

**REPORT ON EXAMINATION AS TO THE CONDITION OF  
ASSOCIATED AVIATION UNDERWRITERS**

**MORRIS PLAINS, NEW JERSEY 07950**

**AT DECEMBER 31, 2023**

**NAIC ALIEN NUMBER: AA-9995013**

**FILED**

**JUN 11 2025**

**COMMISSIONER  
NJ DEPT OF BANKING & INSURANCE**

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PHIL MURPHY  
*Governor*

**State of New Jersey**  
DEPARTMENT OF BANKING AND INSURANCE  
OFFICE OF SOLVENCY REGULATION

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May 30, 2025

Honorable Justin Zimmerman  
Commissioner of Banking and Insurance  
Department of Banking and Insurance  
State of New Jersey  
20 West State Street  
P.O. Box 325  
Trenton, New Jersey 08625

Commissioner:

In accordance with the authority vested in you by the Revised Statutes of New Jersey, an examination has been made of the assets and liabilities, method of conducting business and other affairs of the:

**Associated Aviation Underwriters  
115 Tabor Road, Suite 3A  
Morris Plains, NJ 07950  
NAIC Alien Number AA-9995013  
Examination Warrant 1**

a Joint Underwriting Association authorized to transact business in the State of New Jersey, and hereafter referred to in this report as "AAU" or "Pool."

## **SCOPE OF EXAMINATION**

This statutory examination was called by the Commissioner of the New Jersey Department of Banking and Insurance (hereafter "Commissioner," "NJDOBI" or "Department") pursuant to the authority granted by N.J.S.A. 17:29AA-23.

The examination focused on the evaluation of the business, affairs, and operations of the Pool in accordance with N.J.S.A. 17:29A-31. The examination covered the five-year period from December 31, 2018, the date of the last examination, to December 31, 2023, and was guided by the regulatory provisions of N.J.S.A. 17:29A-30-32 (Joint Underwriting), N.J.S.A. 17:29AA (Commercial Insurance Deregulation Act of 1982), and N.J.S.A. 17:30B (Joint Underwriting Association Act). The examination also followed certain procedures formulated by the National Association of Insurance Commissioners ("NAIC") as permitted by the Department. In conducting the examination, examiners leveraged off some of the audit work prepared by **Forvis Mazars, LLP ("FML")**, the Pool's manager's independent certified public accountants.

Only significant findings of fact, statutory deviations and general information about the Pool are included in this examination report. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information), are not included but which were separately communicated internally to other regulators and/or the Pool's manager.

## **COMPLIANCE WITH PRIOR EXAMINATION REPORT RECOMMENDATIONS**

In the prior examination report dated December 31, 2018, the following recommendation was made:

### **Conflict of Interest**

It was recommended that AAU's manager obtain and review all conflict-of-interest questionnaires from their employees on an annual basis.

Examination review indicated that the AAU's manager has complied with the recommendation.

## **HISTORY AND KIND OF BUSINESS**

The Pool was formed on December 4, 1928, as an unincorporated insurance association managed by Chubb & Son (Chubb) and the Marine Office of America Corporation as equal principals, each representing groups of insurance companies who are the member companies. The Pool was created by the Hull and Casualty Aviation Insurance Agreement through which the principals control the major operating policies of AAU. The agreement provides for the allocation of income, losses, and expenses to the member companies. The purpose of AAU, as defined in the agreement, is to maintain and operate in common an Aviation Department to transact all forms of aviation insurance anywhere in the world.

On January 1, 1994, the member companies of the Pool signed a New Hull and Casualty Aviation Insurance Agreement which changed the Pool's structure and governance, appointed a new manager, **Association Aviation Underwriters, Inc. ("AAU, Inc.")**, and revised certain agreements under which the Pool had been organized.

Key provisions of this agreement include the following:

- All policies or contracts of insurance are issued on a several and not joint basis (thus each voluntary member company is only responsible for its participation in the pool regardless of the default of fellow member companies).
- AAU, Inc. shall conduct the administration, operation, and management of the Pool's business. The member companies shall pay all expenses incurred by the AAU, Inc. In addition, the member companies agree to pay AAU, Inc. an administrative fee and a profit commission (if applicable).
- AAU, Inc. shall also manage all business generated by the pool prior to January 1, 1994.

As indicated above in the New Hull and Casualty Aviation Insurance Agreement and as designated in a Power of Attorney each member company is liable only for its share of participation in the Pool. In the event of an insolvency of a fellow member, none of the remaining members would be responsible for the insolvent member's share of the loss. However, loss adjustment expense payments are reallocated among members in accordance with each member's proportional share so that loss adjustment expenses are fully paid. The following members are in liquidation and have been participating members on certain years of this new agreement as indicated below:

<u>Member Company</u>	<u>Participation Years</u>	<u>Liquidation Date</u>
American Motorist Insurance Company	1994	May 10, 2013
Centennial Insurance Company	1994 through 2000	April 27, 2011
Lumbermens Mutual Casualty Company	1995 through 2000	May 10, 2013
Arrowood Indemnity Company	1994 through 1997	November 8, 2023

AAU, Inc. was appointed to administer, operate, and manage the New Hull and Casualty Aviation Insurance Agreement under an Aviation Insurance Management Agreement dated January 1, 1999. This agreement authorizes AAU, Inc. to act on behalf of the member companies subject to the authority designated in the New Hull and Casualty Aviation Insurance Agreement.

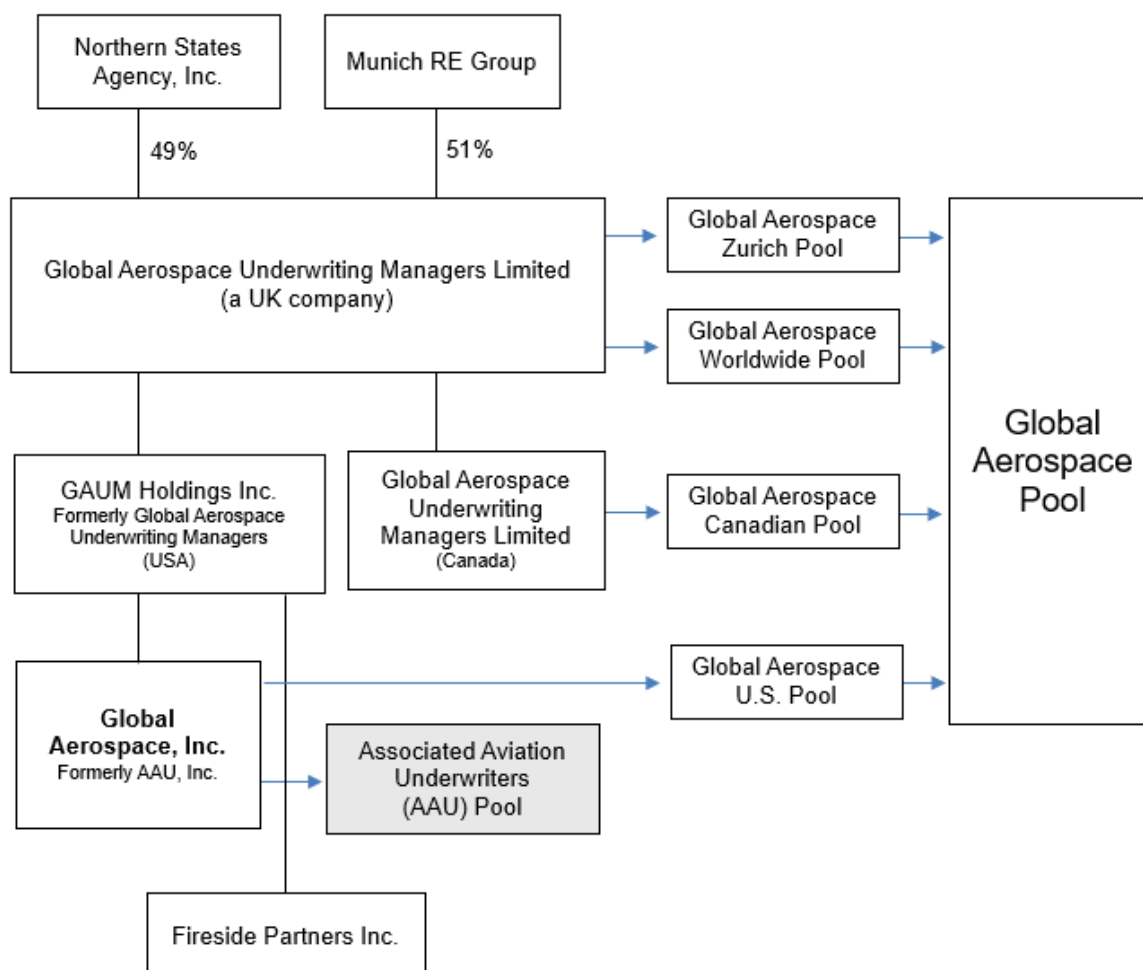
The following is a listing of companies and their participating percentage in the Pool as of December 31, 2000 (AAU's last underwriting year):

<u>Pool Member</u>	<u>Participation</u>
The Continental Casualty Company	27.5%
Federal Insurance Company	27.5%
Greenwich Insurance Company	15.0%
Lumbermen's Mutual Casualty	10.0%
Underwriters Insurance Company	9.8%
Centennial Insurance Company	5.0%
Westport Insurance Corporation	5.2%
Totals	<u>100.0%</u>

AAU, Inc. was sold under a Share Purchase Agreement dated July 27, 2000. Under the agreement, Global Aerospace Underwriting Managers (USA) Inc. (with its parent British Aviation Insurance Group, Ltd. Acting as Guarantor) bought all of the capital stock of AAU, Inc. from Chubb & Son Inc. and The Continental Insurance Company for a purchase price of \$110,000,000. Concurrently, a Plan of Dissolution dated August 16, 2000, was agreed upon by member companies of AAU whereby the Pool stopped all underwriting and issuance of policies effective December 31, 2000. Effective December 19, 2002, AAU, Inc. changed its name to **Global Aerospace, Inc. ("Global" or "Manager")** and continues to administer, operate, and manage the affairs of the Pool as a run-off business.

### **POOL ORGANIZATION**

Global is a wholly owned subsidiary of GAUM Holdings, Inc. headquartered in Delaware, which in turn is a wholly owned subsidiary of Global Aerospace Underwriting Managers Limited ("GAUM") headquartered in London, England. Global also manages another U.S. pool, Global Aerospace Underwriters, which, combined with other international pools under GAUM, roll into and form part of a **Global Aerospace Pool ("Global Pool")**. A chart showing the organization of the members making up the Global Pool is shown below:



## **TERRITORY AND PLAN OF OPERATION**

The Pool's main administrative and statutory home office is located at Morris Plains, New Jersey. The Pool underwrote a wide range of aviation risks in 2000 and prior including: hull, general liability, products liability, and workers' compensation. Claim check payments above \$25,000 require a minimum of two authorized signatures and any check written above \$250,000 also requires two signatures one of which must be handwritten. The Pool utilizes licensed claim adjusters and internal attorneys to manage non-litigated claims. Any matter that proceeds to litigation is handled by external attorneys with oversight by the Pool's claim adjuster or internal attorney.

## **TREATMENT OF POLICYHOLDERS**

Global maintains a compliant log with grievances recorded since 1992. There were seven complaints registered during the exam period, which were closed without further incident.

## **MANAGEMENT AND CONTROL**

GAUM appointed a Board of Directors ("Board") to review the business and affairs of the Global Pool. Pool members appointed Global to manage AAU as per the Aviation Insurance Management Agreement and New Hull and Casualty Aviation Insurance Agreements as amended by the Plan of Dissolution.

### **Board of Directors**

The following is a listing of members, who are also officers of Global, serving in the Board as of December 31, 2023:

Rachel H. Barrie  
Group Chief Executive Officer  
London, UK

Alan M.E. Tasker  
Group Chief Operating Officer  
London, UK

John G. Kelly  
Chief Financial Officer  
Morris Plains, NJ

Jeffrey S. Bruno  
Chief Underwriting Officer  
Morris Plains, NJ

Sharon M. Holahan  
Global Head of Complex Claims  
Morris Plains, NJ

Michael Falcone  
Group Chief Actuary, Director of Reinsurance  
Morris Plains, NJ

### **Officers**

The following were the senior officers serving at December 31, 2023:

Jeffrey S. Bruno

President

John G. Kelly

Executive Vice President

Michael Falcone

Executive Vice President

Sharon M. Holahan

Executive Vice President

Anthony R. Moschetta

Executive Vice President

### **Corporate Records**

A review of the minutes of the Board meetings revealed adequate oversight of the Manager's business. Examiners noted that the meetings were well attended by the directors, and that overall transactions were adequately supported and approved. The Board reviewed the prior financial condition examination report in the meeting held on November 13, 2019.

### **Policy on Conflicts of Interest**

Global has a policy in place requiring conflict of interest questionnaires to be signed and submitted annually. A review of the questionnaires for the examination period did not disclose any concerns.

### **FIDELITY BOND COVERAGE**

Global maintains fidelity bond coverage in the amount of \$1,000,000 that includes coverage for forgery or alteration of checks, drafts, securities, computer systems, extortion threats and telefacsimile initiated transfers. The amount of fidelity bond coverage as measured by the NAIC's formula and exposure index was deemed adequate. Additionally, Global maintains an insurance program on behalf of the AAU business which is designed to protect its assets from property and casualty risks. Risks include property, general liability, business automobile, international general liability, umbrella/excess, workers compensation & employer's liability, employment practices and fiduciary liability, fidelity bond, aircraft and errors and omissions.

### **REINSURANCE**

The Global Pool, through GAUM, maintains a reinsurance program that protects its members against large losses, although not all pool members may participate. GAUM purchases reinsurance on behalf of pool members except for Tokio Marine and Nichido Fire Insurance Co., Ltd. At year-end 2023, the reinsurance program consisted of 20 reinsurance contracts that mostly incept on January 1 of each year on a risk attaching basis. The contracts, each falling within one of the following five categories, were reviewed for acceptable terms and conditions:

Excess of Loss

Surplus Treaty

AVN52 War Liability Risk Excess

Non-Major Risks Hull War Quota Share

Major Risks Hull War Facultative Reinsurance

As a supplement to these contracts, pool members can also purchase additional reinsurance, separate from the Pool, to cover their individual pool exposure.



The Global Pool utilizes both authorized and unauthorized reinsurers in obtaining reinsurance. Letters of credit are used to secure outstanding unauthorized reinsurance balances. Reinsurance intermediaries were employed during the examination period, and in keeping with best business practices, agreements have been entered into with these intermediaries specifying their responsibilities and obligations.

### **ACCOUNTS AND RECORDS**

All the Pool's books and records are maintained at its administrative office located in Morris Plains, New Jersey, where funds are received from member companies which are then invested in short term cash and cash equivalents to fund its operations. The Pool uses Microsoft Dynamics GP (formerly Great Plains) accounting software for its general ledger and financial reporting functions. Premium, loss and reinsurance transactions are recorded using its internally developed NEXUS System which interfaces with the Pool's general ledger. The following is a list of some of the other computing systems:

- Nexus integrated insurance system
- Basil reporting system
- Great Plains accounting software
- Vertical Line Receivables
- Asbestos indirect claim system

### **Independent Audit**

An annual audit was performed by FML, based in New York, New York, and an audit report was produced for fiscal years 2023 and 2022. The auditors concluded that the financial statements presented fairly, in all material respects, the financial condition of the Manager.


### **CONTINUITY OF OPERATIONS**

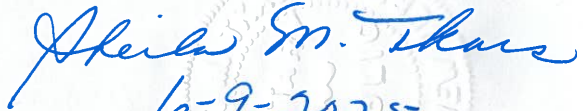
Global maintains a formal disaster recovery and business continuity (DR/BC) plan, which is tested annually, to preserve its stability and continued operation in the event of a man-made or natural disaster. The DR/BC plan addresses and provides for the restoration of Global's IT systems as well as critical and non-critical business functions. Data is backed up to local storage and then replicated on a real time basis with the Manager's London office. In addition to data being maintained in London, local backups in New Jersey and in London are now stored with a cloud-based provider, Wasabi Technologies.

### CONCLUSION

The statutory examination was conducted remotely by the undersigned with the assistance of the NJDOBI field and office staff. Tests and analyses applied to the foregoing report items did not yield any reportable recommendations. The courteous cooperation and assistance extended during the course of this examination by the officers and employees of the Pool's Manager is acknowledged.

Respectfully submitted,

  
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Juan P. Collado, Insurance Examiner 1  
Examiner-In-Charge, NJDOBI

  
6-9-2025  
SHEILA M. TKACS  
NOTARY PUBLIC  
STATE OF NEW JERSEY  
My Commission Expires: July 2025