

REPORT ON EXAMINATION
OF THE
AIOI INSURANCE COMPANY OF AMERICA
AS OF
DECEMBER 31, 2002

DATE OF REPORT

SEPTEMBER 16, 2003

EXAMINER

PERRY L. DICASTRI

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STATE OF NEW YORK
INSURANCE DEPARTMENT
25 BEAVER STREET
NEW YORK, NEW YORK 10004

George E. Pataki
Governor

Gregory V. Serio
Superintendent

September 16, 2003

Honorable Gregory V. Serio
Superintendent of Insurance
Albany, New York 12257

Sir:

Pursuant to the requirements of the New York Insurance Law, and in compliance with instructions contained in Appointment Number 22073, dated June 30, 2003, attached hereto, I have made an examination into the condition and affairs of the AIOI Insurance Company of America as of December 31, 2002 and submit the following report thereon.

The examination was conducted at the Company's main administrative office located at CNA Plaza, Chicago, Illinois 60685.

Wherever the designations "Company" or "AIOI" appear herein without qualification, it should be understood to indicate the AIOI Insurance Company of America.

Wherever the designation "Department" appears herein without qualification, it should be understood to indicate the New York Insurance Department.

1. SCOPE OF EXAMINATION

The previous examination was conducted as of December 31, 1997. This examination covered the five year period from January 1, 1998 through December 31, 2002. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

The examination comprised a complete verification of assets and liabilities as of December 31, 2002. The examination included a review of income, disbursements and Company records deemed necessary to accomplish such analysis or verification and utilized, to the extent considered appropriate, work performed by the Company's independent public accountants. A review or audit was also made of the following items as called for in the Examiners Handbook of the National Association of Insurance Commissioners:

- History of Company
- Management and control
- Corporate records
- Fidelity bond and other insurance
- Territory and plan of operation
- Growth of Company
- Business in force by states
- Loss experience
- Reinsurance
- Accounts and records
- Financial statements

A review was also made to ascertain what action was taken by the Company with regard to comments and recommendations contained in the prior report on examination.

This report on examination is confined to financial statements and comments on those matters that involve departures from laws, regulations or rules, or which are deemed to require explanation or description.

2. DESCRIPTION OF COMPANY

The Company first formed as the Chiyoda Fire & Marine Insurance Company, Limited (United States Branch) and was admitted to the State of New York on October 18, 1977. It commenced writing insurance business in 1978. Effective January 1, 1995, the Company converted to a domestic insurer. The domestic stock insurer became known as the Chiyoda Fire & Marine Insurance Company of America and assumed all the assets, liabilities and business operations of its predecessor. In August 2001, the Company's articles of incorporation were amended to change its name to AIOI Insurance Company of America. Its main administrative office is currently located at CNA Plaza, Chicago, Illinois. All of the above activities and occurrences were approved by the New York Insurance Department.

As of December 31, 2002, the articles of incorporation authorized the issuance of 50,000 shares of capital stock at \$100 par value per share. All 50,000 shares have been issued and are currently owned by AIOI Insurance Company Ltd., Japan. The following chart reflects changes that have occurred since January 1, 1995:

<u>Date</u>	<u>Description</u>	<u>Number of Shares</u>	<u>Capital Stock</u>	<u>Paid-in Surplus</u>
01/31/1995	Original issuance @ \$100 per share	30,000	\$3,000,000	\$ 0
12/19/1995	Stock Dividend	20,000	2,000,000	
08/02/2001	Redemption of Chiyoda Stock	(50,000)	(5,000,000)	
08/02/2001	Issuance of AIOI stock	<u>50,000</u>	<u>5,000,000</u>	<u> </u>
Totals		<u>50,000</u>	<u>\$5,000,000</u>	<u>\$ 0</u>

The Company did not declare or pay dividends to stockholders during the five-year period under review.

A. Management

Pursuant to the Company's charter and by-laws, management of the Company is vested in a board of directors consisting of not less than thirteen nor more than eighteen members. As of the examination date, the board of directors was comprised of thirteen members. The board met four times during each calendar year.

The directors as of December 31, 2002 were as follows:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Peter P. Conway Wheaton, IL	President & Board Chairman, Vector Consulting Inc., a Subchapter S Corporation
Robert F. Denney East Hampton, NY	Board Chairman & Chief Executive Officer, Cook, Hall & Hyde Inc. Insurance Agency
William J. Gilmartin Franfort, IL	Retired
Katsuya Kimura Shibuya-ku, Japan	Managing Director, AIOI Insurance Company Ltd.
Toshiaki Koga Downers Grove, IL	Secretary and Treasurer, AIOI Insurance Company of America
Harry C. Meyer Basking Ridge, NJ	Retired
Frank H. Reis Kingston, NY	Independent Insurance Agent, Frank H. Reis, Inc.
Matthew S. Rubin Great Neck, NY	Vice President, Controller, & Underwriting Mgr., Navigators Management Co. Inc.
George H. Schunck Jamesville, NY	Independent Insurance Agent Young Agency

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Kazuhiro Tobari Chicago, IL	President, AIOI Insurance Company of America
Takeshi Watanabe Shibuya-ku, Japan	General Manager, AIOI Insurance Company Ltd.
Mortimer Weinberg Armonk, NY	Retired
Toshiyuki Yanaka Cresskill, NJ	Vice President, AIOI Insurance Company of America

A review of the minutes of the meetings of the board of directors indicated that one member elected to the board since May 2001 and another member elected to the board in May 2002 have never participated in any meetings.

Members of the board have a fiduciary responsibility and must evidence an ongoing interest in the affairs of the insurer. It is essential that board members attend meetings consistently and set forth their views on relevant matters so that the board may reach appropriate decisions. Individuals who fail to attend at least one-half of the regular meetings do not fulfill such criteria. It is recommended that board members who are unable or unwilling to attend meetings consistently should resign or be replaced.

At December 31, 2002, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Kazuhiro Tobari	President
Toshiyuki Yanaka	Vice President
Toshiaki Koga	Secretary and Treasurer
Yoshitaka Hishida	Assistant Vice President
Hironobu Sakamoto	Assistant Vice President
James Morris	Assistant Secretary

The Company has no personnel or facilities of its own. The Company utilizes the personnel and facilities of CNA Services Inc. to maintain the Company's investment portfolio and perform all necessary

financial reporting and recordkeeping responsibilities necessary for daily business operations. The service contract with CNA Services Inc., effective January 1, 2002, requires the Company to currently pay \$150,000 a year for services being provided.

B. Territory and Plan of Operation

At December 31, 2002, the Company was licensed to transact business in the following five states:

Illinois	New Jersey
Indiana	New York
Kentucky	

The Company is not licensed in California as its annual statement indicates. It is currently in the process of obtaining a license from the California Insurance Department. Until the Company obtains a license from the State of California, it is recommended that it does not indicate it is licensed in the State of California in its filed annual statements.

During the period covered by this examination, the Company's direct business production consisted exclusively of ocean marine cargo business underwritten in the State of New York by Navigators Management Inc. Most of the other business is obtained through a facultative reinsurance arrangement with the Continental Casualty Company ("CCC"). The Company indicates to CCC what risks to underwrite on its behalf. CCC underwrites the business then cedes 100% of the risk on these policies to the Company. This business arrangement has been in place for more than twenty years.

As of December 31, 2002, the Company was licensed to transact the kinds of insurance set forth in the following numbered paragraphs of Section 1113(a) of the New York Insurance Law:

<u>Paragraph</u>	<u>Kind of Insurance</u>
3	Accident and health
4	Fire
5	Miscellaneous property
6	Water damage
7	Burglary and theft
8	Glass
9	Boiler and machinery
10	Elevator
11	Animal
12	Collision
13	Personal injury liability
14	Property damage liability
15	Workers' Compensation and Employers' Liability
16	Fidelity and surety
17	Credit
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine
21	Marine protection and indemnity

Based upon the lines of business for which the Company is licensed, and the Company's current capital structure, and pursuant to the requirements of Articles 13 and 41 of the New York Insurance Law, the Company is required to maintain a minimum surplus to policyholders in the amount of \$2,200,000.

The following schedule compares direct business written nationwide to direct business written in the State of New York for the five-year period covered by the current examination:

<u>Year</u>	<u>New York Direct Written Premiums</u>	<u>Direct Total Written Premiums</u>	<u>Percentage of New York Premiums Written to Total Premiums</u>
1998	\$578,896	\$7,790,566	7.43%
1999	\$451,404	\$8,107,226	5.57%
2000	\$534,378	\$7,187,175	7.44%
2001	\$1,203,290	\$7,921,300	15.19%
2002	\$995,701	\$8,162,362	12.20%

The schedule does not show a significant increase in total direct written premiums but it does indicate an increase in premiums written in the State of New York in the years 2001 and 2002. The increase in premiums pertains to risks directly underwritten through Navigators Management Inc. The current makeup of the Company's business production in general is about 60% casualty insurance and 40% property and liability insurance.

C. Reinsurance

Assumed Reinsurance Arrangement

The Company has one major active assumption arrangement in effect as of the end of the 2002 business year. The facultative arrangement is with Continental Casualty Company, an affiliate of CNA Services Inc. Under this arrangement, Continental Casualty Company underwrites specific risks as requested by the Company and then cedes 100% of the risk to the Company. Most of the risks underwritten under this arrangement pertain to United States operations of Japanese owned or affiliated companies. In 2002, the Company's net reinsurance assumed under this arrangement represented over 99.5% of its assumed insurance business and more than 86% of its total premiums writings.

Ceded Reinsurance

The majority of the Company's ceded reinsurance contracts at December 31, 2002 are with its parent, AIOI Insurance Company Limited, Japan, an unauthorized insurer. A summary of the ceded reinsurance contracts the Company has in effect with its parents as of the examination date is as follows:

Type of Treaty

Cessions

Workers' Compensation

Excess of Loss

100% Unauthorized

Per occurrence coverage of \$1,850,000 in excess of an initial \$150,000, retention limit.

<u>Type of Treaty</u>	<u>Cessions</u>
<u>50% Quota Share</u> 100% Unauthorized	50% of the Company's net liability on all business subject to a limit of 50% of \$5,000,000, any one occurrence.
<u>Marine Cargo</u>	
<u>First Excess of Loss</u> 100% Unauthorized	Provides per risk, per loss coverage of \$1,718,000 in excess of an initial \$100,000, retention limit.
<u>Second Excess of Loss</u> 100% Unauthorized	Provides an additional \$16,346,000 layer of coverage per risk per loss.
<u>Property</u>	
<u>First Excess of Loss</u> 100% Unauthorized	Provides per risk, per loss coverage of \$4,400,000 in excess of an initial \$150,000 retention limit.
<u>Second Excess of Loss</u> 100% Unauthorized	Provides an additional \$68,180,000, layer of coverage per risk per loss.
<u>Casualty & Liability</u>	
<u>First Excess of Loss</u> 100% Unauthorized	Provides per risk, per loss coverage of \$850,000 in excess of a \$150,000, retention limit.
<u>Second Excess of Loss</u> 100% Unauthorized	Provides an additional \$5,000,000, layer of coverage per risk per loss.
<u>Third Excess of Loss</u> 100% Unauthorized	Provides an additional \$6,000,000, layer of coverage per risk per loss.
<u>All Other Business</u>	
<u>Excess of Loss</u> 100% Unauthorized	Provides per risk, per loss coverage of \$2,500,000 in excess of a \$150,000, retention limit.

In February 2003, the Company entered into two additional excess of loss ceded contracts with its parent, AIOI Insurance Company Ltd. of Japan. These two contracts increase the Company's workers' compensation business lines protection to \$46,000,000, per occurrence.

All affiliated company contracts have been submitted to the Department for approval pursuant to Section 1505(d) of the New York Insurance Law.

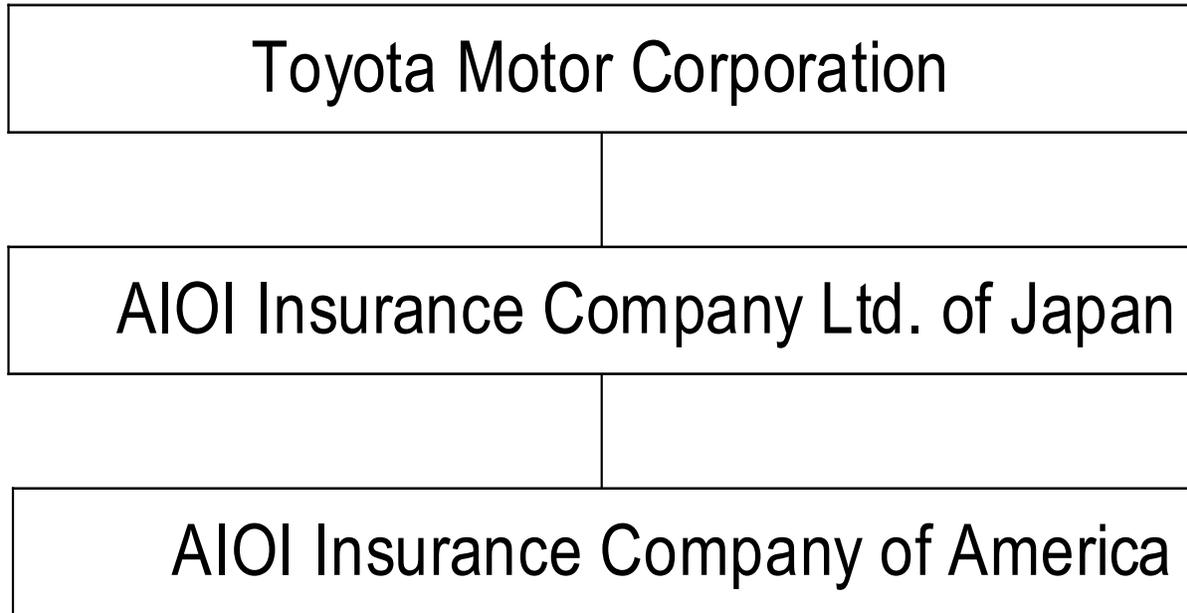
All ceded reinsurance contracts in effect during the examination period were reviewed and appear to contain the required standard clauses, including the insolvency requirements of Section 1308 of the New York Insurance Law, and appear to sufficiently transfer risk, in accordance with SSAP No. 62 of the NAIC Accounting Practices and Procedures Manual for Property/Casualty Companies. Data contained in the reinsurance schedules of Company's filed annual statements for the five year period currently under review appear to accurately reflect its reinsurance activity.

D. Holding Company System

AIOI Insurance Company of America is a wholly-owned subsidiary of AIOI Insurance Company, Limited, Japan (the parent), which is 33.4% owned by the Toyota Motor Corporation, Japan.

The Company has registered with this Department as a controlled insurer pursuant to the requirements of Article 15 of the New York Insurance Law. All filings made by the Company, pursuant to Article 15 of the New York Insurance Law and Department Regulation 52, appear to be complete and current, except for the 2002 filing which was not filed until August 14, 2003. It is recommended that the Company make its holding company filing in a timely manner.

The following is an abbreviated holding company chart as of December 31, 2002:



The chart does not include all members of the Toyota Motor Corporation. Schedule Y of the annual statement requires that certain members of the holding company system be identified. It is recommended that the Company review the annual statement instructions for Schedule Y and include those required members of the holding company in Schedule Y of future annual statements.

E. Accounts and Records

Department Regulation 30 requires the Company to break out by function and type of expenses the money it pays out to its outside agencies and/or service providers. The Company has not complied with this regulation in any of the annual statements for the period currently under examination. It is recommended the Company initiate procedures to ensure that future annual statements break out these expenses, pursuant to Department Regulation 30.

F. Abandoned Property Law

Section 1316 of the New York Abandoned Property Law pertains to companies (other than life insurers) operating in New York. All such companies are required to file “Reports of Abandoned Property” with the Office of the Comptroller of the State of New York before April 1 of the following year. The Company did not file any such reports with the Office of the Comptroller of the State of New York during the period covered by this examination. This issue was mentioned in the previous report on examination.

Again, it is recommended that the Company comply with Section 1316 of the New York Abandoned Property Law and file all required annual “Reports of Abandoned Property” with the office of the Controller of the State of New York.

G. Significant Operating Ratios

The following ratios have been computed as of December 31, 2002 based upon the results of this examination:

Net premiums written in 2002 to surplus as regards policyholders	69.57%
Liabilities to liquid assets (cash and invested assets)	71.07%
Premiums in course of collection to Surplus as regards policyholders	9.59%

The ratios listed above fall within the benchmark ranges set forth by the Insurance Regulatory Information System of the National Association of Insurance Commissioners.

The underwriting ratios presented below are on earned/incurred basis and encompass the five-year period covered by this examination:

	<u>Amounts</u>	<u>Ratios</u>
Losses incurred	\$22,911,571	56.48%
Loss adjustment expenses incurred	2,132,007	5.26
Other underwriting expenses incurred	17,309,989	42.67
Net underwriting loss	<u>(1,787,602)</u>	<u>(4.41)</u>
Premiums earned	<u>\$40,565,965</u>	<u>100.00%</u>

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as determined by this examination as of December 31, 2002, and are the same as those reported by the Company in its 2002 annual statement:

<u>Assets</u>	<u>Ledger Assets</u>	<u>Non-admitted Assets</u>	<u>Net Admitted Assets</u>
Bonds	\$21,155,500	\$	\$21,155,500
Cash (\$71,976) and short-term investments (\$9,914,706)	9,986,682		9,986,682
Premiums and agents' balances in course of collection	1,124,746	74,915	1,049,831
Funds held by or deposited with reinsured companies	13,363		13,363
Reinsurance recoverables on loss and loss adjustment expense payments	894,411		894,411
Federal and foreign income taxes recoverable and interest thereon (including \$439,396 net deferred tax asset)	990,626	551,230	439,396
Interest, dividends and real estate income due and accrued	103,742		103,742
Equities and deposits in pools and associations	<u>222,310</u>	<u> </u>	<u>222,310</u>
Total Assets	<u>\$34,491,380</u>	<u>\$626,145</u>	<u>\$33,865,235</u>

Liabilities Surplus and Other Funds:

Losses		\$12,838,099
Reinsurance payable on paid losses and loss adjustment expenses		2,822,684
Loss adjustment expenses		1,206,118
Commissions payable; contingent commissions and other similar charges		41,754
Other expenses (excluding taxes; licenses and fees)		66,646
Federal and foreign income taxes (including \$0 on realized capital gains (losses)) (including (\$2,547) net deferred tax liability)		468,098
Unearned premiums (after deducting unearned premiums for ceded reinsurance of \$1,466,292 and including warranty reserves of \$0)		2,254,771
Ceded reinsurance premiums payable (net of ceding commissions)		401,752
Amounts withheld or retained by company for account of others		1,780
Provision for reinsurance		<u>2,031,000</u>
 Total liabilities		 \$22,132,702
 Common capital stock	\$5,000,000	
Unassigned funds (surplus)	<u>6,732,530</u>	
 Surplus as regards policyholders		 <u>11,732,530</u>
 Total liabilities and surplus		 <u>\$33,865,232</u>

NOTE: The Internal Revenue Service has not audited any of the Company's financial statements for the current period under examination. The examiner is unaware of any potential exposure of the Company to any tax assessment and no liability has been established herein relative to such contingency.

B. Underwriting and Investment Exhibit

Surplus as regards policyholders increased \$2,002,070 during the five-year examination period, January 1, 1998 to December 31, 2002 detailed as follows:

Statement of Income

Underwriting Income:

Premiums earned		\$40,565,965
Losses incurred	\$22,911,571	
Loss expenses incurred	2,132,007	
Other underwriting expenses incurred	<u>17,309,989</u>	
Total underwriting deductions		<u>42,353,567</u>
Net underwriting gain (loss)		\$(1,787,602)

Investment Income:

Net investment income earned	\$6,254,177	
Net realized capital gains (losses)	<u>1,841,698</u>	
Net investment gain (loss)		8,095,875

Other Income

Net loss from agents' or premiums balances charged off (\$0 recovered)		<u>(110,689)</u>
Net income; after dividends to policyholders but before federal and foreign income taxes		\$6,197,584
Federal and foreign income taxes incurred		<u>2,490,126</u>
Net income		<u>\$3,707,458</u>

Capital and Surplus Account

Surplus as regards policyholders; December 31, 1997			\$9,730,463
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income	\$3,707,458	\$	
Change in unrealized foreign exchange capital gain	40,377		
Change in net deferred income tax		2,546,728	
Change in non-admitted assets		154,161	
Change in provision for reinsurance	546,000		
Cumulative effect of changes in accounting principles	<u>409,124</u>	_____	
Total gains and losses	<u>\$4,702,959</u>	<u>\$2,700,889</u>	
Net decrease to surplus			<u>2,002,070</u>
Surplus as regards policyholders; December 31, 2002 per report on examination			<u>\$11,732,533</u>

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liabilities of \$12,838,099 for losses and \$2,822,684 for loss adjustment expenses are the same as the amounts reported by the Company in its 2002 filed annual statement. The examination analysis was conducted in accordance with generally accepted actuarial principles and practices and was based on statistical information contained in the Company's internal records and its filed annual statement. It should be noted that the Company has not established a reserve for unallocated loss adjustment expenses, as required under Section 1303 of the New York Insurance Law. It is recommended the Company initiate procedures to ensure that future annual statements reflect unallocated adjustment expenses, as required under Section 1303 of the New York Insurance Law.

5. MARKET CONDUCT ACTIVITIES

The Company only directly underwrites Ocean Marine business and therefore is exempt from market conduct activities, pursuant to Department Regulation 64, Part 216.2(a).

6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report contained five comments and recommendations as follows (page numbers refer to the prior report):

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Holding Company System</u>	
i. It is recommended that all reinsurance agreements listed herein, as well as future agreements between the Company and members of its holding company system, be filed in accordance with Section 1505(d) of the New York Insurance Law at least thirty days prior to its intention to enter into such transactions.	10
ii. Furthermore, its is recommended that executed copies of the reinsurance agreements listed herein, which were non-disapproved pursuant to Section 1505(d) of the New York Insurance Law, be submitted to the Department.	10

The Company has complied with these recommendations.

B. Abandoned Property Law

It is recommended that the Company comply with Section 1316 of the New York Abandoned Property Law and file the respective current “Report of Abandoned Property”, as well as all future reports of abandoned property, with the Office of the Comptroller of the State of New York.	11
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The Company has not complied with this recommendation. A similar recommendation is reiterated in this report.

ITEMPAGE NO.C. Custodial Agreement

It is recommended that the Company amend its custodial agreement to include the protective covenants and provisions which meet the guidelines established by the Department for the contents of such agreements. 12

The Company has complied with this recommendation.

D. Fidelity Bonds and Other Insurance

It is recommended that the Company obtain fidelity insurance coverage to a level at least equal to the minimum suggested by the NAIC. 12

The Company has complied with this recommendation.

E. Accounts and Records

It is recommended that the Company comply with the annual statement instructions and report all interest, dividends and real estate income due and accrued as a non-ledger asset in all future filed annual statements. 12

The Company has complied with this recommendation.

7. **SUMMARY OF COMMENTS AND RECOMMENDATIONS**ITEMPAGE NO.A. Management

It is recommended that the board members who are unable or unwilling to attend meetings consistently should resign or be replaced. 5

B. Territory and Plan of Operation

It is recommended the Company remove any indication that they are licensed to do business in the State of California until they, in fact, do become licensed in the State of California. 6

C. Holding Company System

It is recommended that the Company make its holding company filing in a timely manner. 10

<u>ITEM</u>	<u>PAGE NO.</u>
D. <u>Schedule Y</u>	
It is recommended that the Company review the annual statement instructions for Schedule Y and include those required members of the holding company in Schedule Y of future annual statements.	11
E. <u>Accounts and Records</u>	
Department Regulation 30 requires the Company to break out by function and type of expenses the money it pays out to its outside agencies and/or service providers. It is recommended the Company initiate procedures to ensure that future annual statements break out these expenses, pursuant to Regulation 30.	11
E. <u>Abandoned Property Law</u>	
It is again recommended that the Company comply with Section 1316 of the New York Abandoned Property Law and file the respective current “Reports of Abandoned Property”, as well as all future reports of abandoned property, with the Office of the Comptroller of the State of New York.	12
F. <u>Loss Adjustment Expenses</u>	
It is recommended the Company initiate procedures to ensure that future annual statements reflect unallocated loss adjustment expenses, as required under Section 1303 of the New York Insurance Law.	17

Respectfully submitted,

_____/S/_____
Perry L. DiCatri, CFE
Senior Insurance Examiner

STATE OF NEW YORK)
)SS.
)
COUNTY OF NEW YORK)

PERRY L. DICASTRI, being duly sworn, deposes and says that the foregoing report, subscribed by him, is true to the best of his knowledge and belief.

_____/S/_____
Perry L. DiCatri

Subscribed and sworn to before me

this _____ day of _____, 2003.

Appointment No. 22073

STATE OF NEW YORK
INSURANCE DEPARTMENT

I, GREGORY V. SERIO, Superintendent of Insurance of the State of New York,
pursuant to the provisions of the Insurance Law, do hereby appoint:

Perry Di Castri

as proper person to examine into the affairs of the

AIOI INSURANCE COMPANY OF AMERICA

and to make a report to me in writing of the condition of the said

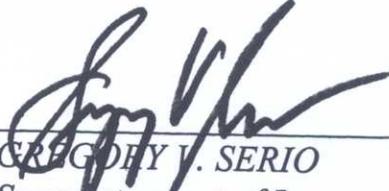
COMPANY

with such other information as she shall deem requisite.

*In Witness Whereof, I have hereunto subscribed by the
name and affixed the official Seal of this Department, at
the City of New York,*

this 30th day of June, 2003





GREGORY V. SERIO
Superintendent of Insurance