

**REPORT ON EXAMINATION**  
**OF THE**  
**AMERICAN SPECIAL RISK INSURANCE COMPANY**  
**AS OF**  
**DECEMBER 31, 2011**

Karen Weldin Stewart, CIR-ML  
Commissioner



Delaware Department of Insurance

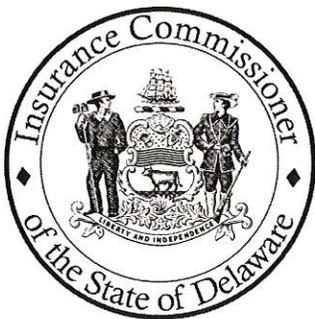
I, Karen Weldin Stewart, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of December 31, 2011 of the

**AMERICAN SPECIAL RISK INSURANCE COMPANY**

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

Attest By: Grande Biddle

Date: January 16, 2013

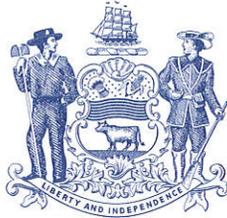


In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 16<sup>th</sup> day of January, 2013.

A handwritten signature in black ink, appearing to read "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  
AMERICAN SPECIAL RISK INSURANCE COMPANY  
AS OF  
DECEMBER 31, 2011

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.

  
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Karen Weldin Stewart, CIR-ML  
Insurance Commissioner

Dated this 16<sup>th</sup> day of January, 2013

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## **SALUTATION**

October 31, 2012

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

Dear Commissioner:

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority No.12.028, dated August 27, 2012, an Association 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, the statutory home office is located at 306 State Street, Dover, Delaware 19904. The main administrative office of the Company is located at 200 East Randolph Street, 10<sup>th</sup> Floor, Chicago, Illinois 60601.

The report of this examination is respectfully submitted.

## **SCOPE OF EXAMINATION**

The last financial condition examination of the Company covered the period from January 1, 2002 through December 31, 2006. This examination covered the period from January 1, 2007, through December 31, 2011, and consisted of a general review 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 to the extent deemed necessary.

The format of this report is designed to explain the procedures employed on the examination and the text will explain changes wherever 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 the examination.

The examination followed rules established by the *National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook (Handbook)* and generally accepted statutory insurance examination standards. In planning and conducting the examination, consideration was given to the concepts of materiality and risk, and examination efforts were directed accordingly.

The Company was exempt from CPA annual audits; therefore, CPA work papers were not available for review or utilization. The Company was not required to be Sarbanes Oxley (“SOX”) section 404 compliant.

In addition to items noted in this report, the following topics were reviewed without material exception and are included in the work papers of this examination:

- Corporate Records
- Custodial Agreements
- NAIC Ratios
- Legal Actions
- Employee and Agents Welfare
- Regulatory Agency Correspondence
- All Asset and Liability Items not mentioned

The examination was conducted in accordance with the Association Plan of Examination guidelines established by the NAIC. No other states participated in this examination.

### **SUMMARY OF SIGNIFICANT FINDINGS**

There were no significant findings as a result of this examination.

### **SUBSEQUENT EVENTS**

There were no material subsequent events noted for the Company.

### **COMPANY 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).

### **Common Capital Stock**

The Company has 37,500 common capital shares authorized, 10,000 shares issued and outstanding with a \$0 par value per share. Prior to the year 2000, all of the Company's authorized 37,500 shares were issued and outstanding. In 2000, the Company bought back 27,500 shares of common stock for \$540,000. This amount was used by the Company to value its remaining 10,000 issued and outstanding shares of common stock.

Dividend

The Company issued one \$2 million extraordinary dividend in June 2011 to Aon Group Services, Inc. This dividend was approved by the Delaware Department of Insurance.

**MANAGEMENT AND CONTROL**

Board of Directors

The bylaws of the Company specify that its Board of Directors shall consist of one or more members and the number of directors shall be fixed from time to time by the Board of Directors or shareholders. The following directors were serving as of December 31, 2011:

Directors

Ralph Richard Mueller  
Wheaton, IL

President of Company  
CFO Americas, Aon Benfield

Paul Allen Hagy  
Hinsdale, IL

Treasurer of Company  
SVP, Global Corporate Treasurer, Aon Services

Brian Patrick Sullivan  
Tinley Park, IL

Controller of Company  
Vice President, Finance, Aon Benfield

Section 3.1 of the Company's bylaws stipulates that the Board designate an executive committee consisting of two or more directors. However, the Board has failed again to designate an executive committee during this examination period.

**The Company failed again to designate an executive committee during the exam period or did not amend its bylaws as recommended in the prior examination.**

Officers

In accordance with its bylaws, officers serving the Company shall be a Chairman of the Board, a President, a Treasurer and a Secretary and other officers as appointed by the Board. The following officers were elected and serving their respective offices as of December 31, 2011:

Ralph Richard Mueller  
Paul Allen Hagy  
Brian Patrick Sullivan  
Ram Padmanabham  
Ellen R. Perle

President  
Treasurer  
Controller  
Vice President and Secretary  
Vice President and Assistant Secretary

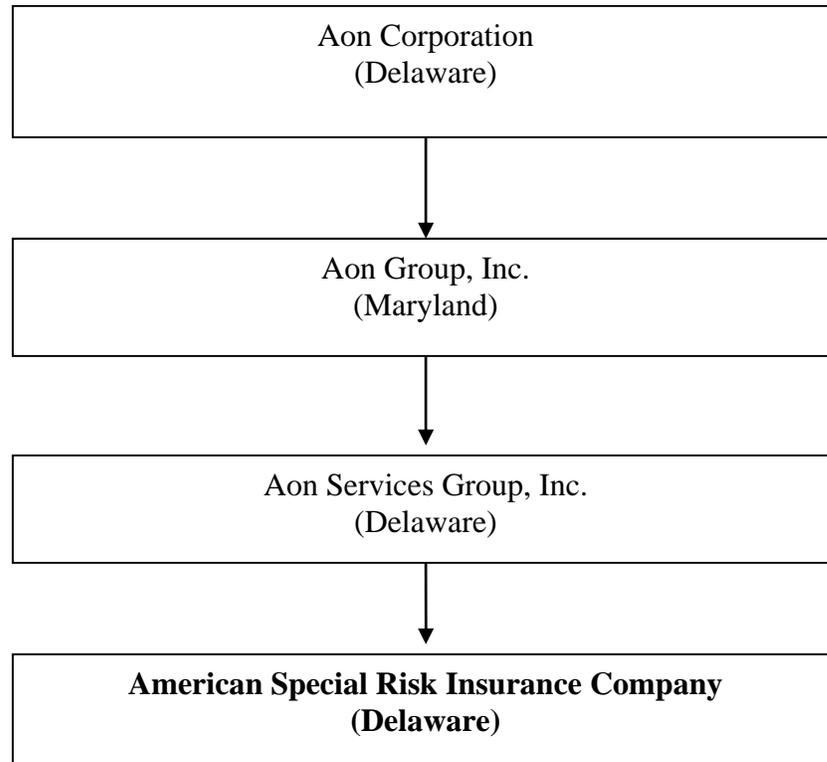
Conflict of Interest

The Company has an established procedure for the disclosure to its Board of Directors of any material interest or affiliation on the part of any of its officers, directors, or responsible employees which is likely to conflict with the official duties of such person. The disclosures are made annually. Conflict of Interest Statements completed by all directors and officers were reviewed and the information contained therein disclosed no evidence of conflicting interests.

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, and other members of the system as of December 31, 2011. It does not reflect all of the Aon Corporation entities:

### Organizational Chart



#### Intercompany Agreements

The Company entered into one agreement with members of the affiliated group in an effort to obtain efficiencies in operations and limit costs.

#### Aon Cost-Sharing Arrangements

The Company is party to a cost sharing agreement effective January 1, 1985 with Aon Corporation and other eligible Aon subsidiaries. "Aon Services" consists of services, facilities, equipment, and tangible and intangible property including but not limited to: contributions, executive office, internal audit, risk management, information systems, law department, and other required and miscellaneous services. Costs of these services are allocated based on proportionate utilization

determined by time studies, actual utilization, actual floor space, and other factors stated in the agreement.

#### Tax Sharing Agreement

The Company became a party to a tax sharing agreement with Aon Corporation in 1997 that had been in effect since January 1, 1994. The tax allocation agreement provides for tax allocation between Aon Corporation and certain participating subsidiaries.

#### **FIDELITY BOND**

The Company is covered by a Financial Institution Bond (Fidelity Bond) under coverage provided to Aon Holding LLC and its subsidiaries. The coverage is provided by National Union Fire Insurance Company, (a Chartis insurance company), with a limit of liability of \$10 million, which exceeds the suggested minimum limits of insurance per the NAIC Examiners Handbook.

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

##### Territory

As of December 31, 2011, the Company was authorized to transact business only in the State of Delaware. The Company has been in voluntary run-off since 1983 and in 2009 it transferred all policy liabilities to Atlanta International Insurance Company (“Atlanta International”) in an Indemnification, Substitution and Assumption Reinsurance and Administrative Services Agreement.

##### Plan of Operation

The Company’s strategy is to remain in a dormant state of run-off while maintaining its one statutory license.

## **GROWTH OF THE COMPANY**

The financial growth of the Company since the last examination (2006) compiled from its annual statements is summarized as follows:

<u>Year</u>	<u>Net Admitted Assets</u>	<u>Surplus as Regards to Policyholders</u>	<u>Change in Capital and Surplus</u>	<u>Gross Premiums Written</u>	<u>Net Income</u>
2011	\$ 1,511,232	\$ 1,493,540	-57.1%	\$ 0	\$ 14,702
2010	3,510,185	3,478,838	0.3%	0	11,256
2009	3,467,582	3,467,582	12.7%	0	(109,379)
2008	5,394,496	3,076,961	-6.2%	0	(204,080)
2007	5,444,941	3,281,041		0	171,575

The changes over the examination period are as follows:

- A 57.1% decrease in surplus as regards policyholders for 2011 is due to a \$2 million extraordinary dividend payment to Aon Group Services, Inc., the Company's parent.
- A 72.2% decrease in net admitted assets is due to a transfer of policy liabilities and \$2.45 million payment to Atlanta International in 2009.
- The Company received a \$500,000 contribution from its parent in 2009.

Net Admitted Assets and surplus as regards policyholders decreased primarily as a result of a \$2 million extraordinary dividend paid in 2011 and a transfer of policy liabilities and \$2.45 million payment to Atlanta International in 2009.

The Company has remained in run-off since 1983.

## **LOSS EXPERIENCE**

The Company has reported \$0 loss and LAE reserves since 2009 as a result of the Company transferring its policy liabilities in an Indemnification, Substitution and Assumption Reinsurance and Administrative Services Agreement.

## **REINSURANCE**

Effective August 7, 2009, the Company and Atlanta International, a New York domicile and now a Berkshire Hathaway company, entered into an Indemnification, Substitution and Assumption Reinsurance and Administrative Services Agreement which transferred all of the Company's outstanding policy liabilities to Atlanta International. The Company paid Atlanta International \$2.45 million in support of the net outstanding policy liabilities transferred from the Company to Atlanta International.

## **ACCOUNTS AND RECORDS**

The Company uses the PeopleSoft General Ledger system. Trial balances and account queries are run in order to extract updated financial information from the general ledger. PeopleSoft account level details are fed to the Hyperion Financial Management ("HFM") system, which is used for Aon's external financial reporting. High level trial balances and income statements are also produced from HFM in order to reconcile the general ledger activity. This financial information is used to populate excel spreadsheets used to roll forward the Company's balance sheet and income statement on a statutory basis. The excel spreadsheets then are used as the primary source document for inputting the Company's results into the Booke software, the system used for NAIC compliant statutory reporting.

The Company's investments are maintained in the PAM Investment Accounting system. The PAM system, developed by Princeton Financial Systems, is an investment accounting and management platform that supports reporting requirements for a diverse range of assets and portfolio types. The PAM system provides the appropriate market and statutory pricing of the Company's securities for reporting purposes.

**STATUTORY DEPOSITS**

STATE	Deposits For The Benefit of ALL Policyholders		All Other Special Deposits	
	Book/Adjusted Carrying Value	Fair Value	Book/Adjusted Carrying Value	Fair Value
Delaware Michigan	\$ 120,391	\$ 123,967	\$ 97,316	\$ 97,316
<b>TOTAL DEPOSITS</b>	<b>\$ 120,391</b>	<b>\$ 123,967</b>	<b>97,316</b>	<b>97,316</b>

**FINANCIAL STATEMENTS**

The following pages contain the Company's Financial Statements for the year ending December 31, 2011, as determined by this examination, with supporting exhibits as detailed below:

Assets,  
Liabilities, Capital and Surplus,  
Statement of Income and Capital and Surplus Account,  
Reconciliation of Surplus since last Examination

**Assets**  
**As of December 31, 2011**

	<u>Assets</u>	<u>Non admitted Assets</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 742,988		\$ 742,988	1
Preferred stocks	0		0	
Common stocks	0		0	
Cash, Cash Equivalents and Short-term Investments	757,486		757,486	2
Derivatives	0		0	
Other invested assets	0		0	
Subtotals, cash and invested assets	<u>\$ 1,500,474</u>	<u>\$ 0</u>	<u>\$ 1,500,474</u>	
Investment income due and accrued	10,758		10,758	
Totals	<u><u>\$ 1,511,232</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 1,511,232</u></u>	

**Liabilities, Capital and Surplus**  
**As of December 31, 2011**

		<u>Notes</u>
Losses	\$ 0	3
Reinsurance Payable on Paid Losses and LAE	0	
Loss adjustment expenses	0	3
Other expenses	1,102	
Current federal income tax payable	6,630	
Payable to parent, subsidiaries, and affiliates	9,960	
Total liabilities	<u>\$ 17,692</u>	
Common capital stock	\$ 540,000	
Gross paid in and contributed surplus	8,704,181	
Unassigned funds (surplus)	(7,750,641)	4
Surplus as regards policyholders	<u>\$ 1,493,540</u>	
Totals	<u><u>\$ 1,511,232</u></u>	

**Statement of Income, Capital and Surplus Account  
As of December 31, 2011**

		Notes
Premiums earned	\$ 0	
Losses incurred	\$ 0	
Loss adjustment expenses incurred	0	
Other underwriting expenses incurred	15,481	
Total underwriting deductions	\$ 15,481	
Net underwriting gain (loss)	\$ (15,481)	
Net investment income earned	38,892	
Net realized capital gains or (losses)	0	
Net investment gain (loss)	\$ 38,892	
Interest on funds held contracts	\$ 0	
Miscellaneous income	0	
Total other income	\$ 0	
Net income after dividends to policyholders	23,411	
Federal and foreign income taxes incurred	8,708	
Net income	\$ 14,703	
Surplus as regards policyholders, December 31, 2010	\$ 3,478,838	
Net income (losses)	14,703	
Dividends to stockholders	(2,000,000)	4
Net change in capital and surplus for the year	\$ (1,985,297)	
Surplus as regards policyholders, December 31, 2011	\$ 1,493,540	

**Reconciliation of Surplus since last Examination**

	Common Capital Stock	Gross Paid-in and Contributed Surplus	Unassigned Surplus	Total	Notes
December 31, 2007	\$ 540,000	\$ 8,204,181	\$ (5,463,140)	\$ 3,281,041	
Operations 2008			(204,080)	(204,080)	
Operations 2009			(109,379)	(109,379)	
Surplus adjustments paid in		500,000		500,000	4
Operations 2010			11,256	11,256	
Operations 2011			14,702	14,702	
Dividend to stockholders			(2,000,000)	(2,000,000)	4
December 31, 2011	<u>\$ 540,000</u>	<u>\$ 8,704,181</u>	<u>\$ (7,750,641)</u>	<u>\$ 1,493,540</u>	

**NOTES TO FINANCIAL STATEMENTS**

Assets

Note 1 - Bonds: \$ 742,988

The Company's bond holdings totaled \$742,988 and were approximately 49.2% of total admitted assets and 49.5% of the Company's total invested assets. Security composition for the year ending 2011 was comprised of the following:

The Company's bond holdings were made up of two U.S. Treasury Bonds with a Class 1 designation with respect to NAIC credit quality standards.

Note 2 – Cash, Cash Equivalents and Short-Term Investments: \$757,486

The Company's short-term holdings totaled \$757,486 and were approximately 50.1% of total admitted assets and 50.5% of the Company's total invested assets. The Company's short-term holdings were comprised of industrial and miscellaneous short term issuer obligations.

Liabilities:

Note 3 – Losses: \$ 0

Note 3 – Loss Adjustment Expenses (LAE): \$ 0

The Company transferred all of its policy liabilities in an Indemnification, Substitution and Assumption Reinsurance and Administrative Services Agreement to Atlanta International effective August 7, 2009.

Note 4 – Dividend: \$ 2,000,000

The Delaware Department of Insurance approved the Company to pay a \$2 million extraordinary dividend to its parent, Aon Group Services, Inc., on June 24, 2011.

The Company received a \$500,000 paid in contribution from Aon Group Services, Inc. in 2009.

**COMPLIANCE WITH PRIOR REPORT RECOMMENDATIONS**

The prior exam noted two recommendations, which were;

1. It was again recommended that the Company conform to its bylaws for shareholders, the election of officers, and the formation of committees. **The Company has not complied.**
2. It was recommended that all directors and officers provide a conflict of interest statement yearly. **The Company has complied.**

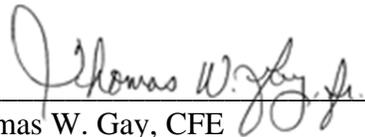
**SUMMARY OF RECOMMENDATIONS**

It is again recommended that the Company designate an executive committee as required by its bylaws or amend its bylaws deleting the provisions in the bylaws that require the existence of an executive committee.

**CONCLUSION**

The assistance and cooperation of the Company's management and staff was appreciated and is acknowledged.

Respectfully submitted,



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Thomas W. Gay, CFE  
Examiner-In-Charge  
State of Delaware  
Northeastern Zone, NAIC