

REPORT ON EXAMINATION
OF THE
mitsui marine and fire insurance company of america
AS OF
DECEMBER 31, 1999

DATE OF REPORT

DECEMBER 11, 2000

EXAMINER

MARC H. BRUCKSTEIN

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

GEORGE E. PATAKI
Governor

NEIL D. LEVIN
Superintendent of Insurance

December 11, 2000

Honorable Neil D. Levin
Superintendent of Insurance
Albany, New York 12257

Sir:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Letter 21597, attached hereto, I have made an examination into the condition and affairs of the Mitsui Marine and Fire Insurance Company of America as of December 31, 1999, and respectfully submit the following report thereon.

The examination was conducted at the Company's home office at 33 Whitehall Street, New York, New York 10004.

Wherever the term "Company" appears in this report, it should be understood to mean Mitsui Marine and Fire Insurance Company of America.

Wherever the designation "Department" appears in this report, it should be understood to mean State of New York Insurance Department. Wherever the term "Parent" appears in this report, it should be understood to mean Mitsui Marine and Fire Insurance Company, Limited, Tokyo, Japan.

1. SCOPE OF EXAMINATION

The prior examination was conducted as of December 31, 1994. This examination covered the five year period from January 1, 1995 through December 31, 1999 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, inter-company balances, loss and loss adjustment expense reserves and the provision for reinsurance. The examination included a review of income, disbursements and company records deemed necessary to accomplish such analysis or verification and utilized, to the extent considered appropriate, work performed by the Company's independent certified public accountants.

A review was also made to ascertain what action was taken by the Company with regard to comments in the prior report on examination.

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

2. DESCRIPTION OF COMPANY

Mitsui Marine and Fire Insurance Company of America (formerly Taisho Marine and Fire Insurance Company of America) was organized to become the successor company to the United States Branch of Taisho Marine and Fire Insurance Company, Limited of Tokyo, Japan which domesticated during 1988 pursuant to the provisions of Article 72 of the New York Insurance Law. This successor company was incorporated January 28, 1988. The present title of Mitsui Marine and Fire Insurance

Company of America was adopted on January 1, 1996 with the approval of the New York Insurance Department.

Pursuant to its charter, the Company's authorized capital consists of 50 shares of \$100,000 par value per share common stock, all of which are issued to Mitsui Marine and Fire Insurance Company Limited of Tokyo, Japan.

A. Management

According to the Company's charter and by-laws, management is vested in a board of directors consisting of not less than thirteen members nor more than twenty-one members. The thirteen members of the board of directors of the Company serving as of December 31, 1999 are as follows:

<u>Names and Residence</u>	<u>Principal Business Affiliation</u>
Valerie A. Amato Staten Island, New York	Vice President and Controller, Mitsui Marine and Fire Insurance Company of America
Edward H. Bennett Pound Ridge, New York	Executive Vice Chairman, (Retired) Guy Carpenter & Company, Inc.
Leonard S. Dome Roslyn Heights, New York	Partner, Mound, Cotton and Wollan
Francis T. Donohue Plainview, New York	Consultant, John P. Woods Company, Inc.
John T. Elser Yonkers, New York	Partner, Wilson, Elser, Moskowitz, Edelman and Dicker
Katsuaki Ikeda Tokyo, Japan	General Manager, Accounting Department Mitsui Marine and Fire Insurance Company of America

<u>Names and Residence</u>	<u>Principal Business Affiliation</u>
Teruhiko Ito Rye, New York	Senior Vice President, Mitsui Marine and Fire Insurance Company of America
Naoto Oka Harrison, NY	Senior Vice President, Mitsui Marine and Fire insurance Company of America
Hisatoshi Saito Harrison, New York	Senior Vice President and Treasurer, Mitsui Marine and Fire Insurance Company of America
Charles Allan Stein Somerset, NJ	Vice President and Corporate Secretary, Mitsui Marine and Fire Insurance Company of America
Kazuho Tanaka Yokosuka, Japan	General Manager, International Department Mitsui Marine and Fire Insurance Company of America
Akira Tomeda New York, New York	President, Mitsui Marine and Fire Insurance Company of America
John J. Twomey Cincinnati, Ohio	Senior Vice President, Great American Insurance Companies

The following were the principal officers of the Company on December 31, 1999:

<u>Name</u>	<u>Title</u>
Akira Tomeda	President
Hisatoshi Saito	Senior Vice President and Treasurer
Teruhiko Ito	Senior Vice President
Tsukasa Kuribayahi	Senior Vice President
Noriaki Hamaka	Senior Vice President
Shinji Sawada	Senior Vice President
Naoto Oka	Senior Vice President
Charles Allan Stein	Vice President and Corporate Secretary
Valerie A. Amato	Vice President and Controller

B. Territory and Plan of Operation

As of December 31, 1999, the Company was authorized to transact business in all fifty states, and was licensed to write the kinds of business as set forth in the following numbered paragraphs of Section 1113(a) of the New York Insurance Law:

<u>Paragraph</u>	<u>Line of Insurance</u>
3	Accident and health
4	Fire
5	Miscellaneous property damage
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
21	Marine protection and indemnity

The Company may also write such workers' compensation insurance as may be incidental 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 No 803, 69th Congress as amended).

During the examination period, the Company wrote 59.66% of its direct premiums in New York State. The schedule below shows the direct premiums written in New York State as well as the percentage of U.S. premiums written in New York State for the 5 years of this examination.

DIRECT PREMIUMS WRITTEN (\$000s omitted)

<u>Calendar Year</u>	<u>New York State</u>	<u>Total United States</u>	Percentage Written in New York State as a Percentage of United States <u>Premiums</u>
1995	\$5,409	\$9,606	56.31%
1996	\$5,028	\$8,969	56.06%
1997	\$5,456	\$9,074	60.13%
1998	\$5,197	\$8,060	64.48%
1999	\$4,756	\$7,611	62.49%
Total	\$25,846	\$43,320	59.66%

Based upon the lines of business for which the Company is licensed, and the Company's current capital structure, and pursuant to the requirements of Articles 13 and 41 of the New York Insurance Law, Mitsui is required to maintain a minimum surplus to policyholders of \$4,400,000.

Wm. H. McGee & Company, Inc. (McGee) is the Company's underwriting manager for ocean marine, inland marine and manufacturers output coverages. Great American Risk Management, Inc. (Great American) serves as the underwriting manager for non-marine classes of insurance. These items are more fully described in Section 2C-Reinsurance herein.

During 1999, the Company wrote \$7,611,205 in direct premiums, \$4,756,578 or 62.49% of which was written in the State of New York. Assumed premiums totaled \$70,809,526, the majority of which were derived from the Company's participation in pools with McGee and Great American.

C. Reinsurance

The majority of the Company's assumed business is generated through its participation in underwriting pools with McGee/Fireman's Fund and Great American.

The Company participates in a reinsurance pool managed by McGee. The pool underwrites ocean marine, inland marine and manufacturers' output insurance. McGee maintains facultative and treaty insurance on behalf of the pool members, which limits the aggregate loss incurred, any one risk, to \$2,500,000. At December 31, 1999, the Company's participation was fifteen percent. Thus, the Company's maximum exposure from the McGee pool is \$375,000 (15% of \$2,500,000) and 15% of the provision for reinsurance penalty. Effective December 31, 1999 the Company's fifteen percent participation in the McGee pool ended, since the pool was dissolved.

The Company's participation in the Great American Pool was 4.5% at December 31, 1999. The Company assumes business from the Great American Pool on an earned/incurred basis. The Company does not reinsure this business.

At December 31, 1999 the Company had the following ceded reinsurance coverage in effect:

Facultative Obligatory

The Company agreed to cede to its parent, Mitsui Marine and Fire Insurance Company, Ltd., Tokyo, up to 100% of the risks directly insured by the Company covering ocean cargo, ocean marine (including hull), property and inland marine as determined by the Company. This agreement was approved by the Department.

Pursuant to the NAIC Financial Examiners' Handbook, it was noted that the above reinsurance agreement did not contain the appropriate clause that states that the reinsurance agreement constitutes the entire agreement between the parties.

It is recommended that in the future all reinsurance agreements contain all the clauses stated in the NAIC Financial Examiners' Handbook..

D. Holding Company System

The Company is a controlled insurer owned directly by Mitsui Marine and Fire Insurance Company, Ltd., Tokyo, Japan (formerly Taisho Marine and Fire Insurance Company, Limited). Accordingly, the Company has made the appropriate filings required by Article 15 of the New York Insurance Law and Department Regulation 52.

On December 15, 1992, the Company received a surplus note in the amount of \$7,500,000 from its parent. This note was approved by the Department pursuant to the provisions of Section 1307 of the New York Insurance Law. In 1997, the Department approved the repayment of this note to its parent, and the Company made full payment.

Attached hereto as Appendix "A" is a list of all entities affiliated with the Mitsui Marine and Fire Insurance Company, Ltd., Tokyo, Japan ("Mitsui, Japan").

The Company is a party to two inter-company service agreements with affiliated companies. Under the terms of an expense allocation agreement with its parent corporation, the Company agrees to

to provide Mitsui Japan with personnel, office space and office equipment on a part time basis. The Company also agrees to provide the same services to Taisho Claims Services Corporation. Both agreements have been filed with and non-disapproved by this Department.

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 1999, based upon the results of this examination:

Net premiums written during 1999 to Surplus as regards policyholders	1.05:1
Liabilities to Liquid assets (cash and invested assets less investments in affiliates)	50.97%
Premiums in course of collection to Surplus as regards policyholders	3.68%

These 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 incurred	\$208,604,025	61.5%
Loss adjustment expenses incurred	39,395,689	11.6
Other underwriting expenses incurred	103,465,557	30.5
Net underwriting (loss)	<u>(12,320,481)</u>	<u>(3.6)</u>
Premiums earned	<u>\$339,144,790</u>	<u>100.0%</u>

F. Abandoned Property Law

The Company has complied with the provisions of Section 1315 and 1316 of the New York State Abandoned Property Law by filing the required statements with the State Comptroller's Office for the years under examination.

G. Subsequent Events

Although the Wm. H. McGee Pool ceased operation as of January 1, 2000, Fireman's Fund/McGee (heretofore referred to as FF McGee) remains as underwriting manager to write the Company's direct business. The Company retains run-off business. All new business will be written by the Company and ceded to FF McGee and Mitsui Japan, with the Company receiving ceding commissions. The agreements were approved by the Department.

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and surplus as determined by this examination as of December 31, 1999. This statement is the same as the Company's filed Annual Statement.

<u>Assets</u>	<u>Ledger Assets</u>	<u>Non-ledger Assets</u>	<u>Not-Admitted Assets</u>	<u>Admitted Assets</u>
Bonds	\$83,110,596		\$259,150	\$82,851,446
Preferred stocks				
Common stocks	4,007,550	\$2,907,837		6,915,387
Cash on hand and on deposit	4,964,701			4,964,701
Short-term investments	15,756,008			15,756,008
Agents' balances	3,817,224		1,554,817	2,262,407
Funds held by or deposited with reinsured companies	31,502			31,502
Reinsurance recoverable on loss and loss adjustment expense payments	741,247			741,247
Federal income tax recoverable		268,189		268,189
Electronic data processing equipment	57,674		57,674	
Interest, dividends and real estate income due and accrued		1,225,867		1,225,867
Equities and deposits in pools and association	1,823,067	129,013	4,132	1,947,948
Equipment, furniture and supplies	21,342		21,342	
Leasehold improvements	339,020		339,020	
Security deposits	139,334		139,334	
Receivable from others	6,227			6,227
Excess of loss	788,247			788,247
FET Receivable	3,523			3,523
Miscellaneous receivables	<u>9,725</u>	<u> </u>	<u> </u>	<u>9,725</u>
 Total assets	 <u>\$115,616,986</u>	 <u>\$4,530,906</u>	 <u>\$2,375,470</u>	 <u>\$117,772,422</u>

Liabilities

Losses	\$38,270,878
Loss adjustment expenses	4,131,712
Contingent commissions and other similar charges	300,000
Other expenses	196,599
Taxes, licenses and fees	10,000
Unearned premiums	8,649,119
Funds held by company under reinsurance treaties	1,091,172
Amounts withheld by company for account of others	5
Provision for reinsurance	707,521
Excess of statutory reserves over statement reserves	706,206
Payable to parent, subsidiaries and affiliates	665,580
Loss balances payable	1,582,004
Payable to managers and affiliates	2,263
Payable to others	<u>2,604</u>
Total liabilities	<u>\$56,315,663</u>

Surplus

Common capital stock	\$ 5,000,000
Unassigned funds (surplus)	<u>56,456,759</u>
Surplus as regards policyholders	<u>\$61,456,759</u>
Total liabilities and surplus	<u>\$117,772,422</u>

NOTE: The Internal Revenue has completed its audits of the Company's federal income tax returns for the tax years 1991 and 1994. All material adjustment, if any made subsequent to the date of examination date and arising from said audits, are reflected in the financial statements included in this report. Audits covering tax years 1989, 1990, 1992, 1993, 1995 and 1996 are currently in progress. In the 1992 tax year, the Company's certified public accountant, KPMG, applied for credit for tax years 1989 and 1990. There is also an amount in dispute regarding expenses associated with the Japanese employees on rotation in the U.S. The amount in dispute for tax years 1993, 1995, and 1996 could increase the Company's tax liability by approximately \$2 million. Except for any impact which might result from examination changes contained in this report and those reported above in this note, 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 increased \$9,233,898 during the five-year examination period January 1, 1995 through December 31, 1999, detailed as follows:

Statement of Income

Underwriting Income

Premiums earned		\$339,144,790
Deductions:		
Losses incurred	\$208,604,025	
Loss adjustment expenses incurred	39,395,689	
Other underwriting expenses incurred	<u>103,465,557</u>	
Total underwriting deductions		<u>351,465,271</u>
Net underwriting (loss)		\$(12,320,481)

Investment Income

Net investment income earned	\$34,124,049	
Net realized capital gains	<u>1,504,277</u>	
Net investment gain (loss)		35,628,326

Other Income

Net agents' balances charged off	\$ (19,388)	
Sundry expenses	(434,346)	
Loss on foreign exchange paid	(14,104)	
Interest paid on funds held	(50,930)	
Regulatory expense	<u>(1,073,564)</u>	
Total other income		<u>(1,592,332)</u>

Net income before federal and foreign income taxes		\$21,715,513
Federal and foreign income taxes incurred		<u>7,063,242</u>
Net income		<u>\$14,652,271</u>

Surplus as regard policyholders, December 31, 1994,
per report on examination \$52,222,861

	<u>Gain in Surplus</u>	<u>Losses in Surplus</u>	
Net income	\$14,652,271		
Net unrealized capital gains	2,951,567		
Change in not admitted assets		\$599,518	
Change in liability for reinsurance	740,115		
Change in excess of statutory reserves over statement reserves		706,206	
Surplus note		7,500,000	
Change in non-ledger assets		<u>304,330</u>	
Total gains and losses	<u>\$18,343,952</u>	<u>\$9,110,054</u>	
Net increase in surplus			<u>9,233,898</u>
Surplus as regards policyholders, December 31, 1999, per report on examination			<u>\$61,456,759</u>

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability of \$42,402,590 is the same as the amount reported in its December 31, 1999 filed annual statement. 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

In the course of the 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 as 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. The general review was directed at practices of the Company in the following areas:

- A. Sales and underwriting
- B. Underwriting
- C. Rating
- D. Claims and complaints handling

No problems were encountered.

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

ITEM PAGE NO.

A. Reinsurance

The Company did not obtain formal treaty documentation for its ceded agreement as required by Department Regulation 17. Although this agreement was cancelled subsequent to the examination date, it is recommended that the Company comply with Regulation 17 in obtaining documentation on a timely basis. 8

The Company has complied with this recommendation.

B. Accounts and Records

Certain not-admitted assets were reported by the Company as admitted assets in its annual statements filed during the period covered by this examination. It is recommended that the Company comply with the provisions of Section 1301 of the New York Insurance Law when reporting its admitted assets in future statement filings with this Department. 11

The Company has complied with this recommendation.

5. **SUMMARY OF COMMENTS AND RECOMMENDATIONS**

ITEM PAGE NO.

A. Reinsurance

It is recommended that the Company's reinsurance agreements in which the Company cedes business include a clause stating that the agreement represents the entire contract between the parties. 8

Appendix A Chart of Corporate Structure

	Mitsui Marine and Fire Insurance Co., Ltd (Ultimate Holding Company)
100%	Mitsui Marine and Fire Insurance Co. (Europe) Ltd. MM Reinsurance Company Ltd
100%	Mitsui Marine and Fire Insurance (Hong Kong) Co., Ltd.
52.5%	Mitsui Marine & Kyoei Fire Seguros S.A.
47.05%	Taisho Marine and Fire Insurance (Malaysia) Bhd.
79.6%	P.T. Asuransi Mitsui Marine Indonesia
30%	First Lepanto Taisho Insurance Group
25%	Arab Japanese Insurance Co., Ltd. E.C.
100%	Mitsui Marine and Fire Insurance Co. of America
50%	FEB Mitsui Marine Insurance Co., Inc.
24.5%	United Insurance Company of Vietnam
20%	Philippine Charter Insurance Corporation
100%	Mitsui Marine and Fire Insurance (Asia) Pte., Ltd.
5%	Kamol Sukosol Insurance Company Limited
100%	Mitsui Mirai Life Insurance Co., Ltd.

Respectfully submitted,

Marc Bruckstein

Marc H. Bruckstein
Senior Insurance Examiner

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

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

Marc H. Bruckstein

Marc H. Bruckstein

Subscribed and sworn to before me
this 5th day of MARCH 2001.

Mary Frisone
NOTARY

MARY FRISONE
Notary Public, State of New York
No. 01FR5036521
Qualified in New York County
Commission Expires November 28, 2002

STATE OF NEW YORK
INSURANCE DEPARTMENT

I, NEIL D. LEVIN , Superintendent of Insurance of the State of New York,
pursuant to the provisions of the Insurance Law, do hereby appoint:

Marc Bruckstein

as proper person to examine into the affairs of the

Mitsui Marine and Fire Insurance Company of America

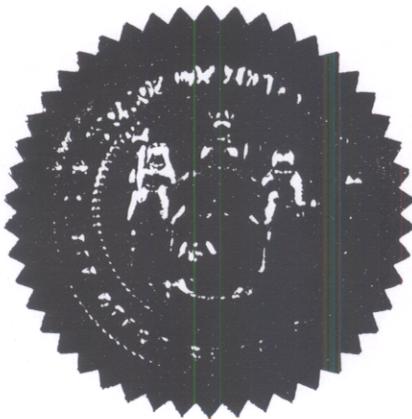
and to make a report to me in writing of the condition of the said

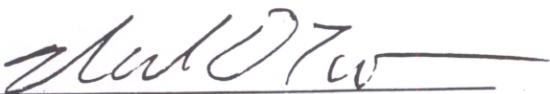
Company

with such other information as he shall deem requisite.

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

this 23 rd day of August, 2000




NEIL D. LEVIN
Superintendent of Insurance