

REPORT ON EXAMINATION
OF THE
UNITED STATES BRANCH
OF THE
NISSAN FIRE & MARINE INSURANCE COMPANY LTD.
AS OF
DECEMBER 31, 2000

DATE OF REPORT

SEPTEMBER 28, 2001

EXAMINER

MOSES EGBON, CFE

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

September 28, 2001

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

Sir:

Pursuant to instructions contained in Appointment Number 21742 dated June 28, 2001, attached hereto, and in accordance with the New York Insurance Law, I have made an examination into the financial condition and affairs of the United States Branch of the Nissan Fire & Marine Insurance Company, Ltd., as of December 31, 2000 and respectfully submit the following report thereon.

The examination was conducted at the offices of Nissan Management Incorporated, the Branch's United States Manager, located at 565 Fifth Avenue, New York, New York 10017.

Wherever the designations "Branch" or "Company" appear in this report without qualification, they should be understood to indicate the United States Branch of Nissan Fire & Marine Insurance Company, Limited.

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, 1995. This examination covers the five year period from January 1, 1996 through December 31, 2000 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 to the extent deemed necessary to accomplish such verification and utilized, to the extent considered appropriate, work performed by the Branch'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 BRANCH

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.

A. Management

Effective January 1, 1987, Nissan Fire and Marine Insurance Company, Ltd., (“NFM”) appointed its wholly-owned subsidiary, Nissan Management Incorporated, the lawful representative and United States Manager of the Branch under a duly executed Power of Attorney filed with the Department on October 30, 1986.

The directors and principal officers of the United States Manager serving as of December 31, 2000, were as follows:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Hiroshi Oishi Tokyo, Japan	Managing Director, Nissan Fire & Marine Insurance Company, Limited, Tokyo, Japan
Takashi Tanno Tokyo, Japan	Manager, Nissan Fire & Marine Insurance Company, Limited, Tokyo, Japan
Masao Shibata New York, New York	President, Nissan Management Incorporated

Officers

<u>Name</u>	<u>Title</u>
Masao Shibata	President
Hiroyuki Hayashi	Vice-President, Secretary/Treasurer
Hiroshi Kurihara	Vice President
Yoshinao Yajima	Vice President

Management Agreement

The Nissan Fire and Marine Insurance Company, Ltd., entered into a management agreement on December 15, 1986 with Nissan Management Incorporated.

Nissan Management Incorporated (“NMI”) and Joseph J. DeVito Consultants, (“JJD”) entered into a service agreement on January 1, 1989. According to this agreement, JJD provides NMI the following services:

“JJD, will assist NMI in its dealings with various insurance departments and coordinate all reinsurance contracts. JJD will maintain accounting records, and produce statutory financial reports. JJD will help NMI coordinate investment activities, prepare tax returns and provide actuarial opinion.”

United States Trustee

The Bank of Tokyo Trust Company, a New York corporation, located at 100 Broadway, New York, New York 10005, and the Industrial Bank of Japan Trust Company, also a New York corporation, located at 245 Park Avenue, New York, New York 10167, were appointed United States trustees under separate deeds of trust both dated May 15, 1980 and approved by the Superintendent of Insurance on July 29, 1980, pursuant to Section 1315 of the New York Insurance Law.

The Dai-Ichi Kangyo Bank, Ltd., a New York corporation, located at One World Trade Center, New York, New York 10048 was previously appointed as the Branch's custodian, pursuant to Section 1314 of the New York Insurance Law.

Subsequent to the examination period, the Dai-Ichi Kangyo Bank, Limited was merged into Mizuho Trust and Banking Company located at 666 Fifth Avenue, Suite 802, New York, New York 10103. Consequently, the Branch executed a new custodian agreement, which became effective May 9, 2001. The agreement was approved by this Department on June 1, 2001.

B. Territory and Plan of Operation

As of the examination date, the Branch was licensed to transact business in the states of Alaska, California, District of Columbia, Florida, Georgia, Illinois, Kansas, Kentucky, Michigan, New York, North Carolina, Ohio, Oklahoma, South Carolina, Tennessee, Texas, and Washington. Approximately 73% of the Branch's direct writings during examination period were concentrated in California.

According to its certificate of authority, the Branch was empowered to transact the kinds of insurance as set forth 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

<u>Paragraph</u>	<u>Line of Business</u>
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

Provision is also made for the Branch 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 Branch's charter.

The following schedule shows direct premiums written in New York State as well as the direct premiums written countrywide, and the percentage which the New York premiums bear to the countrywide premiums:

<u>Calendar Year</u>	<u>New York State</u>	<u>Total United States</u>	<u>Percentage of United States Premiums Written in New York State</u>
1996	\$ 94,787	\$7,517,515	1%
1997	77,046	6,269,830	1
1998	102,265	5,145,193	2
1999	462,455	5,485,142	8
2000	1,322,018	5,710,468	23

Based upon 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 of \$2,200,000.

The Branch writes direct ocean marine business through insurance sales representatives and insurance brokers. The Branch also assumes all forms of property/casualty insurance which it is licensed to write.

C. Reinsurance

The vast majority of the Branch's business is written on a direct 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.

The examiner reviewed the ceded reinsurance contracts effected during the examination period. These contracts contained the required standard clauses, including insolvency clauses meeting the requirements of Section 1308 of the New York Insurance Law.

As of December 31, 2000, the Branch is protected by the following ceded reinsurance coverage:

<u>Type of Contract</u>	<u>Policy Coverage</u>	<u>Cession</u>
<u>Ocean Marine Cargo</u> <u>Excess of Loss</u>		
5 Layers	All other	\$100,000,000 excess of \$200,000, per risk per occurrence.

Most of the Branch's cessions are to unauthorized reinsurers.

D. Holding Company System

Nissan Management Incorporated is a wholly-owned subsidiary of Nissan Fire & Marine Insurance Company, Ltd., and was appointed by the parent as the lawful representative and the United States Manager.

The Branch, pursuant to Section 1502(a)(1) of the New York Insurance Law is exempt from the provisions of Article 15 (Holding Companies).

E. Accounts, Records and Internal Controls

Section 1312 of the New York Insurance Law requires every authorized alien insurer to file a trusted surplus statement with the Superintendent annually. It also sets forth how such trusted surplus is to be calculated. Examination review indicated that the Branch did not include certain account balances, including ceded reinsurance balances payable, agents' balances, and special state deposits, when computing its trusted surplus. The amounts associated with these accounts were immaterial to the Branch's trusted surplus and no changes have been made to the financial statements contained in this report. However, it is recommended that the Branch compute its trusted surplus in accordance with Section 1312 of the New York Insurance Law.

It is recommended that the Branch submit its future filed trusted surplus statements in accordance with Section 1312 of the New York Insurance Law.

The Branch listed its trusted assets in Schedule E – Part 2, of its filed annual statements as “special deposits not held for the benefit of all policyholders, claimants and creditors.” Section

1312(a)(1)(C) of the New York Insurance Law requires the Branch to disclose all assets held for the benefit of its policyholders and creditors.

It is recommended that the Branch properly disclose all trustee assets in its filed annual statement, in accordance with Section 1312(a)(1)(C) of the New York Insurance Law.

As of the examination date, the Branch has not adopted a formal disaster recovery plan, regarding incidents of catastrophic fire or other disasters, in accordance with the Department policy. However, subsequent to this examination, the Branch has formulated a disaster recovery plan as required by this Department.

F. Abandoned Property Law

Section 1316 of the New York Abandoned Property Law requires the Company to file a report with the Office of the State Comptroller for any amounts payable to residents of New York that remain unclaimed for more than three years. The law requires all companies to file whether or not abandoned property exists. The Branch indicated that because it had no abandoned property, it did not file a report.

It is recommended that the Branch comply with Section 1316 of the New York Abandoned Property Law.

G. Significant Operating Ratios

The following ratios have been computed as of December 31, 2000, based upon the results of this examination:

Net premiums written in 2000 to Surplus as regards policyholders	.34:1
Liabilities to Liquid assets(cash and invested assets less investments in affiliates)	17%
Premiums in course of collection to surplus as regards policyholders	1%

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 five-year period covered by this examination:

	<u>Amounts</u>	<u>Ratios</u>
Losses incurred	\$12,770,908	37.50%
Loss adjustment expenses incurred	2,924,970	8.59
Other underwriting expenses incurred	8,444,637	24.79
Net underwriting gain	<u>9,917,920</u>	<u>29.12</u>
Premiums earned	<u>\$34,058,435</u>	<u>100.00%</u>

3. 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, 2000. This statement is the same as the balance sheet filed by the Branch.

<u>Assets</u>	<u>Ledger Assets</u>	<u>Non-Ledger Assets</u>	<u>Not-Admitted Assets</u>	<u>Assets</u>
Bonds	\$8,101,328	\$	\$	\$8,101,328
Cash on deposit	2,409,483			2,409,483
Short-term investments	17,248,631			17,248,631
Agents' balances or uncollected premiums in course of collection	119,183			119,183
Funds held by or deposited with reinsured companies	408			408
Interest, dividends and real estate income due and accrued		134,168		134,168
Miscellaneous receivable and security deposit	<u>7,733</u>	<u> </u>	<u> </u>	<u>7,733</u>
Total assets	<u>\$27,886,766</u>	<u>\$134,168</u>	<u>\$ 0</u>	<u>\$28,020,934</u>

Liabilities

Losses		\$3,731,558
Loss adjustment expenses		572,558
Other expenses		247,521
Taxes, licenses and fees		66,244
Federal and foreign income taxes (excluding deferred taxes)		110,000
Provision for reinsurance		800
Excess of statutory reserves over statement reserves		<u>6,000</u>
Total liabilities		\$4,734,681
Statutory deposit	\$2,000,000	
Unassigned funds (surplus)	<u>21,286,253</u>	
Surplus as regards policyholders		<u>\$23,286,253</u>
Total liabilities and surplus		<u>\$28,020,934</u>

Note: The Internal Revenue Service has never audited the Branch. The examiner is unaware of any potential exposure of the Branch 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 \$11,294,482 during the five year examination period January 1, 1996 through December 31, 2000, detailed as follows:

Statement of Income

Underwriting Income

Premiums earned		\$34,058,435
Deductions:		
Losses incurred	\$12,770,908	
Loss adjustment expenses incurred	2,924,970	
Other underwriting expenses incurred	<u>8,444,637</u>	
Total underwriting deductions		<u>24,140,515</u>
Net underwriting gain		\$9,917,920

Investment Income

Net investment income earned		<u>7,311,653</u>
Net income before dividends and federal income taxes		\$17,229,573
Federal income taxes incurred		<u>5,928,291</u>
Net income		<u>\$11,301,282</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 1995 per report on examination			\$11,991,771
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income	\$11,301,282	\$	
Change in provision for reinsurance		800	
Change in excess of statutory reserves over statement reserves	<u> </u>	<u>6,000</u>	
Total gains and losses	<u>\$11,301,282</u>	<u>\$ 6,800</u>	
Net increase in surplus as regards policyholders			<u>11,294,482</u>
Surplus as regards policyholders, December 31, 2000, per report on examination			<u>\$23,286,253</u>

C. Trusteed Surplus Statement

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

Assets

Bonds on deposit with various states of the United States for the protection of all the Branch's policyholders and creditors within the United States:

New York	\$2,103,233	
Accrued interest income	<u>18,897</u>	
Total		\$2,122,130

Bonds held within the United States by trustees for the protection of all the Branch's policyholders and creditors within the United States:

Bonds	\$5,371,003	
Accrued interest income	<u>92,783</u>	
Total		<u>5,463,786</u>

Total assets		<u>\$7,585,916</u>
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Liabilities

Liabilities as determined by this examination	<u>\$4,734,681</u>	
Net liabilities (per Section 1312)		\$4,734,681
Trusteed surplus (per Section 1312)		<u>2,851,235</u>
Total liabilities and trustee surplus		<u>\$7,585,916</u>

4. **LOSSES AND LOSS ADJUSTMENT EXPENSES**

The examination liabilities for loss and loss adjustment expense reserves of \$3,731,558 and \$572,558 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 generally 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 practices in the following areas:

- A. Underwriting
- B. Treatment of policyholders and claimants

No problem areas were encountered.

6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

There were no comments or recommendations in the prior report.

7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Accounts and Internal Controls</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.	8
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.	9
B. <u>Abandoned Property Law</u>	
It is recommended that the Branch comply with Section 1316 of the New York Abandoned Property Law.	9

Respectfully submitted,

_____/S/_____
Moses Egbon, CFE
Senior Insurance Examiner

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

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

_____/S/_____
Moses Egbon

Subscribed and sworn to before me
this ____ day of _____ 2001.

Appointment No. 21742

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:

Moses Egbon

as proper person to examine into the affairs of the

**THE NISSAN FIRE & MARINE INSURANCE COMPANY LTD.
(US BRANCH)**

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 28th day of June, 2001





GREGORY V. SERIO
Superintendent of Insurance