

REPORT ON EXAMINATION

OF

TRANS PACIFIC INSURANCE COMPANY

AS OF

DECEMBER 31, 2015

DATE OF REPORT

MAY 2, 2017

EXAMINER

KEVIN MCNAMEE

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NEW YORK STATE  
DEPARTMENT *of*  
FINANCIAL SERVICES

Andrew M. Cuomo  
Governor

Maria T. Vullo  
Superintendent

May 2, 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 31476 dated April 14, 2016, attached hereto, I have made an examination into the condition and affairs of Trans Pacific Insurance Company as of December 31, 2014, and submit the following report thereon.

Wherever the designation “the Company” or “TPI” appears herein without qualification, it should be understood to indicate Trans Pacific Insurance Company.

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 Company’s home office located at 230 Park Avenue, New York, NY 10169.

## 1. SCOPE OF EXAMINATION

The Department has performed a group examination of the Company, a multi-state insurer. The previous examination was conducted as of December 31, 2014. This examination was a one year update to the 2014 examination conducted in order to coordinate exam cycles with the lead state for the Tokio Marine group. This examination covered the one year period from January 1, 2015 through December 31, 2015. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

The examination of the Company was performed concurrently with the examinations of Tokio Marine America Insurance Company ("TMAIC") and TNUS Insurance Company ("TNUS").

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 by obtaining information about the Company including corporate governance, 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 Company were considered in accordance with the examination process. This examination also included a review and evaluation of the Company's own control environment assessment. The Company utilizes a process used by its ultimate parent, Tokio Marine & Nichido Fire Insurance Co., Ltd., domiciled in Japan ("TMNF-Japan") known as "J-SOX", which is substantially similar to Sarbanes Oxley. The examiners relied on the J-SOX and 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 Handbook:

Company history  
Corporate records  
Management and control  
Territory and plan of operation  
Growth of Company  
Loss experience  
Reinsurance  
Accounts and records  
Financial statements  
Summary of recommendations

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

## **2. DESCRIPTION OF COMPANY**

The Company was incorporated under the laws of the State of New York on January 21, 1982 and commenced business on the same date.

Prior to December 31, 2015, the Company was a wholly owned subsidiary of Tokio Marine North America, Inc. ("TMNA") which is a wholly owned by Tokio Marine & Nichido Fire Insurance Company Ltd.- Japan ("TMNF-Japan"). Prior to September 30, 2012, the Company was a wholly owned subsidiary of the United States Branch of Tokio Marine & Nichido Fire Insurance Company. On November 30, 2012 TMNF-Japan transferred all the stock of the Company to TMNA. Tokio Marine Management, Inc. ("TMM"), a United States affiliate, represents the Company as its manager. Effective December 31, 2015, TMNA contributed the common stock of TPI, TNUS, TM Specialty Insurance Company and TMM to TMAIC.

As of December 31, 2015, TPI's total common capital stock was \$5,000,000; consisting of 50,000 shares of \$100 par value stock issued and outstanding. All outstanding shares are owned by TMAIC. The Company's gross paid in and contributed surplus is \$22,000,000.

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 seven nor more than thirteen members. Corporate governance is performed at two levels. At a group level, TMM, as manager, conducts quarterly and annual meetings where the affairs of the Company are discussed. The majority of discussions regarding the Company are held at this level. Corporate governance performed at the individual entity level are conducted by unanimous written consent. As noted in the by-laws, there is no requirement for the board of directors to physically meet.

As of December 31, 2015, the board of directors was comprised of the following seven members:

| <u>Name and Residence</u>           | <u>Principal Business Affiliation</u>  |
|-------------------------------------|--|
| Ann Ginn<br>Summit, NJ              | Senior Vice President – Underwriting<br>Tokio Marine Management, Inc.            |
| B. Steven Goldstein<br>New York, NY | Executive Vice President & General Counsel<br>Tokio Marine Management, Inc.      |
| David Gottschall<br>Tarrytown, NY   | Senior Vice President and Chief Quality Officer<br>Tokio Marine Management, Inc. |
| Masashi Kamon<br>Villanova, PA      | Senior Vice President<br>TMNA Services, LLC.                                     |
| Tomoya Kittaka<br>New York, NY      | Senior Vice President,<br>Tokio Marine Management, Inc.                          |
| Adam LaPierre<br>Simi Valley, CA    | Senior Vice President,<br>Tokio Marine Management, Inc.                          |
| Koki Umeda<br>New York, NY          | President,<br>Tokio Marine Management, 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, 2015, the principal officers of the Company were as follows:

| <u>Name</u>                | <u>Title</u>            |
|----------------------------|-------------------------|
| Koki Umeda                 | President               |
| Karen Ann Gilmer-Pauciello | Chief Financial Officer |
| Edward Sayago              | Secretary               |
| Michael William Kelly      | Treasurer               |

B. Territory and Plan of Operation

As of December 31, 2015, the Company was licensed to write commercial lines of business in all states including the District of Columbia except for Louisiana, New Hampshire, New Mexico and Vermont. 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                |

Based upon the lines of business for which TPI is licensed, the Company's current capital structure and pursuant to the requirements of Articles 13, 63 and 41 of the New York Insurance Law, the Company is required to maintain a minimum surplus to policyholders in the

amount of \$2,150,000 and minimum capital of \$500,000.

TPI primarily underwrites workers' compensation business; however, the Company also writes all property and casualty lines of business. TPI is authorized to transact such workers' compensation insurance under paragraphs 20 and 21 of Section 1113(a), including insurance described in the longshoremen's and Harbor Workers' Compensation Act (Public Law No.803, 69 Cong, as amended; 33 USC Section 901 et seq. as amended). The Company is also licensed to write Special Risk Insurance pursuant to Article 63 of the New York Insurance Law.

The following schedule shows the 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 Premiums</u> | <u>Premiums Written in New York State as a percentage of Total Premium</u> |
|----------------------|-----------------------|-----------------------|--|
| 2015                 | \$2,345,662           | \$32,226,051          | 7.28%  |

Premiums are generated mostly from Workers Compensation \$20,762,997 (64.43%) and Commercial multiple peril \$7,310,220 (22.68%).

The direct premiums written in 2015 in the top two states were: California \$8,637,434 (26.8%), and Illinois \$2,762,037 (8.57%). The Company markets its business as direct writer through a network of appointed independent agents and national brokers totaling 318 producers.

C. Reinsurance  
Assumed

Assumed reinsurance accounted for 10% of the Company's gross premium written as of December 31, 2015, which represents approximately 60% decrease from the last examination conducted as of year-end 2014. The Company's assumed reinsurance program consists mainly of multi-line coverage assumed on a quota share and excess of loss basis, pursuant to the terms of facultative and treaty agreements. Additionally, TPI's participation in a mandated pool is reflected in its assumed reinsurance activity. The Company utilizes reinsurance accounting as defined in Statement of Statutory Accounting Principle ("SSAP") No. 62R for all of its assumed reinsurance business.

Ceded

TPI has structured its ceded reinsurance program to limit its maximum exposure to any one risk as follows:

| <u>Type of Coverage</u>   | <u>Cession</u>  |
|---|---|
| *Property Per Risk Excess of Loss<br>3 layers   | 90% of \$95,000,000 in excess of \$5,000,000 in respect of each loss and each risk.   |
| Casualty Excess of Loss<br>2 layers<br>1 <sup>st</sup> layer-72.75% placed<br>2 <sup>nd</sup> layer 27.50% placed | \$27,000,000 in excess of \$3,000,000 per occurrence; each layer subject to a maximum limit liability of \$9,000,000 first layer and \$18,000,000 second layer.   |
| *Catastrophe Excess of Loss<br>2 layers<br>1 <sup>st</sup> layer  | \$25,000,000 excess of \$50,000,000 each loss occurrence subject to a liability limit of \$50,000,000 each loss occurrence and \$25,000,000 annual aggregate ultimate net loss in regards to acts of terrorism. |
| 2 <sup>nd</sup> layer   | \$60,000,000 excess of \$75,000,000 with a liability limit of \$75,000,000 each loss occurrence and \$60,000,000 annual aggregate ultimate net loss in regards to earthquakes and acts of terrorism.            |
| Non-Obligatory Quota Share<br>Boiler and Machinery/Equipment Breakdown  | 50-100% Quota Share covering risks related to Boiler and Machinery/Equipment of highly protected risks and large property business.   |
| Non-Obligatory Quota Share<br>Boiler and Machinery/Equipment Breakdown  | 50-100% Quota Share covering risks related to Boiler and Machinery/Equipment middle market only.  |
| Non-Obligatory Quota Share<br>Boiler and Machinery/Equipment  | 100% Quota Share covering business related to Boiler and Machinery/Equipment of both middle-market and highly protected and large property risks.   |

\* TMNF-Japan is the largest participant on these treaties covering property, catastrophe and ocean marine risks.

In addition to the above, effective January 1, 2015, TPI entered into an excess of loss reinsurance agreement with its parent company, TMNF-Japan, which provides coverage for a portion of the Company's liability related to all property risks accepted by the Company either by

fronting or by facultative reinsurance. The reinsurer's liability under this contract shall not exceed \$130,000,000 in excess of \$100,000,000 with respect to each loss on any one risk.

Effective January 1, 2015, the Company entered into an excess of loss reinsurance agreement with its parent company, TMNF-Japan. Under the terms of this agreement, the Company may cede to TMNF-Japan and TMNF-Japan shall obligatorily accept and provide reinsurance on all contracts assumed by the Company from Tokio Marine & Nichido Fire Insurance Company, Ltd, (Canadian Branch). This agreement covers Canadian property, casualty and marine business.

As of December 31, 2015, TPI was party to a facultative reinsurance agreement with its parent company, TMNF-Japan. Under the terms of this agreement, the Company may cede to TMNF-Japan and TMNF-Japan shall obligatorily accept and provide reinsurance on policies written and issued by the Company in the United States and its territories. This agreement covers property, casualty and marine business.

The Company participates in a quota share agreement with TMAIC, whereby the Company agrees to cede and TMAIC agrees to assume 100% of the Company's premiums written and losses and loss adjustment expenses incurred, net of all other reinsurance.

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 meeting the requirements of Section 1308 of the New York Insurance Law.

The majority of the business is ceded to authorized and non-authorized affiliated reinsurers. 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.

The examination review found that the Schedule F data reported by the Company 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 an attestation from the

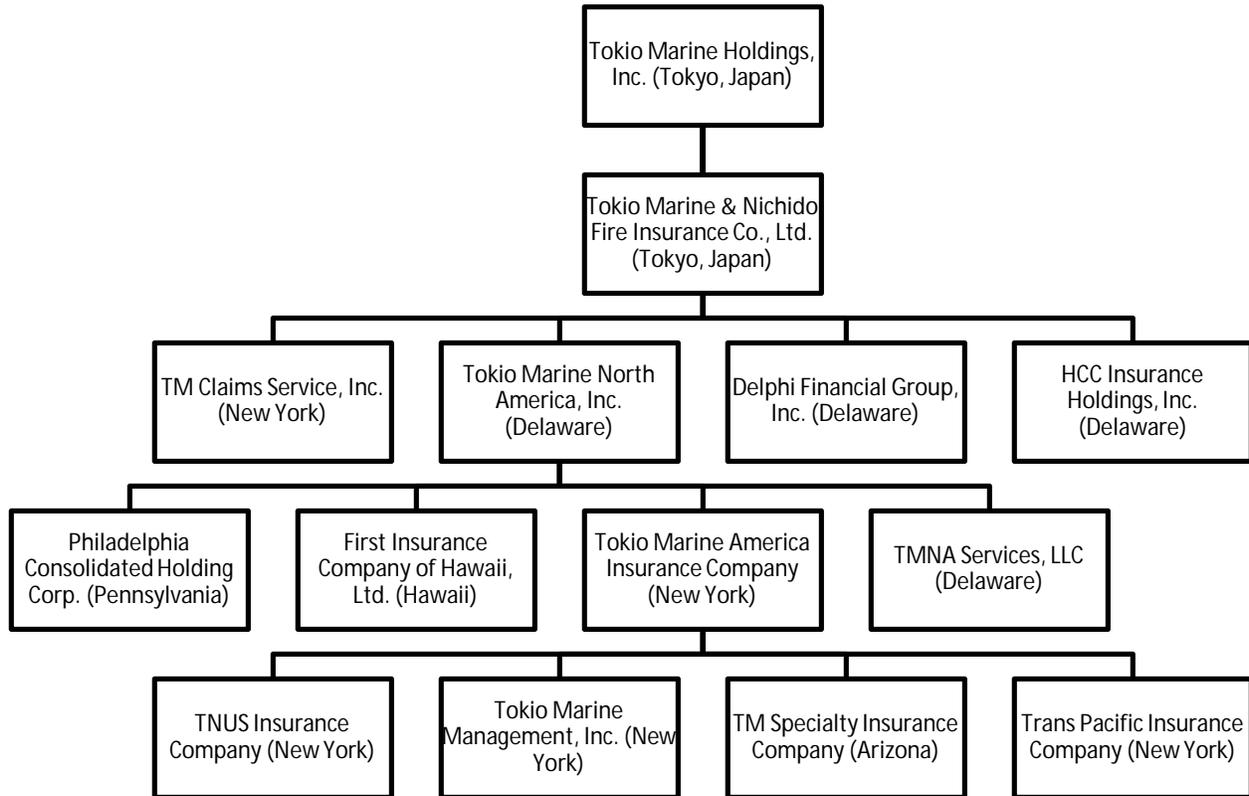
Company's Chief Executive Officer and Chief Financial Officer pursuant to the NAIC Annual Statement Instructions. Additionally, examination review indicated that the Company was not a party to any finite reinsurance agreements. All ceded reinsurance agreements were accounted for utilizing reinsurance accounting as set forth in SSAP No. 62R.

D. Holding Company System

TPI is a wholly-owned subsidiary of TMAIC, which is ultimately owned by TMNF-Japan, an insurance company domiciled in Japan. TMNF-Japan is owned and controlled by Tokio Marine Holdings, Inc., an insurance holding company organized under the Companies Act of Japan and publicly trading on the Tokyo Stock Exchange and the Osaka Securities Exchange.

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, 2015:



As of December 31, 2015, TPI was party to the following agreements with other members of its holding company system:

#### Service Agreement

Effective February 26, 2013, the Company entered into a service agreement with TMNA Services, LLC, to provide certain services such as accounting, human resources, legal, investment, actuarial, enterprise risk management, and information technology to the Company.

#### Management Agreement

Effective February 26, 2013, the Company entered into a management agreement with TMM, under which TMM will provide certain management services in respect to the Company's business in the United States, such as: claims, underwriting, policyholder services, producer

management, collection and handling of premiums and other funds, reinsurance, marketing support, product development, and administration and facilities.

#### Tax Allocation Agreement

Effective December 1, 2012, the Company entered into an intercompany tax allocation agreement with TMNA as the parent for the Group Companies, and the following affiliates: TMAIC, TMM, TM Specialty Insurance Company and TNUS. Under the agreement TMNA will file a consolidated federal income tax return on behalf of the Group Companies.

#### Capital Support Agreement

Effective January 1, 2014, TMNF-Japan entered into a capital support agreement with TMAIC, TPI, TMS and TNUS. The agreement states that TMNF-Japan will provide certain support to the companies to maintain their respective financial strength ratings.

All agreements subject to approval and non-disapproval were filed with this Department pursuant to Section 1505 of the New York Insurance Law.

#### E. Significant Operating Ratios

The following IRIS ratios were computed as of December 31, 2015:

|  |     |
|--|-----|
| Liabilities to liquid assets (cash and invested assets less investments in affiliates) | 22% |
| Premiums in course of collection to surplus as regards policyholders                   | 6%  |

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

The underwriting ratios were not calculated because the Company cedes 100% of its net business to its immediate parent company, TMAIC; therefore these ratios are not relevant.

### 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 Company:

| <u>Assets</u>  | <u>Assets</u>       | <u>Assets Not<br/>Admitted</u> | <u>Net Admitted<br/>Assets</u> |
|--|---------------------|--------------------------------|--------------------------------|
| Bonds  | \$47,521,099        | \$ 0                           | \$47,521,099                   |
| Cash, cash equivalents and short-term investments  | 9,247,014           | 0                              | 9,247,014                      |
| Investment income due and accrued  | 355,061             | 0                              | 355,061                        |
| Uncollected premiums and agents' balances in the course of collection                    | 3,725,147           | 794,024                        | 2,931,123                      |
| Deferred premiums, agents' balances and installments booked but deferred and not yet due | 8,944,305           | 92,838                         | 8,851,467                      |
| Accrued retrospective premiums   | 729,625             | 72,962                         | 656,663                        |
| Amounts recoverable from reinsurers  | 2,119,237           | 0                              | 2,119,237                      |
| Current federal and foreign income tax recoverable                                       | 771                 | 0                              | 771                            |
| Net deferred tax asset   | 654,050             | 201,515                        | 452,535                        |
| Receivables from parent, subsidiaries and affiliates                                     | 502,776             | 0                              | 502,776                        |
| Commission recoverable reserves  | 29,383              | 0                              | 29,383                         |
| Miscellaneous receivable – large deductible  | 62,860              | 0                              | 62,860                         |
| Prepaid expenses   | 226,261             | 0                              | 226,261                        |
| Receivable from pools and associations   | <u>29,966</u>       | <u>0</u>                       | <u>29,966</u>                  |
| Total Assets   | <u>\$74,147,555</u> | <u>\$1,161,339</u>             | <u>\$72,986,216</u>            |

| <u>Liabilities</u>  | <u>Company</u>          |
|---|-------------------------|
| Losses and Loss Adjustment Expenses                                   | \$ 9,066,556            |
| Commissions payable, contingent commissions and other similar charges | 24,428                  |
| Other expenses (excluding taxes, licenses and fees)                   | 39,658                  |
| Taxes, licenses and fees (excluding federal and foreign income taxes) | 65,969                  |
| Ceded reinsurance premiums payable (net of ceding commissions)        | 4,827,555               |
| Amounts withheld or retained by company for account of others         | 730,524                 |
| Provision for reinsurance   | 26,118                  |
| Drafts outstanding  | 5,341,246               |
| Payable to parent, subsidiaries and affiliates                        | 579,964                 |
| Other Liabilities - Retro   | 732,131                 |
| Other Liabilities - Investments                                       | 4,016                   |
| Misc. Other Liabilities   | <u>8,418</u>            |
| Total liabilities   | 21,446,583              |
| <br><u>Surplus and other funds</u>                                    |                         |
| Common capital stock  | \$ 5,000,000            |
| Gross paid in and contributed surplus                                 | 22,000,000              |
| Unassigned funds (surplus)  | <u>24,539,633</u>       |
| Surplus as regards policyholders                                      | <u>51,539,633</u>       |
| <br>Total liabilities, surplus and other funds                        | <br><u>\$72,986,216</u> |

Note: The Internal Revenue Service (“IRS”) has not performed any audit for Trans Pacific Insurance Company. The examiner is unaware of any potential exposure of the Company to any tax assessment that may result from an IRS audit.

B. Statement of Income

The net income for the one-year examination period January 1, 2015 through December 31, 2015, was \$1,472,292 detailed as follows:

Underwriting Income

|  |                 |                  |
|--|-----------------|------------------|
| Premiums earned                              |                 | \$ 3,142         |
| Deductions:                                  |                 |                  |
| Losses and loss adjustment expenses incurred | (893,140)       |                  |
| Other underwriting expenses incurred         | <u>(15,872)</u> |                  |
| Total underwriting deductions                |                 | <u>(909,012)</u> |
| Net underwriting gain or (loss)              |                 | 912,154          |

Investment Income

|                               |               |           |
|-------------------------------|---------------|-----------|
| Net investment income earned  | \$1,249,314   |           |
| Net realized capital gain     | <u>28,943</u> |           |
| Net investment gain or (loss) |               | 1,278,257 |

Other Income

|  |                |                    |
|--|----------------|--------------------|
| Net gain or (loss) from agents' or premium balances charged off                          | (4,458)        |                    |
| Loss on foreign exchange   | (95,058)       |                    |
| Fines and penalties of regulatory authorities  | (36,194)       |                    |
| Miscellaneous other expenses   | <u>(3,550)</u> |                    |
| Total other income   |                | <u>(139,260)</u>   |
| Net income before dividends to policyholders and before federal and foreign income taxes |                | 2,051,151          |
| Dividends to policyholders   |                | <u>15,872</u>      |
| Net income after dividends to policyholders but before federal and foreign income taxes  |                | 2,035,279          |
| Federal and foreign income taxes incurred  |                | <u>562,987</u>     |
| Net Income   |                | <u>\$1,472,292</u> |

C. Capital and Surplus

Surplus as regards policyholders increased \$1,891,818 during the one year examination period January 1, 2015 through December 31, 2015, detailed as follows:

|  |                         |                          |  |                     |
|--|-------------------------|--------------------------|--|---------------------|
| Surplus as regards policyholders per report on examination as of December 31, 2014 |                         |                          |  | \$49,647,815        |
|  | <u>Gains in Surplus</u> | <u>Losses in Surplus</u> |  |                     |
| Net income   | \$1,472,292             |                          |  |                     |
| Change in net deferred income tax  |                         | 238,994                  |  |                     |
| Change in non-admitted assets  | 643,643                 |                          |  |                     |
| Change in provision for reinsurance  | 14,877                  |                          |  |                     |
| Net increase (decrease) in surplus   | <u>\$2,130,812</u>      | <u>\$238,994</u>         |  | <u>\$ 1,891,818</u> |
| Surplus as regards policyholders per report on examination as of December 31, 2015 |                         |                          |  | <u>\$51,539,633</u> |

4. **LOSSES AND LOSS ADJUSTMENT EXPENSES**

The examination liability for the captioned items of \$9,066,556 is the same as reported by the Company as of December 31, 2015. 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”).

5. **COMPLIANCE WITH PRIOR REPORT ON EXAMINATION**

The prior report on examination contained no comments or recommendations.

6. **SUMMARY OF COMMENTS AND RECOMMENDATIONS**

This report contains no comments or recommendations.

Respectfully submitted,

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Kevin McNamee  
Associate Insurance Examiner

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

KEVIN MCNAMEE, 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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Kevin McNamee

Subscribed and sworn to before me

This \_\_\_\_\_ day of \_\_\_\_\_, 2017

**APPOINTMENT NO. 31476**

**NEW YORK STATE**

**DEPARTMENT OF FINANCIAL SERVICES**

I, **Maria T. Vullo**, 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:

**Kevin McNamee**

as a proper person to examine the affairs of the

**Trans Pacific Insurance Company**

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

**COMPANY**

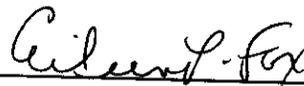
with such other information as he shall deem requisite.

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

this 14th day of April, 2016

**MARIA T. VULLO**  
Acting Superintendent of Financial Services

By:



Eileen Fox  
Assistant Chief Examiner

