



**REPORT ON EXAMINATION
OF
AIU INSURANCE_COMPANY
AS OF DECEMBER 31, 2020**

**EXAMINER:
DATE OF REPORT:**

**BRUNO BAILO
MAY 26, 2022**

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KATHY HOCHUL
Governor



ADRIENNE A. HARRIS
Superintendent

May 26, 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 32150 dated October 23, 2020, attached hereto, I have made an examination into the condition and affairs of AIU Insurance Company as of December 31, 2020, and submit the following report thereon.

Wherever the designation "the Company" or "AIU" appears herein without qualification, it should be understood to indicate AIU Insurance Company.

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

This examination was conducted remotely.

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, 2015. This examination covered the 5-year period from January 1, 2016 through December 31, 2020. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

The examination was conducted in conjunction with the Insurance Department of the Commonwealth of Pennsylvania, which is the facilitating state for the American International Group, Inc. (“AIG”) Property and Casualty US business. New York is the lead state and group-wide supervisor of AIG. The examination was performed concurrently with the examinations of the following insurers:

<u>Company Name</u>	<u>Domicile</u>
AIU Insurance Company*	NY
American Home Assurance Company*	NY
AIG Assurance Company*	IL
AIG Insurance Company - Puerto Rico	PR
AIG Property Casualty Company*	IL
AIG Specialty Insurance Company*	IL
Commerce and Industry Insurance Company*	NY
Eaglestone Reinsurance Company	PA
Granite State Insurance Company*	IL
Illinois National Insurance Co.*	IL
Lexington Insurance Company*	DE
National Union Fire Insurance Company of Pittsburgh, Pa.*	PA
New Hampshire Insurance Company*	IL
The Insurance Company of the State of Pennsylvania*	IL
Blackboard Specialty Insurance Company^	DE
Blackboard Insurance Company^	DE
Stratford Insurance Company^	NH
Tudor Insurance Company^	NH
Western World Insurance Company^	NH

Other states participating in this examination were Delaware, Illinois, and New Hampshire. The Commonwealth of Puerto Rico also participated in this examination.

The twelve companies designated with an * are members in the U.S. P&C Combined Pool (“Combined Pool”), as described in Section 2. The companies designated with a ^ ceded 100% of their business to the National Union Fire Insurance Company of Pittsburgh, Pa.

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 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

AIU Insurance Company was incorporated under the laws of the State of New York on December 1, 1913, as Pacific Fire Insurance Company. It became licensed on December 29, 1913. The name was changed to Pacific Insurance Company of New York on May 23, 1957, then to American International Insurance Company on July 23, 1969, and to the present name on November 4, 1976. The Company is a wholly-owned subsidiary of AIG Property Casualty U.S., Inc. (“AIG PC US”), a Delaware corporation, which is in turn wholly-owned by AIG Property Casualty Inc. (“AIG PC”), a Delaware corporation. AIG PC is owned by AIG, a Delaware corporation.

AIU is a 0% member of the Combined Pool (See Section 2C for further detail) and has been since 2014. The Company primarily writes workers' compensation directly and cedes all of the business to National Union Fire Insurance Company of Pittsburgh, Pa., a Pennsylvania domiciled affiliate that is the lead company of the Combined Pool. Prior to becoming part of the Combined Pool, AIU primarily wrote business in Japan. The Japanese business was transferred to a Japanese affiliate. Further details can be found in the Company's 2015 Report on Examination.

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 21 members. The board meets four times during each calendar year. At December 31, 2020, the board of directors was comprised of the following seven members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Richard Albert Brassington Holmdel, New Jersey	Senior Vice President and Actuary - AIG Property and Casualty, American International Group, Inc.
John Cusano Morristown, New Jersey	Chief Business and Technology Operations Officer – General Insurance, American International Group, Inc.
Kean Driscoll Madison, New Jersey	Global Head of Reinsurance Strategy and Head of Global Portfolio Management - General Insurance, American International Group, Inc.
Elias Farid Habayeb Westfield, New Jersey	Chief Financial Officer, General Insurance Deputy Chief Financial Officer and Chief Accounting Officer, American International Group, Inc. Chief Financial Officer and Executive Vice President, AIU Insurance Company
Michael David Price Westfield, New Jersey	Chief Executive Officer - North America General Insurance, American International Group, Inc., Chairman, President and Chief Executive Officer, AIU Insurance Company
William Rabl Dix Hills, New York	Chief Executive Officer of Global Service Businesses, American International Group, Inc.

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Kenneth John Riegler Basking Ridge, New Jersey	President - North America Retail, American International Group, Inc.

As of December 31, 2020, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Michael David Price	President, Chief Executive Officer and Chairman
Tanya Evelyn Kent	Secretary
Elias Farid Habayeb	Chief Financial Officer and Executive Vice President
Brian Greenspan	Statutory Controller and Senior Vice President

B. Territory and Plan of Operation

As of December 31, 2020, the Company was licensed to write business in all 50 states and the District of Columbia.

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
22	Residual value
24	Credit unemployment
26	Gap

<u>Paragraph</u>	<u>Line of Business</u>
27	Prize indemnification
28	Service contract reimbursement
29	Legal services

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 1113(a) of the New York Insurance Law, including insurances described in the Longshoremen's and Harbor Workers' Compensation Act (Public Law No. 803, 69th Congress as amended; 33 USC Section 901 et. seq. as amended).

The Company is also licensed to conduct the business of special risk insurance pursuant to Article 63 of the New York Insurance Law.

In addition, the Company is authorized to reinsure risks of every kind or description and to write any and all kinds of insurance on risks outside of the United States, its territories, and possessions, except with respect to life insurance, title insurance, and contracts for the payment of annuities, as specified in Section 4102(c) of the New York Insurance Law.

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, 41, and 63 of the New York Insurance Law, the Company is required to maintain a minimum surplus to policyholders in the amount of \$35,000,000.

The following schedule shows the direct written premiums and premiums assumed by the Company for the period under examination:

<u>Calendar Year</u>	<u>Direct Premiums</u>	<u>Assumed Premiums</u>	<u>Total Gross Premiums</u>
2016	\$ 2,412,094	\$(2,146,088)	\$ 266,006
2017	\$ 4,201,186	\$ 8,476	\$ 4,209,662
2018	\$ 1,074,967	\$ 201,224	\$ 1,276,191
2019	\$ 16,712,230	\$ 36	\$ 16,712,266
2020	\$152,233,662	\$ 1,263	\$152,234,925

In 2016, assumed premiums are negative due to the aforementioned transfer of business to a Japanese affiliate.

The Company primarily writes workers' compensation which is produced by brokers. Due to AIU's participation in the Combined Pool, the Company does not report any net premiums written nor does it report any premium and reserve liabilities, on a net basis.

C. Reinsurance Ceded

Combined Pooling Agreement

The Company participates in an inter-company reinsurance pooling agreement covering 12 affiliated insurers. Pursuant to the terms of this agreement, the Company and the affiliated entities share in premiums, losses and expenses based on their respective pool participation. The Company does not retain any insurance business net of the Combined Pool due to its 0% participation.

On December 31, 2020, the Combined Pool consisted of the following indirect wholly-owned subsidiaries of AIG:

<u>Company Name</u>	<u>Participation Percentage</u>	<u>State of Domicile</u>
American Home Assurance Company	35%	NY
National Union Fire Insurance Company of Pittsburgh, Pa.**	35%	PA
Lexington Insurance Company	30%	DE
AIG Assurance Company	0%	IL
AIG Property Casualty Company	0%	IL
AIG Specialty Insurance Company	0%	IL
AIU Insurance Company	0%	NY
Commerce and Industry Insurance Company	0%	NY
Granite State Insurance Company	0%	IL
Illinois National Insurance Co.	0%	IL
New Hampshire Insurance Company	0%	IL
The Insurance Company of the State of Pennsylvania	0%	IL

**National Union Fire Insurance Company of Pittsburgh, Pa. is the lead company of the Combined Pool.

Reinsurance agreements with affiliates were reviewed for compliance with Article 15 of the New York Insurance Law. It was noted that all affiliated reinsurance agreements were filed with the Department pursuant to the provisions of Section 1505(d)(2) of the New York Insurance Law.

After cessions to the inter-company pooling agreement, the Company is a party to the same underlying ceded reinsurance program as that of American Home Assurance Company (“AHAC”). An examination of AHAC as of December 31, 2020, was conducted by this Department concurrently with this examination. A description of the underlying ceded reinsurance program as of December 31, 2020, is included in the AHAC report on examination.

D. Holding Company System

The Company is a wholly-owned subsidiary of AIG PC US, a Delaware corporation, which is ultimately controlled by AIG. AIG consists of four reportable segments: General Insurance, Life and Retirement Services, Other Operations, and Legacy Portfolio. The General Insurance segment primarily consists of commercial business.

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.

Holding Company Agreements

The Company is party to intercompany service and other agreements related to the operations and administration of insurance business, however, the related expenses are allocated and shared on a pooled percentage basis and as such, the related expenses are allocated to the pool members that retain business. Please see Section 2C for Combined Pool information. As such, the only agreements that have a net impact on the financial statements at December 31, 2020 are the following:

Tax Sharing Agreement

Effective January 1, 2018, the Company and other named affiliates entered into an Amended and Restated Tax Allocation Agreement (“TSA”) with AIG, as parent. Under the TSA, the Company and AIG, along with its U.S. affiliates, file a consolidated United States federal income tax return.

In accordance with Circular Letter No. 33 (1979), for New York domiciled insurance companies, the parent shall establish and maintain an escrow account for amounts where the New York domiciled insurance company’s separate return liability exceeds the consolidated tax liability of the parent.

The agreement was filed with and non-disapproved by this Department pursuant to Section 1505(d) of the New York Insurance Law and Circular Letter No. 33 (1979).

Investment Advisory Agreement

The Company is party to an investment advisory agreement with AIG Asset Management (U.S.), LLC to receive investment management and advisory services with respect to the investments owned by

the Company. The agreement has been amended to update and clarify the nature and scope of services, and to modify the investment guidelines from time to time as required by the Company and its regulators.

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

Loan Agreement

Effective December 18, 2014, the Company and certain affiliates entered into a loan agreement with AIG, as lender, as amended effective June 5, 2015 and December 22, 2017, pursuant to which a borrower may borrow funds from AIG from time to time.

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

E. Significant Ratios

The Company's adjusted liabilities to liquid assets ratio of 17% falls within the benchmark range set forth in the Insurance Regulatory Information System of the NAIC. All other ratios were not calculated because they are not meaningful due to the Company's cession of all premiums written, losses and loss adjustment expenses to the pool leader and the Company's 0% participation in the Combined Pool.

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2020, as reported by the Company:

<u>Assets</u>	<u>Assets</u>	<u>Nonadmitted Assets</u>	<u>Net Admitted Assets</u>
Bonds	\$86,719,047	\$ 0	\$86,719,047
Cash and cash equivalents	4,227,866	0	4,227,866
Other invested assets	20,138	0	20,138
Investment income due and accrued	373,406	0	373,406
Net deferred tax asset	5,594,556	4,310,864	1,283,692
Receivables from parent; subsidiaries and affiliates	1,748,731	0	1,748,731
Aggregate write-ins for other-than-invested assets	<u>63,851</u>	<u>0</u>	<u>63,851</u>
Total assets	<u>\$98,747,596</u>	<u>\$4,310,864</u>	<u>\$94,436,732</u>

Liabilities, Surplus and Other FundsLiabilities

Losses and loss adjustment expenses	\$	0
Current federal and foreign income taxes		267,497
Payable to parent; subsidiaries and affiliates		14,543,022
Payable for securities		<u>612,772</u>
 Total liabilities		 <u>\$15,423,291</u>

Surplus and Other Funds

Common capital stock	\$ 5,627,800
Gross paid in and contributed surplus	13,985,059
Unassigned funds (surplus)	<u>59,400,582</u>
 Surplus as regards policyholders	 <u>79,013,441</u>
 Total liabilities, surplus, and other funds	 <u>\$94,436,732</u>

Note: The Internal Revenue Service has completed its audits of the Company's consolidated Federal Income Tax returns through tax year 2006. All material adjustments, if any, made subsequent to the date of examination and arising from said audits, are reflected in the financial statements included in this report. Audits covering tax years 2007 through 2013 are currently under examination. The Internal Revenue Service has not audited tax returns covering tax years 2014 through 2020. 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 \$20,819,993, as detailed below:

Underwriting Income

Premiums earned		\$	0
Deductions:			
Losses incurred	\$	0	
Loss adjustment expenses incurred		0	
Other underwriting expenses incurred		<u>0</u>	
Total underwriting deductions			<u>0</u>
Net underwriting gain (loss)		\$	0

Investment Income

Net investment income earned	\$ 7,768,881		
Net realized capital gains (losses) less capital gains tax	<u>13,565,585</u>		
Net investment gain (loss)			21,334,466

Other Income

Aggregate write-ins for miscellaneous income	\$ <u>(29,700)</u>		
Total other income			<u>(29,700)</u>
Net income before dividends to policyholders; after capital gains tax and before all other federal and foreign income taxes		\$21,304,766	
Dividends to policyholders			<u>0</u>
Net income; after dividends to policyholders; after capital gains tax and before all other federal and foreign income taxes		\$21,304,766	
Federal and foreign income taxes incurred			<u>484,773</u>
Net income			<u>\$20,819,993</u>

C. Capital and Surplus

Surplus as regards policyholders increased \$11,282,812 during the five-year examination period January 1, 2016, through December 31, 2020, as reported by the Company, detailed as follows:

Surplus as regards policyholders as reported by the Company as of December 31, 2015			\$67,730,629
	<u>Gains in</u>	<u>Losses in</u>	
	<u>Surplus</u>	<u>Surplus</u>	
Net income	\$20,819,993		
Net unrealized capital gains or (losses)		\$ 4,255,252	
Change in net deferred income tax		3,531,633	
Change in nonadmitted assets	4,157,610		
Aggregate write-ins for gains and losses in surplus	<u>0</u>	<u>5,907,906</u>	
Total gains and losses	\$24,977,603	\$13,694,791	
Net increase (decrease) in surplus			<u>11,282,812</u>
Surplus as regards policyholders as reported by the Company as of December 31, 2020			<u>\$79,013,441</u>

No adjustments were made to surplus as a result of this examination.

Capital paid in is \$5,627,800 consisting of 200,000 shares of \$28.139 par value per share of common stock. Gross paid in and contributed surplus is \$13,985,059.

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, 2020. The examination analysis of the loss and loss adjustment expense reserves was conducted in accordance with actuarial standards of practice and statutory accounting principles, including SSAP No. 55. The reserves for losses and loss adjustment expenses are \$0 due to the Company's participation in the Combined Pool discussed in Section 2C.

Actuarial Reports

The AIG Combined Pool, Eaglestone Reinsurance Company, and AIG Insurance Company - Puerto Rico Actuarial Reports ("Reports") do not fully comply with the NAIC Property & Casualty Annual Statement Instructions, Actuarial Opinion Section. Therefore, the organization and compilation of the Reports should be improved such that they are consistent with the documentation and disclosure requirements of ASOP No. 41, Actuarial Communications, and such that they provide sufficient documentation and disclosure so another actuary can view the Reports without requiring additional company guidance and input.

More specifically:

- The documentation in the Report should be improved, such as including a narrative that summarizes the basis for each of the conclusions contained in the Statement of Actuarial Opinion ("SAO") and improved documentation regarding the Schedule P reconciliation;
- The Reports should provide commentary for other important disclosures included in the SAO, such as financial and retroactive reinsurance and risk of material adverse deviation; and
- Reserve reports for some specific segments lacked transparency, as well as critical information, and further information had to be requested from the Company to perform the actuarial review.

It is recommended that the Reports comply with the provisions of Actuarial Standard of Practice ("ASOP") 41 – Actuarial Communications – Section 3.2, which states,

"The actuary should complete an actuarial report if the actuary intends the actuarial findings to be relied upon by any intended user. The actuary should consider the needs of the intended user in communicating the actuarial findings in the actuarial report. An actuarial report may comprise one or several documents. The report may be in several different formats (such as formal documents produced on word processing, presentation or publishing software, e-mail, paper, or web sites).

Where an actuarial report for a specific intended user comprises multiple documents, the actuary should communicate which documents comprise the report. In the actuarial report, the actuary should state the actuarial findings, and identify the methods, procedures, assumptions, and data used by the actuary with sufficient clarity that another actuary qualified in the same practice area could make an objective appraisal of the reasonableness of the actuary's work as presented in the actuarial report."

5. SUBSEQUENT EVENTS

Pandemic:

The Department is monitoring the impact of the COVID-19 global pandemic. The Department recognizes that COVID-19 could have a significant financial and operational impact on all of its domestic insurers, including the Company. As such, the Department will continue to monitor and share information with the Company as appropriate related to COVID-19 developments.

Combined Pool Percentage Change:

Effective January 1, 2021, AHAC's Combined Pool participation decreased from 35% to 32%. The 3% was transferred to Commerce and Industry Insurance Company, a New York affiliate.

Management Changes:

Brian Duperreault, CEO was succeeded by Peter Zaffino effective March 1, 2021. Richard Brassington, Chief Finance Actuary, was replaced by Steven Turner effective October 29, 2021. Elias Habayeb, Chief Financial Officer was replaced by Shane Fitzsimons effective November 16, 2021. On April 12, 2022, Sabra Purtill, Chief Risk Officer, was replaced by Tom Bolt. Concurrently, Tom Bolt, Chief Underwriting Officer ("CUO") GI, was replaced by Kean Driscoll, Global Head of Reinsurance Strategy and CUO – Property/Agriculture.

AIG 200:

AIG is in the process of executing a multi-year initiative to modernize and improve technology and infrastructure. The project includes critical areas including finance, data and underwriting.

AIG is in the process of transferring certain global operations, IT and Finance processing to a third-party professional services company.

6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

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

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Losses and Loss Adjustment Expenses</u>	
i. It was recommended that the Actuarial Report underlying the Statement of Actuarial Opinion contain both narrative and technical components in sufficient detail to clearly explain how all memos and exhibits tie together, as well as including an exhibit that reconciles and maps the data used by the Actuary to the Annual Statement Schedule P line of business reporting.	21
The Company has complied with this recommendation.	
ii. It was recommended that AIG amend the order of operations in its workers' compensation discounting calculation by first distributing nominal reserves to each statutory company in accordance with the pooling agreement and then, discount the reserves of each statutory company separately, pursuant to the approved discounting practices of the respective domiciliary states.	21
The Company has complied with this recommendation.	
iii. It was also recommended that AIG develop an individual claim model to calculate workers' compensation tabular discount on eligible claims, based on the attributes of the claims being discounted.	21
The Company has not complied with this recommendation. The individual claim model is expected to be implemented in 2023.	

7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

This report on examination contains the following recommendation:

<u>ITEM</u>		<u>PAGE NO.</u>
A.	<u>Losses and Loss Adjustment Expenses</u>	
	It is recommended that the Reports comply with the provisions of Actuarial Standard of Practice (“ASOP”) 41 – Actuarial Communications – Section 3.2.	14

Respectfully submitted,

_____/S/_____
Bruno Bailo
Principal Insurance Examiner

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

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

_____/S/_____
Bruno Bailo

Subscribed and sworn to before me

this _____ day of _____, 2022.

APPOINTMENT NO. 32150

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:

Bruno Bailo

as a proper person to examine the affairs of the

AIU 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 23rd day of October, 2020

*LINDA A. LACEWELL
Superintendent of Financial Services*

By:

Joan Riddell

*Joan Riddell
Deputy Bureau Chief*

