

Statutory Financial Examination of
SUNDERLAND MARINE MUTUAL INSURANCE COMPANY
US BRANCH

#FE 07-03

as of December 31, 2006

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

NAIC Company Code: 10838
NAIC Group Code: 000

FINAL REPORT:
July 28, 2008

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2
3 CERTIFIED MAIL
RETURN RECEIPT REQUESTED

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5 STATE OF ALASKA
6 DEPARTMENT OF COMMERCE, COMMUNITY AND
7 ECONOMIC DEVELOPMENT
8 DIVISION OF INSURANCE
9 550 WEST 7TH AVENUE, SUITE 1560
10 ANCHORAGE, AK 99501-3567

11 Order #FE 07-03)
12 In the Matter of Examination of)
13 Sunderland Marine Mutual Insurance)
14 Company, US Branch)

15 FINDINGS OF FACT

16 1. A report of examination of Sunderland Marine Mutual Insurance Company,
17 US Branch, domiciled in the State of Alaska, has been issued by the State of Alaska,
18 Division of Insurance.

19 2. The Report of Examination of Sunderland Marine Mutual Insurance Company,
20 US Branch (#FE 07-03) has been transmitted to Mr. Geoffrey Parkinson, Chief Executive
21 Officer, Sunderland Marine Mutual Insurance Company, US Branch (Examinee), and
22 Examinee has been accorded at least 30 days opportunity to review and comment on this
23 Report of Examination. The Company accepted the proposed report without comment.

24 3. The Director of the Division of Insurance has fully considered and reviewed
25 the report and any relevant portions of the examiner's work papers to the extent she
26 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 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).

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

IT IS ORDERED


1. Pursuant to AS 21.06.150(b)(1), the Report of Examination of Sunderland Marine Mutual Insurance Company, US Branch (#FE 07-03) 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.

3. The Examinee will implement all recommendations within a reasonable amount of time but no later than one year from the issue date of this examination report, unless otherwise recommended in the Report of Examination. Failure to implement compliance recommendations may result in action against the Examinee for violation of this order.

This order is effective July 28th, 2008.

Dated this 26th day of July, 2008 at Anchorage, Alaska.


Linda S. Hall, Director
State of Alaska
Division of Insurance

Sunderland Marine Mutual Insurance
Company, Ltd. – US Branch
As of December 31, 2006
FE #07-03

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STATE OF ALASKA
DEPARTMENT OF
COMMERCE
COMMUNITY AND
ECONOMIC DEVELOPMENT

Division of Insurance

Sarah Palin, Governor
Emil Notti, Commissioner
Linda S. Hall, Director

June 13, 2008

Ms. Linda S. Hall, 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 Hall:

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, US Branch
Salvus House
Aykley Heads, Durham UK DH1 5TS

(NAIC CoCode 10838; Group Code 000)

SCOPE OF EXAMINATION

This examination was conducted in accordance with the provisions of Alaska Statute (AS) 21.06.120 and covers the period from January 1, 2004 to December 31, 2006. Transactions subsequent to this period were reviewed where deemed appropriate. The prior examination covered the three year period from January 1, 2001 through December 31, 2003.

The examination followed standards established by the National Association of Insurance Commissioners (NAIC) as set forth in the Examiner's Handbook and the rules, regulations and directives of the Division of Insurance, State of Alaska. The work papers of independent certified public accountants, KPMG, LLP, were reviewed and relied upon where deemed appropriate.

Assets were evaluated as to quality and value and balances verified. Liabilities were analyzed to determine their affect on the financial solvency of the US Branch as of December 31, 2006. The examination included a review of the corporate records and other selected records deemed pertinent to the US Branch, its operations and practices.

In this examination report, amounts given in British Pounds or GBP are converted to U.S. Dollars at the rate of 1.95910 at December 31, 2006.

Sunderland Marine Mutual Insurance
Company, Ltd. – US Branch
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DESCRIPTION OF COMPANY

Company History

Sunderland Marine Mutual Insurance Company, US 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 US Branch, referred to as the Company, 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 is currently listed in the NAIC Quarterly List of Alien Insurers and continues to meet the requirements of the NAIC.

Management and Control

The Parent Company is a mutual insurer domiciled in the United Kingdom and operated by a board of directors elected by its policyholders.

Salvus Bain Mangement Ltd.(SBM) is incorporated under the laws of the United Kingdom and acts under an exclusive contract as managers of the Parent Company. SBM became a wholly-owned subsidiary of Sunderland Marine Mutual Insurance Company Ltd. on July 3, 2006 when the Parent Company acquired the remaining 55 percent of the stock outstanding.

Affiliated Companies

US Branch business is generated by two SBM affiliates, SBM USA and Harlock Murray Underwriters (HMU). SBM USA is a wholly-owned subsidiary of the Parent Company. It handles most of the US Branch's premium and claim transactions.

HMU is 50 percent owned by SBM. The Parent Company appointed Harlock Williams Lemon in Vancouver, B.C., Canada, now known as HMU, as its managing general agent in 2001. In 2006, premiums written by HMU represented approximately ten percent of the US Branch's gross premiums.

Corporate Records

The records of the US Branch are maintained at the offices of the Parent Company located at Salvus House, Aykley Heads, Durham, UK DH1 5TS. 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 Company's attorneys Farley & Graves, 807 G Street, Suite 250, Anchorage, Alaska, 99501.

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Fidelity Bond and Other Insurance

The US Branch does not have employees because all of the day-to-day operations are conducted by Salvus Bain. No fidelity bond coverage is held by the US Branch or by the Parent Company.

Directors and officers' liability coverage is maintained through the Parent Company. Policy limit in 2006 is 10,000,000 GBP (\$19,591,000) with a 50,000 GBP (\$97,955) retention. Employees are covered by professional indemnity insurance with a limit per occurrence of 6,500,000 GBP (\$12,734,100). The policy is maintained through SBM and has a 100,000 GBP (\$195,910) deductible.

Officers', Employees' and Agents' Welfare and Pension Plans

The US Branch has no employees. SBM, the Parent Company's management subsidiary, is responsible for personnel and pension plans.

Territory and Plan of Operation

The Company specializes in marine, wet marine and transportation policies. As a US Branch, the Company is admitted and operates only in the State of Alaska.

Growth of the Company

Prior to January 1, 2004, the US Branch's financial statements included business transacted throughout the United States. Current financial statements are limited to the business of the US Branch in Alaska. Declines in assets, liabilities and surplus from 2003 to 2004 are attributable to this change in financial reporting. Results of the Company's operations between 2003 and 2006 are shown in the following exhibit.

Year	Admitted Assets	Liabilities	Surplus
2003	45,422,159	35,872,481	9,549,678
2004	17,115,125	8,056,128	9,058,998
2005	14,260,285	7,477,901	6,782,384
2006	11,671,356	3,221,620	8,449,736

Business Written By State

Policies are only written in the State of Alaska.

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 Company, Ltd. – US Branch
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Loss Experience

The following schedule shows the loss experience of the company during the period of examination.

Year	Premiums Earned	Losses Incurred	Percent of Premiums Earned	Loss Expenses Incurred	Percent of Premiums Earned
2004	5,720,645	2,481,442	43.4	80,053	1.4
2005	5,087,239	2,688,283	52.8	73,021	1.4
2006	2,680,482	1,264,002	47.2	38,985	1.5

The decline in premiums earned and losses incurred between 2005 and 2006 resulted from the delineation of HMU's Alaska premiums from HMU's other U.S. premiums.

Reinsurance

The US Branch is covered by excess of loss reinsurance contracts of the Parent Company and a reinsurance pool of quota share coverage managed by HMU. Reinsurance coverage through the Parent Company is placed by reinsurance intermediary Price Forbes, Ltd.

Liability

Reinsurance coverage on liability risks starts with retention by the Company of the first 250,000 GBP (\$489,775) of each accident or occurrence. First layer, excess of loss policy pays the next 750,000 GBP (\$1,469,325) in excess of 250,000 GBP (\$489,775) to a limit of \$2 million. The second reinsurance layer pays to \$8 million excess of \$2 million per event per vessel. The last layer pays up to \$90 million.

The first layer of liability coverage is subject to a Parent Company annual aggregate deductible of 1,500,000 GBP (\$2,938,650).

Hull

Reinsurance coverage on hull risks starts with retention by the Company of the first 250,000 GBP (\$489,775) of each accident or occurrence. The first layer pays the next 750,000 GBP (\$1,469,325) each loss for hull risks. The second layer pays to a limit of 11 million GBP (\$21,550,000) to the sum insured of each vessel.

The hull reinsurance for the Parent Company covers excess of 1,000,000 GBP (\$1,959,100) and this coverage is unlimited.

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 (20 percent) and Sovereign General (40 percent). Maximum pool retention for hull coverage is \$1,500,000 per vessel. Maximum pool retention for protection and indemnity coverage is \$500,000 per occurrence.

Accounts and Records

The Company'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, 2006, was agreed to the Annual Statement and the Parent Company's general ledger. Records are maintained electronically at the Durham office and at the Vancouver and Seattle offices.

SUMMARY OF ACTUARIAL REVIEW

As of December 1, 2006, Sunderland Marine Mutual Insurance Company, Limited-US Branch held \$1,673,235 in gross reserves and \$1,570,178 in net reserves. The division actuary reviewed the reserves using data provided by the Company and held discussions with the insurer's staff as deemed necessary. She also reviewed the KPMG LLP actuarial report that supports the 2006 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 that the Company's overall reserve position is within a reasonable range of acceptable reserve estimates and should be accepted as stated.

COMPLIANCE WITH RECOMMENDATIONS IN PRIOR REPORT OF EXAMINATION

During the examination the following recommendations in the prior report of examination were found to have been implemented or the issue was no longer present:

- Prior Finding 1 – Inaccurate Cash Balance on Financial Statement
- Prior Finding 2 – Unlicensed Reinsurance Intermediary
- Prior Finding 3 – Financial Disclosures Regarding Affiliate Transactions
- Prior Finding 4 – Retroactive Reinsurance – Swiss Re US
- Prior Finding 6 – Detailed Composition of Data Cells
- Prior Finding 9 – Trusteed Asset Agreement
- Prior Finding 10 – Claim File Payment Records
- Prior Finding 11 – Reinsurance Contracts Missing Required Clauses
- Prior Finding 13 – Schedule P Interrogatories
- Prior Finding 14 – Unlicensed Managing General Agent
- Prior Finding 15 – Authorized and Unauthorized Reinsurers
- Prior Finding 16 – Unwritten Reinsurance Agreement
- Prior Finding 17 – Unwritten Reinsurance Intermediary Agreement

The following prior findings were not found to be resolved during the current examination:

Prior Finding 5 – Written Broker Agreements and Contingent Commissions

As noted in the two prior examination reports, the Company does not have signed, written agreements with all of its brokers. Commissions are calculated based upon an agreed-upon formula and both parties approve the commission prior to payment. A contract has been drafted that the Company proposes to use, but it has not been executed. Further, a single source of information regarding this process was not available within the Company. Information from various sources was reviewed to obtain an understanding of this process.

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Prior Recommendation: It is recommended that arrangements and agreed upon compensation formulas be documented in a written agreement that is signed by both parties prior to any activity under those agreements.

Current Status: The Company's arrangements with brokers and agreed upon compensation formulas are not put in writing and signed by both parties prior to any activity under those agreements. See Current Findings 5, 8.

Prior Finding 7 – Notice of Policy Premium Renewals

The Company's underwriting procedures state a review of the claims/premium/loss ratio information is produced and assessed approximately 30 days prior to the renewal date. Upon conclusion of this assessment, the Company determines if the policy is to be renewed and/or if alterations in the individual terms of the policy are required.

This procedure would not allow the Company adequate time to provide notice of material alterations in the policy at least 45 days prior to the anniversary date of a commercial or business policy as required under AS 21.36.235.

Prior Recommendation: It is recommended that the Company amend its procedures for policy renewal to ensure compliance with AS 21.36.235.

Current Status: The Company has not amended its procedures for renewals. Current procedures continue to require policy assessment for material changes to a policy 30 days prior to renewal. See Current Finding 9.

Prior Finding 8 – Notice of Nonrenewal

As noted in Finding 7 above, the Company's underwriting procedures do not allow sufficient time to review necessary policy information to enable it to comply with AS 21.36.240. This statute requires the Company to provide notice of nonrenewal at least 45 days prior to the anniversary date of a commercial or business policy. Procedures were not modified as recommended at the prior examination.

Prior Recommendation: It is recommended that the Company amend its procedures for nonrenewal to ensure compliance with AS 21.36.240.

Current Status: The Company has not amended its procedures for renewals. Current procedures continue to require policy assessment for renewal 30 days prior to the expiration date. See Current Finding 9.

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Prior Finding 12 – Mutual Policyholder Rights of Membership

Sample policies reviewed did not state, “each policyholder of a domestic mutual insurer, is a member of the insurer with all rights and obligations of the membership” as required by AS 21.69.280.

Prior Recommendation: Policies need to state that each policyholder is a member of the insurer.

Current Status: Policies remain in noncompliance with Alaska Statutes. See Current Finding 10.

Sunderland Marine Mutual Insurance
Company, Ltd. – US Branch
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FINANCIAL STATEMENTS

The following pages contain statutory financial statements for the US Branch as of December 31, 2006 as reported to the division and as determined by the examiners.

Sunderland Marine Mutual Insurance
 Company, Ltd. – US Branch
 As of December 31, 2006
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FINANCIAL STATEMENTS
STATEMENT OF ASSETS, LIABILITIES AND SURPLUS
 As of December 31, 2006

	<u>As Reported</u>	<u>Adjustments</u>	Finding No.	<u>As Adjusted</u>
Assets				
Bonds	\$ 10,312,270			\$ 10,312,270
Cash & short term investments	1,094,115			1,094,115
Investment income due and accrued	65,079			65,079
Premiums and agents' balances in course of collection	121,376	(102,451)	2	18,925
Deferred premiums, agents' balances and installments booked but deferred	18,925	102,451	2	121,376
Aggregate write-ins for other than invested assets	59,591			59,591
	<hr/>	<hr/>		<hr/>
Total Admitted Assets	<u>\$ 11,671,356</u>	<u>\$ 0</u>		<u>\$ 11,671,356</u>
 <u>Liabilities, Surplus and Other Funds</u>				
<u>Liabilities</u>				
Losses	\$ 1,570,376			\$ 1,570,376
Commissions payable	3,439			3,439
Other expenses	228,359			228,359
Taxes, licenses and fees	235,506			235,506
Unearned premiums	883,776			883,776
Amounts withheld or retained for accounts of others	65,585			65,585
Provision for reinsurance	199,000	75,000	7	274,000
Payable to parent, subsidiaries and affiliates	35,579			35,579
	<hr/>	<hr/>		<hr/>
Total Liabilities	<u>\$ 3,221,620</u>	<u>\$ 75,000</u>		<u>\$ 3,296,620</u>
 Surplus				
Unassigned funds (surplus)	8,449,736	(75,000)		8,374,736
	<hr/>	<hr/>		<hr/>
Surplus as regards policyholders	<u>\$ 8,449,736</u>	<u>\$ (75,000)</u>		<u>\$ 8,374,736</u>
	<hr/>	<hr/>		<hr/>
Total Liabilities and Surplus	<u>\$ 11,671,356</u>	<u>\$ 0</u>		<u>\$ 11,671,356</u>

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 Company, Ltd. – US Branch
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FINANCIAL STATEMENTS
STATEMENT OF UNDERWRITING AND INVESTMENT
 as of December 31, 2006

	<u>As Amended</u>	<u>Examination Adjustments</u>	<u>Finding Number</u>	<u>As Adjusted</u>
Underwriting Income				
<u>Revenue</u>				
Premiums earned	\$ 2,680,482			\$ 2,680,482
Total Revenue	<u>\$ 2,680,482</u>			<u>\$ 2,680,482</u>
<u>Deductions</u>				
Losses incurred	\$ 1,264,002			\$ 1,264,002
Loss expenses incurred	38,985			38,985
Other underwriting expenses	697,254			697,254
Aggregate write-ins for underwriting deductions	273,410			273,410
Total underwriting deductions	<u>\$ 2,273,651</u>			<u>\$ 2,273,651</u>
Net underwriting gain or loss	<u>\$ 406,831</u>			<u>\$ 406,831</u>
<u>Investment Income</u>				
Net investment income earned	\$ 514,855			514,855
Net realized capital gains or (losses)	(147,411)			(147,411)
Net investment gain or (loss)	<u>\$ 367,444</u>			<u>\$ 367,444</u>
Federal and foreign income taxes	<u>(222,849)</u>			<u>(222,849)</u>
Net Income (Loss)	<u>\$ 551,426</u>			<u>\$ 551,426</u>
<u>Capital and Surplus Account</u>				
Surplus, December 31, prior year	<u>\$ 6,782,384</u>			<u>\$ 6,782,384</u>
<u>Gains and (Losses) in Surplus</u>				
Net income (loss)	\$ 551,426			\$ 551,426
Change in non-admitted assets	77,889			77,889
Change in provision for reinsurance	15,000	(75,000)	7	(60,000)
Net remittances from home office	1,023,037			1,023,037
Change in surplus as regards policyholders for the year	<u>\$ 1,667,352</u>	<u>\$ (75,000)</u>		<u>\$ 1,592,352</u>
Surplus for the period ended December 31, 2006	<u>\$ 8,449,736</u>	<u>\$ (75,000)</u>		<u>\$ 8,374,736</u>

Sunderland Marine Mutual Insurance
 Company, Ltd. – US Branch
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FINANCIAL STATEMENTS
STATEMENT OF CAPITAL AND SURPLUS ACCOUNT
 As of December 31, 2006 (as adjusted)

	Allocated to Policy Holders	SURPLUS		TOTAL
		Paid-In	Unassigned	
Balance at December 31, 2003	\$ 0	\$ 0 *	\$ 9,549,672	\$ 9,549,672
Net income – 2004			796,804	796,804
Change in nonadmitted assets			53,501	53,501
Change in provisions for reinsurance			(611,000)	(611,000)
Net remittance from home office			(729,981)	(729,981)
Balance at December 31, 2004	\$ 0	\$ 0	\$ 9,058,996	\$ 9,058,996
Net income – 2005			304,701	304,701
Change in nonadmitted assets			(75,456)	(75,456)
Change in provisions for reinsurance			(217,000)	(217,000)
Net remittance from home office			(2,288,857)	(2,288,857)
Balance at December 31, 2005	\$ 0	\$ 0	\$ 6,782,384	\$ 6,782,384
Net income – 2006			551,426	551,426
Change in nonadmitted assets			77,889	77,889
Change in provisions for reinsurance			(60,000)	(60,000)
Net remittance from home office			1,023,037	1,023,037
Balance at December 31, 2006 (As adjusted)	\$ 0	\$ 0	\$ 8,374,736	\$ 8,374,736

* Post 2003 examination surplus was reduced to \$140,344 due to adjustments of (\$8,997,328) to cash, (\$396,000) to net income, and (\$16,000) to the provision for reinsurance.

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

An examination adjustment to the provision for reinsurance resulted in a \$75,000 increase to liabilities and an equal decrease in surplus. An asset reclassification occurred to record an additional \$102,451 as deferred premiums. No other changes to the Company's financial statements were made as a result of this examination.

FINDINGS AND RECOMMENDATIONS

Finding 1 – Intercompany Settlement of Cash Receipts and Disbursements

All daily cash receipt and disbursements applicable to Company operations are executed through the Parent Company's US bank account. Funds are then transferred to the Company's Bank of America cash account through an intercompany settlement. This one time settlement in 2006 occurred on December 22. As a result, receipts and disbursements transacted on behalf of the Company are not easily traced since they occur within the parent's operations.

Recommendation: It is recommended that intercompany settlements of cash receipts and disbursements applicable to the Company's operations be executed through a US Branch account at least quarterly to provide documentation and support for interim financial statements.

Finding 2 – Properly Classifying Agent's Balances

Upon reviewing documentation provided by the Company for agent's balances, it was noted that the amounts were not properly classified on the correct lines of the Annual Statement in accordance with the NAIC Annual Statement Instructions.

The amount of \$121,376 reported by the Company on Annual Statement, page 2 line 13.1, represents future installments and should be reported on line 13.2. The amount of \$18,925 reported on line 13.2 represents written premium due on three policies that were issued but not booked into the Company's computer system. This balance should have been reported on line 13.1 since it did not represent future installments due. The adjustment to correct these two classification errors totals \$102,451.

Recommendation: It is recommended that the Company report accrued premiums on Annual Statement, page 2, line 13.1, and premiums for future installments on line 13.2 in accordance with the NAIC Annual Statement instructions manual.

Finding 3 – Reporting Premium Receivable on a Policy Basis

While the Company closely monitors its agents' balances and premium installments, internal reporting is by account current from the agents for all states in the U.S. A policy-by-policy detail of the US Branch agent's balances and premium installments were not available.

Receivables over 90 days past due were properly listed as nonadmitted.

Recommendation: It is recommended the Company be able to account for its agents' balances of Alaska business on a policy-by-policy basis.

Finding 4 – Retroactive Reinsurance

A reinsurance agreement with Sovereign General Insurance Company does not comply with SSAP No.62, paragraph 23. That section states that if an agreement has not been finalized, reduced to written form, and signed by the parties within nine months after the commencement of the policy period covered by the reinsurance arrangement, then the arrangement is presumed to be retroactive and shall be accounted for as a retroactive arrangement. The reinsurance agreements with Sovereign General were entered into on January 1, 2003 and were not signed until April 26, 2006 by SMMI and March 1, 2007 by Sovereign General. Although SMMI made repeated attempts to finalize the agreement, Sovereign General delayed signing the agreement for ten months.

The lack of a signed reinsurance agreement requires retrospective accounting of reinsurance transactions. The change from prospective reinsurance accounting to retroactive reinsurance accounting should be recorded as a segregation in ceded reinsurance loss reserve and segregation of surplus as required by SSAP 62.

Recommendation: It is recommended reinsurance contracts be signed within nine months of commencement of the policy period as required by SSAP No. 62 in order to use prospective reinsurance accounting methods.

Finding 5 – Formal Managing General Agent Agreement

The Company sent a draft Management Agreement between SMMI and HMU to the division for approval. Approval was given on September 5, 2006. However, the Parent Company and HMU did not sign the agreement. Alaska Statute 21.27.620(a)(3) requires a written contract be in effect between the parties that establishes the responsibilities of each party, indicates both party's share of responsibility for a particular function and specifies the division of responsibilities.

Recommendation: It is recommended that a statutorily compliant written management agreement between the Parent Company and HMU be formalized pursuant to AS 21.27.620(a)(3). The management agreement approved in 2006 was submitted to the Division as a signed document on June 3, 2008. See Prior Finding 5.

Finding 6 – Reporting of Unpaid Loss Adjustment Expenses

The Company does not record unpaid loss adjustment expenses (LAE) separate from losses. The reserves reported on (page 3, line 1) the 2006 Annual Statement include both loss and LAE as one liability. As a result, it was determined that the Company was not in compliance with the NAIC Accounting Practices and Procedures Manual (SSAP 55, paragraph 5) or the NAIC Annual Statement Instructions.

Recommendation: It is recommended that SMMI begin reporting unpaid loss adjustment expenses separately from unpaid losses. Expenses relating to defense and cost containment or adjusting and other payments are LAE expenses.

Finding 7 – Reinsurance Contracts Missing Required Clauses

The Company's contracts with Underwriters at Lloyds London and Swiss Re USA do not include clauses required by AS 21.12.020(g) and 3 AAC 21.635(a)(1) and (4). Regulations disallow credit to a domestic ceding insurer unless the reinsurance contract provides for payment by the assuming insurer on the basis of the liability of the ceding domestic insurer under the insurance contracts reinsured without diminution because of the insolvency of the ceding domestic insurer. The insolvency clause is absent from the Lloyd's of London contracts. The Company's contracts with Swiss Re USA and Lloyd's are also missing the entire contract clause. Regulation 3 AAC 21.635(a)(4) requires that a reinsurance contract state that the agreement constitutes "the entire contract between the parties with respect to the insurance being reinsured and that there are no understandings or agreements between the parties other than those expressed in these documents."

The financial statement in this examination has been adjusted to remove reinsurance credit of \$75,000.

Recommendation: It is recommended that the Company amend existing reinsurance agreements and include in future agreements language to comply with AS 21.12.020 and 3 AAC 21.635.

Finding 8 – Written Broker Agreements and Contingent Commissions

As noted in the prior examination report, the Company does not have signed, written commission agreements with all of its brokers. Commissions are calculated based upon an agreed-upon formula and both parties approve the commission prior to payment. Refer to Prior Finding 5.

Recommendation: It is recommended that all broker arrangements and agreed upon compensation formulas be documented in a written agreement that is signed by both parties prior to any activity under those agreements. Furthermore, it is recommended that understanding and control of the commission payment process be consolidated into one area of the Company.

Finding 9 – Notice of Nonrenewal and Policy Premium Renewals

The Company's underwriting procedures state a review of the claims/premium/loss ratio information is produced and assessed approximately 30 days prior to the renewal date. Upon conclusion of this assessment, the Company determines if the policy is to be renewed and/or if alterations in the individual terms of the policy are required.

This procedure would not allow the Company adequate time to provide notice of material alterations in the policy at least 45 days prior to the anniversary date of a commercial or business policy as required under AS 21.36.235(2). Refer to Prior Finding 7.

As noted above, the Company's underwriting procedures do not allow sufficient time to review policy information and to comply with AS 21.36.240. This statute requires the Company to provide notice of nonrenewal at least 45 days prior to the anniversary date of a commercial or business policy. Refer to Prior Finding 8.

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Recommendation: It is recommended that the Company amend its procedures for nonrenewal to ensure compliance with AS 21.36.240(2) and amend its procedures for policy renewal to ensure compliance with AS 21.36.235.

Finding 10– Mutual Policyholder Rights of Membership

Sample policies reviewed did not state that, “each policyholder of a domestic mutual insurer is a member of the insurer with all rights and obligations of the membership” as required by AS 21.69.280. Refer to Prior Finding 12.

Recommendation: It is recommended that policies be revised to state that each policyholder is a member of the insurer as stated in AS 21.69.280.

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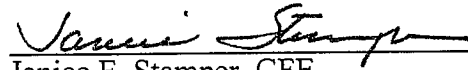
CLOSING

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.

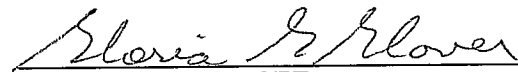
In addition to the undersigned, the following examiners participated in the examination: Actuary Sarah McNair-Grove, FCAS, MCAA and Insurance Financial Examiner Douglas Hartman, AFE, all of the Division of Insurance and Supervisory Contractor Donald Hollier, CFE and Contractor James Perkins, CFE of INS Regulatory Services.

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, US Branch during the course of this examination.

This report is respectfully submitted,



Janice E. Stamper, CFE
Examiner-in-Charge



Gloria G. Glover, CFE
Chief Financial Examiner

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AFFIDAVIT

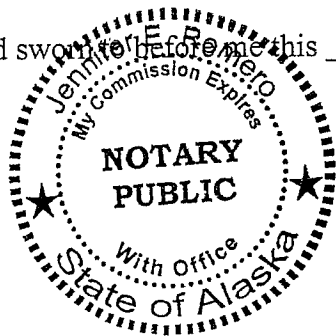
Anchorage, Alaska)
June 13, 2008)
STATE OF ALASKA)
THIRD JUDICIAL DISTRICT)

We, the undersigned, being duly sworn, do verify that the report of examination as of December 31, 2006, of Sunderland Marine Mutual Insurance Company, US Branch an Alaska domiciled company holding Certificate of Authority #D-8440, is true to the best of our knowledge and belief.

Janice E. Stamper
Janice E. Stamper, CFE
Examiner-in-Charge

Gloria G. Glover
Gloria G. Glover, CFE
Chief Financial Examiner

Subscribed and sworn to before me this 13 day of June, 2008.



Jennifer E. Romero
Notary Public for the State of Alaska
My commission expires: with office