ASSOCIATION REPORT ON EXAMINATION

OF THE

AMERICAN HOME ASSURANCE COMPANY

AS OF

DECEMBER 31, 1996

EXAMINER	STATE	ZONE
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
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Bureau of Insurance
Commonwealth of Virginia
P.O. Box 1157
Richmond, Virginia 23218

Honorable Diane Koken
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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 American Home Assurance Company and the following report is respectfully submitted thereon.

REPORT ON EXAMINATION

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AMERICAN HOME ASSURANCE 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 Levin
Superintendent of Insurance
Albany, New York 12257

Sir:

Pursuant to instructions contained in Appointment Number 21103 dated March 28, 1997, I have made an examination into the condition and affairs of the American Home Assurance Company, a New York corporation and the following report thereon is respectfully submitted.

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

<u>Designation</u>	<u>Name of Company</u>
Company or American Home	American Home Assurance Company (AHAC)
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 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 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 six 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, with the exception of Japanese records, are maintained. Japanese records maintained in Tokyo, Japan were reviewed by visits to that location. In addition, visits were made to branch offices in Atlantic and New York for claim reviews.

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.

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 February 9, 1899 as the Globe and Rutgers Fire Insurance Company (Globe and Rutgers). Effective December 11, 1954, the American Home Assurance Company, a subsidiary at that time, was merged into the Globe and Rutgers and the surviving company adopted the present corporate title.

The Company is a wholly-owned subsidiary of AIG since 1969. AIG is considered the immediate parent holding company of the Company, and C.V. Starr & Co. is considered the ultimate parent company. This is more fully discussed in item 2D herein, “Holding Company System”.

As of December 31, 1996, the Company had paid-up capital of $4,237,635 consisting of 1,695,054 shares of $2.50 par value per share common stock. Its gross paid in and contributed surplus, as of December 31, 1996 was $389,709,316.

The financial records of the Company for the years covered by this examination, 1992 through 1996, as reflected in the annual statements filed with this Department, indicated the following:

Year	Net Premiums Written	Admitted Assets	Liabilities	Surplus to Policyholders
1992	$2,066,985,559	$7,363,397,609	$5,637,574,074	$1,725,823,535
1993	$2,180,919,946	$7,765,888,721	$5,935,161,786	$1,830,726,935
1994	$2,454,259,586	$8,754,825,022	$6,907,270,351	$1,847,554,671
1995	$2,443,192,530	$9,216,166,996	$6,890,013,874	$2,326,153,122
1996	$2,698,897,259	$9,894,345,081	$7,293,469,112	$2,600,875,969

A. Management

Pursuant to its charter and by-laws, the Company's corporate powers shall be exercised by a board of directors consisting of not less than thirteen nor more than twenty-five members. At December 31, 1996, the board of directors was comprised of the

Name and Residence	Principal Occupation
Michael J. Castelli New Hyde Park, NY	Senior Vice President, and Treasurer, Domestic Brokerage Group Companies
Charles Dangelo New York, NY	Director, American Home Assurance Company and National Union Fire Insurance Company of Pittsburgh, PA
Florence A. Davis New York, NY	Vice President and General Counsel, AIG
Maurice R. Greenberg New York, NY	Chairman of the Board and Chief Executive Officer, AIG
Evan G. Greenberg Bedford Hills, NY	Executive Vice President, AIG
John G. Hughes Warren, NJ	Senior Vice President - Worldwide Claims, AIG
David Hupp Chatham, NJ	Vice President, AIG
Edwin Alfred G. Manton New York, NY	Senior Adviser, AIG
Edward E. Matthews Princeton, NJ	Vice Chairman - Finance, AIG
Christian M. Milton Villanova, PA	Vice President - Reinsurance, AIG
Kristian P. Moor South Port, CT	President, National Union Fire Insurance Company of Pittsburgh, PA

Name and Residence	Principal Occupation
Win J. Neuger Princeton, NJ	Senior Vice President, AIG
Takaki Sakai Tokyo, Japan	Director, AIU Insurance Company and American Home Assurance Company
Robert M. Sandler Bridgewater, NJ	Executive Vice President, AIG
B. Michael Schlenke Atlanta, GA	Senior Vice President, AIG
Howard Ian Smith Woodbury, NY	Executive Vice President and Chief Financial Officer, AIG
Thomas R. Tizzio Middletown, NJ	President, AIG

A review of the minutes of the board of directors and the various committees thereof revealed that meetings were generally well attended. However, directors Maurice R. Greenberg and Evan G. Greenberg attended only one of the meetings of the board that they were eligible to attend during the period under review and Takaki Sakai, who is based in Tokyo, Japan, attended none of the meetings that he was eligible to attend, as follows

Directors	1992	1993	1994	1995	1996	Total
Maurice R. Greenberg	0	0	0	1	0	1 of 21
Evan G. Greenberg	N/A	N/A	0	0	1	1 of 10
Takaki Sakai	0	0	0	0	0	0 of 21

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 appropriate policy decisions may be reached by the board. 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.

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

Name	Title
B. Michael Schlenke	President
Robert Beier	Vice President
John Blumenstock	Vice President
Michael J. Castelli	Vice President, Treasurer
Frank H. Douglas Jr.	Senior Vice President and Actuary
David M. Hupp	Vice President
William R. Jacobi	Vice President
Vincent J. Masucci	Senior Vice President
Edward E. Matthews	Senior Vice President
Timothy P. Mitchell	Senior Vice President
Kristian P. Moor	Senior Vice President
Charles R. Schader	Senior Vice President
John F. Schumacher	Senior Vice President
David Walsh	Senior Vice President
Mark T. Willis	Senior 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

Paragraph	Line of Business
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 incident 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 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, American Home Assurance 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 the District of Columbia and in all states and territories of the United States, in all provinces of Canada, in Japan and forty-four foreign countries.

The following schedule shows the direct premiums written (in thousands), by calendar year, during the period covered by this examination in New York State, countrywide and worldwide and the percentage which 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	$ 283,312	$ 317,219	$331,285	$332,520	$223,477
Countrywide	$ 921,507	$ 907,938	$953,944	$1,050,921	$1,118,416
Worldwide	$1,115,608	$1,148,193	$1,231,437	$1,375,242	$1,458,664
% of New York State to Countrywide	30.74%	34.94%	34.73%	31.64%	19.98%
% of New York State to Worldwide	25.40%	27.63%	26.90%	24.18%	15.32%

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.

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	CA	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 liabilities.

Ceded Reinsurance

The American Home/National Union Group has numerous reinsurance agreements in effect, which limit its net exposure. In addition to its facultative agreements, the Group has quota share, excess of loss and catastrophe agreements to protect itself against excessive 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.

Line of Business	Cession
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.
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.

Line of Business	Cession
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.
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.

Line of Business	Cession
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 $90,000,000, or currency equivalent, any one accident or occurrence, each aircraft, not to exceed $15,000,000, any one hull.
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.

Line of Business	Cession
Fourth 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 Liability, $30,000,000 excess of $20,000,000 each aircraft.
Aviation Quota Share (Treaty “A”) 68.42% Authorized Hull; 31.58%Unauthorized and/or	Hull and Liability combined 55% of 100% limits: US and/or CAN $15 million, any one 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.
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.

Line of Business	Cession
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.
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).

Line of Business	Cession
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.
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.

Line of Business	Cession
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.
Patent infringement 100% Authorized	62.5% $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% max. $100,000,000 each policy, each claim made.

Line of Business	Cession
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.
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.

Line of Business	Cession
Clash cover - Fourth layer	
74.70% Authorized	$10,000,000 excess of $40,000,000, per occurrence.
25.30% Unauthorized	
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	$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.
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% $30,000,000.

Line of Business	Cession
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.
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.

Line of Business	Cession
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 underlying Policy $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.
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.

Line of Business	Cession
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 Leg. 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.
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.

Line of Business	Cession
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 Lines Automobile Quota Share 37.12% Authorized 62.88% Unauthorized	85% Q/S max. $2,000,000, each policy, each claim made.
Casualty Quota Share 37.63% Authorized occurrence. 62.37% Unauthorized	90% Q/S max. limit $5,000,000, any one accident or
Property Quota Share 60.74% Authorized 39.26% Unauthorized	95.00% 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, treaty reinsurance contracts and facultative reinsurance certificates are now being electronically scanned in order for the Company to maintain a central repository for reinsurance 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.

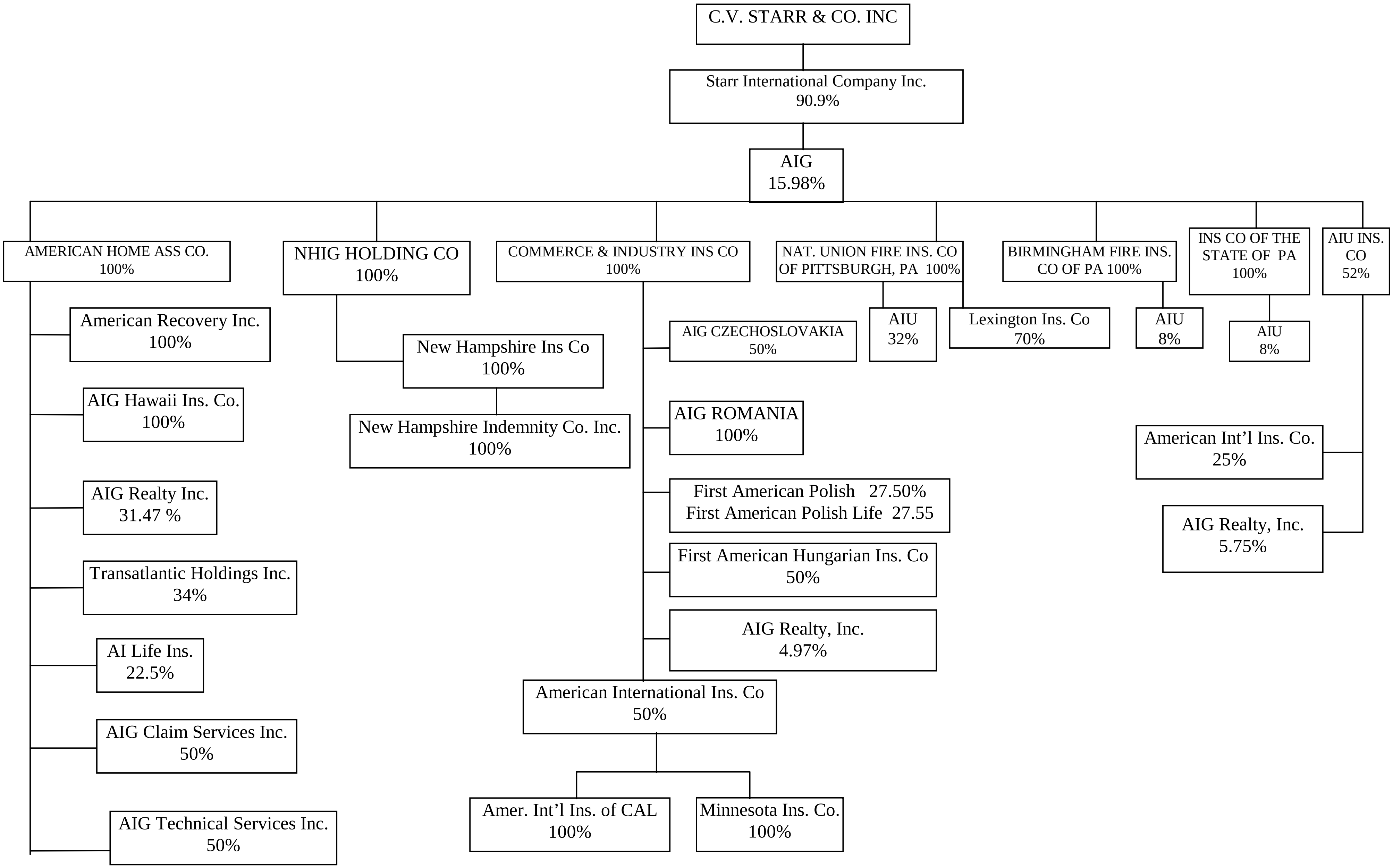
D. Holding Company System

American Home Assurance Company is wholly-owned by AIG, a Delaware holding company organized in 1967, which directly or indirectly owns all of the capital stock of several insurance companies including the American Home/National Union Group. AIG, in turn, is ultimately controlled by C.V. Starr & Co.

The Company owns part of the companies listed below:

Company Ownership	Percent of Ownership
American International Recovery Inc.	100.00%
American International Ins. Co.	25.00%
AIG Hawaii Insurance Company	100.00%
AIG Realty, Inc.	31.47%
American International Life Assurance Co.	22.50%
AIG Claim Services Inc.	50.00%
AIG Technical Services Inc.	50.00%
Transatlantic Holdings Inc.	34.00%

An organization chart, 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 inter-company service agreements and reinsurance agreements to the Department prior to their implementation pursuant to 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. It is further recommended that all 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. 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 system. 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 to 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	1.04 to 1
Liabilities to Liquid assets (cash and invested assets less investments in affiliates)	96%
Premiums in course of collection to Surplus as regards policyholders	21%

All of the above ratios fall within the benchmark ranges as 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	$7,534,935,292	66.62%
Loss adjustment expenses incurred	1,942,445,970	17.17%
Other underwriting expenses incurred	1,966,198,655	17.38%
Net underwriting gain	(133,491,149)	-1.18%
Premiums earned	$11,310,088,768	100.00%

F. Accounts and Records

a) Japan Records

Both AIU and American Home have branch offices in Japan. The Japanese branch represents 1.08% of the Company's assets, 0.89% of the liabilities and 3.78% of the premiums earned as of December 31, 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 in part:

> "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.

b) <u>High Deductible on Policies Written in New York State</u>

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 1501 of the New York 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.

c) <u>Maturity Refund Reserve</u>

The Company markets Maturity Refund type policies in Japan, an insurance policy with a maturity refund rider. The policy combines a normal risk feature and a savings feature. The savings portion guarantees a percentage return of the premium to the policyholders. 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 of $15,395,568 for policyholders' funds on deposit in its

December 31, 1996, annual statement. This liability represents amounts owed under the savings provision, and were confirmed during the course of this examination. Additionally, the Company has segregated certain assets to equal to these liabilities. However, the Company has not provided any disclosure of these segregated assets in its 1996 annual statement, or indicated that they were restricted for Japanese policyholders.

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

d) <u>Record Retention</u>

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:

Assets	Ledger Assets	Non-Ledger Assets	Not-Admitted Assets	Admitted Assets
Bonds	$4,314,843,681		$31,189	$4,314,812,492
Stocks: Preferred	292,457,229	$1,431,056		293,888,285
Common	1,113,104,679	881,708,954		1,994,813,633
Cash on hand and on deposit	11,730,237			11,730,237
Other invested assets	242,780,414	26,267,717		269,048,131
Policy loans	19,094			19,094
Premiums, agents' balances in course of collection	410,551,882			410,551,882
Premiums, agents' balances and installments booked but deferred and not yet due	1,670,167,097		289,340	1,669,877,757
Funds held by or deposited with reinsured companies	9,091,527			9,091,527
Reinsurance recoverable on loss payments	507,861,495			507,861,495
Federal income tax recoverable	46,555,450			46,555,450
EDP equipment	33,271,842			33,271,842
Interest, dividends and real estate income due and accrued		91,513,154		91,513,154
Equities and deposits in pools and associations	180,006,237	(5,092,973)	4,023,854	170,889,410
Other assets	4,086,991		4,086,991	
Loss funds on deposit	61,794,348			61,794,348
Accrued recoverables	8,091,711			8,091,711
Other assets	876,500		341,867	534,633
Aggregate write-ins for other assets	19,884,489		19,884,489	
Total assets	$8,927,174,903	$995,827,908	$28,657,730	$9,894,345,081

Liabilities

Losses	$ 4,484,080,260
Loss adjustment expenses	914,951,155
Other expenses	5,885,488
Taxes, licenses and fees	10,363,190
Unearned premiums	1,382,205,576
Dividends declared and unpaid: Stockholders	12,000,000
Funds held by Company under reinsurance treaties	107,512,342
Provision for reinsurance	164,562,687
Net adjustment in assets and liabilities due to foreign exchange rates	6,018,907
Payable to parent, subsidiaries and affiliates	185,989,402
Payable for securities	1,234,365
Policyholder funds on deposit	15,395,568
Servicing carrier liability	1,328,057
Liability for pension and severance pay	1,805,682
Cash overdraft	86,077
Other liabilities	50,356
Total liabilities	$ 7,293,469,112
Capital paid up	$ 4,237,635
Gross paid in and contributed surplus	389,709,316
Unassigned funds	2,206,929,018
Surplus as regards policyholders	$ 2,600,875,969
Total liabilities and surplus	$ 9,894,345,081

NOTE 1: The Internal Revenue Service has completed its audits 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.

B. Underwriting and Investment Exhibit

Surplus as regards policyholders increased $990,425,249 during the five-year period, January 1, 1992 through December 31, 1996, inclusive of examination adjustments detailed as follows:

Statement of Income

Underwriting Income		
Premiums earned		$11,310,088,768
Deductions:		
Losses incurred	$7,534,935,292	
Loss adjustment expenses incurred	1,942,445,970	
Other underwriting expenses incurred	1,966,198,655	
Total underwriting deductions		11,443,579,917
Net underwriting loss		$ (133,491,149)
Investment Income		
Net investment income earned	$1,650,654,894	
Net realized capital gains	264,196,744	
Net investment gain		1,914,851,638
Other Income		
Miscellaneous income (loss)	$ (29,026,484)	
Total other income (loss)		(29,026,484)
Net income before dividends to policyholders and federal and foreign income taxes		$ 1,752,334,005
Dividends to policyholders		13,668,973
Net income before federal and foreign income taxes		$1,738,665,032
Federal and foreign income taxes incurred		231,033,442
Net income		$1,507,631,590

Capital and Surplus Account

	Gains in Surplus	Losses in Surplus	
Surplus as regards policyholders, per report on examination, as of December 31, 1991			$1,170,774,519
Net income	$1,507,631,590		
Net unrealized capital gains	569,280,339		
Change in not admitted assets	32,976,125		
Change in liability for reinsurance		$71,178,807	
Change in foreign exchange adjustment		26,820,156	
Paid in surplus adjustment	1,462,961		
Dividends to stockholders		605,010,477	
Federal foreign income tax adjustment	21,759,875		
Total gains and losses	$ 2,133,110,890	$ 703,009,440	
Net increase in surplus as regards policyholders			$ 1,430,101,450
Surplus as regards policyholders, per report on examination as of December 31, 1996			$ 2,600,875,969

4. LOSSES

The examination liability of $4,484,080,260 is the same as the amount reported by the Company in its December 31, 1996 filed annual statement. 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 analysis. It is recommended that AIG strive to improve the clarity and consistency of its actuarial analysis. 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, since the results were not clearly presented in a uniform manner. It is recommended that the findings resulting from each reserve review be clearly presented.

5. LOSS ADJUSTMENT EXPENSES

The examination liability of $914,951,155 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.

6. 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.

7. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The following recommendations cited in the prior report on examination as of December 31, 1991, which have been acted on 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 nor 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
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.	20
	The Company for the most part has commuted its contract with Coral Reinsurance Company Ltd.	
4.	It is recommended that the Company draw down the parental LOC as required under Regulation 20.	21
	The Company has complied with this recommendation.	

ITEM		PAGE NO.
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.	27
	The Company has generally complied with this recommendation. A similar comment is contained in the current report on examination. See item 2C "Reinsurance."	
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.	30
	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 2C "Reinsurance."	
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.	32
	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.	
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	37

ITEM		PAGE NO.
	submit consistent values of subsidiary stocks jointly owned.	
	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 Loss 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 Loss 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 are 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.	
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.	44
	The Company has complied with this recommendation.	
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.	45

ITEM	PAGE NO.
Loss and Adjustment Expenses (cont.)	
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 comply with this requirement.	
The Company has complied with this recommendation.	

8. SUMMARY OF COMMENTS AND RECOMMENDATIONS

ITEM		PAGE NO.
A.	Management	
	It is recommended that board members who are unable or unwilling to attend meetings consistently should resign or be replaced.	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.	24
C.	Holding Company System	
i.	It is recommended that the Company establish an effective method of tracing its holding company filings.	27
ii.	It is recommended that 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	
iii.	Since indirect transactions affect the Company by virtue of the pooling agreement, it is recommended that the Company disclose these arrangements with the Department.	27-28

ITEM		PAGE NO.
D.	Accounts and Records	
i.	Section 325 Plan	
	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.	29
ii.	High Deductible on Policies Written in New York State	
(a)	The Company did not include deductible reimbursements when computing its New York corporate franchise tax. It is recommended that these amounts be included when computing the tax imposed by Section 1510 of the New York Corporate Franchise Tax Law.	30
(b)	It is recommended that the Company exercise greater care when responding To this General Interrogatory.	30
iii.	Maturity Refund Reserve	
	It is recommended that the Company disclose in Schedule E-Part 2 of its annual statement that certain of its assets have been earmarked for the benefit of its Japanese maturity refund policyholders.	31
iv.	Record Retention	
	It is recommended that the Company update its record retention policy to maintain documents in accordance with the Department Regulation 152.	31
E.	Losses	
i.	It is recommended that AIG strive to improve the clarity and consistency of its actuarial analysis. 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.	36
ii.	It was also noted that, for some divisions, it was difficult to determine exactly what the final estimates were, since the results were not clearly presented in a uniform manner. It is recommended that the findings resulting from each reserve review be clearly presented.	36

American Home Assurance

American Home Assurance Company
Corporate Office
70 Pine Street
New York, NY 10270
212.770.7000
212.770.________ (Direct Dial)

March 16, 2001

RECEIVED

MAR 19, 2001

JOHN R. CASHIN
DEPUTY SUPERINTENDENT

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

Re: American Home Assurance 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.

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.

Page Two
March 16, 2001

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 Maturity Refund Reserve

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

iv Record Retention

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. Losses

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.

F. Provision for Reinsurance

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,

Susan M. Rivera Susan M. Rivera
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. 21103

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

AMERICAN HOME ASSURANCE 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

(by) Deputy Superintendent