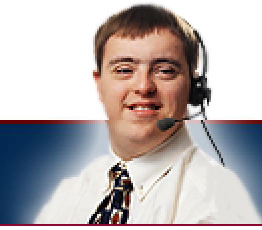

Bulletin

No.G-04/92

- General

Pendleton Insurance Company Limited

We have received several inquiries about Pendleton Insurance Company Limited (Pendleton).

Pendleton is not licensed to transact insurance in Ontario. We are not aware if it is licensed to transact insurance in any other jurisdiction.

We have recently learned the state of Illinois issued the following bulletin, dated July 17, 1991:

"To all surplus line producers:

- Pursuant to Section 445(9) of the Illinois Insurance Code (Chapter 73, Paragraph 1024) we have this date ordered the Surplus Line Association of Illinois not to countersign insurance contracts evidencing insurance in the Pendleton Insurance Company Limited.
- Further be advised pursuant to the same Section 445(9) you the surplus line producer are ordered to cease procuring insurance from the Pendleton Insurance Company Limited."

We have received a letter from Coopers & Lybrand stating certain parties have represented that the firm audited the financial statements of Pendleton for the year ended July 31, 1991. Coopers & Lybrand indicates they have never audited the financial statements of this company or issued any report thereon.

We have also received a copy of an article in Troubled Insurer Alert (TIA), a publication of Evandale Publishing Limited, 38-40 Eastcastle Street, London W1N 7PE, United Kingdom. Here is the full text of that article with the permission of the publisher.

Shah denies Pendleton links

Links between Vishwah Shah and Pendleton Insurance, currently suspected to be operating Illegally in Canada, are said to have been severed. Pendleton was incorporated on January 16, 1990, in the British Virgin Islands but is said to have since been struck off the local insurance register.

Mr. Shah, who was heavily involved with the now liquidated Universal Casualty in the Cayman Islands, has told TIA that he never owned Pendleton.

The share register shows two bearer shares outstanding. One share is owned by Maya Kumari and the other by Aurora Investment Trust Ltd., which in turn is allegedly owned by Aurora Trust. The shares were issued on the date of incorporation.

Nonetheless, *Mr. Shah admits* that he originals had "managerial responsibility" for the company. He insists that it conducted no insurance or reinsurance business during the period of his involvement.

Pendleton was initials registered in the British Virgin Islands partly on the strength of an audit report obtained from KPMG Peat Marwick. According to *Mr. Nigel Bailey*, the insurance supervisor for the British Virgin Islands, the insurer submitted a first application to be approved for insurance business which was turned down. The company was then struck off the insurance register from August 31, 1991 and gazetted on January 16, 1992.

However, *Mr. Shah* denies that Pendleton had submitted or been tamed down on any such application, or had been deregistered. "We were licensed at the beginning. It's a matter of public document," he insists.

KPMG Peat Marwick had for audit purposes relied on a New York broker holding Pendleton's securities which, with cash, made up most of the balance sheet.

In June 1991, KPMG Peat Marwick resigned as auditor and withdrew its report "on the basis of Mr. Shah's involvement." *Mr. Shah* comments that he has "no idea" why the accountancy firm resigned.

In 1991, Pendleton was sold to a company represented by one *Neil Smith*, a Colorado attorney who is unavailable for comment. Mr. Shah says that he had known Mr. Smith "for a few years," and that they had worked together in some real estate mortgage business, nothing to do with insurance."

When the company was sold *Mr. Shah* says that he withdrew assets from it, understanding that it was to be recapitalised. From that time, continues *Mr. Shah*, he had nothing whatsoever to do with the operation.

Meanwhile, says *Mr. Bailey*, a second application to be approved was made. An audit report was provided from Rupert Folkard, a sole practitioner in Canada. The application was refused, notes *Mr. Bailey*. According to Mr. Bailey: "Pendleton has not yet made any formal response to my letter saying the second application was rejected. Being unlicensed and struck-off, it has no status. It's as if it had never been formed."

Around this time, Pendleton is said to have proposed that it would obtain a report from Coopers & Lybrand. Subsequently, the accountancy firm's name was falsely used in an auditor's report for Pendleton for the year ended July 31, 1991.

This report contained replicas of Coopers & Lybrand's Bermuda letterhead, and a signature of *George Holmes*, a partner in the Bermuda practice.

In the circumstances, Coopers & Lybrand in Bermuda has disassociated itself in a formal letter from "any representation purportedly made by it, or on its behalf in relation to the financial affairs" of Pendleton.

Recipients of the letter include: the British Virgin Island's supervisor of insurance; the Bermuda registrar of companies; the Bermuda police; the Securities and Exchange Commission in Washington; the National Association of Insurance Commissioners in Kansas City; the insurance division of the Department of Trade and Industry in the UK; and regulators in Ontario and Quebec.

The letter says that Coopers & Lybrand has never audited the financial statements of this company, issued any audit or other report or expressed any opinion concerning its financial affairs or condition."

Mr. Holmes, who describes this letter as "closing the loop as far as we can without launching an investigation," comments: Pendleton is not a client of the firm. It used a copy of my personal signature but not the firm's signature which would be used on an audit report."

Lawrie Savage, Ontario's superintendent of insurance, says that he was alerted to Pendleton by the letter from Coopers & Lybrand.

Meanwhile, it is alleged that Pendleton has been attempting to operate in California and in Quebec through an agent called Jean Fournier. *Mr. Savage* confirms that he is investigating the company.

Under section 7(3) of the Insurance (Special Provisions) Act, 1991, an insurance Compaq which has been struck off the register in the British Virgin Islands but is continuing to do business anywhere in the world is liable to prosecution.

Mr. Bailey comments: we've taken no steps against Pendleton because we've no evidence that they're trading. As soon as we have such evidence, we will move. I'm pleased to say that the Pendleton case is unusual in the British Virgin Islands."

We met with the auditor referred to in this article, Rupert Folkard CA, of Mississauga, who told us that the company has not transacted any business in Ontario.

We would appreciate any information concerning this company.

Donald C. Scott

Commissioner

March 17, 1992

Last Modified: 8/23/2005 3:30:57 PM

Financial Services Commission of Ontario
5160 Yonge Street
Toronto, ON M2N 6L9
1-800-668-0128
(416) 250-7250