

REPORT ON EXAMINATION

OF THE

AMERICAN HULL INSURANCE SYNDICATE

AS OF

NOVEMBER 30, 2000

DATE OF REPORT

OCTOBER 12, 2001

EXAMINER

ROBERT A. VARGAS

## TABLE OF CONTENTS

<u>ITEM</u>	<u>PAGE NO.</u>
1. Scope of examination	2
2. Description of Syndicate	3
A. Management	4
B. Syndicate agreement	5
C. Syndicate members	5
D. Territory and plan of operation	6
E. Reinsurance	7
F. Significant operating ratios	8
G. Accounts and records	8
3. Financial statements	10
A. Balance sheet	10
B. Underwriting and investment exhibit	12
4. Losses and loss adjustment expenses	14
5. Compliance with prior report on examination	14
6. Summary of comments and recommendations	15



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 21704, dated March 22, 20001, attached hereto, I have made an examination into the condition and affairs of the American Hull 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 Hull 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, inter-company balances, loss and loss adjustment expense reserves and the provision for reinsurance. The examination included a review of income, disbursements and Syndicate records deemed necessary to accomplish such analysis or verification and utilized to the extent deemed appropriate, work performed by the Syndicate's independent public accountants.

The examination was conducted at the Syndicate's home office located at 14 Wall Street, New York, New York 10004.

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

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

The Syndicate does not retain assets corresponding to the amount of its liabilities. As a result, the financial statements contained in this report demonstrate an excess of liabilities over assets. The subscribers are held accountable for the resulting deficiency.

## **2. DESCRIPTION OF SYNDICATE**

The American Hull Insurance Syndicate is an unincorporated association of insurance companies (subscribers) authorized to transact the business of marine insurance, and is the successor syndicate to the American Marine Insurance Syndicate "C", organized in June, 1920. Since that time, various intervening syndicates have been organized and liquidated. The American Marine Insurance Syndicate "C" was advocated by the Committee on the Merchant Marine and Fisheries of the House of Representatives of the United States Congress and the United States Shipping Board, to encourage, strengthen, and extend the American Merchant Marine, foreign trade, and American marine insurance.

The present syndicate, American Hull Insurance Syndicate, was organized in 1920, and continues the interests and subject matters of insurance, adhering to the original intention of the Congress of the United States.

The Syndicate consists of "issuing subscribers" and "reinsuring subscribers" which are insurance and reinsurance companies authorized to write marine insurance within the United States. Issuing subscribers are those who subscribe to policies issued by the Syndicate, while reinsuring subscribers provide quota share reinsurance. 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. 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 their collection from the subscribers. In addition, there is a contingency reserve which represents liabilities of the subscribers who have either withdrawn from or have reduced their underwriting participation in the Syndicate.

A. Management

The business and affairs of the Syndicate are the responsibility of the board of managers which consist of no fewer than seven, no more than fifteen representatives of the Syndicate's subscribers.

As of November 30, 2000, the board of managers and the Syndicate members were as follows:

<u>Subscriber</u>	<u>Representative</u>
Fireman's Fund Insurance Company	Mr. Arthur E. Moosmann
Marine Office of America Firemen's Insurance of Newark	Mr. John Weber
Marine Department Commercial Union Insurance Company	Mr. James A. Zrebiec
General Reinsurance Corporation Financial Center	Mr. James T. Entwistle
Gerling America Insurance Company	Mr. Fred McDermott
St. Paul Fire & Marine Insurance Company	Mr. Richard DeSimone
American Reinsurance Company	Mr. Robert V. Huffert
Swiss Reinsurance America Corporation	Mr. Robert P. Bauer
HartRe Company LLC	Mr. John A. Miklus
American Agriculture Insurance Company	Mr. Virgil Maxwell

A review of the minutes of the board of managers' meetings held during the five-year examination period indicated that all meetings were well attended.

The following were the principal officers of the Syndicate as of November 30, 2000:

<u>Name</u>	<u>Title</u>
Robert V. Huffert	Chairman of the Board
James A. Zrebiec	Vice Chairman of the Board
John A. Hickey	President & Chief Executive Officer
William H. Jaklitsch	Senior Vice President & Managing Underwriter
Warren C. Dietz	Vice President & Chief Financial Officer

<u>Name</u>	<u>Title</u>
Michael J. McKenna	Vice President & Underwriter
Eileen M. Fellin	Secretary & Claims Manager
Madeline B. Walsh	Secretary
Allister M. Belfon	Underwriter

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's members, and the Syndicate underwriters to obligate and bind the subscribers under the terms of the agreement. The original 1920 agreement has been amended and /or restated numerous times since then.

C. Syndicate Members

The Syndicate members, ("subscribers"), are insurance companies authorized to write marine insurance in New York State. Subscribers are divided into two groups, designated as the "issuing (direct) subscribers," those subscribers who subscribe to policies issued pursuant to the Syndicate agreement and the " reinsuring subscribers," those subscribers who provide quota share reinsurance of all policies accepted by the Syndicate. The issuing subscribers cede insurance to the reinsuring subscribers on a quota share basis.

It is stipulated in the Syndicate Agreement, and noted on each policy, that the subscribers to the Syndicate do each insure severally, but not jointly, in the proportion, set forth against each subscriber. Nothing in the agreement shall preclude a subscriber from considering and accepting independently, for its own account, risks in respect to subject matter and interest as to which underwriting powers have been

extended to the Syndicate. No subscriber may reinsure its own share of the Syndicate's risks without permission of the board managers.

As of November 30, 2000, the ten subscribers to the Syndicate were as follows:

<u>Direct Subscribers</u>	<u>Percentage</u>	<u>Share of Contingency Reserve Fund</u>
Fireman's Fund/McGee Marine Underwriters	22.5754%	\$225,754
Fireman's Insurance of Newark	9.3277	93,277
International Marine Underwriters/ Commercial Union Insurance Company	8.1977	81,977
General Reinsurance Corporation	7.1077	71,077
Gerling America Insurance Company	6.2327	62,327
St. Paul Fire and Marine Insurance Company	6.0077	60,077
 <u>Reinsuring Subscribers</u>		
American Reinsurance Company	20.1480	201,480
Swiss Reinsurance America Corporation	12.6077	126,077
HartRe Company LLC on behalf of Hartford Fire Insurance Company	5.6477	56,477
American Agricultural Insurance Company	<u>2.1477</u>	<u>21,477</u>
Totals	<u>100%</u>	<u>\$1,000,000</u>

During the five year examination period seven subscribers withdrew from the Syndicate and two new subscribers were admitted.

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 insolvency clauses as required by Section 1308 of the New York Insurance Law.

<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.
Second Layer (100% Authorized)	\$1,500,000 excess of \$500,000, any one loss or series of losses arising from one event.
Third Layer (100% Authorized)	\$8,000,000 excess of \$2,000,000 anyone loss or series of losses arising from one event.
Fourth Layer	\$10,000,000 excess of \$10,000,000 anyone loss or series of losses arising from one event.

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	\$( 5,965,419)	(23.7)%
Loss adjustment expenses incurred	\$2,166,188	8.6
Other underwriting expenses incurred	\$10,207,735	40.5
Net underwriting gain (loss)	<u>\$18,806,531</u>	<u>74.6</u>
Premiums earned	<u>\$25,215,035</u>	<u>100%</u>

G. Accounts and Records

The Syndicate does not prepare an annual statement 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 on examination that the Syndicate prepare various exhibits and schedules using the NAIC blank. This would provide details of 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 financial 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	\$2,442,176	\$	\$	\$2,442,176
Short-term investments	100,000			100,000
Premiums receivable	3,497,771		362,259	3,135,512
Funds held or deposited with ceding reinsurers	375,137			373,589
Reinsurance recoverable on paid losses	375,137			375,137
Other assets	<u>1,000</u>	<u>          </u>	<u>          </u>	<u>1,000</u>
Total assets	<u>\$6,789,673</u>	<u>\$          0</u>	<u>\$362,259</u>	<u>\$6,427,414</u>

Liabilities

Losses	\$21,573,000
Loss adjustment expenses	1,104,168
Unearned premiums	2,181,969
Losses in course of payment	34,850
Accrued expenses	26,752
Provision for unauthorized reinsurance	1,985,989
Provision for overdue reinsurance	212,317
Contingency Reserve Fund	<u>2,972,200</u>
 Total liabilities	 \$30,091,245
Subscribers' accountability	<u>\$(23,663,831)</u>
Total liabilities and subscribers' accountability	<u>\$6,427,414</u>

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

B. Underwriting and Investment Exhibit

The subscribers' accountability increased \$26,179,928 during the five year examination period, December 1, 1995 through November 30, 2000, detailed as follows:

Statement of Income

Underwriting Income

Premiums earned	\$25,215,035
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Deductions:

Losses incurred	\$(5,965,419)	
Loss adjustment expenses incurred	2,166,188	
Other underwriting expenses incurred	<u>10,207,735</u>	

Total underwriting deductions	<u>6,408,504</u>
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Total underwriting gain	\$18,806,531
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Investment Income

Net investment income earned	<u>602,024</u>
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Net income	<u>\$19,408,555</u>
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Change in Subscribers' Accountability

Subscribers' accountability per report on examination as of November 30, 1995			\$(49,843,759)
	<u>Gains</u>	<u>Losses</u>	
Net income	\$19,408,555	\$	
Change in non-admitted assets	439,626		
Change in unauthorized penalty		692,873	
Net remittances to and from subscribers	<u>7,024,620</u>	<u>          </u>	
Total gains and losses	<u>\$26,872,801</u>	<u>692,873</u>	
Net increase in Subscribers' accountability			<u>\$26,179,928</u>
Subscribers' accountability per report on examination as of November 30, 2000			<u>\$(23,663,831)</u>

#### 4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liabilities for losses and loss adjustment expenses, totaling \$21,573,000 and \$1,104,168 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 Syndicate as of the examination date were adequate.

To accomplish this review, the Syndicate's advertising material, applications, policy forms, correspondence files, and claims files were examined.

No problem areas were encountered.

#### 5. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

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

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Reinsurance</u>	
It was recommended that all letters of credit be updated to conform with Department Regulation 133	9
The Syndicate complied with this recommendation	

<u>ITEM</u>	<u>PAGE NO.</u>
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B. <u>Accounts and Records</u>	
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It was recommended that the syndicate prepare and submit to the Department, on an annual basis:	10-11
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- 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.

The Syndicate did not comply with this recommendation and it is reiterated in this report.

D. It was recommended that all letters of credit be confirmed on a regular basis.	9
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The Syndicate complied with this recommendation.

## **6. SUMMARY OF COMMENTS AND RECOMMENDATIONS**

<u>ITEM</u>	<u>PAGE NO.</u>
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A. <u>Annual Statement</u>	
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It is again recommended that the Syndicate prepare and submit to the Department, on an annual basis:	9
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- 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.







Appointment No. 21704

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 HULL INSURANCE SYNDICATE**

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

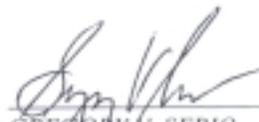
**Syndicate**

*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 22nd day of March, 2001*



  
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GREGORY V. SERIO  
First Deputy Superintendent of Insurance