

REPORT ON EXAMINATION
OF THE
SOMPO JAPAN FIRE & MARINE INSURANCE COMPANY OF AMERICA
AS OF
DECEMBER 31, 2002

DATE OF REPORT

MARCH 25, 2004

EXAMINER

JAMES MURPHY

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

March 25, 2004

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

Sir:

Pursuant to instructions contained in Appointment Number 22002 dated February 3, 2003, attached hereto, and in accordance with the New York Insurance Law, I have made an examination into the financial condition and affairs of the Sompo Japan Fire and Marine Insurance Company of America as of December 31, 2002 and respectfully submit the following report thereon.

The examination was conducted at the Company's administrative offices located at 225 Liberty Street, New York, New York 10281, and was conducted concurrently with the examination of Sompo Japan Insurance Company of America.

Wherever the designation "the Company" appears in this report without qualification, it should be understood to indicate the Sompo Japan Fire and Marine Insurance Company of America.

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

1. SCOPE OF EXAMINATION

The previous examination was conducted as of December 31, 2000. This examination covered the two year period from January 1, 2001 through December 31, 2002 and was limited in its scope to a review or audit of only those balance sheet items considered by this Department to require analysis, verification or description, including: invested assets, loss and loss adjustment expense reserves and the provision for reinsurance. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

The examination includes a review of income, disbursements and Company records to the extent deemed necessary to accomplish such verification and utilized, to the extent considered appropriate, work performed by the Company's independent certified 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 bonds and other insurance
- Territory and plan of operation
- Market conduct activities
- Growth of Company
- Business in force by states
- Reinsurance
- Accounts and records
- Financial statements

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 THE COMPANY

The Nissan Fire & Marine Insurance Company, Ltd., was established in 1911 under the laws of Japan. On October 1, 1980, the United States Branch was licensed under the laws of the State of New York. Effective July 1, 2002, a merger was consummated in Japan between the Yasuda Fire & Marine Insurance Company, Ltd. and the Nissan Fire & Marine Insurance Company, Ltd. The name of the surviving entity is Sompo Japan Insurance, Inc. In anticipation of this merger, the United States Branch of the Nissan Fire & Marine Insurance Company, Ltd. entered into a domestication agreement and an instrument of transfer and assumption with Sompo Japan Fire & Marine Insurance Company of America. As a result of the merger, the new ultimate parent of the Company is Sompo Japan Insurance, Inc.

Capital paid in is \$5,000,000 consisting of 5,000 shares of common stock at \$1,000 par value per share. Gross paid in and contributed surplus is \$17,467,998.

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 twenty-one members. The board met four times during each calendar year. At December 31, 2002, the board of directors was comprised of the following thirteen members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Angela Anglum Mountain Lakes, NJ	Attorney
Fred Eichler New York, NY	Consultant, Arch Capital

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Shuichiro Kunizuka Fort Lee, NJ	Senior Vice President, Sompo Japan Insurance Company of America
Susan Marchione Guttenberg, NJ	Consultant
Kazuyuki Nakazawa Ft. Lee, NJ	Controller, Sompo Japan Insurance Company of America
David Nichols Hoboken, NJ	Attorney
H. Michael O'Brien White Plains, NY	Attorney, Wilson, Elser, Moskowitz, Edelman & Dicker
Masao Shibata New York, NY	Executive Vice President, Sompo Japan Insurance Company of America
Koji Shikada New York, NY	Secretary, Sompo Japan Fire & Marine Insurance Company of America
Raymond Tatti East Setauket, NY	Consultant
Phillip A. Tumbarello Cortland Manor, NY	Attorney, Wilson, Elser, Moskowitz, Edelman & Dicker
Seiji Yamamoto New York, NY	Senior Vice President, Sompo Japan Insurance Company of America
Tatsujiro Yonekura New York, NY	President, Sompo Japan 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, 2002, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Tatsujiro Yonekura	President
Koji Shikada	Secretary
Susan Marchione	Treasurer

B. Territory and Plan of Operation

As of the examination date, the Company was licensed to transact business in seventeen states and the District of Columbia.

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 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
20	Marine and inland marine
21	Marine protection and indemnity

The Company is also licensed to transact such workers' compensation insurance as may be incident to coverages contemplated under paragraphs 20 and 21 of Section 1113(a) including insurances described in the Longshoremen's and Harbor Workers' Compensation Act (Public Law 803, 69th Congress as amended) to the extent permitted by the Company's charter.

Based upon the lines of business for which the Company is licensed and pursuant to the requirements of Article 13 of the New York Insurance Law, the Company is required to maintain a minimum surplus to policyholders of \$2,200,000.

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

<u>Calendar Year</u>	<u>New York State</u>	<u>Total United States Premium</u>	<u>Premium Percentage Written in New York State to the Total United States</u>
2001	\$337,385	\$3,530,787	9.5%
2002	\$99,870	\$2,442,038	4%

Prior to July 1, 2002, the Company wrote mainly ocean marine cargo insurance. Effective July 1, 2002 the Company discontinued the direct underwriting of ocean marine cargo insurance.

The day to day operations of the Company are conducted by Joseph J. Devito Consultants ("JJD"). Pursuant to the terms of a service agreement dated June 28, 2002, JJD will provide basic services, such as accounting services, investment coordination and accounting and run-off services.

C. Reinsurance

The Company assumes reinsurance under a quota share agreement with Royal Indemnity Company. Under the terms of the agreement the Company assumes 0.1% of Royal Sun Alliance's total business. The agreement is accounted for on an earned/incurred basis.

The Schedule F data as contained in the Company's annual statements filed for the years covered by the examination was found to accurately reflect its reinsurance transactions.

As of December 31, 2002, the Company had one ceded reinsurance agreement in effect. The agreement is a five-layer excess of loss ocean marine cargo contract. The limits of the coverage are \$100,000,000 excess of \$200,000 per risk, per occurrence.

The examiner attempted to review this agreement effected during the examination period, however the Company could provide only cover notes and not fully executed reinsurance agreements.

According to SSAP No. 62, if a reinsurance agreement has not been finalized, reduced to a written form and signed by the parties within nine months of inception, then the arrangement is presumed to be retroactive and shall be accounted for as a retroactive reinsurance agreement. Due to the immateriality of the reinsurance balances associated with this agreement no examination change will be made. However, it is recommended that the Company ensure that all reinsurance agreements are finalized and signed within nine months of inception. Agreements not finalized and signed within nine months should be accounted for as retroactive reinsurance.

D. Holding Company System

The Company is a wholly-owned subsidiary of Sampo Japan Insurance Inc.

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 a chart of the holding company system as of December 31, 2002:

At December 31, 2002, the Company was party to the following agreements with other members of its holding company system:

Marine Claims Agreement

On July 1, 2002, the Company entered into a marine claims agreement with Sompo Japan Claims Services, Inc. ("SJCS"). Pursuant to the terms of the agreement SJCS was appointed as the Company's marine cargo claims settling agent.

Sublease Agreement

On September 15, 2002, the Company entered into a sublease agreement with Sompo Japan Insurance Company of America ("SJICA"). Pursuant to the terms of the agreement the Company subleases space from SJICA at Two World Financial Center.

Both Agreements were filed with this department pursuant to Section 1505 of the New York Insurance Law.

E. Abandoned Property Law

Section 1316 of the New York Abandoned Property Law provides that amounts payable to a resident of this state from a policy of insurance, if unclaimed for three years, shall be deemed to be abandoned property. Such abandoned property shall be reported to the comptroller on or before the first day of April each year. Such filing is required of all insurers regardless of whether or not they have any abandoned property to report.

F. 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	.22:1
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	14%
Premiums in course of collection to surplus as regards policyholders	2.16%

All of the above ratios fall within the benchmark ranges as 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 two-year period covered by this examination:

	<u>Amounts</u>	<u>Ratios</u>
Losses incurred	\$9,540,948	87.58%
Loss adjustment expenses incurred	1,699,986	15.60
Other underwriting expenses incurred	3,882,136	35.63
Net underwriting gain (loss)	<u>(4,228,576)</u>	<u>(38.81)</u>
Premiums earned	<u>\$10,894,494</u>	<u>100.00%</u>

2. 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. This statement is the same as the balance sheet filed by the Company:

<u>Assets</u>	<u>Admitted Assets</u>	<u>Not-Admitted Assets</u>	<u>Assets</u>
Bonds	\$19,284,585	\$	\$19,284,585
Common stocks	4,118,100		4,118,100
Cash on deposit	474,794		474,794
Short-term investments	499,145		499,145
Agents' balances or uncollected premiums in course of collection	483,518	1,361	482,157
Funds held by or deposited with reinsured companies	408		408
Reinsurance recoverables on loss and loss adjustment expense payments	368,085		368,085
Federal and foreign income taxes recoverable	311,866		311,866
Interest, dividends and real estate income due and accrued	243,190		243,190
Miscellaneous receivables	<u>386</u>	<u> </u>	<u>386</u>
Total assets	<u>\$25,784,077</u>	<u>\$ 1,361</u>	<u>\$25,782,716</u>

Liabilities

Losses		\$2,974,412
Loss adjustment expenses		255,222
Other expenses		40,500
Taxes, licenses and fees		32,005
Ceded reinsurance premiums payable		45,967
Provision for reinsurance		<u>120,000</u>
Total liabilities		\$3,468,106

Surplus and Other Funds

Common capital stock	\$5,000,000	
Gross paid in and contributed surplus	17,467,998	
Unassigned funds (surplus)	<u>(153,388)</u>	
Surplus as regards policyholders		<u>22,314,610</u>
Total liabilities and surplus		<u>\$25,782,716</u>

Note: The Internal Revenue Service has never audited the Company. The examiner is unaware of any potential exposure of the Company to any further tax assessment, and no liability has been established herein relative to such contingency.

B. Underwriting and Investment Exhibit

Surplus as regards policyholders decreased \$977,644 during the two-year examination period January 1, 2001 through December 31, 2002, detailed as follows:

Statement of IncomeUnderwriting Income

Premiums earned		\$10,894,494
Deductions:		
Losses incurred	\$9,540,948	
Loss adjustment expenses incurred	1,699,986	
Other underwriting expenses incurred	<u>3,882,136</u>	
Total underwriting deductions		<u>15,123,070</u>
Net underwriting gain		\$(4,228,576)

Investment Income

Net investment income earned	<u>\$2,898,235</u>	
Net investment gain		<u>2,898,235</u>
Net income after dividends and before federal and foreign income taxes		\$(1,330,341)
Federal income taxes incurred		<u>(473,258)</u>
Net income		<u>\$(857,083)</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2000, per report on examination			\$23,292,254
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income		\$857,083	
Change in non-admitted assets		1,361	
Change in provision for reinsurance		119,200	
Capital changes-transferred from surplus	\$5,000,000		
Surplus adjustments-transferred to capital	<u> </u>	<u>5,000,000</u>	
Total gains and losses	<u>\$5,000,000</u>	<u>\$5,977,644</u>	
Net decrease in surplus as regards policyholders			<u>(977,644)</u>
Surplus as regards policyholders, December 31, 2002, per report on examination			<u>\$22,314,610</u>

3. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liabilities for loss and loss adjustment expense reserves of \$2,974,412 and \$255,222, respectively, are the same as the amounts reported by the Company as of the examination date. 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

During the course of this examination, a review was made of the manner in which the Company conducts its business practices and fulfills its contractual obligations to policyholders and claimants. The review was general in nature and is not to be construed to encompass the more precise scope of a market

conduct investigation, which is the responsibility of the Market Conduct Unit of the Property Bureau of this Department. This examination's general review was directed at the Company's underwriting practices and no problems were noted.

6. SUBSEQUENT EVENTS

During the quarter ending June 2003 ownership of all of the outstanding common capital stock of the company was transferred from Sompo Japan Insurance, Inc to Sompo Japan Insurance Company of America.

7. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

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

<u>ITEM</u>	<u>PAGE NO.</u>
i. It is recommended that the Branch submit its future filed trustee surplus statements, in accordance with Section 1312 of the New York Insurance Law. The Company was redomesticated, therefore the provisions of Section 1312 of the New York Insurance Law are no longer applicable.	9
ii. It is recommended that the Branch disclose all trustee assets in its filed annual statement, in accordance with Section 1312(a)(1)(C) of the New York Insurance Law. The company was redomesticated, therefore the provisions of Section 1312 of the New York Insurance Law are no longer applicable.	9

<u>ITEM</u>		<u>PAGE NO.</u>
iii.	It is recommended that the Branch comply with Section 1316 of the Abandoned Property Law.	10
	The Company has complied with this recommendation.	

8. SUMMARY OF COMMENTS AND RECOMMENDATIONS

ITEM		PAGE NO.
A.	<u>Reinsurance</u>	
	It is recommended that the Company ensure that all reinsurance agreements are finalized and signed within nine months of inception. Agreements not finalized and signed within nine months should be accounted for as retroactive reinsurance.	7

Respectfully submitted,

_____/S/_____
James Murphy
Associate Insurance Examiner

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

JAMES MURPHY, being duly sworn, deposes and says that the foregoing report submitted by him is true to the best of his knowledge and belief.

_____/S/_____
James Murphy

Subscribed and sworn to before me
this ____ day of _____ 2003

Appointment No. 22002

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:

James Murphy

as proper person to examine into the affairs of the

SOMPO JAPAN FIRE & MARINE INSURANCE COMPANY OF AMERICA

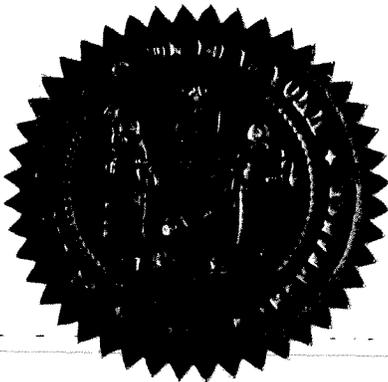
and to make a report to me in writing of the condition of the said

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 3rd day of February, 2003




GREGORY V. SERIO
Superintendent of Insurance