

REPORT ON EXAMINATION

OF

UNITED AMERICAS INSURANCE COMPANY

AS OF

DECEMBER 31, 2019

DATE OF REPORT

DECEMBER 30, 2020

EXAMINER

SABU CHERIAN

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Department of Financial Services

ANDREW M. CUOMO
Governor

LINDA A. LACEWELL
Superintendent

December 30, 2020

Honorable Linda A. Laceywell
Superintendent
New York State Department of Financial Services
Albany, New York 12257

Madam:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 32092 dated May 21, 2020, attached hereto, I have made an examination into the condition and affairs of United Americas Insurance Company as of December 31, 2019, and submit the following report thereon.

Wherever the designation “the Company” appears herein without qualification, it should be understood to indicate United Americas Insurance Company.

Wherever the term “Department” appears herein without qualification, it should be understood to mean the New York State Department of Financial Services.

The examination was conducted remotely due to the Governor’s Executive Order of New York State on PAUSE regarding the COVID-19 pandemic.

1. SCOPE OF EXAMINATION

The Department has performed an examination of the Company, a multi-state insurer. The previous examination was conducted as of December 31, 2014. This examination covered the five-year period from January 1, 2015 through December 31, 2019. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

This examination was conducted in accordance with the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners Handbook, which requires that we plan and perform the examination to evaluate the financial condition and identify current and prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company and evaluating system controls and procedures used to mitigate those risks. This examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management’s compliance with New York laws, statutory accounting principles, and annual statement instructions.

This examination report includes, but is not limited to, the following:

- Company history
- Management and control
- Territory and plan of operation
- Reinsurance
- Holding company description
- Financial statement presentation
- Loss review and analysis
- Significant subsequent events
- Summary of recommendations

A review was also made to ascertain what action was taken by the Company with regard to the recommendation 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, regulations or rules, or that are deemed to require explanation or description.

2. DESCRIPTION OF COMPANY

United Americas Insurance Company was incorporated under the laws of the State of New York on October 4, 1978 and commenced business on November 28, 1978. It has been in run-off since 1993.

On January 15, 2019, Acumen Holdings, Ltd. (“Acumen”), a Bermuda holding company, acquired 100% of the stock of the Company from IRB Brasil Resseguros SA (“IRB”). On February 20, 2019, Acumen changed its name to Insko Holdings Ltd. (“Insko”). At the same time, the Company entered into a service agreement with Quest Consulting (NY) Inc. to manage the run-off operations of the Company.

A. Corporate Governance

Pursuant to the Company’s charter and by-laws, management of the Company is vested in a board of directors consisting of not less than seven nor more than thirteen members. The board meets two times during each calendar year. At December 31, 2019, the board of directors was comprised of the following seven members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
James Bolton London, England	Director, Quest Consulting London
Ricardo Enrique Cantilo Colts Neck, New Jersey	President, Quest Consulting New York
Raymond Dowling Massapequa, New York	Principal, Dowling Advisors, Inc.
Jeremy Fall West Sussex, England	Chief Executive Officer, Quest Consulting London
Vishal Jhaveri Melville, New York	Principal, ReRisk Capital Inc.
Sean Pierre McDermott London, England	Executive Director, Quest Consulting London
Donald Herbert Wustrow Aberdeen, New Jersey	Vice President, Quest Consulting New York

As of December 31, 2019, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Ricardo Enrique Cantilo	President
Donald Herbert Wustrow	Secretary and Treasurer

Section 89.8(a) of Department Regulation No. 118 (“Reg. 118”) states:

“Every company required to furnish an annual audited financial report shall require the CPA to report, in writing, to the superintendent, the board of directors and the company’s audit committee within five business days of any determination by the CPA that the company has materially misstated its financial condition as reported to the superintendent as of the balance sheet date currently under audit or that the company does not meet the minimum capital or surplus requirement of the insurance law as of that date, including, for applicable managed companies, the contingent reserve requirement of 10 NYCRR 98-1.11(e).”

The Company’s CPA engagement letter for the 2019 audit did not contain the requisite wording that ensures compliance with Section 89.8(a) of Reg. 118.

It is recommended that the Company include wording to ensure compliance with Reg. 118 in all future CPA engagement letters.

B. Territory and Plan of Operation

As of December 31, 2019, the Company was licensed to write business in five states as listed in Schedule T of the annual statement. However, the Company has been in run-off since 1993 and has not underwritten any business since then. When the Company was actively writing, it was engaged in the reinsurance of risks, including asbestos and environmental risks.

As of the examination date, 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 & health
4	Fire
5	Miscellaneous property
6	Water damage
7	Burglary and theft
8	Glass
9	Boiler and machinery

<u>Paragraph</u>	<u>Line of Business</u>
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 incidental to coverage contemplated under paragraphs 20 and 21 of Section 113 (a) of the New York Insurance Law, including insurance described in the Longshoremen's and Harbor Worker' Compensation Act (Public Law 803, 69th 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 \$2,547,675.

C. Reinsurance Ceded

The Company has been in run-off since 1993. As of examination date, the Company has no material reinsurance recoverables.

During the period covered by this examination, the Company commuted its retroactive reinsurance agreement with its former parent, IRB, as part of the sale of the Company to Insko. This commutation resulted in a gain to the Company's surplus position.

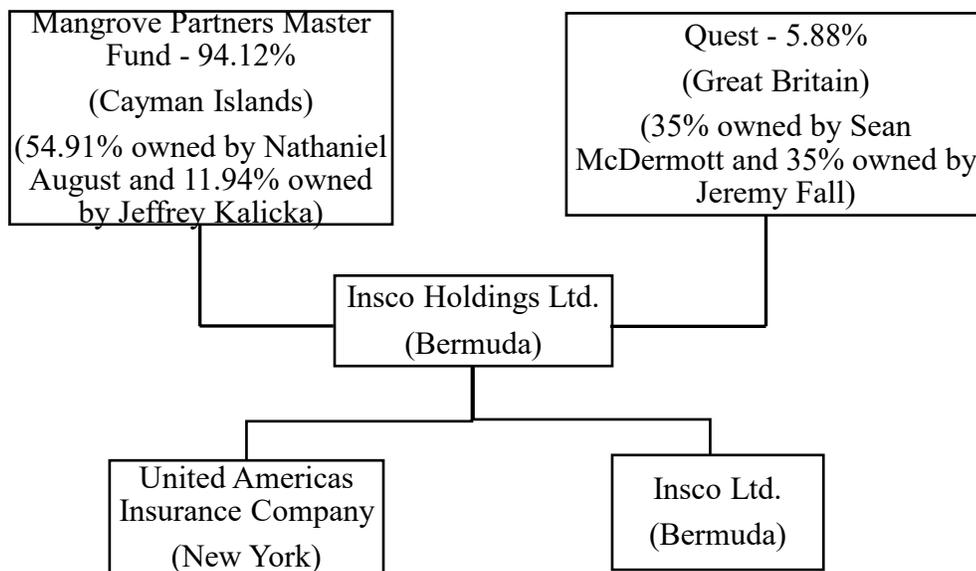
D. Holding Company System

The Company is a wholly owned subsidiary of Insko Holdings Ltd., a Bermuda holding company. Mangrove Partners holds a majority interest in Insko Holdings Ltd. Mangrove Partners is ultimately controlled by Mr. Nathaniel August.

Mangrove Partners purchased the Company in 2019. The purchase is in alignment with one of Mangrove Partners' strategies of winding-down the business of insurance companies that have been placed into run-off.

A review of the holding company registration statements filed with this Department indicated that such filings were complete and were filed in a timely manner pursuant to Article 15 of the New York Insurance Law and Department Regulation 52.

The following is a chart of the holding company system at December 31, 2019:



Holding Company Agreements

At December 31, 2019, the Company was party to the following agreements with other members of its holding company system:

Management Agreements

Effective January 31, 2019, the Company entered into an investment management agreement with Mangrove Partners, a Cayman Islands exempted company, as the exclusive investment manager of the Company's Traditional Investment Portfolio, and serves as the Company's agent and attorney-in-fact to invest and reinvest that portion of the Company's assets that the Board has allocated to the Traditional Investment Portfolio, subject to the investment guidelines. The terms of the agreement establish that

Mangrove Partners will be entitled to remuneration of 0.42% of the net asset value of the Traditional Investment Portfolio as of the end of the prior month. Mangrove Partners waived its management fee in 2019.

This agreement was filed with this Department pursuant to Section 1505(d) of the New York Insurance Law and was non-disapproved by the Department.

Effective January 15, 2019, the Company entered into management agreement with Quest Consulting (NY) Inc., a Delaware company and a wholly owned subsidiary of Quest Consulting (London). Under this agreement, Quest Consulting (NY), Inc. acts as the manager and provides all run-off administrative services to the business of the Company. The terms of the agreement establish that Quest Consulting (NY) Inc. is entitled to remuneration of \$350,000 per year.

This agreement was filed with this Department pursuant to Section 1505(d) of the New York Insurance Law and was non-disapproved by the Department.

E. Significant Ratios

The adjusted liabilities to liquid assets ratio of 76% at December 31, 2019, falls within the benchmark range set forth in the Insurance Regulatory Information System of the NAIC. The Company's other operating ratios and underwriting ratios normally contained herein have not been computed because they are not meaningful due to the Company's run-off status.

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2019, as reported by the Company:

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$ 4,289,807	\$0	\$ 4,289,807
Cash, cash equivalents and short-term investments	7,267,906	0	7,267,906
Other invested assets	5,640,887	0	5,640,887
Investment income due and accrued	26,933	0	26,933
Funds held by or deposited with reinsured companies	5,562	0	5,562
Prepaid expense	<u>1,296</u>	<u>0</u>	<u>11,296</u>
Total assets	<u>\$17,242,391</u>	<u>\$0</u>	<u>\$17,242,391</u>

Liabilities, Surplus and Other FundsLiabilities

Losses and loss adjustment expenses	\$ 8,224,000
Reinsurance payable on paid losses and loss adjustment expenses	316,973
Other expenses (excluding taxes, licenses and fees)	97,601
Taxes, licenses and fees (excluding federal and foreign income taxes)	1,600
Provision for reinsurance	<u>125,000</u>
 Total liabilities	 \$ 8,765,174

Surplus and Other Funds

Common capital stock	\$ 2,547,675
Gross paid in and contributed surplus	25,799,364
Unassigned funds (surplus)	<u>(19,869,819)</u>
 Surplus as regards policyholders	 \$ <u>8,477,220</u>
 Total liabilities, surplus and other funds	 \$ <u>17,242,394</u>

Note: The Internal Revenue Service has not audited tax returns covering tax years 2015 through 2019. The examiner is unaware of any potential exposure of the Company to any tax assessment and no liability has been established herein relative to such contingency

B. Statement of Income

The net income for the examination period as reported by the Company was \$1,839,221, as detailed below:

Premiums earned		\$ 16
Deductions:		
Losses and loss adjustment expenses incurred	\$2,900,447	
Other underwriting expenses incurred	<u>530,540</u>	
Total underwriting deductions		<u>3,430,987</u>
Net underwriting gain or (loss)		\$(3,430,971)
 <u>Investment Income</u>		
Net investment income earned	\$ 35,458	
Net realized capital gain	<u>23,737</u>	
Net investment gain or (loss)		59,195
 <u>Other Income</u>		
Miscellaneous income	\$2,529,276	
Stop loss reduction	2,856,526	
Loss on disposal of equipment	<u>(35)</u>	
Total other income		<u>5,385,767</u>
Net income before dividends to policyholders and before federal and foreign income taxes		\$2,013,991
Federal and foreign income taxes incurred		<u>174,770</u>
Net income		<u>\$1,839,221</u>

C. Capital and Surplus

Surplus as regards policyholders increased \$2,339,118 during the five-year examination period January 1, 2015 through December 31, 2019, as reported by the Company, detailed as follows:

Surplus as regards policyholders as reported by the Company as of December 31, 2014			\$6,138,101
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income	\$1,839,221		
Net unrealized capital gains or (losses)	30,916		
Change in net deferred income tax	8,586		
Change in nonadmitted assets	11,298		
Change in provision for reinsurance		\$78,850	
Capital changes transferred to surplus		2,325	
Surplus adjustments paid in	1,325		
Change in pension liability	<u>528,947</u>	<u>0</u>	
Total gains and losses	<u>\$2,420,293</u>	<u>\$81,175</u>	
Net increase (decrease) in surplus			<u>2,339,118</u>
Surplus as regards policyholders as reported by the Company as of December 31, 2019			<u>\$8,477,220*</u>

*Rounding difference of \$1

As noted in sections 3D and 5 of this report, this examination has determined an adjustment to surplus of \$(3,899,243).

Capital paid in is \$2,547,675 consisting of 5,025 shares of \$507 par value per share common stock. Gross paid in and contributed surplus is \$25,799,364.

On September 25, 2018, the Company effectuated an amendment to its charter to revise the number of shares of authorized voting common stock from 25,000 to 5,025,000 and to revise the number of shares of authorized preferred stock from 10,000,000 to 5,000,000. On that date, the outstanding shares of Class A preferred stock were converted to voting common stock in accordance with the provisions of the Class A preferred stock. The Company therefore had 5,025,000 shares of voting common stock authorized, issued, and outstanding with a par value of \$0.50 per share. Following the amendment, the Company undertook a reverse stock split of its common stock such that the Company revised the number of authorized shares to

5,025 authorized and issued with a par value of \$507 per share. Pursuant to this amendment, resultant fractional shares were settled by cash payment. Also, under the amendment, the 5,000,000 Class A preferred shares, of which none were issued and outstanding, were deleted.

D. Analysis of Changes to Surplus

Surplus as regards policyholders as of December 31, 2019, as reported by the Company			\$8,477,220
	<u>Surplus Increase</u>	<u>Surplus Decrease</u>	
Examination change due to Section 1409(a) limitation of investment in a single institution		\$3,899,243	
Net increase (decrease) in surplus			<u>(3,899,243)</u>
Surplus as regards policyholders as of December 31, 2019, per report on examination			<u>\$4,577,977</u>

4. CUSTODIAL AGREEMENT

The Company utilizes HSBC Bank USA (“HSBC”) as its custodian. The NAIC Financial Condition Examiner’s Handbook specifies safekeeping provisions that should be included in an insurer’s agreement with its custodian. A review of the Company’s custody agreement with HSBC revealed that it did not contain various safekeeping provisions, including, but not limited to, the following:

- In the event of a loss of the securities for which the custodian is obligated to indemnify the insurance company, the securities shall be promptly replaced or the value of the securities and the value of any loss of rights or privileges resulting from said loss of securities shall be promptly replaced.
- If the custodial agreement has been terminated or if 100% of the account assets in any one custody account have been withdrawn, the custodian shall provide written notification, within three business days of termination or withdrawal, to the insurer's domiciliary commissioner.

It is recommended that the Company amend its custodial agreement to include all safeguard provisions that are noted in the NAIC Financial Condition Examiners Handbook.

5. INVESTED ASSETS

Section 1402

Section 1402(a) of the New York Insurance Law states, in part:

“. . . Before investing its funds in any other investments, every domestic insurer shall invest and maintain an amount equal to . . . the minimum surplus to policyholders required to be maintained by law . . . only in investments of the types specified in this section . . . Investments equal in value . . . to such amount and of such types shall at all times be maintained free and clear from any security interest other than as impressed upon a deposit with any government within the United States for the security of all policyholders or all policyholders and creditors of the insurer . . .

- (1) Obligations of the United States or of any agency thereof provided such agency obligations are guaranteed as to principal and interest by the United States.
- (2) Direct obligations of this state or of any county, district or municipality thereof.
- (3) Direct obligations of any state of the United States.
- (4) Obligations secured by first mortgage loans. . .”

In its 2019 Annual Statement, the Company reported investments of \$884,951 in U.S. obligations (including agencies), \$202,081 in direct obligations of New York State, and \$99,419 in deposits not held for the benefit of all policyholders. The Company did not invest in direct obligations of any state, other than New York, and did not invest in obligations secured by first mortgage loans. Taking into consideration the Company’s qualifying assets pursuant to Section 1402(a) of the New York Insurance Law, the Company is deficient by \$1,560,062 in meeting the required minimum surplus to policyholder investments.

It is recommended that the Company maintain investments in compliance with Section 1402(a) of the New York Insurance Law.

Subsequent to the examination, the Company purchased additional qualifying investments, sufficient enough to be in compliance with this recommendation.

Section 1402(b) of the New York Insurance Law states, in part:

“Not less than sixty percent of the amount of the required minimum capital or surplus to policyholder investments shall consist of the types specified in paragraphs one and two hereof:

- (1) Obligations of the United States or of any agency thereof provided such agency obligations are guaranteed as to principal and interest by the United States.

- (2) Direct obligations of this state or of any county, district or municipality thereof . . .”

Sixty percent of the Company’s required minimum surplus to policyholders equals \$1,528,605. In its 2019 Annual Statement, the Company reported investments of \$785,532 in U.S. obligations and \$202,081 in direct obligations of New York State. The total amount of the Company’s qualifying investments pursuant to Section 1402(b) of the New York Insurance Law equals \$987,613. The Company is deficient in meeting the investment requirement of Section 1402(b) of the New York Insurance Law by \$540,992.

It is recommended that the Company maintain the minimum investment requirements of Section 1402(b) of the New York Insurance Law.

Subsequent to the examination, the Company purchased additional qualifying investments, sufficient enough to be in compliance with this recommendation.

Section 1409

Section 1409(a) of the New York Law states, in part:

“... no domestic insurer shall have more than ten percent of its admitted assets as shown by its last statement on file with the superintendent invested in, or loaned upon, the securities (including for this purpose certificates of deposit, partnership interests and other equity interests) of any one institution.”

The Company reported admitted assets of \$17,416,444 in its Quarterly Statement as of September 30, 2019. In accordance with Section 1409(a) of the New York Insurance Law, the Company’s investment in any one institution is limited to 10% of \$17,416,444, or \$1,741,644. The Company reported \$5,640,887 as “Other Invested Assets (Schedule BA)” on Page 2 Line 8 of the 2019 Annual Statement. This asset represents the book value of the Company’s investment in Mangrove Partners i-Feeder 1, Ltd. The Company’s investment in this asset exceeded the limitation defined by Section 1409(a) of the New York Insurance Law by \$3,899,243. As such, the examiner has determined that \$3,899,243 of the amount reported as “Other Invested Assets” is non-admitted. This change was incorporated into the “Analysis of Changes to Surplus” section of this report.

It is recommended that the Company comply with the investment requirements of Section 1409(a) of the New York Insurance Law.

6. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of \$8,224,000 is the same as reported by the Company as of December 31, 2019. The examination analysis of the loss and loss adjustment expense reserves was conducted in accordance with generally accepted actuarial principles and statutory accounting principles, including SSAP No. 55.

7. SUBSEQUENT EVENTS

On March 11, 2020, the World Health Organization declared an outbreak of a novel coronavirus (“COVID-19”) pandemic. The COVID-19 pandemic has continued to develop throughout 2020, with significant uncertainty remaining regarding the full effect of COVID-19 on the U.S. and global insurance and reinsurance industry. At the time of releasing this report, the examination’s review noted that there has not been a significant impact to the Company. The Department has been in communication with the Company regarding the impact of COVID-19 on its financial position. The Department continues to closely monitor the impact of the pandemic on the Company and will take necessary action if a solvency concern arises.

On August 31, 2020, Messrs. Sean McDermott and Jeremy Fall, Bacchus Holdings Ltd., Buttonwood Holdings Investment, Ltd., and Buttonwood Holdings, Ltd. filed with the Department for approval of the acquisition of control of the Company. The acquisition of control was approved by the Department on November 18, 2020. With this acquisition, the applicants became the controlling persons of the Company.

On August 31, 2020, Mr. Nathaniel August filed with the Department for determination of non-control of Insko Holdings, Ltd. and the Company. On November 4, 2020 Mr. August executed certain commitments to the Department to support determination of non-control. Based on the application filed and special commitments made, the Department will not consider Mr. August a controlling person.

On August 31, 2020, Messrs. James Bolton, Ricardo Cantilo, and David Cherry filed with the Department for determination of non-control of Insko Holdings, Ltd. and the Company. Based on the application filed and special commitments made, the Department will not consider the said individuals to control the companies as filed in the application.

8. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination contained one recommendation as follows (page numbers refer to the prior report):

<u>ITEM</u>	<u>PAGE NO.</u>
A. Losses and Loss Adjustment Expenses	
i. It was recommended that the Company address the reserving inadequacy and increase its carried reserves to an appropriate level, pursuant to the provisions of Section 1303 of the New York Insurance Law and Paragraph 10 of SSAP No.55	13

The Company has complied with this recommendation.

9. **SUMMARY OF COMMENTS AND RECOMMENDATIONS**

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Corporate Governance</u> It is recommended that the Company include wording to ensure compliance with Reg. 118 in all future CPA engagement letters.	4
B. <u>Custodial Agreement</u> It is recommended that the Company amend its custodial agreement to include all safeguard provisions that are noted in the NAIC Financial Condition Examiners Handbook.	12
C. <u>Invested Assets</u>	
i. It is recommended that the Company maintain investments in compliance with Section 1402(a) of the New York Insurance Law. Subsequent to the examination, the Company purchased additional qualifying investments, sufficient enough to be in compliance with this recommendation.	13
ii. It is recommended that the Company maintain the minimum investment requirements of Section 1402(b) of the New York Insurance Law. Subsequent to the examination, the Company purchased additional qualifying investments, sufficient enough to be in compliance with this recommendation.	14
iii. It is recommended that the Company comply with the investment requirements of Section 1409(a) of the New York Insurance Law.	14

Respectfully submitted,

_____/S/_____
Sabu Cherian
Senior Insurance Examiner

STATE OF NEW YORK)
)ss:
COUNTY OF NEW YORK)

Sabu Cherian, being duly sworn, deposes and says that the foregoing report, subscribed by him, is true to the best of his knowledge and belief.

_____/S/_____
Sabu Cherian

Subscribed and sworn to before me

this _____ day of _____, 2021.

APPOINTMENT NO. 32092

NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

I, Linda A. Lacewell, Superintendent of Financial Services of the State of New York, pursuant to the provisions of the Financial Services Law and the Insurance Law, do hereby appoint:

Sabu Cherian

as a proper person to examine the affairs of the

United Americas Insurance Company

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

COMPANY

with such other information as he shall deem requisite.

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

this 21st day of May, 2020

LINDA A. LACEWELL
Superintendent of Financial Services

By:

Joan L. Riddell

Joan Riddell
Deputy Bureau Chief

