

REPORT ON EXAMINATION

OF

UNITED INTERNATIONAL INSURANCE COMPANY

AS OF

DECEMBER 31, 2014

DATE OF REPORT

APRIL 8, 2016

EXAMINER

MOHAMMED RAB

TABLE OF CONTENTS

<u>ITEM NO.</u>		<u>PAGE NO.</u>
1	Scope of examination	2
2.	Description of company	3
	A. Management	4
	B. Territory and plan of operation	5
	C. Reinsurance	5
	D. Holding company system	6
	E. Significant operating ratios	7
3.	Financial statements	8
	A. Balance sheet	8
	B. Statement of income	9
	C. Capital and surplus account	10
4.	Losses and loss adjustment expenses	10
5.	Compliance with prior report on examination	11
6.	Summary of comments and recommendations	12



NEW YORK STATE
DEPARTMENT *of*
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Maria T. Vullo
Superintendent

April 8, 2016

Honorable Maria T. Vullo
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 31277 dated March 13, 2015 attached hereto, I have made an examination into the condition and affairs of United International Insurance Company as of December 31, 2014, and submit the following report thereon.

Wherever the designation “the Company” appears herein without qualification, it should be understood to indicate United International 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 at the Company’s administrative office located at 2250 Chapel Avenue West, Cherry Hill, NJ 08002.

1. SCOPE OF EXAMINATION

The Department has performed a single-state examination of United International Insurance Company. The previous examination was conducted as of December 31, 2009. This examination covered the five year period from January 1, 2010 through December 31, 2014. 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 (“Handbook”), which requires that we plan and perform the examination to evaluate the financial condition and identify 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 Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All financially significant accounts and activities of the Company were considered in accordance with the risk-focused examination process. The examiners also relied upon audit work performed by the Company’s independent public accountants when appropriate.

This examination report includes a summary of significant findings for the following items as called for in the Handbook:

- Significant subsequent events
- Company history
- Corporate records
- Management and control
- Fidelity bonds and other insurance
- Territory and plan of operation
- Loss experience
- Reinsurance
- Accounts and records
- Statutory deposits
- Financial statements
- Summary of recommendations

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

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

2. DESCRIPTION OF COMPANY

United International Insurance Company (“UIIC”) was incorporated under the laws of the State of New York on September 25, 1986. It became licensed to transact insurance business on May 10, 1988.

The Company is a wholly-owned subsidiary of American European Insurance Company, Inc., a New Hampshire insurer. The ultimate controlling entities are HSI Partnership and Diaco Investments, LP, which own 57.09 % and 10.17 %, respectively, of the voting stock of American European Group, Inc., the Company’s intermediate parent. Prior to April 10, 2009, the Company was directly owned by American European Group, Inc.

As a result of significant losses and with the consent of the Department, the Company ceased writing new and renewal business effective July 1, 1997.

At December 31, 2014, capital paid in was \$1,000,000 consisting of 1,000,000 shares of \$1.00 par value per share common stock. Gross paid in and contributed surplus was \$2,612,467 and remained the same during the examination period.

The Company’s surplus includes a surplus note issued to American European Insurance Company, Inc. in the amount of \$1,700,000. The note carries an interest rate equal to the published prime rate on the last day of each calendar quarter. The principal on the note as well as interest cannot be paid by the Company without the prior approval of the Department. Interest payable on the note also cannot be accrued without the prior approval of the Department. As of December 31, 2014, interest on the note was approximately \$1,694,333. There have been no principal or interest payments on the note since it was issued. The surplus note was initially issued to American European Group, Inc. It was purchased on May 1, 2009 by the Company’s current direct parent American European Insurance Company, Inc.

A. Management

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 members nor more than nine members. At December 31, 2014, the board of directors was comprised of the following eight members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Abraham Biderman Brooklyn, NY	Chairman, Eagle Advisers, LLC
Steve Klein Flushing, NY	Treasurer, American European Insurance Group, Inc.
Shmuel Levinson Monsey, NY	Investment Consultant, Diacco Investments, LP
Joseph F. Morris Fort Washington, PA	President & Chief Executive Officer, American European Insurance Group, Inc.
David M. Singer Brooklyn, NY	Executive Senior Vice President, Broadway Management
Harmon S. Spolan Philadelphia, PA	Attorney, Cozen O'Connor
Nachum J. Stein Brooklyn, NY	Chairman, American European Insurance Group, Inc.
Raquel Wolf Brooklyn, NY	Owner, Hirsch Wolf & Co., LLC

A review of the minutes of the board of directors' meetings held during the examination period indicated that the meetings were generally well attended with the exception of David M. Singer who attended less than 50% of the meetings for which he was eligible to attend.

Members of the board have a fiduciary responsibility and must evince an ongoing 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 the board may reach appropriate decisions. Individuals who fail to attend at least one-half of the regular meetings 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. It is noted that a similar recommendation regarding board members' attendance was included in the prior report.

As of December 31, 2014, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Joseph F. Morris	President & Chief Executive Officer
Marilyn Ann DiDonato	Secretary & Chief Compliance Officer
Steve Klein	Treasurer

B. Territory and Plan of Operation

As of December 31, 2014, the Company was licensed to write business in New York only. It ceased accepting new and renewal business in 1997, and subject to the provisions of Section 1203(b) of the New York Insurance Law, must obtain prior approval of the Superintendent before it can resume writing any insurance business. The Company is currently in run-off status.

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>
4	Fire
5	Miscellaneous property
6	Water damage
12	Collision
13	Personal injury liability
14	Property damage liability
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine

Based on 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 \$1,200,000.

C. Reinsurance

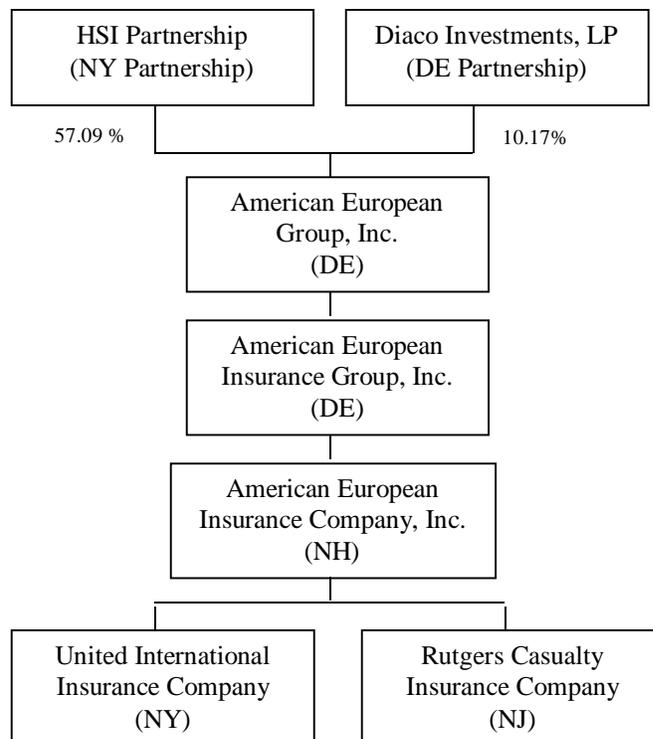
The Company has been in run-off since 1997. There are no recoverables on any ceded contracts in run-off.

D. Holding Company System

The Company is 100% owned by American European Insurance Company, Inc., a New Hampshire corporation, which is owned by American European Insurance Group, Inc., a Delaware corporation, which is owned by American European Group, Inc., (“AEG”) a Delaware corporation. HSI Partnership and Diaco Investments, LP each own 57.09 % and 10.17%, respectively, of the voting stock of AEG.

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 an abbreviated chart of the holding company system at December 31, 2014:



At December 31, 2014, the Company was a party to the following agreements with other members of its holding company system:

Services Agreement

The Company entered into a services agreement with its intermediate parent, AEG, for the

performance of investment advisory services, effective January 1, 2010. This agreement was non-disapproved by the New York State Insurance Department pursuant to Section 1505 (d)(3) of the New York Insurance Law on September 24, 2009.

Tax Allocation Agreement

The Company entered into a tax allocation agreement with its parent and affiliates effective December 31, 2009. The agreement was subsequently amended effective June 30, 2014 to include Tee and Gee Group, LLC to the list of participating AEG subsidiaries. The agreement and subsequent amendment were filed with and non-disapproved by the Department in accordance with Section 1505(d)(3) of the New York Insurance Law.

General Accounts Payable Agreement

The Company entered into a general accounts payable agreement with its parent and affiliates effective January 1, 2010. Under the Agreement, the affiliated members of the group agree to reimburse the other for accounts payable made by one for the other, according to the terms and conditions of the agreement. This agreement was non-disapproved by the New York State Insurance Department pursuant to Section 1505 (d)(3) of the New York Insurance Law on February 8, 2010.

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2014, based upon the results of this examination:

Net premiums written to surplus as regards policyholders	N/A*
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	1 %
Premiums in course of collection to surplus as regards policyholders	N/A*

* The Company is in run-off and has no net written premiums written or premiums in course of collection.

The liability to liquid assets ratio falls within the benchmark ranges set forth in the Insurance Regulatory Information System of the National Association of Insurance Commissioners.

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2014 as reported by the Company:

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$3,962,587	\$ 0	\$3,962,587
Common stocks	47,893		47,893
Cash, cash equivalents and short-term investments	703,878		703,878
Investment income due and accrued	20,048		20,048
Net deferred tax asset	<u>19,473</u>	<u>14,957</u>	<u>4,516</u>
Total assets	<u>\$4,753,879</u>	<u>\$14,957</u>	<u>\$4,738,922</u>

Liabilities, Surplus and Other Funds

Liabilities

Other expenses (excluding taxes, licenses and fees)	\$ 9,500
Payable to Parent, subsidiaries and affiliates	<u>22,520</u>
Total liabilities	32,020

Surplus and Other Funds

Common capital stock	\$1,000,000
Surplus notes	1,700,000
Gross paid in and contributed surplus	2,612,467
Unassigned funds (surplus)	<u>(605,565)</u>
Surplus as regards policyholders	<u>4,706,902</u>
Total liabilities, surplus and other funds	<u>\$4,738,922</u>

Note: The Internal Revenue Service has not audited tax returns covering tax years 2010 through 2014. 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

Net income for the five year examination period, January 1, 2010 through December 31, 2014, was \$269,582 detailed as follows:

Underwriting Income

Premiums earned		\$	0
Deductions:			
Losses incurred and loss adjustment expenses incurred	\$	2,374	
Other underwriting expenses incurred		<u>92,466</u>	
Total underwriting deductions			<u>94,840</u>
Net underwriting gain or (loss)			<u>(94,840)</u>

Investment Income

Net investment income earned	\$367,607		
Net realized capital gains or (losses)		<u>37,736</u>	
Net investment gain or (loss)			<u>405,343</u>
Net income before federal and foreign income taxes			310,503
Federal and foreign income taxes incurred			<u>40,921</u>
Net income			<u>\$269,582</u>

C. Capital and Surplus Account

Surplus as regards policyholders increased \$371,835 during the five-year examination period January 1, 2010 through December 31, 2014, detailed as follows:

Surplus as regards policyholders per report on examination as of December 31, 2009			\$4,335,067
	<u>Gains in</u>	<u>Losses in</u>	
	<u>Surplus</u>	<u>Surplus</u>	
Net income or (loss)	\$269,582		
Net unrealized capital gains or (losses)		\$15,734	
Change in net deferred income tax		247	
Change in non-admitted assets	118,825		
Aggregate write-ins for gains and losses in surplus	<u>0</u>	<u>591</u>	
Total gains and losses	<u>388,407</u>	<u>16,572</u>	
Net increase (decrease) in surplus			<u>371,835</u>
Surplus as regards policyholders per report on examination as of December 31, 2014			<u>\$4,706,902</u>

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of \$0 is the same as reported by the Company as of December 31, 2014. The Company reported no losses and loss adjustment expenses as of December 31, 2014.

5. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

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

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Management</u>	
i. It is recommended that board members who are unable or unwilling to attend meetings consistently should resign or be replaced.	5
The Company has not complied with this recommendation. A similar recommendation is made in this report.	
ii. It is recommended that the Company authorize or approve its investment transactions in accordance with the provisions of Section 1411(a) of the New York Insurance Law.	5
The Company has complied with this recommendation.	
B. <u>Holding Company System</u>	
It is recommended that the Company obtain approval before authorizing the transfer of its surplus notes to a different entity.	8
The Company has complied with this recommendation.	
C. <u>Accounts and Records</u>	
i. It is recommended that the Company comply with Section 1402 of the New York Insurance Law and maintain the required investments.	9
The Company has complied with this recommendation.	
ii. It is recommended that the Company comply with Section 1409(a) of the New York Insurance Law and limit its investment in any one financial institution to 10% of its admitted assets.	10
The Company has complied with this recommendation.	
iii. It is recommended that the Company include all applicable NAIC provisions in its custodian agreements.	10
The Company has complied with this recommendation.	

6. SUMMARY OF COMMENTS AND RECOMMENDATIONSITEMPAGE NO.A. Management

It is recommended that board members who are unable or unwilling to attend meetings consistently should resign or be replaced. It is noted that a similar recommendation regarding board member's attendance was included in the prior report.

5

Respectfully submitted,

Mohammed Rab
Senior Insurance Examiner

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

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

Mohammed Rab

Subscribed and sworn to before me

this 14th day of November, 2016

APPOINTMENT NO. 31277

NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

I, **BENJAMIN M. LAWSKY**, 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:

Mohammed Rab

as a proper person to examine the affairs of the

United International 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 13th day of March, 2015

BENJAMIN M. LAWSKY
Superintendent of Financial Services

By:



Rolf Kaumann
Deputy Chief Examiner

