

REPORT ON EXAMINATION

OF

ATLAS AVIATION INSURANCE, INC.

AS OF

DECEMBER 31, 2018

DATE OF REPORT

OCTOBER 23, 2019

EXAMINER

ROBERT BAIRD

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Department of Financial Services

KATHY HOCHUL
Governor

ADRIENNE A. HARRIS
Superintendent

February 18, 2022

Honorable Adrienne A. Harris
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 31985 dated July 18, 2019, attached hereto, I have made an examination into the condition and affairs of Atlas Aviation Insurance, Inc. as of December 31, 2018, and submit the following report thereon.

Wherever the designation “the Company” appears herein without qualification, it should be understood to indicate Atlas Aviation Insurance, Inc. Wherever the designation “Parent” appears herein without qualification, it should be understood to indicate Atlas Air Worldwide Holdings, Inc.

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

1. SCOPE OF EXAMINATION

The examination covers the period from February 1, 2013 through December 31, 2018 and was limited in scope to a review or audit of only those balance sheet items considered by this Department to require analysis. Transactions occurring subsequent to this period were reviewed where deemed appropriate. The examination included a review of Company records deemed necessary to accomplish such analysis or verification. Additionally, a review was performed to determine whether the captive insurer was operating within its by-laws, conforming with its plan of operation, as submitted to the New York State Department of Financial Services, and was in compliance with Article 70 of the New York Insurance Law (“the Law”).

Comments and recommendations are limited to those items requiring financial adjustment, procedural recommendations, or instances where the Company was not conforming to the application submitted to the Department or Article 70 of the Law.

The report utilized work performed by the Company’s independent certified public accountant and its opining actuary to the extent considered appropriate.

2. DESCRIPTION OF COMPANY

The Company was incorporated under the laws of New York State as a captive insurance company on January 16, 2013, and commenced business on February 1, 2013. The Company is a wholly-owned subsidiary of Atlas Air Worldwide Holdings, Inc. (“AAWW”), a growing global leader in innovative, outsourced aviation services.

A. Articles of Incorporation

The Company is organized to transact the kinds of insurance specified in Section 1113(a) and Section 1114 of the New York Insurance Law, subject at all times to the limitations on the business of pure captive insurance companies set forth in Article 70 of the New York Insurance Law.

B. By-Laws

The examination found that the Company was in compliance with its by-laws in all material respects.

C. Capital Structure

As a pure captive insurance company incorporated as a stock insurer, the Company is required to maintain a total surplus as regards policyholders of not less than \$250,000, of which \$100,000 shall represent paid-in capital, pursuant to the provisions of Section 7004(a)(1) of the Law.

As of December 31, 2018, the Company's paid-in capital was \$250,000, consisting of 100,000 shares of \$1.00 par value per share common stock and contributed surplus of \$150,000. The Company had retained earnings of \$1,470,605, for a total capital and surplus (surplus as regards policyholders) of \$1,720,605.

D. Corporate Records

The corporate records reviewed appeared to be substantially accurate and complete in all material respects.

E. Operations

As of December 31, 2018, the Company provided the following coverages to AAWW and any or all affiliated operating entities:

The Company provides coverage for airline hull, spares and liability risks of AAWW. The Company started providing aviation war risk insurance as of December 12, 2014. The maximum limit for hull, spares and equipment, and war is \$275 million on any one aircraft. The combined single liability limit on policies ranges from \$1 billion on cargo aircraft up to \$2 billion for passenger aircraft. Hull claims are subject to a \$50,000 or \$100,000 deductible, depending on the type of aircraft. The Company provides coverage for certified acts of terrorism when not covered by coverage obtained commercially, or amounts incurred in excess of commercial policy limits. This coverage is subject to per occurrence limits of \$2 billion and \$275 million for liability and property risks, respectively. The Company cedes 100% of these risks to unaffiliated reinsurers.

The Company provides coverage for loss or damage to passenger and crew member baggage and personal effects up to \$500 per passenger or crew member claim. Losses in excess of \$500 are covered by unaffiliated reinsurers, up to \$1,550 for international travel, and up to \$3,500 for domestic travel in the United States.

The Company provides coverage for passenger displacement expenses incurred as a result of flight delays, cancellation, or other service disruptions, up to \$1 million per annum and in the aggregate.

F. Management and Control

(i) Captive Manager

Section 7003(b)(4) of the New York Insurance Law provides that no captive insurer shall do any captive insurance business in this state unless it utilizes a captive manager resident in the State of New York that is licensed as an agent or broker under the provisions of Article 21 of the New York Insurance Law, or any other person approved by the Superintendent.

Effective February 1, 2013, the Company is managed by Aon Insurance Managers (USA) Inc. (“Aon”), which is authorized to act as a manager for captive insurance companies by the Department.

Pursuant to a Management Services Agreement, Aon shall provide expertise in the insurance and business transaction of the Company and provide such management services as specified in the Agreement.

(ii) Board of Directors

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 three nor more than ten members, of which not less than two shall be residents of New York State. At December 31, 2018, the board of directors was comprised of the following five members:

| <u>Name and Residence</u> | <u>Principal Business Affiliation</u> |
|--------------------------------------|------------------------------------------------------------------------------------------------|
| Donald S. Arnstein West Nyack, NY | Senior Director, Risk Management, Atlas Air, Inc. |
| Michael W. Borkowski Stamford, CT | Assistant Secretary, Atlas Air Worldwide Holdings, Inc. |
| John W. Curtis Carmel, NY | Senior Director, Divisional Controller, Atlas Air, Inc. |
| Spencer Schwartz Ridgefield, CT | Executive Vice President and Chief Financial Officer, Atlas Air Worldwide Holdings, Inc. |

Name and ResidencePrincipal Business Affiliation

R. Jeffrey Zeunik
Bronxville, NY

Executive Vice President, Financial Planning &
Analysis,
Atlas Air, Inc.

During the period under examination, the board held one or two meetings each year. A review of the meeting minutes during the examination period indicated that all board meetings were well attended.

The Company was in compliance with its charter and by-laws and Sections 7003(b)(2) and 7005(g) of the New York Insurance Law.

(iii) Officers

As of December 31, 2018, the principal officers of the Company were as follows:

| <u>Name</u> | <u>Title</u> |
|----------------------|------------------------------|
| Edward J. McGarvey | President |
| Michael W. Borkowski | Vice President and Secretary |
| Emidio Carrico | Vice President and Treasurer |
| Donald S. Arnstein | Vice President |
| George Kopcsay | Vice President |
| Daniel F. Baker | Vice President |

G. Certified Public Accountant ("CPA")

During the period covered by this examination, annual audits of the Company were completed by its independent certified public accounting firm, Crowe LLP. The CPA stated that the Company's audited financial statements presented fairly, in all material respects, its financial position at December 31, 2018.

3. FINANCIAL STATEMENTS

A. Balance Sheet

The financial statements of the Company have been prepared in conformity with accounting principles generally accepted in the United States of America, as of December 31, 2018:

Assets

| | | |
|------------------------------------------|--------------|---------------------|
| Cash | \$ 1,125,337 | |
| Note receivable from Parent company | 500,000 | |
| Deferred reinsurance premium | 10,725,825 | |
| Reinsurance recoverable on loss reserves | 14,581,471 | |
| Premiums receivable | 13,147,490 | |
| Ceding commissions receivable | 247,668 | |
| Excess recoveries receivable | 6,532 | |
| Deferred policy acquisition costs | 21,316 | |
| Federal income tax recoverable | <u>783</u> | |
| Total assets | | <u>\$40,356,422</u> |

Liabilities

| | | |
|-----------------------------------------------|--------------|-------------------|
| Reserve for loss and loss adjustment expenses | \$14,587,080 | |
| Unearned premiums | 10,956,242 | |
| Unearned ceding commissions | 201,487 | |
| Reinsurance premium payable | 12,870,990 | |
| Accrued expenses and accounts payable | 14,441 | |
| Due to Parent company | <u>5,577</u> | |
| Total liabilities | | <u>38,635,817</u> |

Capital and Surplus

| | | |
|----------------------------------------|------------------|---------------------|
| Common stock | \$ 100,000 | |
| Contributed surplus | 150,000 | |
| Retained earnings | <u>1,470,605</u> | |
| Total capital and surplus | | <u>1,720,605</u> |
| Total liabilities, capital and surplus | | <u>\$40,356,422</u> |

B. Statement of Income

The Company's net income for the period covered by the examination was \$1,410,282 as detailed below:

Revenue

| | | |
|-----------------------------------------------------------------|----------------|--------------------|
| Net premiums earned | \$ 628,080 | |
| Interest income | <u>43,203</u> | |
| Total revenues | | \$ 671,283 |
| <u>Losses and expenses</u> | | |
| Loss and loss adjustment expenses incurred | \$ 210,912 | |
| Recovery of policy acquisition costs, net of ceding commissions | (1,069,216) | |
| General and administrative expenses | <u>285,351</u> | |
| Total expenses | | <u>(572,953)</u> |
| Income before federal income taxes | | 1,244,236 |
| Federal income tax expense | | <u>(166,046)</u> |
| Net income | | <u>\$1,410,282</u> |

C. Capital and Surplus Account

The Company's capital and surplus increased by \$1,410,282 during the period covered by the examination, detailed as follows:

| | | |
|---------------------------------------------|---------------------------------------|---------------------------------------|
| Capital and surplus as of February 1, 2013 | | \$ 310,323 |
| | <u>Increases in</u> <u>Surplus</u> | <u>Decreases in</u> <u>Surplus</u> |
| Net income | <u>\$1,410,282</u> | <u>\$0</u> |
| Net increase in surplus | | <u>1,410,282</u> |
| Capital and surplus as of December 31, 2018 | | <u>\$1,720,605</u> |

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

As of December 31, 2018, the Company reported total loss and loss adjustment expense reserves of \$14,587,080. The Company's opining actuary stated in its Statement of Actuarial Opinion, that in its opinion the reported reserves met the requirements of the insurance laws of New York and were computed in accordance with accepted actuarial standards and principles. In addition, the reserves made a reasonable provision for all unpaid loss and loss adjustment expense obligations of the Company under the terms of its contracts and agreements.

5. ARTICLE 70 COMPLIANCE

Article 70 of the New York Insurance Law is the governing section of the law for the formation and continued operation of captive insurers in New York State. A review was performed to test the Company's compliance with all applicable parts of Article 70. No significant areas of non-compliance were found.

6. SUMMARY OF COMMENTS AND RECOMMENDATIONS

This report contains no comments or recommendations.

Respectfully submitted,

_____/S/_____
Robert Baird
Senior Insurance Examiner

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

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

_____/S/_____
Robert Baird

Subscribed and sworn to before me

this _____ day of _____, 2022.

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:

Robert Baird

as a proper person to examine the affairs of the

Atlas Aviation Insurance, 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 18th day of July, 2019

LINDA A. LACEWELL
Superintendent of Financial Services



By: Joan P. Riddell
Joan Riddell
Deputy Bureau Chief