



THE STATE
of **ALASKA**
GOVERNOR BILL WALKER

Department of Commerce, Community,
and Economic Development

DIVISION OF INSURANCE

550 West Seventh Avenue, Suite 1560
Anchorage, Alaska 99501-3567
Main: 907.269.7900
Fax: 907.269.7910

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 16-04)
In the Matter of Examination of)
Sunderland Marine Insurance Company – U.S. Branch)

FINDINGS OF FACT

1. A report of examination of Sunderland Marine Insurance Company – 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 – U.S. Branch.

2. The Report of Examination of Sunderland Marine Insurance Company – U.S. Branch (FE 16-04) has been transmitted to Thomas Rutter, CEO of Sunderland Marine Insurance Company – 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 19, 2017.

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

ORDER FE 16-04
COMPANY
As of December 31, 2015

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 she 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 – U.S. Branch (FE 16-04) is approved as filed.

2. Pursuant to AS 21.06.060, the Report of Examination shall be kept in the Office of the Director of the Division of Insurance and be open to public inspection.

This order is effective June 23, 2017.

Dated this 22nd day of June in Anchorage, Alaska.



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

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

FE 16-04

as of December 31, 2015

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

NAIC Company Code: 10838
NAIC Group Code: 00000

PROPOSED REPORT:
April 3, 2017

TABLE OF CONTENTS

Salutation 1
Scope of Examination 1
Summary of Examination Findings 2
 Significant Findings 2
Description of U.S. Branch 2
 U.S. Branch History 2
 Management and Control 2
 Territory and Plan of Operation 3
 Reinsurance 4
Financial Statements 4
 Statement of Assets, Liabilities and Surplus 5
 Statement of Operations 6
 Reconciliation of Surplus - January 1, 2013 – September 30, 2015 7
 Trusted Surplus Statement 8
Analysis of Changes in Financial Statements Resulting from Examination 8
Summary of Actuarial Review 8
Subsequent Events 8
Examination Findings and Recommendations 8
Closing 9
Affidavit 10



THE STATE
of **ALASKA**

GOVERNOR BILL WALKER

Department of Commerce, Community,
and Economic Development

DIVISION OF INSURANCE

550 West Seventh Avenue, Suite 1560
Anchorage, Alaska 99501-3567
Main: 907.269.7900
Fax: 907.269.7910

June 23, 2017

Ms. 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 Insurance Company, Ltd. (U.S. Branch)
100 The Quayside
Newcastle Upon Tyne, UK NE1 3DU

(NAIC CoCode 10838; Group Code 0000)

SCOPE OF EXAMINATION

We have performed the full-scope, single-state examination of Sunderland Marine Insurance Company, Ltd. (U.S. Branch). The examination covered the period of January 1, 2013, through December 31, 2015. Transactions subsequent to the full-scope examination period were reviewed where deemed appropriate. The last examination of the U.S. Branch covered the period from January 1, 2010 through December 31, 2012.

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, assess corporate governance, identify current and prospective risks of the company and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the U.S. Branch were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the U.S. Branch financial statements.

This examination report includes significant findings of fact, as required by AS 21.06.150 and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g. subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the U.S. Branch or its Parent.

SUMMARY OF EXAMINATION FINDINGS

Significant Findings

The examination resulted in no significant findings.

DESCRIPTION OF BRANCH

U.S. Branch History

Sunderland Marine Insurance Company, Ltd., U.S. Branch (“the U.S. 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 Insurance Company, Ltd. (“Parent Company” or “SMIC”) is an alien insurer domiciled in the United Kingdom. The Parent Company is a company limited by guarantee without a share capital. 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.

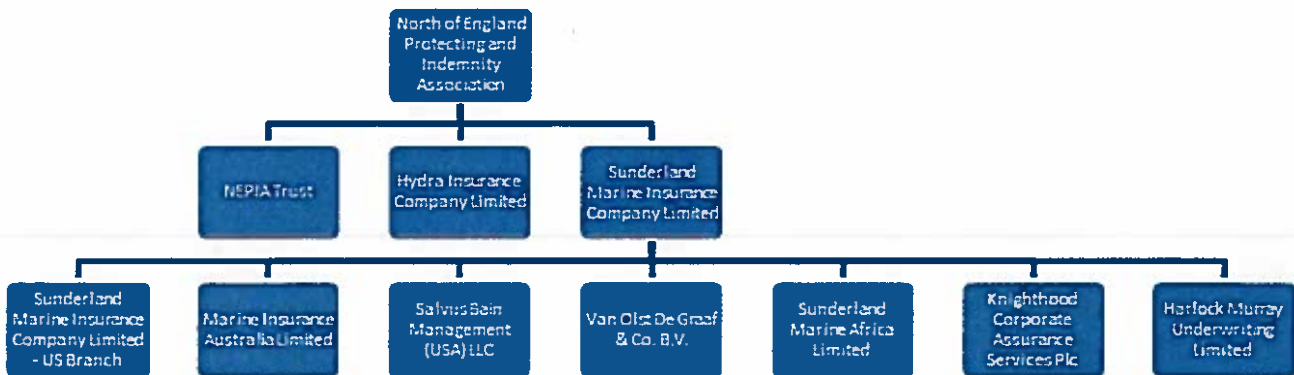
The U.S. Branch was admitted in Alaska on February 23, 1996 and was authorized to write marine, wet marine, transportation, and risks incidental to marine insurance including protection and indemnity (“P&I”). The Parent Company met the requirements of the NAIC International Insurance Department to operate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

In January 2012, the Parent Company and North of England Protecting and Indemnity Association, Ltd. (“NEPIA”) formed 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 and the acquisition was completed. As a result of this acquisition, the Parent Company’s name changed from Sunderland Marine Mutual Insurance Company, Ltd. to Sunderland Marine Insurance Company, Ltd.. NEPIA is the ultimate parent of the Parent Company and the U.S. Branch.

Management and Control

The U.S. Branch is an integral part of SMIC, a registered limited liability company domiciled in the UK, owned solely by NEPIA. The insurance business is written either by SMIC in the UK or its branches in the U.S., Australia, New Zealand, and Canada. The Parent Company also accepts risks through Sunderland Marine, Ltd. (Africa) in South Africa.

Organization Chart



List of Directors, Senior Insurance Managers, and Key Function Holders

Name	Entity	Title
Paul Jennings	North/SMIC	Joint Managing Director
Alan Wilson	North/SMIC	Joint Managing Director
Tom Rutter	SMIC	Chief Executive Officer
Jeff O'Neill	North/SMIC	Global Director (Finance)
Alison Alden	North/SMIC	Group Chief Risk Officer
Pratap Shirke	North/SMIC	North Chairman & Chairman of Group Nominations Committee
Trevor Hart	SMIC	Chairman
Alex Lynch	North/SMIC	Group Risk Committee
Peter Johnson	North/SMIC	Group Audit Committee Chairman
Albert Engelsman	North/SMIC	Group Remuneration Committee Chairman
Sanjiv Chandaria	North/SMIC	Group Chief Actuary
Andrew Taylor	North	Global Director (Claims)
Lee Williamson	North/SMIC	Group Compliance Director

SBM (USA) LLC is a wholly owned subsidiary of the Parent Company and is a producer of business for the U.S. Branch. Harlock Murray Underwriting is a 100% owned subsidiary of SMIC. It has a Managing General Agent license in the State of Alaska and underwrites business on behalf of the U.S. Branch.

Territory and Plan of Operation

The U.S. Branch specializes in marine, wet marine and transportation policies. The U.S. Branch is domiciled in Alaska, and it exclusively wrote Alaska policies before it transferred the bulk of its policies to its parent as part of SMIC's merger with NEPIA.

Reinsurance

In preparation for surrendering the Certificate of Authority of the U.S. Branch in Alaska, the Alaska Division of Insurance approved a bulk transfer of existing policies and claims to SMIC. 11 U.S. Branch policyholders opted out of transferring their policies to SMIC however those policies are reinsured through their ultimate parent, NEPIA.

FINANCIAL STATEMENTS

The following financial statements reflect the statutory financial statements asfiled by the U.S. Branch with the Alaska Division of Insurance and present the financial condition of the company for the period ending December 31, 2015.

FINANCIAL STATEMENTS
STATEMENT OF ASSETS, LIABILITIES AND SURPLUS
 As of December 31, 2015

<u>Assets</u>		Nonadmitted Assets	Net Admitted Assets
Bonds	\$ 7,652,065	\$	\$ 7,652,065
Cash & short-term investments	2,506,486		2,506,486
Investment income due & accrued	21,048		21,048
Uncollected premiums and agents's balances in course of collection	125,140	6,318	118,822
Amounts recoverable from reinsurers	327		327
Escrow claim balances held by agents	115,785		115,785
Total Assets	\$ 10,420,851	\$ 6,318	\$ 10,414,533
 			<u>Total Liabilities</u>
<u>Liabilities</u>			
Losses			\$ 986,179
Loss adjustment expenses			35,504
Taxes, licenses and fees			2,350
Unearned premiums			735,816
Ceded reinsurance premiums payable			304,676
Amounts withheld or retained by company for benefit of others			21,157
Provision for reinsurance			2,592,196
Payable to parent, subsidiaries and affiliates			2,734,875
Total Liabilities			\$ 7,412,753
<u>Surplus</u>			
Unassigned funds (surplus)			3,001,780
Surplus as regards policyholders			\$ 3,001,780
Total Liabilities and Surplus			\$ 10,414,533

FINANCIAL STATEMENTS
STATEMENT OF OPERATIONS
As of December 31, 2015

	<u>Total</u>
<u>Underwriting Income</u>	
Premiums earned	\$ 2,455,060
<u>Deductions</u>	
Losses incurred	\$ 1,623,335
Loss adjustment expenses incurred	100,609
Other underwriting expenses incurred	1,662,253
Total underwriting deductions	\$ 3,386,197
Net underwriting gain or (loss)	\$ (931,137)
<u>Investment Income</u>	
Net investment income earned	\$ 42,441
Net realized capital gains	1,049
Net investment gains or (losses)	\$ 43,490
Net income (loss) before tax	\$ (887,647)
Net Income (Loss)	\$ (887,647)

FINANCIAL STATEMENTS
RECONCILIATION OF SURPLUS
 December 31, 2012 - December 31, 2015

	Statutory Reserve	SURPLUS		TOTAL
		Paid In	Unassigned	
Balance at December 31, 2012	\$ 0	\$ 0	\$ 4,265,399	\$ 4,265,399
Net income – 2013			(430,518)	(430,518)
Change in nonadmitted assets			52,066	52,066
Change in provision for reinsurance			(1,480,548)	(1,480,548)
Net remittances from or (to) home office			1,240,913	1,240,913
Balance at December 31, 2013	\$ 0	\$ 0	\$ 3,647,312	\$ 3,647,312
Net income – 2014			574,806	574,806
Change in net deferred income tax			(58,358)	(58,358)
Change in nonadmitted assets			1,617	1,617
Change in provision for reinsurance			(597,687)	(597,687)
Surplus adjustment: Transferred from capital			295,358	295,358
Net remittance from or (to) home office			365,492	365,492
Initial deferred tax in surplus			155,827	155,827
Balance at December 31, 2014	\$ 0	\$ 0	\$ 4,384,367	\$ 4,384,367
Net income – 2015			(887,647)	(887,647)
Change in net deferred income tax			(97,469)	(97,469)
Change in nonadmitted assets			31,666	31,666
Change in provision for reinsurance			906,342	906,342
Net remittances from or (to) home office			(1,335,479)	(1,335,479)
Balance at December 31, 2015	\$ 0	\$ 0	\$ 3,001,780	\$ 3,001,780

FINANCIAL STATEMENTS
TRUSTEED SURPLUS STATEMENT
As of December 31, 2015

Deposits with United States trustee:

	<u>Admitted Asset Value</u>	<u>Par Value</u>	<u>Fair Value</u>
Cash	\$ 68,368	\$ 68,368	\$ 68,368
Bonds	\$ 9,733,963	\$ 9,735,153	\$ 9,716,139
Accrued Investment Income	\$ 21,048	\$ -	\$ -
Totals	<u>\$ 9,823,379</u>	<u>\$ 9,803,521</u>	<u>\$ 9,784,507</u>

ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS
RESULTING FROM THE EXAMINATION

No adjustments to the financial statements filed as of December 31, 2015 were made as a result of the examination.

SUMMARY OF ACTUARIAL REVIEW

The actuarial opinion and supporting documents were initially prepared by the independent appointed actuary, Thomas S. McIntyre of KMPG, LLP. In 2016 the Branch identified an issue wherein the locations of some risks were not properly recorded. An amended Statement of Actuarial Opinion completed by Michael J. Bradley of KPMG, LLP on October 27, 2017 was issued reflecting the proper categorization of risk. The contract actuary on behalf of the Division reviewed both the original and amended filings and independently calculated the reserve balances and found them to be within a reasonable range.

SUBSEQUENT EVENTS

After the 2015 Annual Statement was filed an error related to the tagging of risks was found. The Branch auditors and the Division agreed the statements did not need to be refiled to correct this error. The error resulted in a net decrease in Policyholder's Surplus of \$390,509 for year-end 2015.

On February 20, 2016 The Branch obtained approval from the Alaska Division of Insurance for the transfer of the majority of their policies to Sunderland Marine Insurance Company – UK Branch as part of the process to surrender their Certificate of Authority.

EXAMINATION FINDINGS AND RECOMMENDATIONS

The examination resulted in no findings.

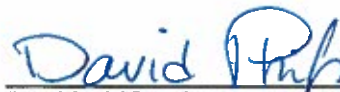
CLOSING

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 contract examiners from Risk and Regulatory Consulting participated in the examination: Managing Director Cathie A. Stewart, CFE, Senior Manager Darin D. Benck, CFE, IT Specialist Thomas Hayden, CISA, AES, and Actuarial Examiners Debbie Rosenberg, FCAS, MAAA, and Lisa Chanzit, FCAS, MAAA.

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

This report is respectfully submitted,



David Phifer, CFE
Examiner-in-Charge



Maxine L. Froemling, CFE
Chief Financial Examiner

AFFIDAVIT

Anchorage, Alaska)
June 23, 2017)
STATE OF ALASKA)
THIRD JUDICIAL DISTRICT)

We, the undersigned, being duly sworn, do verify that the report of examination as of December 31, 2015, of Sunderland Marine Insurance Company, Ltd. (U.S. Branch), an Alaska domiciled company holding Certificate of Authority D-8440, is true to the best of our knowledge and belief.

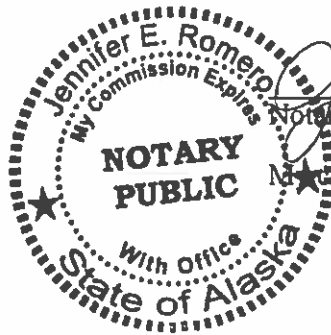
David Phifer

David Phifer, CFE
Examiner-in-Charge

Maxine Froemling

Maxine L. Froemling, CFE
Chief Financial Examiner

Subscribed and sworn to before me this 23rd day of June, 2017.



Jennifer E Romero
Notary Public for the State of Alaska

My Commission expires: With Office