

Statutory Financial Examination of
SUNDERLAND MARINE MUTUAL INSURANCE COMPANY LIMITED
(U.S. BRANCH)

FE 13-01

as of December 31, 2012

Issued by
STATE OF ALASKA
DEPARTMENT OF COMMERCE, COMMUNITY, AND
ECONOMIC DEVELOPMENT
DIVISION OF INSURANCE

NAIC Company Code: 10838
NAIC Group Code: 00000

FINAL REPORT:
June 2, 2016

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

STATE OF ALASKA
DEPARTMENT OF COMMERCE, COMMUNITY AND
ECONOMIC DEVELOPMENT
DIVISION OF INSURANCE
550 WEST 7TH AVENUE, SUITE 1560
ANCHORAGE, AK 99501-3567

Order FE 13-01)
In the Matter of Examination of)
Sunderland Marine Insurance)
Company, Limited (U.S. Branch))
_____)

FINDINGS OF FACT

1. A report of examination of Sunderland Marine Insurance Company Limited (U.S. Branch), examined under its former name, Sunderland Marine Mutual Insurance Company Limited (U.S. Branch), domiciled in the State of Alaska, has been issued by the State of Alaska, Division of Insurance, to Sunderland Marine Insurance Company Limited (U.S. Branch).

2. The Report of Examination of Sunderland Marine Insurance Company Limited (U.S. Branch) (FE 13-01) has been transmitted to Mr. Lee Williamson, Group Compliance Director, of Sunderland Marine Insurance Company Limited – U.S. Branch (Examinee), and Examinee has been accorded at least 30 days opportunity to review and comment on this Report of Examination. A response from the examinee was received on June 13, 2016.

3. The Director of the Division of Insurance has fully considered and reviewed the report, the examinee response, and any relevant portions of the examiners' work papers to the extent considered necessary.

CONCLUSIONS OF LAW

1. The written Report of Examination referred to in Finding of Fact No. 1 was issued in accordance with Alaska Statute (AS) 21.06.150(b).

2. The actions set forth in finding of Fact No. 2 were conducted in accordance with AS 21.06.150(b).

3. The Director of the Division of Insurance has reviewed the Report of Examination, the examinee response and any other relevant work papers as set forth in Finding of Fact No. 3 to the extent considered necessary in accordance with AS 21.06.150(b).

ORDER

IT IS ORDERED

1. Pursuant to AS 21.06.150(b)(1), the Report of Examination of Sunderland Marine Insurance Company Limited (U.S. Branch) (FE 13-01) is approved as filed.
2. Pursuant to AS 21.06.060, the Report of Examination shall be posted on the Division of Insurance website and be available for public inspection.

This order is effective June 23, 2016.

Dated this 23rd day of June, 2016, at Anchorage, Alaska.



Lori Wing-Heier, Director
State of Alaska
Division of Insurance

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THE STATE
of **ALASKA**
GOVERNOR BILL WALKER

Department of Commerce, Community,
and Economic Development

DIVISION OF INSURANCE

550 West Seventh Avenue, Suite 1560
Anchorage, AK 99501-3567
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June 2, 2016

Lori Wing-Heier, Director
Division of Insurance
Department of Commerce, Community
and Economic Development
State of Alaska
550 West 7th Avenue, Suite 1560
Anchorage, AK 99501-3567

Dear Director Wing-Heier:

In accordance with your instructions and authorizations, and in accordance with statutory requirements, an examination has been made of the financial condition and business affairs of:

Sunderland Marine Mutual Insurance Company Limited (U.S. Branch)
Salvus House
Ackley Heads, Durham U.K. DH1 5TS

(NAIC CoCode 10838; Group Code 0000)

SCOPE OF EXAMINATION

This examination covers the period of January 1, 2010 through December 31, 2012. Transactions subsequent to this period were reviewed where deemed appropriate. The most recent prior examination of the Branch covered the period from January 1, 2007 through December 31, 2009.

We conducted our examination in accordance with the NAIC Financial Condition Examiners Handbook. The handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the company by obtaining information about the Branch including corporate governance, identifying and assessing inherent risks within the Branch and evaluating system controls and procedures used to mitigate those risks. An 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 Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations. All accounts and activities of the Branch were considered in accordance with the risk-focused examination process.

The examination was conducted in accordance with the guidelines and procedures recommended by the Financial Condition (E) Committee of the NAIC and the rules, regulations, and directives of the Division of Insurance, State of Alaska. The work papers of the independent certified public accountants, KPMG, LLP, were reviewed and used where it was determined to be appropriate. The appropriate KPMG, LLP work papers have been incorporated into the exam work paper file.

The Branch assets were evaluated and verified, and liabilities were analyzed to determine its financial condition as of December 31, 2012. Also, an actuarial evaluation of the reserves as of December 31, 2012, was performed by Sarah K. McNair-Grove, ACAS, MAAA, Actuary for the Division of Insurance, State of Alaska, as a part of this examination.

SUMMARY OF EXAMINATION FINDINGS

The examination resulted in the following findings:

- The custodial agreement did not include a clause required by Alaska regulation.
- Commission rates were not included within the written Producer Agreements as required by Alaska Statute. The omission impeded the sample testing of Underwriting.

DESCRIPTION OF BRANCH

Branch History

Sunderland Marine Mutual Insurance Company Limited, U.S. Branch (“the Branch”) is a branch of an alien insurer using Alaska as a state of entry to transact the business of insurance in the United States. Sunderland Marine Mutual Insurance Company, Ltd. (“Parent Company” or “SMMI”) is an alien insurer domiciled in the United Kingdom. It is a mutual company limited by guarantee without capital stock. The Parent Company was founded in Sunderland, England in 1882, as a marine mutual hull club. It currently operates in the United Kingdom and locations around the world, including Canada, South Africa, Australia, Europe, South America, New Zealand and the United States.

The Branch was admitted in Alaska on February 23, 1996 and authorized to write marine, wet marine, transportation and risks incidental to marine insurance including protection and indemnity. The Parent Company met the requirements of the NAIC International Insurance Department to operate in the United States on a surplus lines basis. It was listed in the NAIC Quarterly List of Alien Insurers in 2014 and continues to meet the requirements of the NAIC.

In January 2012, the Parent Company and North of England P&I Association (“NEPIA”) performed a strategic alliance beginning with a reinsurance agreement that reinsured the Parent Company’s P&I liability policies beginning January 1, 2012. NEPIA specializes in large scale shipping insurance and has been in business for over 150 years. Subsequent to successful completion of financial and legal due diligence, the Parent Company and NEPIA entered into an agreement to merge the two organizations, subject to approval of members of both organizations and regulatory approval. On February 28, 2014, the Alaska Division of Insurance approved the merger.

Corporate Records

The records of the Branch are maintained at the offices of the Parent Company located at Salvus House, Aykley Heads, Durham, UK DH1 3TS. Alaska Statute 21.69.390 requires that specific records be maintained within the State of Alaska. The location for these records is the office of the Branch attorneys, Farley & Graves, 807 G Street, Suite 250, Anchorage, Alaska, 99501.

Management and Control

SMMI is a mutually held organization domiciled in the UK, owned by its policyholders and run for their benefit. The insurance business is written either by SMMI in the UK or by its branches in the U.S., Australia, New Zealand and Canada. SMMI also accepts risks through Sunderland Marine (Africa) in South Africa.

Until June 30, 2009, the day-to-day administration of the business, including business handled in the U.S. Branch’s Seattle office, was performed by Salvus Bain Management Ltd. (“Salvus Bain”), a wholly owned subsidiary of SMMI. On July 1, 2009, Salvus Bain was merged with SMMI with no resulting changes to personnel or day-to-day operations.

Territory and Plan of Operation

The Branch specializes in marine, wet marine and transportation policies. As a U.S. Branch domiciled in Alaska, the Branch exclusively writes Alaska policies.

Growth of Branch

Prior to January 1, 2004, the Branch financial statements included business transacted throughout the United States. Current financial statements are limited to the business of the U.S. Branch in Alaska. Results of the Branch operations between 2009 and 2012 were as follows:

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Surplus</u>
2009	8,444,743	3,520,646	4,850,836
2010	8,579,855	2,935,807	5,644,047
2011	8,796,645	3,950,077	4,846,567
2012	9,023,859	4,662,963	4,360,896

Loss Experience

The loss experience of the Branch during the years covered by this examination follows:

<u>Year</u>	<u>Premiums Earned</u>	<u>Losses Incurred</u>	<u>Percent of Premiums Earned</u>	<u>Loss Expenses Incurred</u>	<u>Percent of Premiums Earned</u>
2010	2,451,818	676,091	27.6%	38,284	1.6%
2011	2,247,424	1,577,130	70.2%	77,602	3.5%
2012	1,669,341	1,904,077	114.1%	6,103	0.4%

Reinsurance

The Branch participates in the Parent Company’s, SMMI, global reinsurance arrangements through reinsurance agreements written between the reinsurers and SMMI. The Parent Company cedes insurance to reinsurers in the ordinary course of business for the purpose of limiting exposure to large losses. Individual subsidiaries, including the US Branch, do not make claims

directly against reinsurers. The Parent Company's practice is to reimburse subsidiaries for claims above 250,000 GBP and then submit for recovery once aggregation of claims of the group exceeds deductible of 5,000,000 GBP. Reimbursements received by the Parent from reinsurers are credited against the Parent's payments to the subsidiaries but are not allocated against payments to specific entities.

The Parent Company's principal reinsurance program for policy year 2009 was as follows:

Cross Class Cover

An all-risk agreement covers individual contracts excess of loss above 250,000 GBP up to 1,000,000 GBP. Recovery from the reinsurer is subject to an aggregate deductible by the SMMI group of 5,000,000 GBP. Thereafter, the whole account cover provides for recovery up to an aggregate 9,000,000 GBP worth of claims under the agreement. Subsidiaries' claims, including the Branch's, in excess of 250,000 GBP are paid by the parent, SMMI, which recovers from reinsurers above aggregate losses exceeding the 5,000,000 GBP deductible.

Pursuant to Annual Statement Instructions, the Branch correctly reports recoverables above 250,000 GBP in Schedule F.

Hull

All risks are covered by the whole account ("cross class cover") in excess of 250,000 GBP up to 1,000,000 GBP. Thereafter, excess of loss hull cover provides recoveries of 18,900,000 excess of 1,000,000 GBP on any one occurrence or event, with no aggregate agreement limit.

Protection and Indemnity

Cross class agreement covers risks excess of 250,000 GBP up to 1,000,000 GBP. Thereafter, through June 30, 2008, excess of loss cover provides recoveries in excess of \$2 million up to \$100 million. Effective July 1, 2008, the limit was increased to \$500 million; however, excess of loss agreements for coverages between \$2 million and \$100 million filed for 2009 exclude "vessels domiciled in the United States of America." To cover these excluded vessels in 2009, the Parent Company maintained endorsements on specific Excess P&I policies through Lloyd's of London syndicates providing a \$500,000 excess of \$500,000 layer of protection along with a second \$1,000,000 excess of \$1,000,000 layer for a total protection of \$2,000,000.

Notwithstanding, the Branch was not covered for losses on U.S. vessels between \$2 million and \$100 million.

Harlock Murray Underwriters ("HMU") Quota Share

The Parent Company also participates in a reinsurance pool with Sovereign General Insurance Company and Swiss Reinsurance USA Corporation. Policies written on the Parent Company's paper by HMU are reinsured under this marine quota share agreement. Under the agreement SMMI retains 40 percent of the business and cedes the remainder to Swiss Reinsurance USA Corporation (20 percent) and Sovereign General Insurance Company (40 percent). Maximum pool retention for hull coverage is \$1.5 million per vessel. Maximum pool retention for protection and indemnity coverage is \$500,000 per occurrence.

Accounts and Records

The Branch's accounting procedures, practices, account records, and supporting data were reviewed and tested to the extent deemed necessary. The trial balance prepared for the year ended December 31, 2012, was agreed to the annual statement and the Parent Company's general ledger. The Branch's accounting is maintained by the Parent which centralizes IT functions for all of its subsidiaries. Records are maintained electronically on separate office systems at the Vancouver and Seattle offices.

Statutory Deposits

Pursuant to the insurance laws of the State of Alaska, the Branch is required to maintain assets in a trust account in an amount not less than the total of the Branch reserves and other liabilities determined in accordance with Alaska Statute (AS) 21.09.310, plus the greater of the minimum basic capital pursuant to AS 21.09.070 or the authorized control level risk based capital pursuant to AS 21.14. Minimum basic capital required to be maintained in trust by the Branch is \$1,750,000. A review of the trustee's statements on file with the state verified minimum assets were maintained on deposit.

SUMMARY OF ACTUARIAL REVIEW

As of December 31, 2012, the Branch held \$2,385,450 in gross reserves and \$1,802,793 in net reserves. The division actuary reviewed the reserves using data provided by the Branch and held discussions with the insurer's staff as deemed necessary. She also reviewed the KPMG, LLP, actuarial report that supports the 2012 Actuarial Opinion and the London KPMG Audit Plc. actuarial report for the Parent Company's worldwide business. Based on this review, the division actuary determined the Branch overall reserve position is within a reasonable range of acceptable reserve estimates and should be accepted as stated.

FINANCIAL STATEMENTS

The following pages contain statutory financial statements for the Branch as of December 31, 2012, as reported to the division and as adjusted by the examiners.

Sunderland Marine Mutual Insurance
Company Limited (U.S. Branch)
As of December 31, 2012
FE 13-01

FINANCIAL STATEMENTS
STATEMENT OF ASSETS, LIABILITIES AND SURPLUS
As of December 31, 2012

	<u>As Reported</u>	<u>Adjustments</u>	<u>Finding No.</u>	<u>As Adjusted</u>
<u>Assets</u>				
Bonds	\$ 6,027,831			\$ 6,027,831
Cash & short term				
Investments	2,769,211			2,769,211
Investment income due and accrued	33,272			33,272
Premiums and agents' balances in course of collection	147,409			147,409
Deferred premiums, agents' balances and installments booked but deferred	9,228			9,228
Current federal and foreign income tax recoverable and interest thereon	25,780			25,780
Aggregate write-ins for other than invested assets	11,128			11,128
	<u> </u>	<u> </u>		<u> </u>
Total Admitted Assets	<u>\$ 9,023,859</u>	<u>\$ 0</u>		<u>\$ 9,023,859</u>
<u>Liabilities, Surplus and Other Funds</u>				
<u>Liabilities</u>				
Losses	\$ 1,898,289			\$ 1,898,289
Loss adjustment expenses	37,313			37,313
Taxes, licenses and fees	9,441			9,441
Unearned premiums	706,180			706,180
Ceded reinsurance premiums payable	500,149			500,149
Amounts withheld or retained by Branch for account of others	435			435
Provision for reinsurance	1,420,303			1,420,303
Payable to parent, subsidiaries and affiliates	186,349			186,349
	<u> </u>	<u> </u>		<u> </u>
Total Liabilities	<u>\$ 4,758,459</u>	<u>0</u>		<u>\$ 4,758,459</u>
<u>Surplus</u>				
Unassigned funds (surplus)	4,265,399			4,265,399
Surplus as regards policyholders	<u>\$ 4,265,399</u>	<u>0</u>		<u>\$ 4,265,399</u>
	<u> </u>	<u> </u>		<u> </u>
Total Liabilities and Surplus	<u>\$ 9,023,859</u>	<u>\$ 0</u>		<u>\$ 9,023,859</u>

FINANCIAL STATEMENTS
STATEMENT OF OPERATIONS
as of December 31, 2012

	<u>As</u> <u>Amended</u>	<u>Examination</u> <u>Adjustments</u>	<u>Finding</u> <u>Number</u>	<u>As</u> <u>Adjusted</u>
<u>Underwriting Income</u>				
<u>Revenue</u>				
Premiums earned	\$ 1,669,341			\$ 1,669,341
Total Revenue	<u>\$ 1,669,341</u>			<u>\$ 1,669,341</u>
<u>Deductions</u>				
Losses incurred	\$ 1,990,326			\$ 1,990,326
Loss adjustment expenses incurred	6,103			6,103
Other underwriting expenses	1,210,393			1,210,393
Aggregate write-ins for underwriting deductions	0			0
Total underwriting deductions	<u>\$ 3,206,822</u>			<u>\$ 3,206,822</u>
Net underwriting gain or loss	<u>\$ (1,537,481)</u>			<u>\$ (1,537,481)</u>
<u>Investment Income</u>				
Net investment income earned	\$ 56,152			56,152
Net realized capital gains or (losses)	3,035			3,035
Net investment gain or (loss)	<u>\$ 59,187</u>			<u>\$ 59,187</u>
Net income (loss) before tax	\$ (1,478,294)			\$ (1,478,294)
Federal and foreign income taxes incurred	18,535			18,535
Net Income (Loss)	<u>\$(1,496,829)</u>			<u>\$(1,496,829)</u>
<u>Capital and Surplus Account</u>				
Surplus, December 31, prior year	<u>\$ 4,846,567</u>			<u>\$ 4,846,567</u>
<u>Gains and (Losses) in Surplus</u>				
Net income (loss)	\$ (1,496,829)			\$ (1,496,829)
Change in non-admitted assets	(74,038)			(74,038)
Change in provision for reinsurance	(485,303)			(485,303)
Net remittances from or (to) home office	1,475,002			1,475,002
Change in surplus as regards policyholders	<u>\$ (581,168)</u>			<u>\$ (581,168)</u>
Surplus for the period ended December 31, 2012	<u>\$ 4,265,399</u>	<u>\$ 0</u>		<u>\$ 4,265,399</u>

Sunderland Marine Mutual Insurance
Company Limited (U.S. Branch)
As of December 31, 2012
FE 13-01

FINANCIAL STATEMENTS
RECONCILIATION OF CAPITAL AND SURPLUS ACCOUNT
December 31, 2009 – December 31, 2012

	Allocated to Policy Holders	SURPLUS		TOTAL
		Paid-In	Unassigned	
Balance at December 31, 2009	\$ 0	\$ 0	\$ 4,850,836	\$ 4,850,836
Net income – 2010			589,292	589,292
Change in nonadmitted assets			250	250
Change in provision for reinsurance			(267,000)	(267,000)
Net remittances from or (to) home office			470,669	470,669
Balance at December 31, 2010	\$ 0	\$ 0	\$ 5,644,047	\$ 5,644,047
Net income – 2011			(807,348)	(807,348)
Change in nonadmitted assets			(16,720)	(16,720)
Change in provision for reinsurance			(391,000)	(391,000)
Net remittances from or (to) home office			417,588	417,588
Balance at December 31, 2011	\$ 0	\$ 0	\$ 4,846,567	\$ 4,846,567
Net income – 2012			(1,496,829)	(1,410,580)
Change in nonadmitted assets			(74,038)	(74,038)
Change in provision for reinsurance			(485,303)	(485,303)
Net remittances from or (to) home office			1,475,002	1,475,002
Balance at December 31, 2012	\$ 0	\$ 0	\$ 4,265,399	\$ 4,265,399

**ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS
RESULTING FROM THE EXAMINATION**

This examination resulted in no adjustments to the financial statements filed as of December 31, 2012.

**UNRESOLVED RECOMMENDATION FROM
PRIOR REPORT OF EXAMINATION**

The following recommendation from the prior report of examination was not resolved and is included as a current finding for this report of examination:

Prior Exam Finding 7 – The Branch did not document producer commission rates within the signed Producer Agreements pursuant to Alaska Statute AS 21.27.560.
(See Current Finding 2.)

CURRENT EXAMINATION FINDINGS

Finding 1 – A clause required by Alaska Regulation 3 AAC 21.865(d) is not included in the Custodial Agreement.

The Custodial Agreement (Agreement) does not comply with Alaska Regulation 3 AAC 21.865(d) that requires the Agreement to include a clause whereby the custodian must notify the Division of Insurance in writing within three working days if the agreement with the insurer is terminated; or, if all the assets in the account have been withdrawn.

Finding 2 – Producer agreements for the years covered by the examination did not comply with Alaska Statute (AS) 21.27.560 that requires written contracts to specifically state the duties, functions, powers, authority, and compensation of its insurance producers.

The producer agreements did not include commission rates. Instead they referred to negotiated commission rates that are not directly documented within the agreement terms or included as an addendum to the producer agreements. Not having the commission rates within the agreements impeded the ability of the examiners to fully test the accuracy of commission rates in the sample testing of Underwriting.

Sunderland Marine Mutual Insurance
Company Limited (U.S. Branch)
As of December 31, 2012
FE 13-01

CLOSING

This examination was conducted in accordance with practices and procedures promulgated by the NAIC. This examination also includes a compliance review of applicable Alaska Statutes.

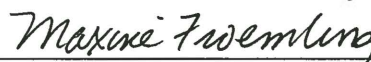
In addition to the undersigned, the following examiners participated in the examination: Actuary Sarah McNair-Grove, FCAS, MCAA, and Insurance Financial Examiner David Phifer of the Division of Insurance; and Supervisory Contractor Margaret C. Spencer, CFE, and contractors Cathie A. Stewart, CFE, and Darin D. Benck, CFE, of Risk and Regulatory Consulting, LLC.

We wish to express our appreciation for the courteous cooperation and assistance extended to us by the management and staff of Sunderland Marine Mutual Insurance Company Limited during the course of this examination.

This report is respectfully submitted,



Richard B. Foster, CFE
Examiner-in-Charge




Maxine L. Froemling, CFE
Chief Financial Examiner


AFFIDAVIT

Anchorage, Alaska)
June 3, 2016)
STATE OF ALASKA)
THIRD JUDICIAL DISTRICT)

We, the undersigned, being duly sworn, do verify that the report of examination as of December 31, 2012, of Sunderland Marine Mutual Insurance Company Limited (U.S. Branch), an Alaska domiciled company holding Certificate of Authority D-8440, is true to the best of our knowledge and belief.



Richard B. Foster, CFE
Examiner-in-Charge



Maxine L. Froemling, CFE
Chief Financial Examiner

Subscribed and sworn to before me this 3rd day of June, 2016.




Notary Public for the State of Alaska
My commission expires: With office