

**REPORT ON EXAMINATION**  
**OF THE**  
**ALTERRA AMERICA INSURANCE COMPANY**  
**AS OF**  
**DECEMBER 31, 2010**

Karen Weldin Stewart, CIR-ML  
Commissioner



Delaware Department of Insurance

I, Karen Weldin Stewart, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of December 31, 2010 of the

**ALTERRA AMERICA INSURANCE COMPANY**

is a true and correct copy of the document filed with this Department.

Attest By: *Brandi Biddle*

Date: 19 Jun 2012



In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 19<sup>th</sup> day of June, 2012.

A handwritten signature in black ink, appearing to be "Karen Weldin Stewart".

Karen Weldin Stewart, CIR-ML  
Insurance Commissioner

Karen Weldin Stewart, CIR-ML  
Commissioner



Delaware Department of Insurance

REPORT ON EXAMINATION  
OF THE  
ALTERRA AMERICA INSURANCE COMPANY  
AS OF  
DECEMBER 31, 2010

The above-captioned Report was completed by examiners of the Delaware Department of Insurance.

Consideration has been duly given to the comments, conclusions and recommendations of the examiners regarding the status of the Company as reflected in the Report.

This Report is hereby accepted, adopted and filed as an official record of this Department.

A handwritten signature in black ink, appearing to read "Karen Weldin Stewart", is written over a horizontal line.

Karen Weldin Stewart, CIR-ML  
Insurance Commissioner

Dated this 19<sup>th</sup> day of June, 2012

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April 30, 2012

## **SALUTATION**

Honorable Karen Weldin Stewart, CIR-ML  
Commissioner  
Delaware Department of Insurance  
Rodney Building  
841 Silver Lake Boulevard  
Dover, Delaware 19904

Commissioners:

In compliance with instructions and pursuant to Certificate of Authority No. 11.027, issued July 11, 2011 by the Delaware Department of Insurance, an examination has been made of the affairs, financial condition and management of the

### **ALTERRA AMERICA INSURANCE COMPANY**

hereinafter referred to as “Company” or “AAIC”, incorporated under the laws of the State of Delaware as a stock company with its statutory home office located at 1209 Orange Street, Wilmington, Delaware. The examination was conducted at the principal administrative offices of the Company located at 9020 Stony Point Parkway, Suite 325, Richmond, VA. The examination report thereon is respectfully submitted.

## **SCOPE OF EXAMINATION**

The last examination was conducted by the State of Indiana (when the Company was known as Max America Insurance Company) as of December 31, 2008. This examination covered the period from January 1, 2009 through December 31, 2010 and encompasses a general review of transactions during the period, the Company’s business policies and practices, as well

as management and relevant corporate matters, with a determination of the financial condition of the Company at December 31, 2010. Transactions subsequent to the examination date were reviewed where deemed necessary.

This examination was conducted in accordance with the *National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook* (Handbook) and generally accepted statutory insurance examination standards consistent with the Insurance Laws and Regulations of the State of Delaware. The NAIC Handbook requires that examiners perform an examination to evaluate the financial condition and identify prospective risks of the Company. In doing so, the examiners reviewed corporate governance, identified inherent risks of the Company, and evaluated the controls and procedures used to mitigate the identified risks. The examination also included 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 applicable annual statement instructions.

During the course of the examination, consideration was given to the work performed by the Company's external accounting firm, KPMG LLP (KPMG). Certain work papers prepared by the external accounting firm were incorporated into the examiner's work papers if deemed appropriate and in accordance with the NAIC Handbook. This report of examination was confined to financial statements and comments on matters that involved departures from laws, regulation or rules, or which were deemed to require special explanation or description.

## **SUMMARY OF SIGNIFICANT FINDINGS**

In December 2010, AAIC acquired all the capital stock of Alterra Excess and Surplus Insurance Company ("Alterra E&S", formerly Max Specialty Insurance Company) as a capital

contribution from the Company's parent, Alterra USA Holdings Limited (Alterra USA). As of December 31, 2010, AAIC's investment in Alterra E&S included \$1,944,441 of goodwill.

As noted during the 2010 CPA audit, AAIC did not record its investment in Alterra E&S's common stock correctly. Pursuant to SSAP No 25, paragraph 11, it was determined that the transaction was a non-economic transaction and should have been recorded at the lower of book value or fair value. The Company made the adjusting entries to properly reflect the value of its subsidiary during the second quarter of 2011.

### **SUBSEQUENT EVENTS**

As of February 16, 2011, AAIC is party to an Underwriting Agreement (“Underwriting Agreement”) with Alterra Insurance USA Inc., a Delaware Corporation and a direct subsidiary of Alterra USA (“Alterra Insurance USA”). Under the Underwriting Agreement, Alterra Insurance USA provides certain underwriting services to AAIC, along with other services that may be requested by AAIC from time to time. AAIC in turn grants Alterra Insurance USA underwriting authority.

### **COMPANY HISTORY**

The Company was acquired by Alterra E&S on June 2, 2008 from The Travelers Indemnity Company (Travelers). The change of control was approved by the Indiana Department of Insurance on May 28, 2008. The Company's name was changed from Commercial Guaranty Casualty Insurance Company to Max America Insurance Company.

As part of the acquisition, and pursuant to the related Transfer and Assumption agreement, the Company transferred, and Travelers assumed, the Company's insurance liabilities

including all reserves for incurred losses and loss adjustment expenses related to insurance policies issued before May 28, 2008. The Company received approval from the Indiana Department of Insurance to not treat the liabilities transferred to, and assumed by Travelers, as its liabilities for annual statement and statutory accounting purposes. Instead, Travelers reports the transferred liabilities as its direct liabilities for annual statement and statutory accounting purposes. Immediately prior to the aforementioned sale of the Company on June 2, 2008, the Company paid an extraordinary distribution consisting of a \$96.5 million dividend and \$8.2 million distribution paid in surplus to its former parent, Travelers.

The Company is a multiple line insurance carrier that is able to underwrite commercial property and casualty products on an admitted basis in 50 U.S. States and the District of Columbia. The Company began underwriting business under its current management in January 2009; no business was underwritten in 2008.

On May 12, 2010, Alterra Capital Holdings Limited (formerly Max Capital Group Ltd.) (Alterra Capital) completed its acquisition of Harbor Point Limited, a privately held Bermuda-based reinsurance group, through an amalgamation. On December 21, 2010, the Company was contributed via a dividend from Alterra E&S to Alterra USA. Subsequently, the Company acquired all capital stock of Alterra E&S and \$8.4 million of goodwill by means of a capital contribution from Alterra USA. Alterra USA, subsequently on December 21, 2010, contributed all outstanding stock of the Company to Alterra Reinsurance USA Inc. (“Alterra Re USA”) through a capital contribution, thereby making the Company a direct wholly owned subsidiary of Alterra Re USA.

During the period covered by this examination, gross paid-in and contributed surplus increased by \$95,500,391 from \$10,675,659 in 2008 to \$106,176,050 in 2010. The increase for the period is illustrated in the following schedule:

Ending Balance as of December 31, 2008	<u>\$ 10,675,659</u>
Beginning surplus reclassification - 2009	324,341
Surplus contribution – AESIC Stock - 2010	<u>95,176,050</u>
Ending Balance as of December 31, 2010	<u>\$106,176,050</u>

### **CORPORATE RECORDS**

The minutes of the Board of Directors and Shareholders were reviewed for the period under examination. The recorded minutes documented activities and transactions of the Company.

There are six board committees of Alterra Capital which provide oversight of Alterra Capital and the activities of the enterprise as a whole. These committees include: Audit and Risk Management Committee; Compensation Committee; Executive Committee; Finance and Investment Committee; Nominating and Corporate Governance Committee; and the Underwriting/Risk Management Committee. The Audit and Risk Management Committee of Alterra Capital has been designated by AAIC as its Audit Committee.

The bylaws of AAIC were amended during the period under examination concurrently with the Company's redomestication from the State of Indiana to the State of Delaware in November of 2010. The amended bylaws reflect the change in the Company's name along with various other amendments to remove provisions that were not required under Delaware law (e.g.,

citizenship and residency for directors, director oaths, and allowing the Board of Directors to set the number of directors from time to time).

The articles of incorporation were amended during the period under examination in connection with the Company's redomestication from the State of Indiana to the State of Delaware and reflect the change in the name of the Company.

Copies of the Form B Holding Company Registration Statements filed with the Delaware Department of Insurance during the period under examination were reviewed. Per the review, the Company has complied with the provisions of 18 Del. Admin. Code 1801.

## **MANAGEMENT AND CONTROL**

Pursuant to General Corporation laws of the state of Delaware, as implemented by the Company's Certificate of Incorporation and bylaws, all corporate powers are exercised by or under the direction of a Board of Directors, which shall be determined by the shareholder.

As stated in the bylaws, the Board of Directors determines the place, time and date of annual stockholders meetings. The Board of Directors meet after the annual stockholders meeting. During the period under review, the Board of Directors held annual meetings after the annual shareholders' meetings, as well as special meetings by written consent. A majority of the directors then in office, but not less than one-third of the number of directors fixed by the Board of Directors, constitutes a quorum for purposes of any meeting of the Board of Directors.

The number of directors is determined by the Board. On December 21, 2010, the Board of Directors resolved to increase the number of directors to five directors. Directors duly elected and serving at December 31, 2010 and their business affiliations are as follows:

<u>Name</u>	<u>Business Affiliation</u>
Stephen J. Vaccaro, Jr. (Board Chairman)	President & Chief Executive Officer
William Kronenberg III	Outside Director
James A. MacNaughton	Outside Director
Douglas M. Worman	President & CEO, Alterra USA EVP, Alterra Capital
Peter A. Minton	EVP & COO Alterra Capital Holdings, Ltd.

Pursuant to the Amended and Restated Bylaws adopted on November 4, 2010, the officers shall be a Chairman of the Board, Chief Executive Officer, President, Treasurer, Secretary and other officers as the Board of Directors may from time to time deem advisable.

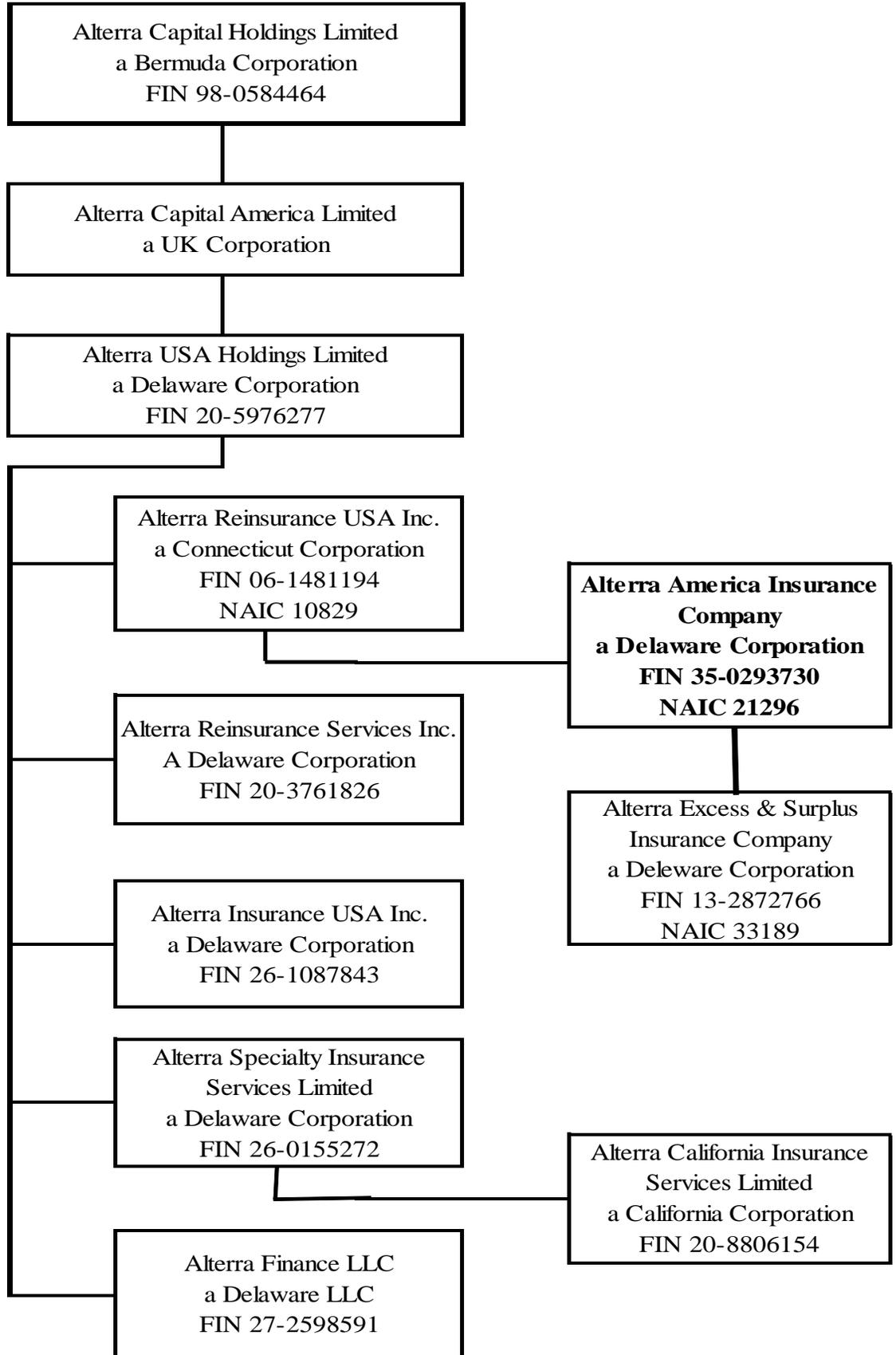
The officers of the corporation shall be elected annually. The senior officers elected to serve at December 31, 2010 were as follows:

<u>Name</u>	<u>Title</u>
Stephen J. Vaccaro, Jr.	Chief Executive Officer and President
Bryan W. Sanders	Executive Vice President
Douglas M. Worman	Executive Vice President – Insurance
Stephen M. Loderick	Senior VP, Chief Financial Officer, Treasurer and Secretary
Sheila Nugent-Carter	Assistant Secretary
Bernard Asirifi	Assistant Secretary

The Company's Code of Conduct and Conflict of Interest statements were reviewed for the period under examination. No conflicts were noted during this review.

## **HOLDING COMPANY SYSTEM**

The Company is a member of an insurance holding company system as defined under 18 Del. C. §5001(4) “Insurance Holding Company System Registration”. The Company is a direct wholly owned subsidiary of Alterra Re USA, a Connecticut domiciled Reinsurance Company. Alterra Re USA is a direct wholly owned subsidiary of Alterra USA, a Delaware Corporation, which in turn is a direct wholly owned subsidiary of Alterra Capital America Limited, a UK Corporation. The ultimate controlling entity is Alterra Capital, a publicly-traded company located in Hamilton, Bermuda. The following depicts an abbreviated organizational chart of the Company’s relationship within the holding company system at December 31, 2010;



## **AFFILIATED AGREEMENTS**

As of December 31, 2010, the Company had the following agreements in effect with its parents and affiliates:

- The Company is party to the Consolidated Federal Income Tax Liability Agreement with Alterra USA, effective September 9, 2011, for the taxable year ended December 31, 2010. The members are part of an affiliated group, as defined by Section 1504 (a) of the Internal Revenue Code of 1986 as amended. Allocation is based upon separate return calculations with current credit for net losses subject to the availability of previously taxable income.
- An Intercompany Services Agreement effective July 10, 2008, with Alterra Specialty Insurance Services, Ltd. (“Alterra Services”) (formerly Max Specialty Insurance Services, Ltd.), whereby Alterra Services can act as an underwriting and business manager for certain business for the Company. Alterra Services provides all services necessary or appropriate in connection with the management and operation of the Company.

## **FIDELITY BONDS AND OTHER INSURANCE**

Alterra Capital, the Company’s ultimate parent, has obtained fidelity coverage through a Financial Institution Bond (Form 25). The primary bond provides fidelity protection with a single loss liability limit of \$5,000,000 and an aggregate amount of \$10,000,000, with a single loss deductible amount of \$100,000 against loss resulting from dishonest or fraudulent acts of the directors, officers and employees. The bond provides coverage to Alterra Capital and its subsidiaries.

The limits of coverage in the current bond meet the amount of fidelity bond insurance suggested by the NAIC Handbook.

### **Other Insurance Coverage**

The Company is included as an insured on all other insurance policies issued in the name of the Company's US group, Alterra USA, and its subsidiaries and their subsidiaries. Alterra USA maintains three programs of insurance, including (1) Property; (2) Casualty; and (3) Combined Specialty Liability. The limits of liability, as of the examination date, were deemed sufficient. Alterra USA's insuring agreements included property damage, business interruption, general liability, auto liability, workers' compensation, employer's liability, professional liability (errors and omissions), and employment practices liability.

### **PENSIONS, STOCK OWNERSHIP AND INSURANCE PLANS**

The Company has no employees; therefore it is not obligated for any pension or post employment benefits and compensation absences. The Company's parent holding company, Alterra USA, sponsors a defined contribution savings plan in which the Company's share of the expense for 2010 was \$81,676.

### **TERRITORY AND PLAN OF OPERATION**

AAIC is administratively based in Richmond, VA and is domiciled in Delaware. AAIC operates on an admitted basis in 50 states, and underwrites inland marine, ocean marine, and hull-marine liability coverage through a network of national wholesale brokers, large national retailers, and marine specialists. The top 5 states for direct premium written were Florida, Texas, New York, Hawaii and Louisiana.

For business effective since June 2008, 90% of the Company's gross written premiums have been ceded through a quota share reinsurance agreement to Alterra E&S.

### **GROWTH OF THE COMPANY**

The following information was obtained from the Company's filed Annual Statements and covers the four year period since the previous exam:

<u>Year</u>	<u>Admitted Assets</u>	<u>Surplus as Regards Policyholders</u>	<u>Net Premium Written</u>	<u>Net Income</u>
2010	\$126,686,255	\$ 111,770,510	\$5,215,026	\$ 154,457
2009	37,513,671	19,934,028	2,440,150	96,103
2008	20,034,382	20,024,250	-	2,139,250

The Company experienced increasing admitted assets and surplus during the period under examination due to the Company's corporate restructuring in which the Company acquired Alterra E&S for its book value of \$86,776,050 and goodwill of \$8,400,000 on December 21, 2010. Over the two-year examination period, admitted assets increased by 532% and surplus as regards policyholders increased 458%. Prior to being acquired by its current parent, the Company operated as a shell without any reserve liabilities and minimal assets in 2008. The acquisition of its subsidiary provided a significant increase in assets and surplus as of December 31, 2010. Premium growth was the result of the Company seeking new business after being acquired by its current ultimate parent, Alterra Capital.

### **LOSS EXPERIENCE**

Reserves as of December 31, 2009 were \$548,556. As of December 31, 2010 \$346,000 has been paid related to insured events of prior years. Reserves remaining for prior years are

now \$199,000 as a result of re-estimation of unpaid claims and claim adjustment expenses principally on Special Liability and Special Property lines of insurance. Therefore, there has been approximately \$4,000 favorable prior-year development from December 31, 2009 to December 31, 2010.

## **REINSURANCE**

### **ASSUMED**

The Company does not assume any premiums from affiliated or non-affiliated insurers.

### **CEDED**

The Company cedes ninety percent of its business written to its subsidiary, Alterra E&S per a quota share agreement.

## **ACCOUNTS AND RECORDS**

The accounts and records review included an evaluation of the Company's operational and organizational controls. The areas evaluated included computer systems, accounting systems, organizational structures, and the processing structure.

The independent certified public accounting firm, KPMG, audited the Company's records for the years under examination. Audit reports and applicable work papers were made available for the examiners' use.

The accounts and records review included an assessment of the Company's risk management process in identifying and controlling risks in the key operational areas of the Company. In making the assessment in each key area, processes were reviewed, risks were identified, operational and organizational controls were identified and tested and the Company's methodology for assessing the effectiveness of the established mitigation factors was evaluated.

The primary systems used in the operations of the Company were also evaluated. The consulting firm of INS Services, Inc. performed an Exhibit C review of the Company's IT operations.

AAIC utilizes two primary Data Centers. One is with Peak 10 in Richmond, VA and one is within the internal business office of Alterra Capital in Hamilton Bermuda. Enterprise Risk Management System (ERMS), an internally developed system, is the core policy administration, claims and accounting system utilized by the companies. The Companies also utilizes another internally developed system, E2, which feeds the ERMS system, for policy management and producer management. The general ledger is maintained on the Great Plains software package.

During the course of the examination, the Company's books and records were reviewed and compared to reported items and values in the annual statements. Except as noted in the Notes to Financial Statements, no material discrepancies were noted during this review.

**STATUTORY DEPOSITS**

Listed below are the Company's statutory deposits:

State	Type of Deposit	Book/Adjusted Carrying Value	Fair Value
Arkansas	Bond	\$ 114,956	\$ 118,379
Delaware	Bond	3,038,819	3,048,250
Florida	Bond	114,956	118,379
Georgia	Bond	49,981	51,469
Indiana	Bond	2,499,054	2,573,450
Louisiana	Bond	114,956	118,379
Massachusetts	Bond	99,962	102,938
New Mexico	Bond	324,877	334,549
North Carolina	Bond	325,505	333,268
Virginia	Bond	<u>214,919</u>	<u>221,317</u>
Totals		<u>\$ 6,897,985</u>	<u>\$ 7,020,378</u>

**FINANCIAL STATEMENTS**

The following statements show the assets, liabilities, surplus and other funds of the Company, as determined by this examination, as of December 31, 2010.

- Assets
- Liabilities, Surplus and Other Funds
- Statement of Income
- Capital and Surplus Account
- Analysis of Financial Statement Changes resulting from Examination

**ALTERRA AMERICA INSURANCE COMPANY**

**ASSETS**

**DECEMBER 31, 2010**

	Ledger <u>Assets</u>	Assets Not <u>Admitted</u>	Net Admitted <u>Assets</u>	NOTES
Bonds	\$15,906,097	\$0	\$15,906,097	
Common stocks (stocks)	98,305,684	8,330,002	89,975,682	1
Cash and short-term investments	1,332,606	0	1,332,606	
Investment income due and accrued	130,514	0	130,514	
Uncollected premiums and agents' balances in course of collection	5,658,153	424,419	5,233,734	
Deferred premiums	1,202,873	0	1,202,873	
Amounts recoverable from reinsurers	2,526,392	0	2,526,392	
Current federal and foreign income tax recoverable and interest thereon	514,515	0	514,515	
Net deferred tax asset	3,728,306	3,728,306	0	
Receivables from parent, subsidiaries and affiliates	7,919,401	0	7,919,401	
Aggregate write-ins for other than invested assets	398	398	0	
	<hr/>	<hr/>	<hr/>	
<b>Totals</b>	<u>\$137,224,939</u>	<u>\$12,483,125</u>	<u>\$124,741,814</u>	

**ALTERRA AMERICA INSURANCE COMPANY**  
**LIABILITES, SURPLUS AND OTHER FUNDS**  
**DECEMBER 31, 2010**

		NOTES
Losses	\$ 1,623,843	2
Reinsurance payable on paid losses and loss adjustment expenses	-	
Loss adjustment expenses	88,054	2
Unearned premiums	2,497,359	
Advance premium	195,599	
Ceded reinsurance premiums payable (net of ceding commissions)	10,475,797	
Remittances and items not allocated	<u>35,093</u>	
Total liabilities	<u>\$ 14,915,745</u>	
Common capital stock	9,000,000	
Gross paid in and contributed surplus	106,176,050	
Unassigned funds (surplus)	<u>(5,349,981)</u>	
Surplus as regards policyholders	<u>\$ 109,826,069</u>	
Totals	<u><u>\$ 124,741,814</u></u>	

**ALTERRA AMERICA INSURANCE COMPANY**

**SUMMARY OF OPERATIONS**

**DECEMBER 31, 2010**

Premiums earned	\$ 4,312,773
Losses incurred	2,131,027
Loss adjustment expenses incurred	144,742
Other underwriting expenses incurred	<u>3,688,398</u>
Total underwriting deductions	<u>\$ 5,964,167</u>
Net underwriting gain (loss)	<u>\$ (1,651,394)</u>
Net investment income earned	685,494
Net realized capital gains (losses)	<u>605,842</u>
Net investment gain (loss)	<u>\$ 1,291,336</u>
Net income before all other federal and foreign income taxes	<u>(360,058)</u>
Federal and foreign income taxes incurred	<u>(514,515)</u>
Net income	<u><u>\$ 154,457</u></u>

**ALTERRA AMERICA INSURANCE COMPANY**  
**RECONCILIATION OF CAPITAL AND SURPLUS**  
**FROM DECEMBER 31, 2008 to DECEMBER 31, 2010**

Surplus as regards policyholders; December 31 ,2008	<u>\$ 20,024,247</u>
Net income	250,561
Change in net unrealized capital gains or (losses)	3,129,634
Change in net deferred income tax	(415,809)
Change in nonadmitted assets	(8,338,614)
Surplus adjustments paid in	95,500,391
Aggregate write-ins for gains and losses in surplus	(324,341)
Change in surplus as regards policyholders	<u>89,801,822</u>
Surplus as regards policyholders; December 31 ,2010	<u><u>\$ 109,826,069</u></u>

**ALTERRA AMERICA INSURANCE COMPANY**  
**ANALYSIS OF CHANGES IN THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010**

<u>Description</u>	<u>Per</u> <u>Examination</u>	<u>Per</u> <u>Company</u>	<u>Surplus</u> <u>Increase</u> <u>(Decrease)</u>	<u>NOTES</u>
<b>Assets:</b>				
Common Stock	\$ 89,975,682	\$ 91,920,123	\$ (1,944,441)	1
<b>Liabilities, Surplus and Other Funds</b>				
<b>Summary of Operations</b>				
<b>Capital and Surplus Account</b>				
Net Change in Surplus per Examination			\$ (1,944,441)	
Surplus per Company			<u>\$ 111,770,510</u>	
Surplus per Examination			<u>\$ 109,826,069</u>	

## NOTES TO THE FINANCIAL STATEMENTS

**(Note 1) Common Stock** **\$89,975,682**

The amount shown above is \$1,944,441 less than the amount reported by the Company as of December 31, 2010.

In December 2010, AAIC acquired all the capital stock of Alterra E&S as a capital contribution from the Company's parent, Alterra USA. As of December 31, 2010, AAIC's investment in Alterra E&S included \$1,944,441 of goodwill.

As noted during the 2010 CPA audit, AAIC did not record its investment in Alterra E&S's common stock correctly. Pursuant to SSAP No 25, paragraph 11, it was determined that the transaction was a non-economic transaction and should have been recorded at the lower of book value or fair value. The Company made the adjusting entries to properly reflect the value of its subsidiary during the second quarter of 2011.

**It is recommended that the Company record its investments in accordance with the NAIC Accounting Practices and Procedures Manual, SSAP No. 25, paragraph 11 as required pursuant to 18 Del. C. §526.**

**(Note 2) Losses** **\$ 1,623,843**  
**Loss Adjustment Expenses** **\$ 88,054**

The above captioned amounts are the same as that reported by the Company in its 2010 Annual Statement.

The Department's consulting actuary INS Consultants Inc., (INS) was retained and performed an independent analysis of the Company's gross and net loss and loss adjustment expense (LAE) reserves as of December 31, 2010.

INS selected the Marine line of business for independent analysis of the loss and allocated loss adjustment expense reserves. This line of business comprised 100% of the net Incurred but Not Reported (IBNR) for AAIC. INS estimated the unallocated loss adjustment expense reserve on the basis of all lines of business combined.

The INS analysis employed standard reserving methodologies and techniques. Loss and LAE reserves are subject to errors of estimation arising from the fact that the ultimate liability for claims evaluated as of the evaluation date is dependent on future contingent events which cannot always be anticipated. The possible occurrence of such events, as well as the inherent uncertainty associated with statistical estimates, allows no guarantee that the actual ultimate liability will be the same as the reserve levels at the evaluation date.

INS noted that although the requests for additional information were satisfied, the actuarial report prepared by the Company's Actuary should have contained more documentation to satisfy the NAIC requirement.

According to the *NAIC Instructions on Statements of Actuarial Opinion on P&C Loss Reserves* as of December 31, 2010, "The Actuarial Report should contain both narrative and technical components. The technical component should provide sufficient documentation and disclosure for another actuary practicing in the same field to evaluate the work. This technical component must show the analysis from the basic data, e.g., loss triangles, to the conclusions."

INS recommends that future appointed actuary reports contain sufficient documentation for another actuary practicing in the field to evaluate the work, and if benchmark loss development factors are used in the reports, then the factors themselves, a description of the benchmark loss development factors, the benchmark data triangles, and the derivation of the benchmark loss development factors should be included in the reports.

Apart from the correspondence on the benchmark factors, INS requested and received a number of additional exhibits and figures to complete the documentation of the Ernst & Young (E&Y) analysis, as well as additional narrative. These narratives and documentation should also have been included in the report, especially the derivation of the retention factors calculated as part of a gross-to-net adjustment applied to the loss development factors.

**It is recommended that future reports by the appointed actuary be complete in documenting the procedures used, both in narrative and supporting exhibits, per guidance noted in the NAIC *Instructions on Statements of Actuarial Opinion on P&C Loss Reserves*.**

INS found that the gross and net loss and loss adjustment expense reserves for the Company were reasonably stated.

#### **COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS**

There were no recommendations in the prior exam report.

#### **SUMMARY OF RECOMMENDATIONS**

Examination findings and recommendations as of December 31, 2010 consisted of the following:

- INS noted that although the requests for additional information were satisfied, the actuarial report prepared by the Company's Actuary should have contained more documentation to satisfy the NAIC requirement.

**It is recommended that future reports by the appointed actuary be complete in documenting the procedures used, both in narrative and supporting exhibits, per guidance noted in the NAIC *Instructions on Statements of Actuarial Opinion on P&C Loss Reserves*.**

- As noted during the 2010 CPA audit, AAIC did not record its investment in Alterra E&S's common stock correctly. Pursuant to SSAP No 25, paragraph 11, it was determined that the transaction was a non-economic transaction and should have been recorded at the lower of book value or fair value. The Company made the adjusting entries to properly reflect the value of its subsidiary during the second quarter of 2011.

**It is recommended that the Company record its investments in accordance with the NAIC Accounting Practices and Procedures Manual, SSAP No. 25, paragraph 11 as required pursuant to 18 Del. C. §526.**

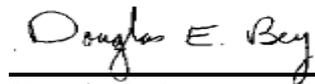
**CONCLUSION**

The following schedule shows the results of this examination and the results of the prior examination with changes between the examination periods:

<u>Description</u>	<u>December 31, 2010</u>	<u>December 31, 2008</u>	<u>Increase</u>
Assets	\$124,741,814	\$20,034,382	\$104,707,432
Liabilities	\$ 14,915,745	\$ 10,133	\$ 14,905,612
Capital and Surplus	\$109,826,069	\$20,024,250	\$ 89,801,819

The assistance of Delaware's consulting actuarial firm, INS Consultants, Inc. and INS Services, Inc. is acknowledged.

Respectfully submitted,



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Douglas E. Bey  
Examiner In-Charge  
State of Delaware