

REPORT ON EXAMINATION

OF THE

AIOI INSURANCE COMPANY OF AMERICA

AS OF

DECEMBER 31, 2007

DATE OF REPORT

NOVEMBER 7, 2008

EXAMINER

LAMIN JAMMEH

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

November 07, 2008

Honorable Eric R. Dinallo
Superintendent of Insurance
Albany, New York 12257

Sir:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 22759 dated April 9, 2008 attached hereto, I have made an examination into the condition and affairs of AIOI Insurance Company of America as of December 31, 2007, and submit the following report thereon.

Wherever the designation "the Company" appears herein without qualification, it should be understood to indicate AIOI Insurance Company of America.

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

The examination was conducted at the Company's administrative offices located at 475 N. Martingale Road, Schaumburg, IL 60173.

1. SCOPE OF EXAMINATION

The Department has performed a single-state examination of AIOI Insurance Company of America. The previous examination was conducted as of December 31, 2002. This examination covered the five year period from January 1, 2003 through December 31, 2007. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

This examination was conducted in accordance with the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners Handbook which requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the company including corporate governance, identifying and assessing inherent risks within the Company and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management’s compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This examination also included a review and evaluation of the Company’s own control environment assessment and evaluation based upon the Company’s internal control documentation and testing similar to Sarbanes Oxley. The examiners also relied upon audit work performed by the Company’s independent public accountants when appropriate.

This examination report includes a summary of significant findings for the following items as called for in the Financial Condition Examiners Handbook of the NAIC:

- Significant subsequent events
- Company history
- Corporate records
- Management and control
- Fidelity bonds and other insurance
- Pensions, stock ownership and insurance plans
- Territory and plan of operation
- Growth of Company
- Loss experience
- Reinsurance
- Accounts and records
- Statutory deposits
- Financial statements
- Summary of recommendations

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, which involve departures from laws, regulations or rules, or which are deemed to require explanation or description.

2. DESCRIPTION OF COMPANY

The Company was 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 and commenced writing 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.

At December 31, 2007, capital paid in was \$5,000,000 consisting of 50,000 shares of common stock at \$100 par value per share. Gross paid in and contributed surplus was \$10,000,000. Gross paid in and contributed surplus increased by \$10,000,000 during the examination period, as follows:

| <u>Year</u> | <u>Description</u> | <u>Amount</u> |
|-------------|---|---------------------|
| 2003 | Beginning gross paid in and contributed surplus | \$ 0 |
| 2007 | Surplus contribution | <u>\$10,000,000</u> |
| | Total Surplus Contributions | <u>10,000,000</u> |
| 2007 | Ending gross paid in and contributed surplus | <u>\$10,000,000</u> |

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. The board met four times during each calendar year. At December 31, 2007, the board of directors was comprised of the following thirteen members:

| <u>Name and Residence</u> | <u>Principal Business Affiliation</u> |
|---|--|
| Peter P. Conway University Park, FL | Retired |
| Robert F. Denny Weems, VA | Retired |
| Robert J. Hildebrand Wheaton, IL | Director, Robert W. Baird & Company |
| Kiyofumi Hino Saitama, Japan | Officer, AIOI Insurance Company Ltd. |
| Masanobu Kobayashi Koganei, Tokyo, Japan | Officer, AIOI Insurance Company Ltd. |
| Toshiaki Koga Downers Grove, IL | Vice President and Secretary, AIOI Insurance Company of America |
| Harry C. Meyer Lancaster, PA | Retired |
| Frank H. Reis Kingston, NY | Retired |
| Mathew S. Rubin Great Neck, NY | Manager, Marcum & Kliegman LLP (Consulting) |
| Futoshi Sugai Torrance, CA | Manager, Los Angeles Office, AIOI Insurance Company of America |
| Masaru Umezu Palatine, IL | President, AIOI Insurance Company of America |
| Robert M. Weber South Salem, NY | Partner, Wilson Elser Law Firm |
| Noboru Yamahara Hoffman Estates, IL | Treasurer Aioi Insurance Company of America |

A review of the minutes of the board of directors' meetings held during the examination period indicated that the meetings were generally well attended and each board member has an acceptable record of attendance.

As of December 31, 2007, the principal officers of the Company were as follows:

| <u>Name</u> | <u>Title</u> |
|-----------------|--------------|
| Masaru Umezu | President |
| Toshiaki Koga | Secretary |
| Noboru Yamahara | Treasurer |

B. Territory and Plan of Operation

As of December 31, 2007, the Company was licensed to write business in thirteen states.

As of the examination date, the Company was authorized to transact the kinds of insurance as defined in the following numbered paragraphs of Section 1113(a) of the New York Insurance Law:

| <u>Paragraph</u> | <u>Line of Business</u> |
|------------------|--|
| 3 | Accident & 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 |

The Company is also empowered to transact such workers' compensation business as may be incidental to coverages contemplated under paragraphs 20 and 21 of said Section 1113(a) of the New York Insurance Law including insurance described in the Longshoremen's and Harbor Workers' Compensation Act (Public Law No. 803, 69th Congress as amended, USC Section 901 et. seq. as amended).

Based on 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 shows the direct premiums written by the Company for the period under examination; all premiums written by the Company were written in New York:

| <u>Calendar Year</u> | <u>Total Direct Premiums Written</u> |
|----------------------|--|
| 2003 | \$995,919 |
| 2004 | \$1,289,534 |
| 2005 | \$1,240,726 |
| 2006 | \$1,039,157 |
| 2007 | \$998,075 |

During the period covered by this examination, the Company's direct business consisted exclusively of ocean marine business underwritten in the State of New York by Navigators Management Inc. The majority of the Company's assumed business is currently assumed from the Chubb Group. As of April 1, 2005, the Company terminated its long standing relationship with Continental Casualty Company ("CCC"), a subsidiary of CNA Financial Corporation ("CNA").

C. Reinsurance

Assumed reinsurance accounted for 97% of the Company's gross premium written at December 31, 2007. During the period covered by this examination, the Company's assumed reinsurance business has increased since the last examination. Major lines include: Workers' compensation, commercial multi-peril, allied lines, commercial auto liability and other liabilities occurrence. The Company's assumed reinsurance program consists mainly of multi-line coverage assumed on a quota share basis, pursuant to the terms of facultative agreements with both authorized and unauthorized cedants. The Company utilizes reinsurance accounting as defined in NAIC Accounting Practices and Procedures Manual, Statement of Statutory Accounting Principle ("SSAP") No. 62 for all of its assumed reinsurance business.

The majority of the Company's ceded reinsurance contracts at December 31, 2007 are with its parent, AIOI Insurance Company Limited, Japan, an accredited reinsurer. The company has structured its ceded reinsurance program to limit its maximum exposure to any one risk as follows:

Type of ContractCessionWorkers' Compensation

50% Quota Share
100% Authorized

50% of the Company's net liability on all business subject to a limit of 50% of \$100,000,000, any one occurrence.

First Excess of Loss
100% Authorized

\$3,850,000 excess \$150,000 per risk per loss.

Second Excess of Loss
100% Authorized

\$10,000,000 excess \$4,000,000 per risk per loss.

Third Excess of Loss
100% Authorized

\$36,000,000 excess \$14,000,000 per risk per loss.

Marine Cargo

First Excess of Loss
100% Authorized

\$1,718,000 excess \$100,000 per risk per loss.

Second Excess of Loss
100% Authorized

\$84,082,000 excess \$1,818,000 per risk per loss.

Property

First Excess of Loss
100% Authorized

\$4,400,000 excess \$150,000 per risk per loss.

Second Excess of Loss
100% Authorized

\$98,450,000 excess \$4,550,000 per risk per loss.

Casualty

First Excess of Loss
100% Authorized

\$850,000 excess \$150,000 per risk per loss.

Second Excess of Loss
100% Authorized

\$5,000,000 excess \$1,000,000 per risk per loss.

Third Excess of Loss
100% Authorized

\$6,000,000 excess \$6,000,000 per risk per loss.

All Other Business

Excess of Loss
100% Authorized

\$2,500,000 excess \$150,000 per risk per loss.

Reinsurance agreements with affiliates were reviewed for compliance with Article 15 of the New York Insurance Law. It was noted that all affiliated reinsurance agreements were filed with the Department pursuant to the provisions of Section 1505(d)(2) of the New York Insurance Law.

All ceded reinsurance agreements in effect as of the examination date were reviewed and found to contain the required clauses, including an insolvency clause meeting the requirements of Section 1308 of the New York Insurance Law.

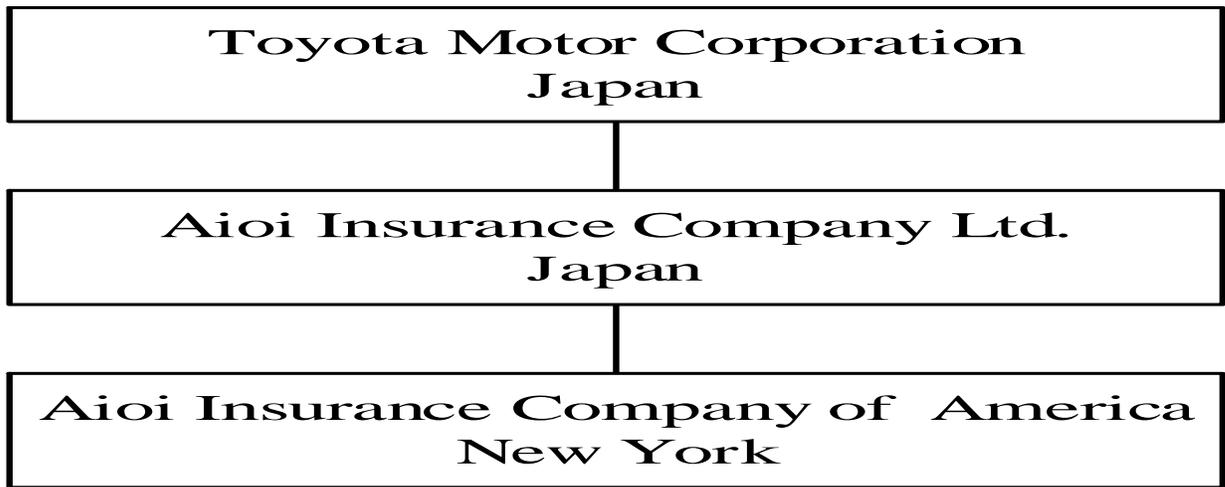
Examination review of the Schedule F data reported by the Company in its filed annual statement was found to accurately reflect its reinsurance transactions. Additionally, management has represented that all material ceded reinsurance agreements transfer both underwriting and timing risk as set forth in SSAP No. 62. Representations were supported by appropriate risk transfer analyses and an attestation from the Company's chief executive officer pursuant to Department Circular Letter No. 8 (2005). Additionally, examination review indicated that the Company was not a party to any finite reinsurance agreements. All ceded reinsurance agreements were accounted for utilizing reinsurance accounting as set forth in paragraphs 17 through 24 of SSAP No. 62.

D. Holding Company System

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

A review of the holding company registration statements filed with this Department indicated that such filings were complete and were filed in a timely manner pursuant to Article 15 of the New York Insurance Law and Department Regulation 52.

The following is an abridged chart of the holding company system at December 31, 2007:



At December 31, 2007, the Company was party to the following agreements with other members of its holding company system:

Secundment Agreement

Effective January 1, 2006, the Company entered into a secundment agreement with its parent AIOI Insurance Company Ltd. In accordance with the terms of the agreement, the Company has agreed to provide certain services beneficial to the parent, and the Company has agreed that the services will be performed by employees who are secunded from the parent to the Company to assist in executing the Company's business. The parties agree to share costs and expenses based upon the time records of the assigned employees or such basis as permitted under Department Regulation No. 30. This agreement was filed with the Department pursuant to Section 1505 of the New York Insurance Law.

Cost Allocation Agreement

Effective January 1, 2006, the Company entered into a cost allocation agreement with its parent AIOI Insurance Company Ltd. In accordance with the terms of the agreement, the Company has agreed to provide beneficial services, unrelated to the business of insurance, to the parent involving personnel and other capabilities operating from the Company's offices in the United States. This agreement was filed with the Department pursuant to Section 1505 of the New York Insurance Law.

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2007, based upon the results of this examination:

| | |
|--|-------|
| Net premiums written to surplus as regards policyholders | .72:1 |
| Liabilities to liquid assets (cash and invested assets less investments in affiliates) | 67% |
| Premiums in course of collection to surplus as regards policyholders | 29% |

All of the above ratios fall within the benchmark ranges set forth in the Insurance Regulatory Information System of the National Association of Insurance Commissioners.

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

| | <u>Amounts</u> | <u>Ratios</u> |
|--|---------------------|----------------|
| Losses and loss adjustment expenses incurred | \$35,726,144 | 52.15% |
| Other underwriting expenses incurred | 27,130,467 | 39.60 |
| Net underwriting gain | <u>5,653,949</u> | <u>8.25</u> |
| Premiums earned | <u>\$68,510,560</u> | <u>100.00%</u> |

F. Risk Management and Internal Controls

The Company's exposures are protected by a reinsurance program provided by its parent, an accredited reinsurer. Substantially all ceded business flows through the parent. The Company retains approximately sixty percent of its premiums, highlighting its dependency on reinsurance from its parent due to the large risks it insures in the United States. The only direct business written by the Company is ocean marine, which comprises about three percent of gross premiums written.

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2007 as determined by this examination and as reported by the Company:

| <u>Assets</u> | <u>Assets</u> | <u>Assets Not Admitted</u> | <u>Net Admitted Assets</u> |
|--|---------------------|--------------------------------|--------------------------------|
| Bonds | \$46,015,708 | \$ 0 | \$46,015,708 |
| Cash, cash equivalents and short-term investments | 9,582,761 | | 9,582,761 |
| Investment income due and accrued | 502,319 | | 502,319 |
| Uncollected premiums and agents' balances in the course of collection | 8,806,201 | | 8,806,201 |
| Amounts recoverable from reinsurers | 2,011,236 | | 2,011,236 |
| Funds held by or deposited with reinsured companies | 21,104 | | 21,104 |
| Net deferred tax asset | 2,219,003 | 935,544 | 1,283,459 |
| Electronic data processing equipment and software | 552,652 | 552,652 | 0 |
| Receivables from parent, subsidiaries and affiliates | 16,000 | 0 | 16,000 |
| Equities and deposits in pools and associations | <u>4,658</u> | <u>0</u> | <u>4,658</u> |
| Total assets | <u>\$69,731,642</u> | <u>\$1,488,196</u> | <u>\$68,243,446</u> |

Liabilities

| | |
|---|----------------|
| Losses and loss adjustment expenses | \$19,723,304 |
| Reinsurance payable on paid losses and loss adjustment expenses | 2,131,433 |
| Commissions payable, contingent commissions and other similar charges | 4,115 |
| Other expenses (excluding taxes, licenses and fees) | 488,549 |
| Taxes, licenses and fees (excluding federal and foreign income taxes) | 4,592 |
| Current federal and foreign income taxes | 598,318 |
| Unearned premiums | 12,331,155 |
| Ceded reinsurance premiums payable (net of ceding commissions) | 2,362,749 |
| Amounts withheld or retained by company for account of others | 18,281 |
| Payable to parent, subsidiaries and affiliates | <u>110,841</u> |
| Total liabilities | \$37,773,337 |

Surplus and Other Funds

| | |
|--|---------------------|
| Common capital stock | \$ 5,000,000 |
| Gross paid in and contributed surplus | 10,000,000 |
| Unassigned funds (surplus) | <u>15,470,108</u> |
| Surplus as regards policyholders | <u>30,470,108</u> |
| Total liabilities, surplus and other funds | <u>\$68,243,445</u> |

NOTE: The Internal Revenue Service has completed its audits of the Company's Federal Income Tax returns through tax year 2004. No material adjustments were made subsequent to the date of examination and arising from said audits. The Internal Revenue Service has not yet begun to audit tax returns covering tax years 2005 through 2007. 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 by \$18,737,578 during the five-year examination period January 1, 2003 through December 31, 2007, detailed as follows:

Underwriting Income

| | | |
|--------------------------------------|-------------------|-------------------|
| Premiums earned | | \$68,510,560 |
| Deductions: | | |
| Losses incurred | \$25,691,976 | |
| Loss adjustment expenses incurred | 10,034,168 | |
| Other underwriting expenses incurred | <u>27,130,467</u> | |
| Total underwriting deductions | | <u>62,856,611</u> |
| Net underwriting gain or (loss) | | \$ 5,653,949 |

Investment Income

| | | |
|-------------------------------|--------------|-----------|
| Net investment income earned | \$ 5,490,121 | |
| Net realized capital gain | <u>7,377</u> | |
| Net investment gain or (loss) | | 5,497,498 |

Other Income

| | | |
|---|----------------|---------------------|
| Net gain or (loss) from agents' or premium balances charged off | \$ (26,478) | |
| Aggregate write-ins for miscellaneous income | <u>165,461</u> | |
| Total other income | | <u>138,983</u> |
| Net income before federal and foreign income taxes | | \$11,290,430 |
| Federal and foreign income taxes incurred | | <u>4,950,175</u> |
| Net income | | <u>\$ 6,340,255</u> |

C. Capital and Surplus Account

| | | | |
|--|-------------------------|--------------------------|---------------------|
| Surplus as regards policyholders per report on examination as of December 31, 2002 | | | \$11,732,530 |
| | <u>Gains in Surplus</u> | <u>Losses in Surplus</u> | |
| Net income | \$ 6,340,255 | | |
| Change in net deferred income tax | 1,228,374 | | |
| Change in nonadmitted assets | | \$862,051 | |
| Change in provision for reinsurance | 2,031,000 | | |
| Surplus adjustments paid in | <u>10,000,000</u> | _____ | |
| Total gains and losses | <u>\$19,599,629</u> | <u>\$862,051</u> | |
| Net increase in surplus | | | <u>18,737,578</u> |
| Surplus as regards policyholders per report on examination as of December 31, 2007 | | | <u>\$30,470,108</u> |

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of \$19,723,304 is the same as reported by the Company as of December 31, 2007. 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 in its filed annual statements.

5. MARKET CONDUCT ACTIVITIES

The Company directly underwrites only Ocean Marine business. Therefore, a review of Market Conduct activities was not warranted.

6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination contained seven recommendations as follows (page numbers refer to the prior report):

| <u>ITEM</u> | <u>PAGE NO.</u> |
|--|-----------------|
| A. <u>Management</u> | |
| It is recommended that the board members who are unable or unwilling to attend meetings consistently should resign or be replaced. | 5 |
| The Company has complied with this recommendation. | |
| B. <u>Territory and Plan of Operation</u> | |
| 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 |
| The Company has complied with this recommendation. | |
| C. <u>Holding Company System</u> | |
| It is recommended that the Company make its holding company filings in a timely manner. | 10 |
| The Company has complied with this recommendation. | |
| 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 |
| The Company has complied with this recommendation. | |
| 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 |
| The Company has complied with this recommendation. | |

ITEMPAGE NO.F. Abandoned Property Law

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

The Company has complied with this recommendation.

G. Loss Adjustment Expenses

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

The Company has complied with this recommendation.

7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

This report contains no recommendations.

Respectfully submitted,

_____/s/_____
Lamin Jammeh,
Senior Insurance Examiner

STATE OF NEW YORK)
)SS:
)
COUNTY OF NEW YORK)

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

_____/s/_____
Lamin Jammeh

Subscribed and sworn to before me
this _____ day of _____, 2009.

STATE OF NEW YORK
INSURANCE DEPARTMENT

I, Eric R. Dinallo, Superintendent of Insurance of the State of New York,
pursuant to the provisions of the Insurance Law, do hereby appoint:

Lamin Jammeh

as proper person to examine into the affairs of the

AIOI INSURANCE COMPANY OF AMERICA

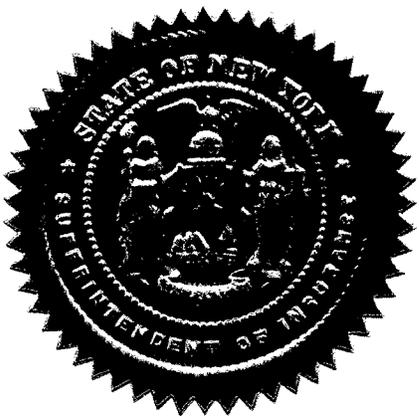
and to make a report to me in writing of the condition of the said

Company

with such other information as he 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 9th day of April, 2008



A handwritten signature in black ink, appearing to read "Eric Dinallo".

ERIC R. DINALLO
Superintendent of Insurance