

REPORT ON EXAMINATION  
OF THE  
UNITED AMERICAS INSURANCE COMPANY  
AS OF  
DECEMBER 31, 2000

DATE OF REPORT

MAY 9, 2002

EXAMINER

RALPH BASIT

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

May 9, 2002

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 21806 and dated December 6, 2001, attached hereto, I have made an examination into the condition and affairs of the United Americas Insurance Company as of December 31, 2000 and respectfully submit the following report thereon.

The examination was conducted at the Company's home office located at 805 Third Avenue, New York, New York 10022.

Wherever the designations "the Company" or "United Americas" appear herein without qualification, they should be understood to indicate the United Americas Insurance Company.

Wherever the designation the "Department" appears herein without qualification, it should be understood to indicate the New York Insurance Department.

## 1. SCOPE OF EXAMINATION

The prior examination was conducted as of December 31, 1997. This examination covers the three year period from January 1, 1998 through December 31, 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 Company records deemed necessary to accomplish such analysis or verification and utilized, to the extent considered appropriate, work performed by the Company's independent public accountants. A review or audit was also made of the following items as called for in Examiners Handbook of the National Association of Insurance Commissioners:

- History of Company
- Management and control
- Corporate records
- Fidelity bond and other insurance
- Territory and plan of operation
- Market conduct activities
- Growth of Company
- Business in force by states
- Reinsurance
- Accounts and records
- Financial statements

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 that involve departures from laws, regulation or rules, or which are deemed to require explanation or description.

## 2. DESCRIPTION OF THE COMPANY

The Company was incorporated on October 4, 1978, under the laws of the State of New York and began business on November 28, 1978. The Company's paid-in capital of \$2,550,000 consists of 25,000 outstanding shares of \$100 par value per share common stock and 5,000,000 outstanding shares of \$.01 par value per share preferred stock. Of the Company's capital stock, 99.99% is owned by UA Holding Corporation (the intermediate parent company), which is, in turn, 99.75% owned by Instituto de Resseguros do Brasil, Rio de Janeiro, Brasil (the ultimate parent company). Two international companies hold the remaining shares of the Company.

The Company was managed by Duncanson & Holt, Inc. from November 15, 1978 to July 10, 1985. The period July 1, 1985 through September 30, 1985 was established, by a separate agreement, as a period of transition from management by Duncanson & Holt to self-management.

Since July 10, 1985, the ultimate financial control of the Company has been held by Instituto de Resseguros do Brasil, Rio de Janeiro, Brasil ("IRB"). In late 1988, direct control of the Company was transferred to UA Holding Corporation, a subsidiary and an intermediate holding Company of IRB. A sister affiliate, UA Services Corporation, is 100% owned by UA Holding Corporation and is engaged in the business of rendering services ancillary to the insurance business, including consulting and management services, reinsurance intermediary business, insurance brokerage services, loss adjustment and similar services.

A. Management

Pursuant to the Company's charter and by-laws, management of the Company shall be vested in a board of directors. The corporate powers shall be exercised by the board of directors directly through such committees or officers as the board may from time to time elect or appoint.

The Company's charter and Section 1201(a)(5)(B)(v) of the New York Insurance Law state that the number of directors shall not be less than thirteen. As of December 31, of the years 1998, 1999 and 2000, the Company's board of directors consisted of eleven, nine and nine members, respectively. It is recommended that the Company comply with its charter and Section 1201(a)(5)(B)(v) of the New York Insurance Law by maintaining at least thirteen directors on its board at all times.

As of December 31, 2000, the nine members of the Board of Directors together with their residence and principal business affiliation were as follows:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
David Adams Southampton, NY	Managing Partner, Adams & Porter
Lucienne Bulow New York, NY	Vice President, Continental Grain
Douglas R. Burnett Westfield, NJ	Partner, Hait Gardner Holland & Knight
Horacio Oliveira D'Almeida e Silva Santana de Parnaiba, Brasil	Director, Alpes Administracao e Corretagem de Seguros Ltda.
Demosthenes Madureira de Pinho Rio de Janeiro, RJ Brasil	President, Instituto de Resseguros do Brasil
A. Cushman May New York, NY	Director, United Americas Insurance Company
Richard M. Murray Brooklyn Heights, NY	Vice Chairman, La Prov Corporation

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Joao Carlos Gahyva Rodriquez New York, NY	President, United Americas Insurance Company
Robert Solomon New York, NY	Managing Director, Marsh & McLennan International Insurance Brokers

The minutes of all meetings of the board of directors held during the examination period were reviewed. A review of such minutes shows that all of the meetings were generally well attended.

As of December 31, 2000, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Joao Carlos Gahyva Rodriquez	President
Kathleen Ann Wodzinski	Vice President, Secretary and Treasurer

B. Territory and Plan of Operation

The Company has been in runoff since 1994. The Company is licensed to transact business in the following fourteen states:

Georgia	Nevada	Texas
Maryland	New Mexico	Utah
Mississippi	New York	Washington
Montana	North Dakota	Wisconsin
Nebraska	Oklahoma	

In addition, the Company is licensed as a surplus lines insurer in the State of Kansas and is considered a non-admitted insurer in that state.

As of December 31, 2000, the Company was authorized to transact the kinds of insurance as defined in the following numbered paragraphs of Section 1113(a) of the New York Insurance Law:

<u>Paragraph</u>	<u>Line of Business</u>
3	Accident and health
4	Fire
5	Miscellaneous property
6	Water
7	Burglary and theft
8	Glass
9	Boiler and machinery
10	Elevator
11	Animal
12	Collision
13	Personal injury liability
14	Property damage liability
15	Workers' compensation and employers' liability
16	Fidelity and surety
17	Credit
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine
21	Marine protection and indemnity

The Company is also empowered to transact such workers' compensation insurance as may be incident to coverages contemplated under paragraphs 20 and 21 of Section 1113(a), including insurances described in the Longshoremen's and Harbor Workers' Compensation Act (Public Law 803, 69<sup>th</sup> Congress as amended, 33 USC Section 901 et. seq. as amended).

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, the Company is required to maintain a minimum surplus to policyholders in the amount of \$2,500,000.

#### C. Reinsurance

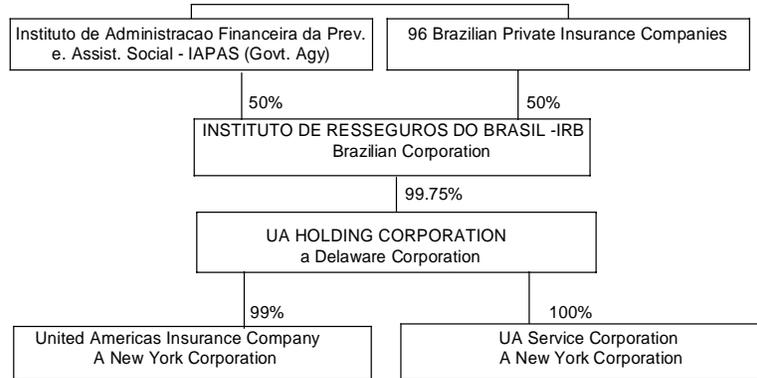
As stated in Section B - "Territory and plan of operation" the Company is in runoff and does not assume any business.

As of December 31, 2000, the Company's ceded business consisted primarily of the business that was written during the period 1985 to 1993. The prior report on examination stated that the Company did not have written reinsurance contracts for this business, and that the only documentation that management could produce to support such coverage were telexes and faxes confirming such reinsurance agreements. A review of the Company's current files indicate that the Company still does not have any written reinsurance agreements for this business. The Company has not renewed any of these ceded agreements since 1993, because of its current run-off status.

Section 1308 of the New York Insurance Law states that no credit shall be allowed to any ceding insurer for reinsurance ceded unless the reinsurance shall be payable by the assuming reinsurer without diminution because of the insolvency of the ceding reinsurer. Because the Company had not obtained anything other than faxes and telexes as evidence of reinsurance coverage, the terms and conditions of the reinsurance, including the existence of insolvency clauses as required by Section 1308, could not be verified. During the prior examination, no credit was allowed in this report for reinsurance recoverable on unpaid losses for this book of business. During the current examination, this amount was immaterial, and no exam change was warranted. The prior examination recommended that the Company effect written reinsurance contracts with complete insolvency clauses for all reinsurance ceded. The Company has not complied with this recommendation and it is reiterated herein.

D. Holding Company System

UA Holding Corporation, an intermediate holding company (the immediate parent company,) owns 99% of the United Americas Insurance Company capital stock. Two international companies hold the remaining shares of the Company's capital stock. As the following chart indicates, the ultimate parent of the Company is Instituto de Resseguros do Brasil.



The above mentioned corporate structure was approved by the Department in September 1988. This approval was conditioned on the commitments made by Instituto de Resseguros do Brasil, the Company's ultimate parent, to the New York Insurance Department in relation to Section 1102(h) of the New York Insurance Law.

Section 1102(h) of the New York Insurance Law contains certain restrictions concerning the ownership of New York insurance companies by foreign governments. IRB is fifty percent owned by Instituto de Administracao Financeria da Prev.e. Assist. Social, an agency of the government. The Department determined that Section 1102(h) is not violated if a government controlled shareholder makes a commitment to the Department that it will limit its direct representation on the insurance company's board of directors to minority representation.

The Company is currently a party to an Expense Allocation Agreement and a Tax Allocation Agreement with its immediate parent company, UA Holding Corporation ("UA Holding") and its affiliate, UA Service Corporation ("UA Services"). The agreements were filed with this Department.

It was recommended in the prior report on examination that the Company comply with Circular Letter #15 (1975) and not admit all inter-company balances greater than 90 days past due. A review of the Company's related party accounts indicates that the Company continues to be in violation of this circular letter. These amounts were not material to the balance sheet and therefore no adjustment has been made. It is again recommended that the Company comply with Circular Letter #15 (1975) and not admit all inter-company balances over 90 days past due.

The prior exam found that the Company paid bills on behalf of its affiliates on a regular basis without the benefit of a formal written agreement. This practice was considered a violation of Section 1501(a)(1) of the New York Insurance Law because such advances could be construed as loans or extensions of credit on behalf of an affiliate. The prior report on examination recommended that the Company seek recovery from its affiliates of a fair and equitable fee for interest on any loans or extension of credit transactions. The Company has not complied with this recommendation, however the Company has ceased to pay bills on behalf of its affiliates.

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2000:

Net premiums written in 2000 to Surplus as regards policyholders	0.0%
Agents' balances to surplus	3.0%
Liabilities to Liquid assets (cash and invested assets less investments in affiliates)	23.0%

As stated earlier, the Company is in runoff, which makes the first two ratios inapplicable.

F. Abandoned Property Law

The Company filed abandoned property reports with the Office of the State Comptroller as required by Section 1316 of the New York Abandoned Property Law for all of the years under examination.

G. Accounts and Records

Custodian Agreement

As of the examination date, the Company's securities were held with the Bank of New York pursuant to the terms of a custodian agreement. A review of the custodian agreement indicates that the agreement lacks the following protective covenants and or provisions:

1. The custodian should have in force, for its own protection, a Bankers Blanket Bond Insurance of the broadest form available for commercial banks and continue to maintain such insurance. Sixty days written notice of any material change in the form or amounts of such insurance or termination of this coverage should be provided to the Company.
2. There should be a provision in the agreement that would give the Company the opportunity to secure the most recent report on the review of the custodian's system of internal controls pertaining to the custodian record keeping, issued by internal or independent auditors.

### 3. FINANCIAL STATEMENTS

#### A. Balance Sheet

The following shows the assets, liabilities and surplus as determined by this examination as of December 31, 2000, and is the same as reported by the Company:

<u>Assets</u>	<u>Ledger Assets</u>	<u>Non-Ledger Assets</u>	<u>Not-Admitted Assets</u>	<u>Admitted Assets</u>
Bonds	\$8,954,432	\$		\$8,954,432
Cash on hand and on deposit and short-term investments	317,244			317,244
Agents' balances or uncollected premiums	222,101			222,101
Funds held by or deposited with reinsured companies	935,436			935,436
Reinsurance recoverable on loss payments	113,654			113,654
Electronic data processing equipment	131			131
Interest, dividends and real estate income due and accrued		114,433		114,433
Receivable from parent, subsidiaries and affiliates	<u>231,660</u>	<u>          </u>	<u>16,494</u>	<u>215,166</u>
Total assets	<u>\$10,774,658</u>	<u>\$114,433</u>	<u>\$16,494</u>	<u>\$10,872,597</u>

Liabilities

Losses and loss adjustment expenses	\$11,780,869
Reinsurance payable on paid losses and loss adjustment expenses	1,232,697
Other expenses	45,422
Taxes, licenses and fees	8,200
Funds held by company under reinsurance treaties	12,935
Provision for reinsurance	95,890
Payable to parent, subsidiaries, and affiliates	349,977
Stop loss agreements	(11,547,913)
Misc. accounts payable	<u>171,799</u>
Total liabilities	\$2,149,876

Surplus and Other Funds

Segregated surplus	\$11,547,913
Common capital stock	2,500,000
Preferred capital stock	50,000
Gross paid in and contributed surplus	23,627,646
Unassigned funds (surplus)	<u>(29,002,838)</u>
Surplus as regards policyholders	<u>8,722,721</u>
Total liabilities and surplus	<u>\$10,872,597</u>

NOTE: The Company has not been audited by the Internal Revenue Service. 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 \$5,302,432 during the three-year examination period, January 1, 1998 through December 31, 2000, detailed as follows:

Statement of Income

Underwriting Income

Premiums earned		\$4,492
Deductions:		
Losses incurred	\$(5,506,446)	
Loss adjustment expense incurred	1,998,248	
Other underwriting expense incurred	<u>1,094,348</u>	
Total underwriting deductions		<u>(2,413,850)</u>
Net underwriting gain (loss)		\$2,418,342

Investment Income

Net investment income earned	\$1,622,437	
Net realized capital gains	<u>23,393</u>	
Net investment gain		1,645,830

Other Income

Net gain or (loss) from agents' balances previously charged off	\$ (20,483)	
Miscellaneous income	1,394,946	
Loss on disposal of furniture & fixture	(7,829)	
Stop loss reduction	<u>(375,160)</u>	
Net gain from other income		<u>991,474</u>
Net Income before federal income taxes		\$5,055,646
Federal income taxes incurred		<u>0</u>
Net Income		<u>\$5,055,646</u>

Capital and Surplus Account

Surplus as regards policyholders, per report on examination as of December 31, 1997			\$3,420,289
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income (loss)	\$5,055,646	\$	
Change in not-admitted assets	319,981		
Change in provision for reinsurance	<u>                    </u>	<u>73,195</u>	
Total gains and losses	<u>\$5,375,627</u>	<u>\$73,195</u>	
Net gain in surplus			<u>5,302,432</u>
Surplus as regards policyholders, per report on examination as of December 31, 2000			<u>\$8,722,721</u>

**4. LOSSES AND LOSS ADJUSTMENT EXPENSES**

The examination liability of \$11,780,869 is the same as that reported by the Company as of December 31, 2000. The examination analysis was conducted in accordance with generally accepted actuarial principles and practices and was based upon statistical information contained in the Company's internal records and its filed annual statements, as verified by the examiner.

**5. MARKET CONDUCT ACTIVITIES**

The Company operates as a property and casualty reinsurer, and as such does not write any direct business and does not have direct contact with insureds or claimants. Additionally, the Company is currently in run-off and as such does not engage in any sales, advertising, underwriting or rating activities.

## 6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination contained nineteen comments and recommendations. The current status of these matters is as follows (page numbers refers to prior report):

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Board of Directors</u>	
i. It is recommended that the Company comply with its charter and maintain at least thirteen directors on its board at all times.	5
The Company has not complied with this recommendation and it is reiterated herein.	
ii. It is recommended that the board members who are unable to or unwilling to attend meetings consistently should resign or be replaced.	6
The Company has complied with this recommendation.	
B. <u>State Licenses</u>	
It is recommended that the Company not report that it is licensed in the State of Arizona.	6
The Company has complied with this recommendation.	
C. <u>Reinsurance</u>	
i. It is recommended that the Company comply with Section 1505(d)(2) of the New York Insurance Law and notify the Insurance Department in advance of all reinsurance agreements between members of the same holding company system.	9
The Company did not enter into any new agreements between members of the holding company system during the period under examination.	
ii. It is recommended that the Company effect written reinsurance contracts with complete insolvency clauses for all reinsurance ceded as required by Section 1308.	9
The Company has not complied with this recommendation, however the amount is immaterial to the balance sheet.	

<u>ITEM</u>	<u>PAGE NO.</u>
D. <u>Holding Company System</u>	
i. It is recommended that the Company comply with Section 1505(d)(3) of the New York Insurance Law and notify the Superintendent prior to entering into and rendering of services of members of its holding company system on a regular or systematic basis.	12
The Company has complied with this recommendation.	
ii. It is recommended that the Company comply with Section 1505(a)(1) and only enter into transactions with members of its holding company system that are fair and equitable.	12
The Company has complied with this recommendation.	
iii. It is recommended that the Company seek recovery from its affiliates of a fair and equitable fee for interest on all loans or extensions of credit.	12
The Company no longer provides its affiliates with loans or extensions of credit.	
E. <u>Inter-company Balances</u>	
It is recommended that the Company comply with Circular Letter #15 (1975) and not admit all inter-company balances over 90 days past due.	11
The Company has not complied with this recommendation and it is reiterated herein.	
F. <u>Bonds</u>	
It is recommended that the Company comply with Section 1301(a)(15) of the New York Insurance Law and not admit pledged assets in excess of its obligations under a reinsurance agreement.	19
The Company has complied with Section 1301(a)(15) of the New York Insurance Law.	
G. <u>Losses and Loss Adjustment Expenses</u>	
It is recommended that the Company comply with Section 1303 of the New York Insurance Law and provide a loss adjustment expense accrual for winding down its operations.	20
The Company has complied with this recommendation.	

## 7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>	<u>PAGE NO.</u>
<p>A.    <u>Management</u></p> <p>It is recommended that the Company comply with its charter and maintain at least thirteen directors on its board at all times.</p>	<p>4</p>
<p>B.    <u>Reinsurance</u></p> <p>It is recommended that the Company effect written reinsurance contracts with complete insolvency clauses for all reinsurance ceded as required by Section 1308 of the New York Insurance Law.</p>	<p>7</p>
<p>C.    <u>Holding Company System</u></p> <p>It is recommended, as in the prior report on examination, that the Company comply with Circular Letter #15 (1975) and not admit all inter-company balances over 90 days past due.</p>	<p>9</p>
<p>D.    <u>Accounts and Records</u></p> <p>      <u>Custodian Agreement</u></p> <p>It is recommended that the Company include the required protective covenants and/or provisions in their custodian agreement, in order to properly safeguard its investment.</p>	<p>10</p>

Respectfully submitted,

\_\_\_\_\_/S/\_\_\_\_\_  
Ralph Basit  
Senior Insurance Examiner

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

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

\_\_\_\_\_/S/\_\_\_\_\_  
Ralph Basit

Subscribed and sworn to before me

this \_\_\_\_\_ day of \_\_\_\_\_ 2002

Appointment No. 21806

STATE OF NEW YORK  
INSURANCE DEPARTMENT

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

**Ralph Basit**

as proper person to examine into the affairs of the

**UNITED AMERICAS INSURANCE COMPANY**

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

**Company**

with such other information as he shall deem requisite.

In Witness Whereof, I have hereunto subscribed by the  
name and affixed the official Seal of this Department, at  
the City of New York,

this 6th day of December, 2001



  
\_\_\_\_\_  
GREGORY V. SERIO  
Superintendent of Insurance