

REPORT ON EXAMINATION

OF THE

AMERICAN HULL INSURANCE SYNDICATE

AS OF

NOVEMBER 30, 2008

DATE OF REPORT

NOVEMBER 20, 2009

EXAMINER

GILBERT DENTON

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

November 20, 2009

Honorable James J. Wrynn
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 30359, dated June 24, 2009, attached hereto, I have made an examination into the condition and affairs of the American Hull Insurance Syndicate as of November 30, 2008 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.

The examination was conducted at the Syndicate's home office located at 30 Broad Street, New York, New York 10004.

1. SCOPE OF EXAMINATION

The prior examination was conducted as of November 30, 2000. The current examination covers the eight-year period from December 1, 2000 through November 30, 2008, 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 the Syndicate's 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.

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 consists of one representative for each subscriber.

As of November 30, 2008, the board of managers and the Syndicate members were as follows:

<u>Subscriber</u>	<u>Representative</u>
The Northern Assurance Company of America	Mr. Robert Gallagher
General Reinsurance Corporation	Mr. Justin Gardner
St. Paul Fire and Marine Insurance Company	Mr. Richard DeSimone
American Alternative Insurance Corporation	Mr. Robert Huffert
American Agricultural Insurance Company	Mr. Virgil Maxwell

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

The following were the principal officers of the Syndicate as of November 30, 2008:

<u>Name</u>	<u>Title</u>
Robert V. Huffert	Chairman of the Board
Richard Desimone	Vice Chairman of the Board
Fred C. Robertie	President & Chief Executive Officer
Timothy Collier	Senior Vice President & Managing Underwriter
Brian J. Sales	Senior Vice President & Claims Manager
Warren C. Dietz	Vice President, Chief Financial Officer & Corporate Administrative Secretary
Dianne F. Bawers	Secretary & Assistant Claims Manager

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, 2008, the five subscribers to the Syndicate were as follows:

<u>Subscribers</u>	<u>Percentage</u>
The Northern Assurance Company of America	15.00%
General Reinsurance Corporation	15.00%
St. Paul Fire and Marine Insurance Company	25.00%
American Alternative Insurance Corporation	40.00%
American Agricultural Insurance Company	<u>5.00%</u>
Totals	<u>100.00%</u>

During the eight-year examination period two subscribers were admitted to the Syndicate and seven subscribers withdrew.

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, 2008, the Syndicate through its licensed subscribers wrote insurance and reinsurance in the following jurisdictions:

United States

New York
Rhode Island
Virginia

Other Jurisdictions

Armenia	Hong Kong	Peoples Republic of China
Azerbaijan	Italy	Russia
Belarus	Japan	Saudi Arabia
Bermuda	Kazakhstan	South Korea
Brazil	Kyrgyzstan	Spain
Canada	Latvia	Sweden
England	Lithuania	Switzerland
Estonia	Malta	Taiwan
Finland	Mexico	Tajikistan
France	Moldova	Turkey
Georgia	Norway	Turkmenistan
Germany	Peru	Ukraine
Greece	Poland	Uzbekistan
		Venezuela

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 eight-year examination period.

As of November 30, 2008, the Syndicate had the following excess of loss reinsurance program in effect:

First layer: \$4,500,000 excess of \$3,000,000 any one event, limit \$13,500,000 any one agreement year.

Second layer: \$7,500,000 excess of \$7,500,000 any one event, limit \$15,000,000 any one agreement year.

The above contracts contained the required standard clauses, including the insolvency clauses required by Section 1308 of the New York Insurance Law.

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 and Loss adjustment expenses incurred	\$36,285,299	60.4%
Other underwriting expenses incurred	21,716,130	36.2
Net underwriting gain (loss)	<u>2,041,959</u>	<u>3.4</u>
Premiums earned	<u>\$60,043,388</u>	<u>100.0%</u>

G. Accounts and Records

The Syndicate does not prepare an annual statement in the form of the Fire and Casualty blank approved by the National Association of Insurance Commissioners ("NAIC"). It was recommended in the prior report that various exhibits and schedules be prepared in accordance with 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 assets 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.

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, 2008.

<u>Assets</u>	<u>Ledger Assets</u>	<u>Assets Not Admitted</u>	<u>Admitted Assets</u>
Cash and cash equivalents	\$3,100,240	\$ 0	\$3,100,240
Premiums receivable	2,103,663	139,102	1,964,561
Payments not allocated	598,227		598,227
Reinsurance recoverable	31,855		31,855
Other assets	<u>134,242</u>	<u>0</u>	<u>134,242</u>
Total assets	<u>\$5,968,227</u>	<u>\$ 139,102</u>	<u>\$5,829,125</u>
<u>Liabilities</u>			
Losses and loss adjustment expenses			\$13,514,636
Unearned premiums			5,094,119
Contingency Reserve Fund			<u>12,448</u>
Total liabilities			\$18,621,203
Subscribers' accountability			<u>(12,792,078)</u>
Total liabilities and subscribers' accountability			<u>\$ 5,829,125</u>

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

B. Underwriting and Investment Exhibit

The subscribers' accountability increased \$10,871,753 during the eight-year examination period, December 1, 2000 through November 30, 2008, detailed as follows:

Statement of Income

Underwriting Income

Premiums earned		\$60,043,388
Deductions:		
Losses and loss adjustment expenses incurred	\$36,285,299	
Other underwriting expenses incurred	<u>21,716,130</u>	
Total underwriting deductions		<u>58,001,429</u>
Total underwriting gain		\$ 2,041,959
<u>Investment Income</u>		
Net investment income earned		<u>391,610</u>
Net income		<u>\$ 2,433,569</u>

Change in Subscribers' Accountability

	<u>Gains</u>	<u>Losses</u>	
Subscribers' accountability per report on examination as of November 30, 2000			\$(23,663,831)
Net income	\$ 2,433,569	\$ 0	
Change in non-admitted assets	187,267		
Provision for reinsurance	1,869,933		
Net remittances to and from subscribers	<u>6,380,984</u>	<u>0</u>	
Total gains and losses	<u>\$ 10,871,753</u>	<u>\$ 0</u>	
Net increase in Subscribers' accountability			<u>\$ 10,871,753</u>
Subscribers' accountability per report on examination as of November 30, 2008			<u>\$(12,792,078)</u>

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for losses and loss adjustment expenses in the amount of \$13,514,636 is the same as reported by the Syndicate in its November 30, 2008 financial statement.

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 financial statement.

5. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The previous report on examination as of November 30, 2000, contained one comment and recommendation. (The page number refers to the prior report):

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Accounts and Records</u>	
It was recommended that the syndicate prepare and submit to the Department, on an annual basis:	9
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 repeated in this report.	

6. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>		<u>PAGE NO.</u>
A.	<u>Accounts and Records</u>	
	It is again recommended that the Syndicate prepare and submit to the Department, on an annual basis:	7
1)	A balance sheet showing assets (including assets 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.	

Appointment No 30359

STATE OF NEW YORK
INSURANCE DEPARTMENT

I, ERIC R. DINALLO Superintendent of Insurance of the State of New York,
pursuant to the provisions of the Insurance Law, do hereby appoint:

Gilbert Denton

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 24th day of June, 2009



A handwritten signature in cursive script, reading "Eric R. Dinallo".

ERIC R. DINALLO
Superintendent of Insurance