribers' accountability per report on examination as of November 30, 2000			<u>\$(9,591,855)</u>

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liabilities for losses and loss adjustment expenses, totaling \$7,551,991 and \$240,528 respectively, are the same amounts as reported by the Syndicate in its November 30, 2000 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 Company as of examination date were adequate.

6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The previous report on examination as of November 30, 1995 contained three comments and recommendations (page numbers refer to the prior reports).

<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 less subscribers than the amount needed to attend meetings.	3
The Syndicate did not comply with this recommendation. A similar recommendation is made in this report.	
B. <u>Accounts and Records</u>	
1. It is recommended that the Syndicate prepare adjusting entries to reconcile the total balance to the annual statement.	6
The Company has complied with this recommendation.	
2. It was recommended that the Syndicate prepare and submit to the Department, on an annual basis:	

<u>ITEM</u>	<u>PAGE NO.</u>
1) A balance sheet showing assets (including non-ledger and not admitted), liabilities, and subscribers' accountability.	6-7
2) A statement of income similar to that included in the Underwriting and Investment Exhibit of the NAIC Blank.	
3) An exhibit showing all expenses paid and incurred, allocated among loss adjustment expenses, other underwriting expenses, and investment expenses.	
4) A reconciliation of ledger assets similar to that included in the NAIC blank.	

The Syndicate did not comply with this recommendation. A similar recommendation is made in this report.

7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Management</u>	
It is again 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.	4
C. <u>Annual Statement</u>	
It is again recommended that the Syndicate prepare and submit to the Department, on an annual basis:	
1) A balance sheet showing assets (including non-ledger and not admitted), liabilities, and subscribers' accountability.	8
2) A statement of income similar to that included in the Underwriting and Investment Exhibit of the NAIC Blank.	8
3) An exhibit showing all expenses paid and incurred, allocated among loss adjustment expenses, other underwriting expenses, and investment expenses.	8
4) A reconciliation of ledger assets similar to that included in the NAIC Blank.	8

Appointment No. 21718

STATE OF NEW YORK
INSURANCE DEPARTMENT

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

Robert Vargas

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 9th day of April, 2001



A handwritten signature in black ink, appearing to read "Gregory V. Serio", written over a horizontal line.

GREGORY V. SERIO
First Deputy Superintendent of Insurance