

REPORT ON EXAMINATION

OF THE

UNITED STATES BRANCH

OF

LEADING INSURANCE GROUP INSURANCE COMPANY, LTD.

AS OF

DECEMBER 31, 2011

DATE OF REPORT

SEPTEMBER 28, 2012

EXAMINER

JOSEPH REVERS

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NEW YORK STATE
DEPARTMENT *of*
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Benjamin M. Lawsky
Superintendent

September 28, 2012

Honorable Benjamin M. Lawsky
Superintendent of Financial Services
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 30764 dated December 1, 2011, attached hereto, I have made an examination into the condition and affairs of Leading Insurance Group Insurance Co., Ltd. (United States Branch) as of December 31, 2011, and submit the following report thereon.

Wherever the designation “the Branch” appears herein without qualification, it should be understood to indicate Leading Insurance Group Insurance Co., Ltd. (United States Branch).

Wherever the term “Department” appears herein without qualification, it should be understood to mean the New York State Department of Financial Services.

The examination was conducted at the offices of the Branch’s manager, Leading Insurance Services, Inc. located at 400 Kelby Street, 15th Floor, Fort Lee, NJ 07024.

1. SCOPE OF EXAMINATION

The Department has performed an individual examination of the Branch, a multi-state insurer. The previous examination was conducted as of December 31, 2006. This examination covered the five-year period from January 1, 2007 through December 31, 2011. 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 (“Handbook”), which requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Branch by obtaining information about the Branch including corporate governance, identifying and assessing inherent risks within the Branch and evaluating system controls and procedures used to mitigate those risks. This 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 financially significant accounts and activities of the Branch were considered in accordance with the risk-focused examination process. The examiners also relied upon audit work performed by the Branch’s independent public accountants when appropriate.

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

- Significant subsequent events
- History of Branch
- Corporate records
- Management and control
- Fidelity bonds and other insurance
- Territory and plan of operation
- Growth of Branch
- 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 Branch 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 that are deemed to require explanation or description.

2. DESCRIPTION OF BRANCH

The Branch became licensed in the State of New York on February 28, 1990 as the United States Branch of Lucky Insurance Company, Ltd., Seoul, South Korea (the "Home Office"). The Home Office was incorporated under the laws of Seoul, South Korea on December 17, 1958. In 1995, the Home Office changed its name to LG Insurance Company, Ltd and in 2008, the Home Office adopted its current title, Leading Insurance Group Insurance Company, Ltd.

Gross paid in and contributed surplus is \$39,800,000. Gross paid in and contributed surplus increased by \$30,000,000 during the examination period, as follows:

<u>Year</u>	<u>Description</u>	<u>Amount</u>
2007	Beginning gross paid in and contributed surplus	\$ 9,800,000
2010	Surplus contribution	<u>\$30,000,000</u>
	Total Surplus Contributions	<u>\$30,000,000</u>
2011	Ending gross paid in and contributed surplus	<u>\$39,800,000</u>

A. Management

On October 31, 1989, the Branch appointed Wm. H. McGee & Co., Inc. as its lawful attorney and its United States manager under a duly executed power of attorney filed with the Department. On November 1, 2005, the Branch terminated the agreement with Wm. H. McGee & Co., and appointed Leading Insurance Services, Inc. (formerly known as LIG Management Services, Inc.), a wholly owned subsidiary of the Home Office, to manage its property and casualty business.

Management of the Branch is vested in a board of directors consisting of not less than three members of the United States manager. At December 31, 2011, the board of directors was comprised of the following three members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Hyung Kul Kim Tenafly, New Jersey	President, Leading Insurance Services, Inc.
Jong Uk Lee Seoul, South Korea	Director, Leading Insurance Services, Inc.
Dennis J Koo Tenafly, New Jersey	Co-President, Leading Insurance Services, Inc.

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 had an acceptable record of attendance.

As of December 31, 2011, the principal officers of the Branch were as follows:

<u>Name</u>	<u>Title</u>
Hyung Kul Kim	President
Dennis Koo	Co-President
John Edward Przedpelski	Executive Vice President
Doosuk Kang	Senior Vice President and Secretary
Kevin Leong	Senior Vice President
Maria Andriotis	Senior Vice President
Dong Jin Koo	Senior Vice President
Mercedes Kasten	Vice President
Young Namgung	Treasurer and Controller

B. Territory and Plan of Operation

As of December 31, 2011, the Branch was licensed to write business in the following seventeen states and the District of Columbia: Arizona, California, Colorado, Georgia, Hawaii, Illinois, Indiana, Maryland, Massachusetts, Michigan, New Jersey, New York, Pennsylvania, South Carolina, Texas, Virginia and Washington.

As of the examination date, the Branch 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>
4	Fire
5	Miscellaneous property
6	Water damage
7	Burglary and theft
8	Glass
9	Boiler and machinery
10	Elevator
12	Collision
13	Personal injury liability
14	Property damage liability
15	Workers' compensation and employers' liability
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine
21	Marine protection and indemnity

Based on the lines of business for which the Branch is licensed and pursuant to the requirements of Articles 13 and 41 of the New York Insurance Law, the Branch is required to maintain a minimum surplus to policyholders in the amount of \$2,800,000.

The following schedule shows the direct premiums written by the Branch both in total and in New York for the period under examination:

<u>Calendar Year</u>	<u>New York State</u>	<u>Total Premiums</u>	Premiums Written in New York State as a <u>percentage of Total Premium</u>
2007	\$14,656,616	\$25,092,745	58.41%
2008	\$18,838,928	\$32,200,789	58.50%
2009	\$26,042,477	\$41,770,375	62.35%
2010	\$33,955,800	\$54,828,141	61.93%
2011	\$39,296,676	\$70,435,833	55.79%

The Branch is primarily engaged in insuring commercial multi-peril risks and workers compensation insurance. The business is produced through brokers. In addition to its direct writings, the Branch also assumed business from an unaffiliated insurer.

C. Reinsurance

Assumed reinsurance accounted for less than 1% of the Branch's gross premium written at December 31, 2011. During the period covered by this examination, the Branch's assumed reinsurance business has significantly decreased since the last examination. The Branch's assumed reinsurance program consists mainly of property/casualty and multi-line coverage assumed on a quota share basis, pursuant to the terms of an agreement with an authorized cedant. The Branch utilizes reinsurance accounting as defined in Statement of Statutory Accounting Principle ("SSAP") No. 62R for all of its assumed reinsurance business.

The Branch has structured its ceded reinsurance program as follows:

<u>Type of Treaty</u>	<u>Cession</u>
<u>Property Excess of Loss</u>	
First Layer 80% authorized	\$1,000,000 excess of \$1,000,000 each risk, each loss.
Second Layer 90% authorized	\$8,000,000 excess of \$2,000,000 in respect of any one loss occurrence.
<u>Catastrophe Excess of Loss</u>	
60% authorized	\$10,000,000 excess of \$10,000,000 in respect of any one loss occurrence.
<u>Umbrella Quota Share</u>	
100% authorized	90% quota share on first \$1 million plus 100% of limits in excess of \$1,000,000 for amounts up to but not exceeding \$5,000,000.
<u>Liability Excess of Loss</u>	
100% authorized	\$1,000,000 excess of 1,000,000 with respect to all occurrences.
<u>Boiler & Machinery Quota Share</u>	
100% authorized	100% quota share in connection with the business covered not exceeding \$25,000,000.
<u>Employment Practices Liability Quota Share</u>	
100% authorized	70% quota share of each Net Loss, each claim, under each policy, not to exceed the Policy Limit.
<u>Workers' Compensation Excess of Loss</u>	
First Layer 100% authorized	\$9,500,000 excess of \$500,000 each loss occurrence.

<u>Type of Treaty</u>	<u>Cession</u>
Second Layer 100% authorized	\$10,000,000 excess of \$10,000,000 each loss occurrence.

It is the Branch's policy to obtain the appropriate collateral for its cessions to unauthorized reinsurers. Letters of credit obtained by the Branch to take credit for cessions to unauthorized reinsurers were reviewed for compliance with Department Regulation 133. No exceptions were noted.

All significant ceded reinsurance agreements in effect as of the examination date were reviewed and found to contain the required clauses, including an insolvency clause. However, the insolvency clause in two reinsurance agreements contains language that appears to make reference to another agreement. Paragraph 8c of SSAP No. 62R, states that "The agreement shall constitute the entire contract between the parties" It is recommended that the Branch amend the reinsurance agreements to comply with SSAP No. 62R and make no reference to any other agreement within the reinsurance agreement.

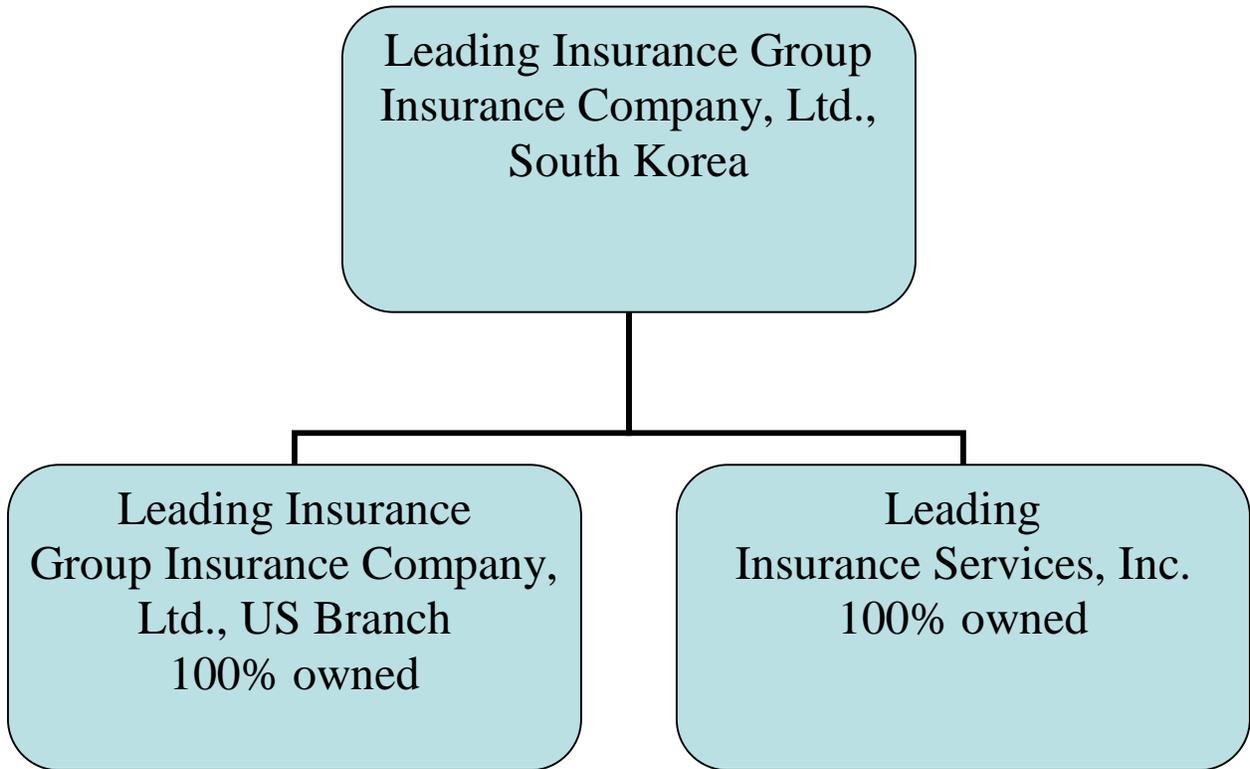
The examination review found that the Schedule F data reported by the Branch in its filed annual statement accurately reflected its reinsurance transactions. Additionally, management has represented that all material ceded reinsurance agreements transfer both underwriting and timing risk as set forth in SSAP No. 62R. Representations were supported by appropriate risk transfer analyses and an attestation from the Branch's Chief Executive Officer and Chief Financial Officer pursuant to the NAIC Annual Statement Instructions. Additionally, examination review indicated that the Branch was not a party to any finite reinsurance agreements. All ceded reinsurance agreements were accounted for utilizing reinsurance accounting as set forth in SSAP No. 62R.

D. Affiliated Group

The Branch is a member of an Affiliated Group and is the United States Branch of Leading Insurance Group Insurance Company, Ltd., South Korea. Leading Insurance Services, Inc. (the "U.S. Manager"), a New Jersey corporation, is a wholly-owned subsidiary of Leading Insurance Group Insurance Company, Ltd., South Korea.

Pursuant to Section 1502 of the New York Insurance Law, transactions between the Branch and the Home Office are exempt from the filing requirements of Article 15 of the New York Insurance Law.

The following is the chart of the affiliated group at December 31, 2011:



Effective January 1, 2011, Leading Insurance Services, Inc. (“U.S. Manager”) was appointed the United States Manager of the Branch pursuant to a management agreement, which provides that the U.S. Manager will furnish the following services for the Branch: claims, underwriting, policyholder services, investment, producer management, collection and handling of premiums and other funds, reinsurance, accounting and financial, marketing support and product development and administration, information technology, and legal and governmental relations. The management agreement was approved by this Department on January 10, 2011.

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2011, based upon the results of this examination:

Net premiums written to surplus as regards policyholders	128%
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	67%
Premiums in course of collection to surplus as regards policyholders	14%

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	\$ 89,451,415	55.30%
Other underwriting expenses incurred	82,933,618	51.27
Net underwriting loss	<u>(10,630,872)</u>	<u>(6.57)</u>
Premiums earned	<u>\$161,754,161</u>	<u>100.00%</u>

F. Accounts and Records

Compliance with Section 312 of the New York Insurance Law

The Branch was unable to provide statements from its board members stating that they had received and read the prior report on examination.

Section 312(b) of the New York Insurance Law states that:

“A copy of the report shall be furnished by such insurer or other person to each member of the board of directors and each such member shall sign a statement, which shall be retained in the insurer’s files confirming that such member has received and read such report.”

It is recommended that the Branch provide each member of the board of directors of its U.S. Manager with a copy of the report on examination, as soon as possible after it is filed, and have each director sign a statement confirming that they have received and read such report and retain such statement in its files pursuant to Section 312(b) of the New York Insurance Law. It is noted that a similar recommendation was included in the prior report on examination.

Conflict of Interest Statements

The Branch requires all directors, officers and key employees of the Manager to sign Conflict of Interest Statements upon hiring; however, the Conflict of Interest Statements are not updated after hiring. It is recommended that all directors, officers and key employees of the Branch’s Manager sign a conflict of interest statement on an annual basis.

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2011 as determined by this examination and as reported by the Branch:

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$102,877,097	\$ 0	\$102,877,097
Cash, cash equivalents and short-term investments	12,288,273		12,288,273
Investment income due and accrued	1,402,178		1,402,178
Uncollected premiums and agents' balances in the course of collection	7,577,818	631,859	6,945,959
Deferred premiums, agents' balances and installments booked but deferred and not yet due	7,407,369		7,407,369
Amounts recoverable from reinsurers	1,295,683		1,295,683
Net deferred tax asset	4,647,800	1,566,971	3,080,829
Electronic data processing equipment and software	2,670,640	2,670,640	0
Miscellaneous accounts receivable/payable	100,000		100,000
Other assets	<u>2,471</u>		<u>2,471</u>
Total assets	<u>\$140,269,329</u>	<u>\$4,869,470</u>	<u>\$135,399,859</u>

Liabilities, Surplus and Other Funds

Liabilities

Losses and loss adjustment expenses	\$ 43,544,354
Commissions payable, contingent commissions and other similar charges	1,538,073
Other expenses (excluding taxes, licenses and fees)	1,670,552
Taxes, licenses and fees (excluding federal and foreign income taxes)	382,115
Current federal and foreign income taxes	481,000
Unearned premiums	36,247,405
Ceded reinsurance premiums payable (net of ceding commissions)	791,098
Provision for reinsurance	365,747
Payable to parent, subsidiaries and affiliates	230,229
Liabilities for state policy fees and surcharges	454,509
Other amounts payable under reinsurance contracts	<u>874</u>
Total liabilities	\$ 85,705,956

Surplus and Other Funds

Statutory deposit with Superintendent of Insurance – State of New York	\$ 2,500,000
Gross paid in and contributed surplus	39,800,000
Unassigned funds (surplus)	<u>7,393,903</u>
Surplus as regards policyholders	<u>49,693,902</u>
Total liabilities, surplus and other funds	<u>\$135,399,859</u>

Note: The Internal Revenue Service has completed its audits of the Branch's Federal Income Tax returns through tax year 2009. All material adjustments made subsequent to the date of examination and arising from said audits, are reflected in the financial statements included in this report. The Internal Revenue Service has not audited, to this date, tax returns covering tax years 2010 and 2011. The examiner is unaware of any potential exposure of the Branch to any tax assessment and no liability has been established herein relative to such contingency.

B. Statement of Income

Surplus as regards policyholders increased \$33,070,058 during the five-year examination period January 1, 2007 through December 31, 2011, detailed as follows:

Underwriting Income

Premiums earned		\$161,754,161
Deductions:		
Losses and loss adjustment expenses incurred	\$89,451,415	
Other underwriting expenses incurred	<u>82,933,618</u>	
Total underwriting deductions		<u>172,385,033</u>
Net underwriting gain or (loss)		\$(10,630,872)

Investment Income

Net investment income earned	\$14,421,582	
Net realized capital gain	<u>295,915</u>	
Net investment gain or (loss)		14,717,497

Other Income

Net gain or (loss) from agents' or premium balances charged off	\$ (470,568)	
Aggregate write-ins for miscellaneous income	<u>252,313</u>	
Total other income		<u>(218,255)</u>
Net income before dividends to policyholders and before federal and foreign income taxes		\$ 3,868,370
Dividends to policyholders		<u>0</u>
Net income after dividends to policyholders but before federal and foreign income taxes		3,868,370
Federal and foreign income taxes incurred		<u>3,192,485</u>
Net income		\$ <u><u>675,885</u></u>

Surplus as regards policyholders per report on examination as of December 31, 2006			\$16,623,844
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income	\$ 675,886		
Net unrealized capital losses		15,707	
Change in net deferred income tax	3,687,349		
Change in non-admitted assets		3,023,808	
Change in provision for reinsurance	1,653,546		
Surplus adjustments paid in	30,000,000		
Aggregate write-ins for gains and losses in surplus	<u>92,792</u>		
Total gains or losses in surplus	<u>\$36,109,573</u>	<u>\$3,039,515</u>	
Net increase (decrease) in surplus			<u>\$33,070,058</u>
Surplus as regards policyholders per report on examination as of December 31, 2011			<u>\$49,693,902</u>

C. Trusteed Surplus Statement

The following statement shows the trusteed surplus of the Branch calculated in accordance with Section 1312 of the New York Insurance Law and as determined by this examination:

Assets

Securities deposited with state insurance departments for the protection of all policyholders and creditors within the United States:

New York	\$ 2,502,438	
Accrued interest	<u>47,609</u>	
Total general deposits		\$ 2,550,047
Vested in and held by United States Trustee:		
Cash	\$ 1,314,475	
Bonds	75,151,350	
Accrued interest on trusteed assets	<u>1,063,050</u>	
Total vested in and held by United States Trustee		<u>77,528,875</u>
Total Trusteed Assets		<u>\$80,078,922</u>

Liabilities

Liabilities as determined by this examination		\$85,705,956
Additions to liabilities:		
Ceded reinsurance balances payable	0	
Total additions	<u>0</u>	<u>0</u>
Total liabilities		85,705,956

Deductions from liabilities:

Reinsurance recoverable (authorized companies)	\$ 448,386	
Reinsurance recoverable (unauthorized companies)	847,297	
Agents' balances not more than ninety days past due not exceeding unearned premium reserves carried thereon	14,353,328	
Unpaid reinsurance premiums receivable not exceeding losses and loss adjustment expenses due to reinsured:		
	Authorized 21,816	
	Unauthorized <u>6,842</u>	
Total deductions		<u>15,677,669</u>
Net liabilities (per Section 1312)		\$70,028,287
Trusteed Surplus		<u>10,050,635</u>
Total trusteed liabilities and surplus		<u>\$80,078,922</u>

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of \$43,544,354 is the same as reported by the Company as of December 31, 2011. 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. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination contained 11 recommendations as follows (page numbers refer to the prior report):

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Reinsurance</u>	
i. It is recommended that the Branch keep a copy of all its LOC's readily available to provide to the Department upon request.	7
The Branch has complied with this recommendation.	
ii. It is recommended that the Branch amend its trust agreement to include the language required by Department Regulation No. 114.	7
The Branch has complied with this recommendation.	
iii. It is recommended that the Branch comply with Section 1308(e)(1)(A) of the New York Insurance Law and seek permission of the Superintendent before ceding more than 50% of its direct premium written.	8
The Branch has complied with this recommendation.	
iv. It is recommended that the Branch management ensure that all reinsurance agreements contain an insolvency clause as required by Section 1308(a)(2)(A) of the New York Insurance Law.	8
The Branch has complied with this recommendation.	
v. It is recommended that the Branch comply with the provisions of SSAP 62 and have all reinsurance agreements signed within nine months of the effective date.	8
The Branch has complied with this recommendation.	
B. <u>Accounts and Records</u>	
i. It is recommended that the Branch comply with the requirements of Section 1411(a) of the New York Insurance Law by having all its investments authorized or approved by its board of directors or a committee thereof.	11
The Branch has complied with this recommendation.	

<u>ITEM</u>		<u>PAGE NO.</u>
ii.	It is recommended that the Branch include the safeguard provisions in any custodial agreements it enters into as required by Part 1, Section IV-J of the NAIC Financial Condition Examiners Handbook. The Branch has complied with this recommendation.	11
iii.	It is recommended that the Branch comply with Section 312(b) of the New York Insurance Law by submitting the report on examination to its board of directors, have each director sign a statement and retain a copy that such member has received and read the report. The Branch has not complied with this recommendation.	11
iv.	It is recommended that the Branch submit its audited financial statement to the Department in a timely manner as required by Section 307(b)(1) of the New York Insurance Law. The Branch has complied with this recommendation.	12
C.	<u>CPA Contract</u> It is recommended that the Branch comply with Department Regulation 118 by entering into future contracts with its independent certified public accountant that contain the requisite provisions. The Branch has complied with this recommendation.	12
D.	<u>Fidelity Bond Coverage</u> It is recommended that the manager of the Branch obtain fidelity bond coverage for its directors, officers and key employees as required by Exhibit 1 of the NAIC Financial Condition Examiners Handbook. The Branch has complied with this recommendation.	12

6. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Reinsurance</u>	
It recommended that the Branch amend the reinsurance agreements to comply with SSAP No. 62R and make no reference of any other agreement within the reinsurance agreement.	5
B. <u>Accounts and Records</u>	
i. It is recommended that the Branch provide each member of the board of directors of its U.S. Manager with a copy of the report on examination, as soon as possible after it is filed, and have each director sign a statement confirming that they have received and read such report and retain such statement in its files pursuant to Section 312(b) of the New York Insurance Law.	10
ii. It is recommended that all directors, officers and key employees of the Branch's Manager sign a conflict of interest statement on an annual basis.	10

Respectfully submitted,

_____/s/
Joseph Revers, CFE
Senior Insurance Examiner

STATE OF NEW YORK)
)ss:
COUNTY OF NEW YORK)

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

_____/s/
Joseph Revers

Subscribed and sworn to before me

this _____ day of _____, 2012.

NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

I, BENJAMIN M. LAWSKY, Superintendent of Financial Services of the State of New York, pursuant to the provisions of the Financial Services Law and the Insurance Law, do hereby appoint:

Joseph Revers

as a proper person to examine the affairs of the

**LEADING INSURANCE GROUP INSURANCE Co., Ltd.
(UNITED STATES BRANCH)**

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

BRANCH

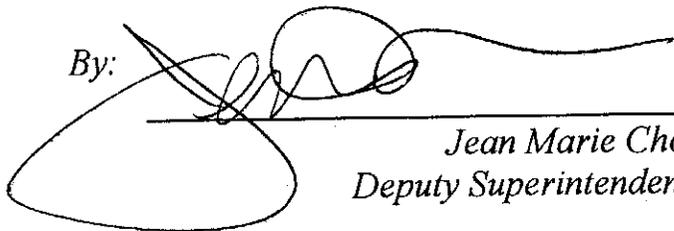
with such other information as he shall deem requisite.

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

this 1st day of December, 2011

BENJAMIN M. LAWSKY
Superintendent of Financial Services

By:



Jean Marie Cho
Deputy Superintendent

