

REPORT ON EXAMINATION

OF THE

UNIONE ITALIANA REINSURANCE COMPANY OF AMERICA, INC.

AS OF

DECEMBER 31, 2012

DATE OF REPORT

MAY 23, 2014

EXAMINER

ADEBOLA AWOFOESO

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NEW YORK STATE
DEPARTMENT *of*
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Benjamin M. Lawsky
Superintendent

May 23, 2014

Honorable Benjamin M. Lawsky
Superintendent of Financial Services
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 30964 dated February 26, 2013, attached hereto, I have made an examination into the condition and affairs of Unione Italiana Reinsurance Company of America, Inc. as of December 31, 2012, and submit the following report thereon.

Wherever the designation “the Company” appears herein without qualification, it should be understood to indicate Unione Italiana Reinsurance Company of America, Inc.

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 main administrative office located at 3024 Harney Street, Omaha, Nebraska 68131.

1. SCOPE OF EXAMINATION

The Department has performed a coordinated group examination of Unione Italiana Reinsurance Company of America, Inc. The examination was conducted in conjunction with the state of Nebraska, which was the coordinating state of the Berkshire Hathaway Group of Insurance Companies. The previous examination was conducted as of December 31, 2009. This examination covered the three year period from January 1, 2010 through December 31, 2012. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

The examination was performed concurrently with the examinations of the following insurers:

- American Centennial Insurance Company (DE)
- Berkshire Hathaway Assurance Corporation (NY)
- Berkshire Hathaway Homestate Insurance Company (NE)
- Berkshire Hathaway Life Insurance Company of Nebraska (NE)
- Brookwood Insurance Company (IA)
- Columbia Insurance Company (NE)
- Continental Divide Insurance Company (CO)
- Cypress Insurance Company (CA)
- Finial Reinsurance Company (CT)
- National Fire & Marine Insurance Company (NE)
- National Indemnity Company (NE)
- National Indemnity Company of Mid-America (IA)
- National Indemnity Company of the South (FL)
- National Liability & Fire Insurance Company (CT)
- Oak River Insurance Company (NE)
- Redwood Fire and Casualty Insurance Company (NE)
- Stonewall Insurance Company (NE)
- Unione Italiana Reinsurance Company of America (NY)
- Wesco-Financial Insurance Company (NE)

Other states participating in this examination were California, Colorado, Connecticut, Delaware, Florida, Iowa and Nebraska.

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
- Growth of Company
- 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 that involve departures from laws, regulations or rules, or that are deemed to require explanation or description.

2. DESCRIPTION OF COMPANY

Unione Italiana Reinsurance Company of America, Inc. was incorporated under the laws of the State of New York on August 24, 1978. It became licensed on October 16, 1978.

Effective July 1, 1991, the Company voluntarily ceased writing new and renewal business. Prior to that date, the Company wrote multiple line property and casualty reinsurance covers. On September

29, 2000, National Indemnity Company (“NICO”), a member of the Berkshire Hathaway Group of Insurance Companies, acquired all of the outstanding capital stock of the Company from Istituto Nazionale delle Assicurazione S.P.A. (“INA”), an insurance company organized under the laws of Italy. The change in control was approved by the New York Insurance Department on September 27, 2000.

Capital paid in is \$3,372,480 consisting of 337,248 shares of \$10 par value per share common stock. Gross paid in and contributed surplus is \$31,083,337.

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 thirteen members. At December 31, 2012, the board of directors was comprised of the following eight members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Rodne Sterling Brown, New York, NY	Insurance Executive, Resolute Management Inc.
Robert Charles Bruno Matawan, NJ	Insurance Executive, Resolute Management Inc.
Joanne Caprice, Collingswood, NJ	Insurance Executive, National Liability & Fire Insurance Company
Lori Jill Friedman, Armonk, NY	Attorney, National Liability & Fire Insurance Company
Dale David Geistkemper Omaha, NE	Treasurer and Controller, National Indemnity Company
Forrest Nathan Krutter, Milyon Mills, NH	Attorney, Insurance Executive, National Indemnity Company
Joseph Rocco Liuzzi, Media, PA	Attorney, Insurance Executive, National Liability & Fire Insurance Company
Brian Gerard Snover, Stamford, CT	Attorney, Insurance Executive, National Indemnity Company

A review of the minutes of the board of directors' meetings held during the examination period indicated that the meetings were generally well attended and each board member has an acceptable record of attendance.

As of December 31, 2012, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Robert Charles Bruno	President
Dale David Geistkemper	Treasurer and Controller
Forrest Nathan Krutter	Secretary

B. Territory and Plan of Operation

As of December 31, 2012, the Company was licensed to write business in twenty-four states. The Company was also authorized to do business as an accredited reinsurer in six additional states.

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 and health
4	Fire
5	Miscellaneous property
6	Water damage
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

In addition, the Company is licensed to transact such workers' compensation insurance as may be incident to coverages contemplated under Paragraphs 20 and 21 of Section 1113(a) of the New York

Insurance Law, including insurances described in the Longshoremen's and Harbor Workers' Compensation Act (Public Law No. 803, 69 Cong. as amended; 33 USC Section 901 et seq. as amended).

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 \$2,200,000.

C. Reinsurance

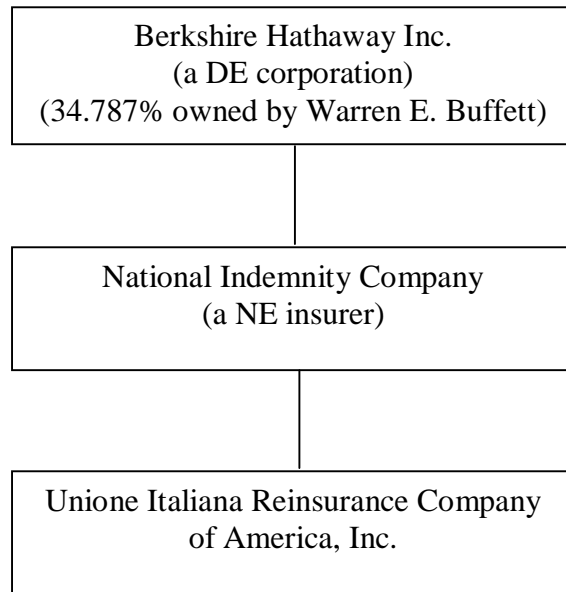
Effective July 1 1991, the Company voluntarily ceased writing new and renewal business. Prior to that date, the Company wrote multiple line property and casualty reinsurance covers. As of December 31, 2012, the Company had no ceded reinsurance agreements in effect.

D. Holding Company System

The Company is a member of the Berkshire Hathaway Group. The Company is 100% owned by National Indemnity Company, a Nebraska domiciled corporation, which is ultimately controlled by Berkshire Hathaway Inc. (34.787% owned by Warren E. Buffett).

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 Company's holding company system at December 31, 2012:



At December 31, 2012, the Company was party to the following agreements with other members of its holding company system:

Tax Allocation Agreement

The Company is party to a tax allocation agreement, which became effective September 30, 2000, among various subsidiaries of its ultimate parent, Berkshire Hathaway Inc., pursuant to which the parties to the agreement file consolidated federal income tax returns. Pursuant to the terms of the agreement, the Company's tax liability on a consolidated basis will not exceed its liability had the Company filed its tax return on a stand-alone basis. The agreement was filed with the Department as part of National Indemnity Company's ("NICO") acquisition of control application of the Company, pursuant to Section 1506 of the New York Insurance Law.

Inter-Company Service Agreement

Effective April 28, 2003, the Company and its immediate parent, NICO, entered into a service agreement. Under the terms of this agreement, NICO performs certain administrative and special services on behalf of the Company. The agreement indicates payment for services provided shall be on an actual cost basis. The agreement was filed with this Department pursuant to Section 1505 of the New York Insurance Law and was non-objected to on May 14, 2003.

Inter-Company Service Agreement with FlightSafety International

Effective December 1, 2006 and amended effective October 25, 2013, the Company and its affiliate FlightSafety International (“FlightSafety”) entered into a service agreement. The purpose of this agreement is to allow the Company to utilize a small amount of space at FlightSafety’s facility at LaGuardia airport to serve as its statutory home office, for which it pays a nominal fee. The agreement was filed with this Department pursuant to Section 1505 of the New York Insurance Law.

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2012, 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)	58%
Premiums in course of collection to surplus as regards policyholders	N/A

The first and third ratios are not applicable due to the run-off status of the Company. The second ratio falls within the benchmark range set forth in the Insurance Regulatory Information System (“IRIS”) of the National Association of Insurance Commissioners.

F. Accounts and Records

The Company’s investments are managed by its parent, NICO; however, there is no investment management agreement between the Company and NICO for these services. Pursuant to Section 1505(d)(3) of the New York Insurance Law, the Company is required to notify the superintendent in writing of its intention to enter into any transaction involving the rendering of services on a regular or systematic basis with any member of its holding company system at least thirty days prior thereto.

It is recommended that the Company prepare a written investment management agreement and submit it to the Department for non-disapproval pursuant to Section 1505(d)(3) of the New York Insurance Law.

G. Risk Management and Internal Controls

A review was made of the Company's internal controls with regard to its IT environment. The review found numerous internal control weaknesses, which was not unexpected given the Company's limited staff and the fact that it has been in run-off since 1991. The Company was provided with a copy of the IT recommendations, none of which would be considered a serious control deficiency. It is recommended that the Company address the internal control weaknesses identified during the Department's review of the Company's IT environment.

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2012 as determined by this examination and as reported by the Company:

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$ 3,881,905	\$ 0	\$ 3,881,905
Preferred stocks	5,600,000		5,600,000
Common stocks	17,636,650		17,636,650
Cash, cash equivalents and short-term investments	44,713,514		44,713,514
Receivables for securities	478		478
Investment income due and accrued	106,689		106,689
Uncollected premiums and agents' balances in the course of collection	1,797	1,797	0
Amounts recoverable from reinsurers	2,045,564		2,045,564
Funds held by or deposited with reinsured companies	<u>10,150</u>	<u>0</u>	<u>10,150</u>
Total assets	<u>\$73,996,747</u>	<u>\$1,797</u>	<u>\$73,994,950</u>
<u>Liabilities and surplus</u>			<u>Examination</u>
Losses and loss adjustment expenses			\$37,704,459
Reinsurance payable on paid losses and loss adjustment expenses			169,887
Taxes, licenses and fees (excluding federal and foreign income taxes)			3,695
Current federal and foreign income taxes			587,719
Net deferred tax liability			1,108,409
Ceded reinsurance premiums payable (net of ceding commissions)			58,135
Funds held by company under reinsurance treaties			322,323
Provision for reinsurance			1,734,900
Payable to parent, subsidiaries and affiliates			140,340
Aggregate write-ins for liabilities			<u>54,621</u>
Total liabilities			<u>\$41,884,488</u>
Common capital stock			\$ 3,372,480
Gross paid in and contributed surplus			31,083,337
Unassigned funds (surplus)			<u>(2,345,355)</u>
Surplus as regards policyholders			<u>\$32,110,462</u>
Total liabilities and surplus			<u>\$73,994,950</u>

Note: Audits covering tax years 2010 through 2011 are currently under examination. 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

Surplus as regards policyholders increased \$5,174,314 during the three-year examination period January 1, 2010 through December 31, 2012, detailed as follows:

Underwriting Income

Premiums earned \$ 6,638

Deductions:

Losses and loss adjustment expenses incurred \$ 309,234

Other underwriting expenses incurred 367,447

Total underwriting deductions 676,681

Net underwriting loss \$ (670,046)

Investment Income

Net investment income earned \$ 1,024,808

Net realized capital gain 334

Net investment gain 1,025,142

Other Income

Aggregate write-ins for miscellaneous income \$ 220,518

Total other income 220,518

Net income before federal and foreign income taxes \$ 575,614

Federal and foreign income taxes incurred (1,676,993)

Net income \$ 2,252,607

Surplus as regards policyholders per report on examination as of December 31, 2009			\$26,936,149
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income	\$ 2,252,607		
Net unrealized capital gains or (losses)	2,871,465		
Change in net deferred income tax	319,188		
Change in non-admitted assets	67,681		
Change in provision for reinsurance	<u> </u>	\$ 336,627	
Total gains and losses	\$ <u>5,510,941</u>	\$ <u>336,627</u>	
Net increase (decrease) in surplus			<u>5,174,314</u>
Surplus as regards policyholders per report on examination as of December 31, 2012			<u>\$32,110,462</u>

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of \$37,704,459 is the same as reported by the Company as of December 31, 2012. 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 the NAIC Accounting Practices & Procedures Manual, Statement of Statutory Accounting Principle No. 55 (“SSAP No. 55”).

5. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

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

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Management</u>	
It was recommended that the Company complete the charter of the audit committee.	5
The Company has complied with this recommendation.	
B. <u>Account and Records</u>	
i. <u>CPA Contract</u>	
It was recommended that the Company ensure that all future agreements with the CPA contain the provisions required by Department Regulation 118.	9
The Company has complied with this recommendation.	
ii. <u>Custodial Agreement</u>	
It was recommended that the Company procure a custodial agreement containing the protective covenants set forth in the NAIC Financial Condition Examiners Handbook.	9
The Company has complied with this recommendation.	
iii. <u>Risk Management and Internal Control</u>	
It was recommended that the Company address the internal control weaknesses identified during the Department's review of the Company's IT environment.	9
The Company has not complied with this recommendation. A similar comment is made in this report.	
C. <u>Losses and Loss Adjustment Expenses</u>	
It was recommended that the Company adequately reserve for losses and loss adjustment expenses in its future filed statements with the Department pursuant to the provisions of Section 1303 of the New York Insurance Law.	13
The Company has complied with this recommendation.	

6. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>		<u>PAGE NO.</u>
A.	<u>Holding Company System</u>	
	It is recommended that the Company prepare a written investment management agreement and submit it to the Department for non-disapproval pursuant to Section 1505(d)(3) of the New York Insurance Law.	8
B.	<u>Risk Management and Internal Controls</u>	
	It is recommended that the Company address the internal control weaknesses identified during the Department's review of the Company's IT environment.	9

Respectfully submitted,

/s/
Adebola Awofeso
Senior Insurance Examiner

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

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

/s/
Adebola Awofeso

Subscribed and sworn to before me
this _____ day of _____, 2014.

APPOINTMENT NO. 30964

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:

Adebola Awofeso

as a proper person to examine the affairs of the

UNIONE ITALIANA REINSURANCE COMPANY OF AMERICA, INC.

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

COMPANY

with such other information as he shall deem requisite.

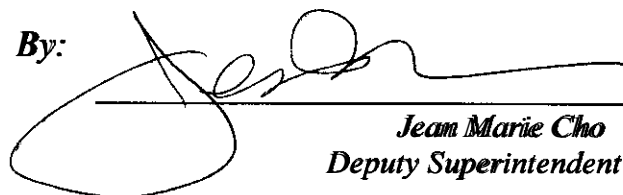
In Witness Whereof, I have hereunto subscribed by name
and affixed the official Seal of the Department
at the City of New York

this 26th day of February, 2013

BENJAMIN M. LAWSKY
Superintendent of Financial Services



By:



Jean Marie Cho
Deputy Superintendent