

REPORT ON EXAMINATION

OF THE

**AMERICAN SPECIAL RISK
INSURANCE COMPANY**

AS OF

DECEMBER 31, 2006

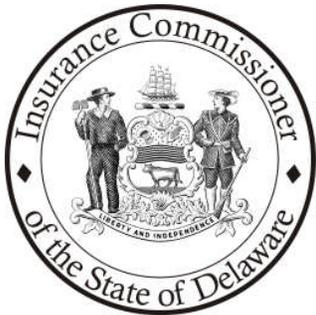
I, Matthew Denn, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of DECEMBER 31, 2006 of the

AMERICAN SPECIAL RISK INSURANCE COMPANY

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

ATTEST BY: Antoinette Handy

DATE: 18 JUNE 2008



In Witness Whereof, I HAVE HEREUNTO SET MY HAND AND AFFIXED THE OFFICIAL SEAL OF THIS DEPARTMENT AT THE CITY OF DOVER, THIS 18TH DAY OF JUNE 2008.

Matthew Denn
Insurance Commissioner

REPORT ON EXAMINATION
OF THE
AMERICAN SPECIAL RISK INSURANCE COMPANY
AS OF
December 31, 2006

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

Consideration has duly been 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 "Matt Denn", written in a cursive style.

MATTHEW DENN
INSURANCE COMMISSIONER

DATED this 18TH Day of JUNE 2008.

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May 1, 2008

Honorable Matthew Denn
Insurance Commissioner
Delaware Insurance Department
841 Silver Lake Boulevard
Dover, Delaware 19904

Commissioner:

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority No. 07-056, dated February 27, 2008, an examination has been made of the affairs, financial condition and management of the

AMERICAN SPECIAL RISK INSURANCE COMPANY

hereinafter referred to as "Company", incorporated under the laws of the State of Delaware as a stock company with its statutory home office located at 306 State Street, Dover, Delaware. The examination was conducted at the main administrative office of the Company, located at 7230 McGinnis Ferry Road, Suite 200, Suwanee, Georgia.

The report of such examination is respectfully submitted.

SCOPE OF EXAMINATION

The last examination was conducted as of December 31, 2001. This examination covered the period from January 1, 2002, through December 31, 2006, and consisted of a general survey of the Company's business policies and practices, management, any corporate matters incident thereto, a verification and evaluation of assets and a determination of liabilities. Transactions subsequent to the latter date were reviewed where deemed necessary.

This report is presented on an exception basis. It is designed to set forth the facts with regard to any material adverse findings disclosed during the examination. The format of this report is designed to explain the procedures employed on this examination and the text will explain changes whenever made. If necessary, comments and recommendations have been made in those areas in need of correction or improvement. In such cases, these matters were thoroughly discussed with responsible personnel and/or officials during the course of this examination.

The general procedures of the examination followed the rules established by the Committee on Financial Condition Examiners Handbook of the National Association of Insurance Commissioners (NAIC) and generally accepted statutory insurance examination standards.

In addition to items noted in this report, the following topics were reviewed and included in the workpapers of this examination;

Fidelity Bonds and Other Insurance
Conflict of Interest
Legal Actions
Officers, Employees and Agents' Welfare & Pension Plans

HISTORY

The Company was incorporated on July 13, 1977 under the laws of Delaware as Cranford Insurance Company and began business on October 21, 1977. On January 1, 1981, the Company changed its name to American Special Risk Insurance Company. On November 23, 1981, Alexander & Alexander Services, Inc. (A&A) acquired substantially all of the outstanding shares of Alexander Howden Group, Ltd. Effective as of January 15, 1997, Aon Corporation, Inc., through its wholly owned subsidiary, Subsidiary Corporation, Inc., acquired Alexander and Alexander Services, Inc. Subsidiary Corporation was merged into A&A as of February 21, 1997 and A&A survived. A&A changed its name on December 31, 1997 to Aon Group, Inc. (a Maryland corporation).

CAPITALIZATION

As of December 31, 2006, all of the 10,000 issued and outstanding common stock shares were held by Aon Services Group, Inc., (a Delaware Corporation) the Company's immediate parent.

On November 8, 2000, the Company resolved to buy back 370,000 shares of non-voting preferred stock at a price of \$10 per share (\$3,700,000) and 27,500 shares of common stock at a price of \$54 a share (\$1,485,000). The Company in effect cancelled the preferred shares and the common shares and the equivalent amount was reclassified to paid-in-capital. This capital restructure allowed the Company to maintain its free surplus in compliance with Title 18, Section 511 of the Delaware Code.

The Company is required by Title 18, Section 511 of the Delaware Code to maintain capital stock and surplus in the respective amounts of \$500,000 and \$250,000. The Company's

capital stock and free surplus was \$540,000 and \$2,569,466, respectively, as of December 31, 2006.

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 shareholders.

As of the examination date, the Board of Directors was comprised of three members. The Directors are to be elected by the shareholder, Aon Services Group, Inc.

At December 31, 2006, the members of the Board of Directors were as follows:

<u>Director</u>	<u>Title</u>
Peter James Jacobus	President
Elizabeth White Eaton	Secretary and Treasurer
Thomas Aaron Valentine	Independent Insurance Consultant

The Bylaws of the corporation provide that the officers of the Company shall consist of: a Chairman of the Board of Directors; President; a Secretary; and a Treasurer. At December 31, 2006, the Officers were as follows:

<u>Officer</u>	<u>Title</u>
Peter James Jacobus	President
Elizabeth White Eaton	Secretary and Treasurer

Per the By-Laws' Article IV, Officers shall be elected by the Board of Directors at the next regular meeting after the annual meeting of the stockholders. During the review of the Company minutes, it was noted that the Company's officers are elected on a roll forward basis. Only changes are acted upon by the Directors. Due to this Company practice, the Company is not conforming to its By-Laws.

The Bylaws call for an Executive Committee to consist of two or more of the Board of Directors to be elected at the next regular meeting of the Board of Directors after the annual meeting of the stockholders to serve for a period of one year, or until their successors shall be elected and qualify or until their removal from said committee. During this examination period and the previous examination, the committee was not formed.

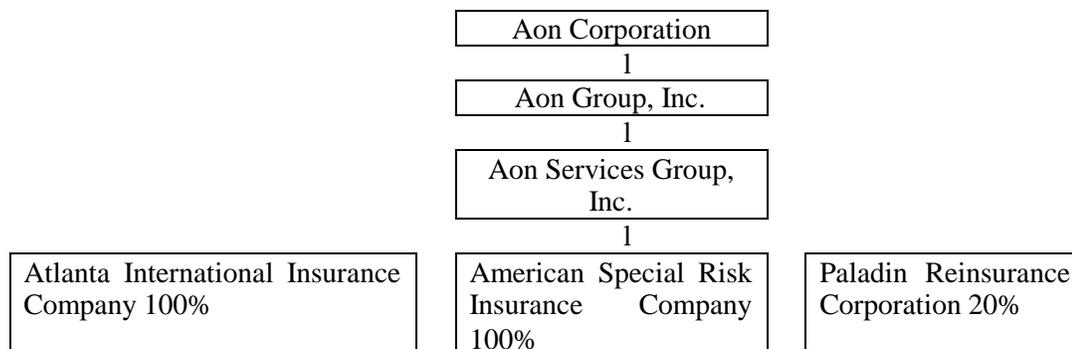
It is again recommended that the Company conform to its By-laws for shareholders, the election of officers, and the formation of committees.

It was also noted that the Company could not provide a conflict of interest statement for Thomas Valentine.

It is recommended that all Directors and Officers provide a conflict of interest statement yearly.

HOLDING COMPANY SYSTEM

The Company is a member of an Insurance Holding Company System. The ultimate parent of the system is Aon Corporation, a Delaware Corporation. The following is an organizational chart which reflects the identities and interrelationships between the Company, Parent, affiliated insurers, and other members of the system as of December 31, 2006. It does not reflect all entities of Aon Corporation:



Copies of the “Form B Holding Registration Statements” filed with the Delaware Insurance Department, during the period under examination, were reviewed. It appears that the Company has complied with the general requirements of Regulation 13 of the Delaware Insurance Code for filing Form B.

TERRITORY AND PLAN OF OPERATION

The Company is authorized to issue policies and transact business in the State of Delaware as a multiple line insurance company. The Company ceased writing new and renewal business on October 31, 1983 and has been in a run-off position since 1983. Business written prior to this cessation was produced by managing general agents and consisted of a broad class of property and liability business not generally written by admitted insurance companies.

REINSURANCE

The Company currently has in effect a number of facultative and treaty agreements with both authorized and unauthorized reinsurers. Reinsurance coverage was provided under 90% multiple quota-share contracts up to \$500,000. In addition, property catastrophe coverage was in effect for 95% of \$4,500,000 excess of \$500,000. As of December 31, 2006, the majority of the Company’s case and IBNR loss reserves were ceded. The Company’s loss and loss adjustment expense estimates assume reinsurance is collectible. The Company maintains a separate reserve for cessions to inactive reinsurers due to reinsurer insolvency or commuted agreements. This reserve for uncollectible reinsurance at December 31, 2006 is \$1,743,688. Total reinsurance cessions, including those for uncollectible amounts, as reflected in Schedule F, Part 3 is \$1,844,000.

INTERCOMPANY AGREEMENTS

The Company reported one intercompany agreement, a tax sharing agreement with Aon Corporation. The tax allocation agreement provides for tax allocation between the Aon Corporation and subsidiaries. The Company was added to this agreement in 1997.

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, 2006.

Analysis of Assets
Liabilities, Surplus and Other Funds
Summary of Operations
Capital and Surplus Account

It should be noted that the various schedules and exhibits may not add to the totals shown due to rounding.

	<u>Analysis of Assets</u> <u>December 31, 2006</u>				
	<u>Ledger</u> <u>Assets</u>	<u>Non-Ledger</u> <u>Assets</u>	<u>Assets Not</u> <u>Admitted</u>	<u>Net</u> <u>Admitted</u> <u>Assets</u>	<u>Note</u>
Bonds	\$3,261,187	\$ -0-	\$ -0-	\$3,261,187	
Cash and short-term investments	2,941,972	-0-	-0-	2,941,972	
Investment income due and accrued	57,583	-0-	-0-	57,583	
Net deferred tax asset	<u>2,945</u>	<u>-0-</u>	<u>2,945</u>	<u>-0-</u>	
Total Assets	<u>\$6,263,687</u>	<u>\$ -0-</u>	<u>\$ 2,945</u>	<u>\$6,260,742</u>	

Liabilities, Surplus and Other Funds

Losses	\$ 57,584	<i>1</i>
Reinsurance payable on paid losses and loss adjustment expenses	1,524	
Loss adjustment expenses	162,758	<i>1</i>
Other expenses	17,657	
Current federal and foreign income taxes	913,794	
Funds held by company under reinsurance treaties	236,576	
Payable to parent, subsidiaries and affiliates	17,695	
Reserve for unrecoverable reinsurance	<u>1,743,688</u>	
Total Liabilities	<u>\$3,151,276</u>	
Common capital stock	540,000	
Gross paid in and contributed surplus	8,204,181	
Unassigned funds (surplus)	<u>(5,634,715)</u>	
Total Capital and Surplus	<u>\$3,109,466</u>	
Total Liabilities, Surplus and Other Funds	<u>\$6,260,742</u>	

Summary of Operations
December 31, 2006

Income:		
Premiums earned	\$ 0	
Total Income		\$ 0
Expenses:		
Losses incurred	\$29,998	
Loss expenses incurred	22,368	
Other underwriting expenses incurred	5,489	
Total underwriting deductions		<u>57,856</u>
Net underwriting loss		\$(57,856)
Net investment income	\$220,403	
Provisions for unrecoverable reinsured losses	358,819	
Miscellaneous income	40,442	
Net investment gain		<u>619,664</u>
Net income before federal income taxes		\$561,808
Federal and foreign income taxes incurred		<u>197,266</u>
Net Income		<u>\$364,543</u>

Capital and Surplus Account
December 31, 2005 to December 31, 2006

Capital and Surplus, December 31, 2005	\$2,744,923
Net Income	364,543
Change in net deferred income tax	632
Change in nonadmitted assets	<u>(632)</u>
Capital and Surplus, December 31, 2006	<u>\$3,109,466</u>

Financial Changes

No financial changes were made as a result of this examination.

NOTES TO THE FINANCIAL STATEMENTS

Note 1

<u>Losses</u>	<u>\$ 57,584</u>
<u>Loss Adjustment Expenses</u>	<u>\$162,758</u>

The Company has received an exemption from the State of Delaware from having an actuarial review opinion since 1999. As noted by review of the historical financial information, the Schedule P, Part 2 summary, there has been no material adverse development in these reserves over the past three years.

The Company maintains a separate reserve for cessions to inactive reinsurers (i.e. due to reinsurer insolvency or commuted agreements). This reserve as of December 31, 2006 is \$1,743,688.

COMPLIANCE WITH PRIOR REPORT RECOMMENDATIONS

The prior recommendations were reviewed during the current examination and the Company was still in violation of their Bylaws.

The following recommendation was again noted in this examination.

- The Bylaws call for an Executive Committee to consist of two or more of the Board of Directors to be elected at the next regular meeting of the Board of Directors after the annual meeting of the stockholders to serve for a period of one year, or until their successors shall be elected and qualify or until their removal from said committee. The Company should either conform to its Bylaws or amend them. This is again a recommendation in this examination report. (see the section captioned "Management and Control" Page 4.)

SUMMARY OF RECOMMENDATIONS

- It is again recommended that the Company conform to its Bylaws for election of officers and formation of committees. (Page 5)
- It is recommended that the Company have all Officers and Directors provide conflict of interest statements yearly. (Page 5)

SUBSEQUENT EVENTS

The Company is considering a novation of its business to Atlanta International Insurance Company, an affiliated company.

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, 2001</u>	<u>December 31, 2006</u>	<u>Increase (Decrease)</u>
Admitted Assets	<u>\$9,491,028</u>	<u>\$6,260,742</u>	<u>\$(3,230,286)</u>
Liabilities	\$6,919,082	\$3,151,276	\$(3,767,806)
Capital and Surplus	<u>\$2,571,946</u>	<u>\$3,109,466</u>	<u>\$ 537,520</u>
Totals	<u>\$9,491,028</u>	<u>\$6,260,742</u>	<u>\$(3,230,286)</u>

Respectfully submitted,



Legh Cathey, CFE
Examiner In-Charge
State of Delaware