

REPORT ON EXAMINATION

OF

SAMSUNG FIRE & MARINE INSURANCE COMPANY, LIMITED (U.S. BRANCH)

AS OF

DECEMBER 31, 2015

DATE OF REPORT

APRIL 1, 2017

EXAMINER

JUSTIN MATHEW

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NEW YORK STATE  
DEPARTMENT *of*  
FINANCIAL SERVICES

Andrew M. Cuomo  
Governor

Maria T. Vullo  
Superintendent

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April 1, 2017

Honorable Maria T. Vullo  
Superintendent  
New York State Department of Financial Services  
Albany, New York 12257

Madam:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 31408 dated December 29, 2015, attached hereto, I have made an examination into the condition and affairs of Samsung Fire & Marine Insurance Co., Ltd. (U.S. Branch) as of December 31, 2015, and submit the following report thereon.

Wherever the designation “Branch” appears herein without qualification, it should be understood to indicate Samsung Fire & Marine Insurance Co., Ltd. (U.S. Branch).

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

Wherever the term “Home Office” appears herein without qualification, it should be understood to mean the Samsung Fire & Marine Insurance Company, Limited of Seoul, South Korea.

The examination was conducted at the Branch’s administrative office located at 105 Challenger Road, Ridgefield Park, NJ 07660.

This examination has determined that as of December 31, 2015, the Branch’s trusteed surplus was insolvent in the amount of \$10,645,056 and its required to be maintained trusteed surplus of \$3,700,000 was impaired in the amount of \$14,345,056.

In December 2016, the Branch received \$78,000,000 in capital contributions from its Home Office. The \$78,000,000 capital contribution was enough to eliminate both the trusted surplus impairment and insolvency at the examination date, as a portion was deposited directly into the trusted asset account.

## 1. SCOPE OF EXAMINATION

The Department has performed a coordinated examination of the Branch, a multi-state insurer. The state of California participated in the examination. The previous examination was conducted as of December 31, 2010. This examination covered the five-year period from January 1, 2011 through December 31, 2015. 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. This examination included a review and evaluation of the Branch’s own control environment assessment. The examiners also relied upon audit work performed by the Branch’s independent public accountants where deemed appropriate. It should be noted that effective January 1, 2012, the Branch changed its U.S. Manager to Samsung Fire & Marine Management Corporation.

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

- Branch history
- Management and control
- Territory and plan of operation
- Growth of Branch
- Reinsurance
- Loss experience
- Financial statements
- Summary of recommendations

A review was also made to ascertain what actions were 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 was established under New York law on April 1, 1990 as the United States Branch of the Ankuk Fire & Marine Insurance Company, Ltd., a property and casualty insurer incorporated under the laws of the Republic of Korea on January 26, 1952. On December 6, 1993, Ankuk Fire & Marine Insurance Company, Ltd. changed its name to Samsung Fire & Marine Insurance Company, Limited and the Branch officially adopted its current name, Samsung Fire & Marine Insurance Co., Ltd. (U.S. Branch) on January 4, 1994.

Pursuant to Section 1312 of the New York Insurance Law, the Branch keeps in trust for the exclusive benefit of its policyholders and creditors, funds sufficient to cover liabilities and statutory deposit requirements. The Branch's funds, which are trusteeed, are subject to withdrawal only with the consent of the Department. As of December 31, 2015, these assets along with deposits with state insurance departments for the protection of all policyholders amounted to \$85,651,469. The Branch's minimum surplus requirement is \$3,700,000. The Branch reported \$28,298,326 in trusteeed surplus as of December 31, 2015.

### **A. Management**

As a United States branch of an alien insurer licensed in this state, the Branch is required to conduct its business through a United States manager. Chubb Multinational Manager, Inc. ("Chubb") was appointed under a power of attorney agreement dated September 18, 1989, to act as true and lawful attorney-in-fact, agent and United States manager for the operation of the Branch. Chubb managed every aspect of the Branch's operations which included underwriting, claims, reinsurance, investments, financial reporting, cash management, and taxes. The management agreement with Chubb was terminated on May 31, 2010. Effective June 1, 2010 the Branch appointed Genamerica Management Corporation ("Genamerica") as its United States

manager. Effective January 1, 2012, the Branch terminated its relationship with Genamerica and appointed Samsung Fire and Marine Management Corporation (“Samsung F&MMC”), a newly established subsidiary of the Home Office, as the new manager. The Department approved the management agreement between the Branch and Samsung F&MMC on December 2, 2011.

The Branch has no directors or principal officers. The managing directors of Samsung Fire & Marine Management Corporation oversee the affairs of the Branch. As of December 31, 2015, Samsung F&MMC was comprised of the following directors:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
David Pieffer Bel Air, Maryland	President and Chief Executive Officer Samsung Fire & Marine Management Corporation
Junsuk Choi Seoul, South Korea	Vice President Samsung Fire & Marine Insurance Co., Ltd. (Korea)
Hyunku Bae Northvale, New Jersey	Chief Financial Officer and Treasurer Samsung Fire & Marine Management Corporation

It is noted that Sanghoon Oh served as President and Chief Executive Officer for the majority of 2015, but was replaced by David Pieffer in December.

A review of the minutes of the board of directors’ meetings held during the examination period indicated that the meetings were generally well attended by the current manager.

As of December 31, 2015, the principal officers of the Corporation were as follows:

<u>Name</u>	<u>Title</u>
David Pieffer	President, Chief Executive Officer and Chief Underwriting Officer
Hyunku Bae	Treasurer and Chief Financial Officer
James Carew	Controller
Annabel Teiling	Secretary and General Counsel
Deanna Bryan	Vice President of Underwriting

Pursuant to the provisions of Section 1315 of the New York Insurance Law, an alien insurer is required to maintain trusteed assets for the security of all its policyholders and creditors within

the United States and to appoint a trustee of such assets. Under the terms of a deed of trust dated October 13, 2010, the Branch maintains these assets and designated Deutsche Bank Trust Company Americas as its United States trustee. The deed provides that legal title to the trustee assets shall be vested in the trustee and its lawfully appointed successors. The trustee is authorized to sell or collect any security or property and to invest and reinvest the proceeds thereof upon the written direction of the United States Manager.

B. Territory and Plan of Operation

As of December 31, 2015, the Branch was licensed to write business in forty-four states and the District of Columbia. The Branch is primarily engaged in writing commercial multiple peril, workers' compensation and other liability on a direct basis. The business is produced through retailers and wholesale agents.

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
16	Fidelity and Surety
19	Motor Vehicle and Aircraft Physical Damage
20	Marine and Inland Marine
21	Marine Protection and Indemnity
29	Legal Services

The Branch is also empowered to transact such workers' compensation insurance as may be incident to coverage contemplated under paragraphs 20 and 21 of Section 1113(a) of the New

York Insurance Law, including insurances described in the Longshoremen's and Harbor Workers' Compensation Act (Public Law No. 803, 69th Congress as amended; 33 USC Section 901 et. seq. as amended). The Branch's authority to write insurance is limited to the writing of contracts issued for delivery in the United States, insuring risks of policyholders within the United States.

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 \$3,700,000 and to maintain its trusted surplus at or above its level of minimum surplus to policyholders.

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>
2011	\$16,353,961	\$ 16,478,458	99.24%
2012	\$30,170,589	\$ 47,881,955	63.01%
2013	\$36,772,744	\$128,865,639	28.54%
2014	\$44,976,014	\$158,729,662	28.33%
2015	\$36,893,132	\$126,150,112	29.25%

As noted in the above table, the Branch's total premiums written peaked at \$158,729,662 in 2014. In 2015, the Branch began to reduce its writings in those lines of business that were responsible for its poor underwriting results. The Branch also began efforts to improve pricing and monitor underwriting expenses more closely.

C. Reinsurance

Assumed

The Branch's assumed reinsurance accounted for approximately 6% of the Branch's gross premium written at December 31, 2015. The majority of assumed business consists of commercial multiple peril. The Branch entered into a reinsurance agreement with Generali US Branch, effective January 1, 2013, whereby the Branch reinsures 100% of property, casualty, marine and

engineering risks with a maximum limit of \$500,000,000. The agreement was originally in effect for three years and set to expire on January 1, 2016. However, the Branch terminated the agreement on May 28, 2015 because it was not profitable. All policies would continue to run until January 1, 2016.

### Ceded

The Branch structured its ceded reinsurance program to limit its maximum exposure as follows:

<u>Type of Treaty</u>	<u>Coverage</u>
<u>Marine Excess of Loss</u>	
Cargo - Two Layers	\$13,500,000 excess of \$1,500,000 any one loss and/or series of losses arising from one event.
Marine First Layer	\$15,000,000 any one loss and/or series of losses arising from one event excess of underlying Hull & Cargo layers.
Marine Second Layer	\$20,000,000 excess of \$15,000,000 any one loss and/or series of losses arising from one event which in turn is excess of underlying Hull & Cargo layers.
<u>Property Event Excess of Loss</u>	
Four Layers	\$295,000,000 excess of \$5,000,000 each and every loss and/or series of losses arising out of one event.
<u>Property Risk Excess of Loss</u>	
Six Layers	\$298,000,000 excess of \$2,000,000, each and every loss, each and every risk.
<u>Casualty Excess of Loss</u>	
First Layer	

\$8,500,000 excess of \$1,500,000 as respects any one occurrence; \$25,500,000 in all during term of the contract.

Terrorism Excess of Loss

First Layer

\$2,500,000 excess of \$2,500,000. \$2,500,000 per occurrence limit, \$5,000,000 term limit.

Second Layer

\$5,000,000 excess of \$5,000,000. \$5,000,000 per occurrence limit, \$10,000,000 term limit.

Workers Compensation and Employers Liability Catastrophe Excess of Loss

First Layer

\$12,000,000 excess of \$10,000,000 as respects any one occurrence.

Multiple Lines Quota Share

Schedule #1: Equipment Breakdown Liability

100% quota share up to \$100,000,000 any accident, any one policy.

Schedule #2: Employer Practices Liability

100% quota share up to \$2,000,000 each wrongful employment act, subject to the annual aggregate limit in the policy not to exceed \$2,000,000.

Schedule #3: Data Compromise & Identity Recovery

100% quota share up to \$250,000 annual aggregate per policy for response expenses and \$250,000 annual aggregate per policy for defense and liability. \$15,000 annual aggregate as respects each identify recovery insured.

Schedule #4: Cyber Coverage

100% quota share up to \$250,000 annual aggregate per policy for computer attack and \$250,000 annual aggregate per policy for network security liability.

Workers Compensation and Employers Liability -100% Quota Share

\$1,000,000 as respects any one occurrence, \$2,000,000 as respects all occurrences arising

out of an act of terrorism for term of the contract.

Cargo 50% Quota Share

Marine/Inland Transit Risk	\$15,000,000 any one conveyance.
Store Risk	\$15,000,000 per limit of location and \$30,000,000 per limit of location for Coppell Warehouse.
Barge Transportation/Fish Catch	\$4,000,000 any one conveyance.

Casualty Quota Share

Overseas Liabilities, Employee Benefits Errors or Omissions, Umbrella and Excess Policies	\$1,000,000 per risk.
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Property 50% Quota Share

Property, Auto Physical Damage and Terrorism Coverage Risk	\$20,000,000 each and every risk (Terrorism Only) \$30,000,000 each and every risk (Other Than Terrorism)
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As of December 31, 2015, the Branch reported \$65,268,000 in net reinsurance recoverables from Korean Reinsurance Company (“Korean Re”). The credit risk represented by this recoverable is partially mitigated by a letter of credit established by Korean Re in the amount of \$60,949,000 for the benefit of the Branch.

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 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.

The examination review of Schedule F data reported by the Branch 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. 62R. Representations were supported by appropriate risk transfer analyses and an attestation from the U.S Manager's Chief Executive Officer and Chief Financial Officer pursuant to the NAIC Annual Statement Instructions. Additionally, the 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. Holding Company System

Pursuant to Section 1502(a) of the New York Insurance Law, authorized insurers, including alien insurers transacting business in this state through United States Branches, or their subsidiaries are not deemed to be holding companies within the meaning of Article 15 of the New York Insurance Law, and accordingly are exempt from its provisions. However, pursuant to Department Circular Letter 2010-10, every domestic insurer that is exempt from Article 15 of the New York Insurance Law is required to furnish the superintendent with copies of the insurance holding company system annual registration statement ("NAIC Form B") filed in another state by the insurer. If the insurer is not required to file NAIC Form B in another state, then the insurer should file the information contained in the filing with the Department within 120 days following the close of its fiscal year.

The Branch filed its NAIC Form B with the Department in a timely manner for all years under examination.

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2015:

Net premiums written to surplus as regards policyholders	119%
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	90%
Premiums in course of collection to surplus as regards policyholders	26%

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:

	<u>Amounts</u>	<u>Ratios</u>
Losses and loss adjustment expenses incurred	\$191,555,617	71.77%
Other underwriting expenses incurred	94,383,590	35.36
Net underwriting loss	<u>(19,038,877)</u>	<u>(7.13)</u>
Premiums earned	<u>\$266,900,330</u>	<u>100.00%</u>

### 3. FINANCIAL STATEMENTS

#### A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2015 as reported by the Branch.

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$138,924,460		\$138,924,460
Cash and short-term investments	20,693,537		20,693,537
Invested assets	600		600
Investment income due and accrued	519,914		519,914
Uncollected premiums and agents' balances in the course of collection	17,929,512	5,366,709	12,562,803
Deferred premiums, agents' balances and installments booked but deferred and not yet due	22,817,326		22,817,326
Amounts recoverable from reinsurers	15,330,900		15,330,900
Current federal and foreign income tax recoverable and interest thereon	1,506,455		1,506,455
Net deferred tax asset	7,882,688	7,882,688	0
Electronic data processing equipment and software	5,546,400	4,094,153	1,452,247
Furniture and equipment, including health care delivery assets	462,792	462,792	0
Leasehold	643,975	643,975	0
Other than invested assets	101,126		101,126
Prepaid expenses	<u>1,480,855</u>		<u>1,480,855</u>
Total assets	<u>\$233,840,540</u>	<u>\$18,450,318</u>	<u>\$215,390,223</u>

Liabilities

Losses and loss adjustment expenses		\$ 86,936,612
Reinsurance payable on paid losses and loss adjustment expenses		954,223
Commissions payable, contingent commissions and other similar charges		1,876,015
Other expenses (excluding taxes, licenses and fees)		1,050,208
Taxes, licenses and fees (excluding federal and foreign income taxes)		1,980,352
Unearned premiums		24,340,955
Ceded reinsurance premiums payable (net of ceding commissions)		26,345,334
Funds held by company under reinsurance treaties		13,983,802
Amounts withheld or retained by company for account of others		2,963,045
Provision for reinsurance		3,946,289
Payable to parent, subsidiaries and affiliates		1,392,733
Payable for securities		31,598
Direct loss payable		597,010
CA WC refund payable		37,105
Premium deficiency reserve		<u>197,838</u>
Total liabilities		\$166,633,119

Surplus and other funds

Statutory deposit	\$ 1,925,000	
Unassigned funds (surplus)	<u>46,832,104</u>	
Surplus as regards policyholders		<u>48,757,104</u>
Total liabilities, surplus and other funds		<u>\$215,390,223</u>

Note: 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

Net income, as reported by the Branch, for the five-year examination period, January 1, 2011 through December 31, 2015, was \$(7,959,318) detailed as follows:

Underwriting Income

Premiums earned		\$ 266,900,330
Deductions:		
Losses and loss adjustment expenses incurred	\$191,555,617	
Other underwriting expenses incurred	94,185,752	
Aggregate write-ins for underwriting deductions	<u>197,838</u>	
Total underwriting deductions		<u>285,939,207</u>
Net underwriting loss		(19,038,877)

Investment Income

Net investment income earned	10,040,020	
Net realized capital gain	<u>2,558,586</u>	
Net investment gain		12,598,606
<u>Other income</u>		
Net gain from agents' or premium balances charged off	9,357	
Aggregate write-ins for miscellaneous income	<u>746,509</u>	
Total other income		<u>755,866</u>
Net loss before federal and foreign income taxes		(5,684,405)
Federal and foreign income taxes incurred		<u>2,274,913</u>
Net loss		\$ <u>(7,959,318)</u>

C. Surplus as Regards Policyholders

Surplus as regards policyholders decreased \$20,265,251, as reported by the Branch, during the five-year examination period January 1, 2011 through December 31, 2015, detailed as follows:

Surplus as regards policyholders as reported by the Branch as of December 31, 2010			\$ 69,022,355
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net loss		\$ 7,959,317	
Net unrealized capital gains	\$ 43,237		
Change in net deferred income tax	5,630,305		
Change in non-admitted assets		15,650,394	
Change in provision for reinsurance		1,292,106	
Aggregate write-ins for gains and losses in surplus	_____	<u>1,036,976</u>	
Total gains and losses	<u>\$5,673,542</u>	<u>\$25,938,793</u>	
Net decrease in surplus			<u>(20,265,251)</u>
Surplus as regards policyholders as reported by the Branch as of December 31, 2015			<u>\$ 48,757,104</u>

D. Trusteed Surplus Statement

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

Assets

Securities deposited with the Department of Financial Services for the protection of all policyholders and creditors within the United States:

New York	\$ 2,718,591	
Accrued investment income	<u>381,266</u>	
Total general deposits		\$ 3,099,857

Vested in and held by United States Trustee:

Cash	5,505,300	
Bonds	76,759,150	
Accrued investment income	<u>287,162</u>	
Total vested in and held by United States Trustee		<u>82,551,612</u>

Total assets \$ 85,651,469

Liabilities

Total liabilities per company \$166,633,119

Deductions from liabilities:

Reinsurance recoverable on paid losses and loss adjustment expenses:

Authorized companies	82,338
Unauthorized companies	15,248,562
Special state deposits	37,753,982
Accrued interest on special state deposits	121,428
Agents balances and uncollected premiums	35,380,129
Available cash	<u>20,693,537</u>

Total deductions 109,279,976

Net liabilities (Section 1312) 57,353,143

Trusteed surplus (Section 1312) 28,298,326

Total liabilities and trustee surplus \$ 85,651,469

E. Examination Changes

The following table details the changes to surplus as regards policyholders as determined by this examination:

Surplus as regards policyholders as of December 31, 2015 as per filed annual statement		\$ 48,757,104
	<u>Decrease</u>	
Losses and loss adjustment expenses	\$25,228,000	
Provision for reinsurance	8,833,220	
Premium deficiency reserve	<u>4,882,162</u>	
Net decrease		<u>(38,943,382)</u>
Surplus as regards policyholders as of December 31, 2015 after examination adjustments		\$ <u>9,813,722</u>
Trusted surplus as of December 31, 2015		\$ 28,298,326
Examination adjustments (detailed above)		<u>(38,943,382)</u>
Trusted surplus as of December 31, 2015 after examination adjustments		<u>(10,645,056)</u>

This examination has determined that as a result of the changes to surplus as regards policyholders described above, the Branch's trusted surplus as of December 31, 2015, was insolvent in the amount of \$10,645,056 and the required to be maintained trusted surplus of \$3,700,000 was impaired in the amount of \$14,345,056.

In December 2016, the Branch received \$78,000,000 in capital contributions from its Home Office. The \$78,000,000 capital contribution was enough to eliminate both the trusted surplus impairment and insolvency at the examination date, as a portion was deposited directly into the trusted asset account.

#### 4. **LOSSES AND LOSS ADJUSTMENT EXPENSES**

The examination liability for the captioned items of \$112,164,612 is \$25,228,000 more than the \$86,936,612 reported by the Branch in its December 31, 2015 filed annual statement. The examination analysis of the Loss and Loss Adjustment Expense reserves was conducted in accordance with generally accepted actuarial principles and statutory accounting principles, including the NAIC Accounting Practices & Procedures Manual, Statement of Statutory Accounting Principle No. 55 (“SSAP No. 55”).

It is noted that the largest components of the examination adjustments were in the commercial multiple peril liability and workers compensation lines of business.

The examiner notes that the aforementioned \$25,228,000 increase in the loss and loss adjustment expenses was incorporated into the examination changes section of this report.

Subsequent to the examination date, the Company strengthened reserves as of December 31, 2016 and consequently filed a one year loss and LAE reserve deficiency of \$39.24 million. As this runoff deficiency exceeds our projected reserve deficiency, no further changes to the Company’s financial statements are required.

Section 1303 of the New York Insurance Law states, in part:

“Every insurer shall...maintain reserves in an amount estimated in the aggregate to provide for the payment of all losses or claims incurred on or prior to the date of statement, whether reported or unreported, which are unpaid as of such date and for which such insurer may be liable, and also reserves in an amount estimated to provide for the expenses of adjustment or settlement of such losses or claims.”

Further, Paragraph 10 of SSAP No. 55 states, in part:

“The liability for claim reserves and claim liabilities, unpaid losses, and loss/claim adjustment expenses shall be based upon the estimated ultimate cost of settling the claims (including the effects of inflation and other societal and economic factors), using past experience adjusted for current trends, and any other factors that would modify past experience...”

It is recommended that the Branch address these reserving inadequacies and increase its carried reserves to an appropriate level, pursuant to the provisions of Section 1303 of the New York Insurance Law and Paragraph 10 of SSAP No. 55.

## **5. PREMIUM DEFICIENCY RESERVE**

The examination liability for the captioned item of \$5,080,000 is \$4,882,162 more than the \$197,838 reported by the Branch in its December 31, 2015 filed annual statement. This determination was based on the Branch's poor underwriting experience and the requirements of Paragraph 17 of SSAP No. 53, which states, in part:

“When the anticipated losses, loss adjustment expenses, commissions and other acquisition costs, and maintenance costs exceed the recorded unearned premium reserve and any future installment premiums on existing policies, a premium deficiency reserve shall be recognized by recording an additional liability for the deficiency, with a corresponding charge to operations...”

The examiner notes that the aforementioned \$4,882,162 increase in the premium deficiency reserve was incorporated into the examination changes section of this report.

## **6. PROVISION FOR REINSURANCE**

The examination liability for the captioned item of \$12,779,509 is \$8,833,220 more than the \$3,946,289 reported by the Branch in its December 31, 2015 filed annual statement. The examination increase was calculated based on increased cessions to reinsurers, which was determined as part of the actuarial review of outstanding losses and loss adjustment expenses as further described in Item 4 of this report.

The examiner notes that the aforementioned \$8,833,220 increase in the provision for reinsurance was incorporated into the examination changes section of this report.

## 7. CONCLUSION

This examination has determined that as of December 31, 2015, the Branch's trusted surplus, as defined in Section 1312(c) of the New York Insurance Law, was insolvent in the amount of \$10,645,056 and its required to be maintained trusted surplus of \$3,700,000 was impaired in the amount of \$14,345,056. It is noted that the Branch's statutory surplus was neither impaired nor insolvent as of December 31, 2015.

The examination's statutory surplus of \$9,813,722 is \$20,458,778 greater than this examination's trusted surplus of \$(10,645,056). The most significant components of this difference are that the trusted surplus statement, as opposed to the statutory financials, does not recognize as admitted assets reinsurance recoverables on paid losses in dispute and reinsurance recoverables on paid losses from unauthorized companies without collateral in place.

In December 2016, the Branch received \$78,000,000 in capital contributions from its Home Office. The \$78,000,000 capital contribution was enough to eliminate both the trusted surplus impairment and insolvency at the examination date, as a portion was deposited directly into the trusted asset account.

In addition to the capital contribution noted above, the Branch addressed the need to improve its underwriting performance through meetings and correspondence with the Department. The issue was also addressed in the 2016 Management Discussion and Analysis Report. The highlighted initiatives include:

- A reduced exposure to workers compensation business;
- Careful underwriting and a focus on renewal business;
- An emphasis on future business, to the extent possible, on Samsung branded risks;
- A revision of the Company's risk appetite to reduce the hazard profile of the book;
- Implementation of a planned reduction in premium volume;
- Improved oversight of outside third party administrator.

## 8. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

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

<u>ITEM</u>	<u>PAGE NO.</u>
<p>A.     <u>Reinsurance</u></p> <p>It is recommended that the Branch include an insolvency clause in the listed agreements that include the provisions in Section 1308 of the New York Insurance Law.</p> <p>The Branch has complied with this recommendation.</p> <p>It is recommended that the Branch include an intermediary clause in the listed agreements that include the provisions of Part 125.6 of Department Regulation 20.</p> <p>The Branch has complied with this recommendation.</p>	<p>7-8</p> <p>8</p>
<p>B.     <u>Actuarial Report</u></p> <p>It is recommended that the Branch take due care to accurately complete its actuarial report.</p> <p>The Branch has complied with this recommendation.</p>	<p>10</p>
<p>C.     <u>Information Technology Review</u></p> <p>It is recommended that the Branch obtain SAS70 Type II Reports (SSAE 16 report) on the effectiveness of the systems outsourced by the service provider.</p> <p>The Branch has complied with this recommendation.</p>	<p>11</p>
<p>D.     <u>Internal Controls</u></p> <p>It is recommended that the U.S. Manager conduct periodic audits of the services performed by the Branch's third party administrators.</p> <p>The Branch has complied with this recommendation.</p>	<p>11</p>

## 9. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>	<u>PAGE NO.</u>
<p>A. <u>Trusted Surplus Insolvency and Impairment</u></p> <p>This examination has determined that as of December 31, 2015, the Branch's trusted surplus was insolvent in the amount of \$10,645,056 and its required to be maintained trusted surplus of \$3,700,000 was impaired in the amount of \$14,345,056.</p> <p>In December 2016, the Branch received \$78,000,000 in capital contributions from its Home Office. The \$78,000,000 capital contribution was enough to eliminate both the trusted surplus impairment and insolvency at the examination date, as a portion was deposited directly into the trusted asset account.</p>	<p>1, 17, 20</p>
<p>B. <u>Loss and Loss Adjustment Expenses</u></p> <p>It is recommended the Branch address the reserving inadequacies and increase its carried reserves to an appropriate level pursuant to the provisions of Section 1303 of the New York Insurance Law and Paragraph 10 of SSAP No. 55. A \$25,228,000 increase in losses and loss adjustment expenses was incorporated into the examination changes section of this report.</p>	<p>18, 19</p>
<p>C. <u>Premium Deficiency Reserve</u></p> <p>A \$4,882,162 increase in the premium deficiency reserve was incorporated into the examination changes section of this report.</p>	<p>17, 19</p>
<p>D. <u>Provision for Reinsurance</u></p> <p>An \$8,833,220 increase in the provision for reinsurance was incorporated into the examination changes section of this report.</p>	<p>17, 19</p>

Respectfully submitted,

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Justin Mathew  
Senior Insurance Examiner

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

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

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Justin Mathew

Subscribed and sworn to before me

this \_\_\_\_\_ day of \_\_\_\_\_, 2017.

**APPOINTMENT NO. 31408**

**NEW YORK STATE**

**DEPARTMENT OF FINANCIAL SERVICES**

I, **SHIRIN EMAMI**, Acting 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:

**Justin Mathew**

as a proper person to examine the affairs of the

**Samsung Fire & Marine Insurance Company, Ltd.**

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

**COMPANY**

with such other information as he shall deem requisite.

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

this 29th day of December, 2015

Shirin Emami

Acting Superintendent of Financial Services

By:



Rolf Kaumann  
Deputy Chief Examiner

