

REPORT ON EXAMINATION
OF THE
NISSAY DOWA GENERAL INSURANCE COMPANY, LIMITED (UNITED STATES BRANCH)
AS OF
DECEMBER 31, 2001

DATE OF REPORT

NOVEMBER 21, 2003

EXAMINER

LU ANN THERRELL

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

George E. Pataki
Governor

Gregory V. Serio
Superintendent

November 21, 2003

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

Sir:

Pursuant to instructions contained in Appointment Number 21864, dated May 7, 2002, attached hereto, I have made an examination into the condition and affairs of the Nissay Dowa General Insurance Company, Limited (United States Branch) as of December 31, 2001 and submit the following report thereon.

The examination was conducted at the Branch Manager's main administrative office located at 9300 Arrowpoint Boulevard, Charlotte, NC 28201. The Branch's statutory home office is located at 521 Fifth Avenue, 5th Floor, New York, New York 10175.

Whenever the designation "Branch" appears herein without qualification, it should be understood to refer to the Nissay Dowa General Insurance Company, Limited (United States Branch).

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

1. SCOPE OF EXAMINATION

The previous examination was conducted as of December 31, 1997. This examination covers the four-year period from January 1, 1998 through December 31, 2001. Transactions subsequent to this period were reviewed where deemed appropriate by the examiner.

The examination comprised a complete verification of assets and liabilities as of December 31, 2001, a review of income and disbursements deemed necessary to accomplish such verification and utilized, to the extent deemed 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 Branch
- Management and control
- Corporate records
- Fidelity bonds and other insurance
- Territory and plan of operation
- Growth of Branch
- Business in force by state
- Reinsurance
- Accounts and records
- Financial statements

A review was also made to ascertain what action was 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 which involve departures from laws, regulations or rules, or which are deemed to require explanation or description.

2. DESCRIPTION OF BRANCH

Nissay Dowa General Insurance Company, Limited, (United States Branch) is the United States Branch of Nissay Dowa General Insurance Company, Ltd. of Tokyo, Japan (“the Parent”). The Parent established the Branch under the laws of the State of New York in order to write property and casualty insurance and reinsurance in the United States. The Branch was licensed and commenced business operations on July 1, 1990.

Effective April 1, 2001, the Branch’s parent, formerly Dowa Fire and Marine Insurance Company, Ltd., merged with Nissay General Insurance Company, Limited, a subsidiary of Nippon Life Insurance Company of Japan. The surviving company was renamed Nissay Dowa General Insurance Company, Limited. The merger impacted financial results of the Branch with noticeable increases in premium income during 2000 and 2001.

A. Management

Shield Management, Inc. is the Manager and Attorney-in-Fact of the Branch and performs all underwriting and administrative functions for the Branch. Shield Management, Inc. is a wholly-owned subsidiary of B.E.I. Services, Inc., a wholly-owned subsidiary of Globe Indemnity Company, a Delaware insurance company. Globe Indemnity Company is ultimately owned by Royal and SunAlliance Insurance Group plc, of the United Kingdom. All business for the Branch is processed through Royal & SunAlliance USA’s systems.

The trustee for the assets held in the United States is the Bank of Tokyo-Mitsubishi Trust Company, of the City of New York, State of New York, pursuant to a deed of trust approved by the superintendent of insurance in accordance with Section 1315 of the New York Insurance Law.

The directors of the manager as of December 31, 2001 were as follows:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
John Tighe Charlotte, NC	President, Royal & SunAlliance USA
Joyce W. Wheeler Charlotte, NC	Senior Vice President and Secretary, Royal & SunAlliance USA
Tomoaki Yoshida Scarsdale, NY	Director and Employee of Nissay Dowa General Insurance Co., Ltd.

The minutes of all meetings of the board of directors of Shield Management, Inc. and committees thereof held during the examination period were reviewed. The review revealed that all meetings were well attended. It is noted however, that the minutes for Shield Management, Inc. did not specifically mention the activities of the Branch. Specifically, with regards to the approval of investments, the board of directors approved the investment transactions of “the Company” without identifying the specific Company or Branch that the investment transactions related to. Shield Management, Inc. manages at least one other New York domiciled United States Branch. Further, it is noted that the periods for which investment transactions were approved did not encompass the entire examination period, thus certain investments acquired during the period under examination were not approved as required by Section 1411(a) of the New York Insurance Law.

It is recommended that the board of directors specifically identify the Company or Branch for which investment transactions are being approved. It is further recommended that in the future, the board of directors comply with Section 1411(a) of the New York Insurance Law and approve all investments made by the Branch.

The principal officers of Shield Management, Inc. as of December 31, 2001 were as follows:

<u>Name</u>	<u>Title</u>
John Tighe	President
Ernest C. Frohboese	Senior Vice President and Chief Investment Officer
Joyce W. Wheeler	Senior Vice President and Secretary
Sean A. Beatty	Vice President and Finance Officer
John J. Limpert	Vice President and Appointed Actuary
Thomas McMahon	Assistant General Manager

B. Territory and Plan of Operation

The Branch is licensed to write business in New York State only. The Branch does not write direct insurance business. The Branch's current book of business is limited to business assumed from member companies of the Royal & SunAlliance Insurance Group.

The net premiums written by calendar year are as follows:

<u>Calendar Year</u>	<u>Net Premiums Written</u>
1998	\$862,270
1999	327,006
2000	609,087
2001	<u>945,568</u>
Total	<u>\$2,743,931</u>

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>Kind of Insurance</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 physical damage
20	Marine and inland marine
21	Marine protection and indemnity

In addition, the Branch is 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 No. 803, 69 Cong. as amended; 33 USC Section 901 et. seq. as amended), to the extent permitted by the certified copy of its charter document on file with the New York Insurance Department, provided, however, that the authority conferred by this license shall be limited to the writing of contracts issued for delivery in the United States, insuring risks of policyholders within the United States.

Based upon the lines of business for which the Branch is licensed, and the Branch's current capital structure, 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 \$4,400,000.

C. Reinsurance

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

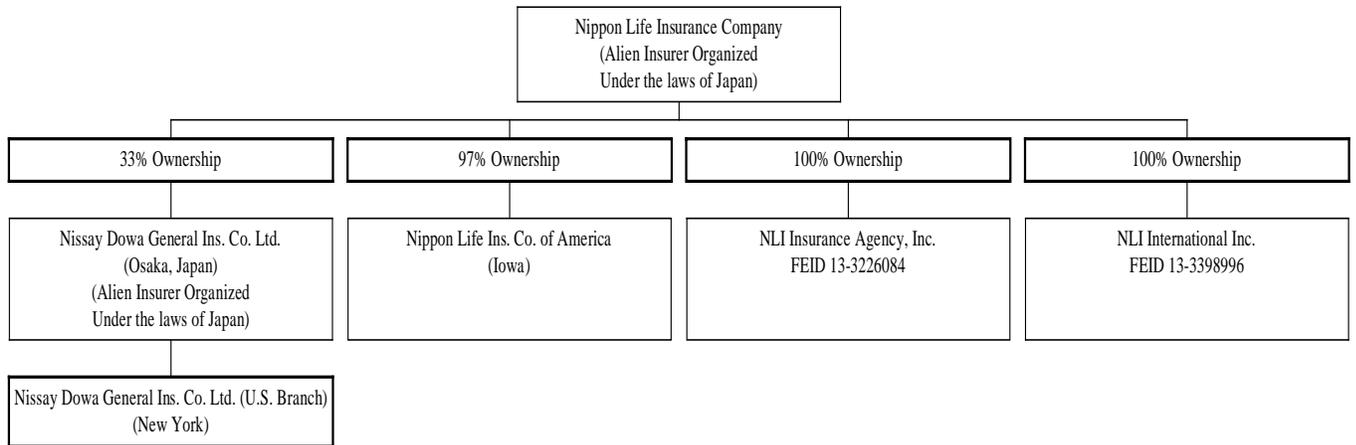
Effective July 1, 1990, the Branch entered into a reinsurance agreement with Royal Indemnity Company ("RIC") whereby it assumed certain property and casualty business on a facultative basis. The business assumed consists mainly of United States risks of Japanese insureds. RIC entered into a quota share reinsurance agreement with TOA Fire & Marine Reinsurance Company Limited ("TOA") which included an attached schedule termed the TOA Movable All Risks Retrocession Treaty on June 1, 1990. This business was retroceded to the Branch. Effective March 31, 1998, RIC cancelled the TOA Movable All Risks Retrocession Treaty whereby RIC assumed business from TOA, thereby canceling the business retroceded by RIC to the Branch from TOA.

The Branch has no ceded reinsurance agreements in force as of the examination date.

D. Holding Company System

The home office of the Branch is exempt from the provisions of Article 15 of the New York Insurance Law. However, as a condition to the issuance of its license, the Branch committed to submit any transactions between itself and any of the companies that comprise Nissay Dowa General Insurance Company Limited Group.

The following chart shows the position of the Branch in the organization as of December 31, 2001:



E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2001, based upon the results of this examination:

Net premiums written to surplus as regards policyholders	0.06:1
Liabilities to liquid assets (cash and invested assets less investment in affiliates)	13%
Premiums in course of collection to surplus as regards policyholders	1%

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

	<u>Amounts</u>	<u>Ratios</u>
Losses and loss adjustment expenses incurred	\$1,869,723	64.18%
Other underwriting expenses incurred	1,488,658	51.09
Net underwriting gain (loss)	<u>(444,976)</u>	<u>(15.27)</u>
Premiums earned	<u>\$2,913,405</u>	<u>100.00%</u>

F. Abandoned Property Law

The Branch did not file any Abandoned Property reports as required by Section 1316 of the New York Abandoned Property Law. Even if there are no funds to be reported, the Branch is still required to file a report annually.

It is recommended that the Branch comply with Section 1316 of the New York Abandoned Property Law and file the appropriate reports annually.

G. Accounts and Records

i. Domestic Custody Agreement

The domestic custody agreement between the Bank of Tokio-Mitsubishi Trust Company and the Branch, was found to be lacking the following provisions as set forth in the NAIC Financial Condition Examiners' Handbook, Part 1, Section IV – H:

1. That in the event that the custodian gains entry in a clearing corporation through an agent, there should be a written agreement between the custodian and the agent that the agent shall be subjected to the same liability for loss of securities as the custodian. If the agent is governed by laws that differ from regulation of the custodian, the Commissioner of Insurance of the state of domicile may accept a standard of liability applicable to the agent that is different from the standard of liability;
2. That if the custodial agreement has been terminated or if 100% of the account assets in any one custody account have been withdrawn, the custodian shall provide written notification, within three business days of termination or withdrawal, to the insurer's domiciliary commissioner;
3. The custodian and its agents, upon reasonable request shall be required to send all reports which they receive from a clearing corporation or the Federal Reserve book-entry system which the clearing corporation or the Federal Reserve permits to be redistributed and reports prepared by the custodian's outside auditors, to the insurance company on their respective systems of internal control;
4. That the custodian shall provide, upon written request from a regulator or an authorized officer of the insurance company, the appropriate affidavits, with respect to the insurance company's securities held by the custodian;
5. That the custodian shall secure and maintain insurance protection in an adequate amount.

It is recommended that the domestic custody agreement be amended to include the provisions set forth in the NAIC Financial Condition Examiners Handbook, Part 1, Section IV-H.

ii. Outstanding Checks

The Branch improperly reported outstanding checks as drafts outstanding in its December 31, 2001 filed annual statement. In accordance with SSAP No. 2, Paragraph 7, outstanding checks should be accounted for as a reduction of cash. The improper reporting has no effect on surplus.

It is recommended that the Branch properly report outstanding checks as a reduction of cash in all future statements filed with this Department.

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, 2001. This statement is the same as the balance sheet filed by the Branch.

	<u>Assets</u>	Nonadmitted <u>Assets</u>	Net Admitted <u>Assets</u>
Bonds	\$ 8,027,979	\$ -	\$ 8,027,979
Cash and short-term investments	10,167,543	-	10,167,543
Premiums and agents' balances in course of collection	233,045	-	233,045
Federal and foreign income taxes recoverable and interest thereon	89,000	-	89,000
Interest, dividends and real estate income due and accrued	<u>157,412</u>	<u>-</u>	<u>157,412</u>
Total assets	<u><u>\$ 18,674,979</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 18,674,979</u></u>

Liabilities, Surplus and Other Funds

Losses and loss adjustment expenses		\$1,782,450
Reinsurance payable on paid losses and loss adjustment expenses		17,093
Other expenses		53,067
Unearned premiums		325,946
Drafts outstanding		<u>160,338</u>
Total liabilities		\$2,338,894
<u>Surplus and Other Funds</u>		
Statutory deposit	\$ 1,000,000	
Unassigned funds (surplus)		<u>15,336,086</u>
Surplus as regards policyholders		<u>16,336,086</u>
Total liabilities, surplus and other funds		<u>\$18,674,980</u>

Note: The tax years prior to 1999 are closed by the statute of limitations. The tax years from 1999 through 2001 are open for audit adjustments. The tax returns for the Branch have not been subject to audit in the past nor has the Branch been notified that any of the open years will be reviewed. 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 \$2,130,990 during the four-year examination period, January 1, 1998 through December 31, 2001 detailed as follows:

Statement of Income

Underwriting Income

Premiums earned		\$ 2,913,405
Deductions:		
Losses and loss expenses incurred	\$ 1,869,723	
Other underwriting expenses incurred	<u>1,488,658</u>	
Total underwriting deductions		<u>3,358,381</u>
Net underwriting gain (loss)		\$ (444,976)

Investment Income

Net investment income earned	\$ 3,590,685	
Net realized capital gains (losses)	<u>11,405</u>	
Net investment gain (loss)		<u>3,602,090</u>
Net income, after dividends to policyholders and before federal and foreign income taxes		\$3,157,114
Federal and foreign income taxes incurred		<u>1,026,124</u>
Net Income		<u><u>\$ 2,130,990</u></u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 1997, per report on examination			\$14,205,095
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income	<u>\$ 2,130,990</u>	<u>\$</u>	
Total gains and losses	<u>\$ 2,130,990</u>	<u>\$</u>	
Net increase in surplus as regards policyholders			<u>2,130,990</u>
Surplus as regards policyholders, December 31, 2001, per report on examination			<u><u>\$16,336,085</u></u>

C. Trusteed Surplus Statement

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

Assets

Deposits held for the protection of all of its policyholders and creditors within the United States:

A. General State Deposits

United States Treasury Notes	\$ 1,506,682	
Accrued interest	34,525	
	<hr/>	
Total general state deposits		\$ 1,541,207

B. Trusteed Assets

Vested in and held by the United States Trustee-Bank of Tokio-Mitsubishi Trust Co. - pursuant to Section 1315 of the New York Insurance Law:

United States Treasury Notes	\$ 6,521,296	
Accrued interest	122,699	
	<hr/>	
Total deposits with trustees		6,643,995
Total gross assets in the United States with state insurance departments, state officers and trustees		<hr/> <hr/> \$ 8,185,202

Liabilities

Total liabilities and reserves per report on examination		\$ 2,338,894
Deductions from Net Liabilities and Reserves		233,045
		<hr/>
Net liabilities (Section 1312)		\$ 2,105,849
Trusteed Surplus		6,079,353
		<hr/>
Total liabilities and trustee surplus		<hr/> \$ 8,185,202

The Branch's trustee surplus meets the statutory minimum requirements.

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability of \$1,782,450 is the same as the amount reported by the Branch 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 Branch's internal records and in its filed annual statements. As a result, at the examination date, the reserve for losses and loss adjustment expenses was adequate.

5. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report contained the following comments and recommendations: (page numbers refer to the prior report on examination):

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Management and Control</u>	
i. It is recommended that board members who are unable or unwilling to attend meetings consistently should resign or be replaced immediately.	4
The Branch has complied with this recommendation.	
ii. It is recommended that the Branch comply with Section 1411(a) of the Insurance law by instituting procedures for the approval of all investments by the board of directors.	4
The Branch has not complied with this recommendation at the current examination date. The same recommendation is repeated herein.	
B. <u>Reinsurance</u>	
i. The Branch did not have a formal written agreement relating to some of its assumed business with one of its reinsurers. It is recommended that the Branch obtain formal written treaty documentation for all reinsurance assumptions.	7
The agreement in question was cancelled. As of the examination date the Branch is in compliance with this recommendation.	

<u>ITEM</u>	<u>PAGE NO.</u>
C. <u>Losses and Loss Adjustment Expenses</u>	

It is recommended that the Branch comply with the instructions to the annual statement and segregate the unallocated loss adjustment expenses unpaid in Schedule P. 12-13

The Branch continues to report \$0 for adjusting and other unpaid expenses (previously unallocated loss adjustment expenses) in Schedule P. The Branch Manager has indicated that they did not report adjusting and other expense reserves on the annual statement because they were minimum dollars, which rounded to \$0. As these amounts increase, the Branch should start to report adjusting and other expenses on future years' statements.

6. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Management</u>	
i. It is recommended that the board of directors specifically identify the Company or Branch for which investment transactions are being approved.	4
ii. It is further recommended that the board of directors comply with Section 1411 (a) of the New York Insurance Law and approve all investments made by the Branch.	4
B. <u>Abandoned Property Law</u>	
It is recommended the Branch comply with Section 1316 of the New York Abandoned Property Law and file the appropriate reports.	9
C. <u>Accounts and Records</u>	
i. <u>Domestic Custody Agreement</u>	
It is recommended the Branch revise custodial agreement to include the safeguards and provisions outlined in the NAIC Financial Condition Examiners' Handbook, Part1, Section IV-H.	10
ii. <u>Outstanding Checks</u>	
It is recommended that the Branch properly report outstanding checks as a reduction of cash in all future statements filed with this Department.	10

Appointment No. 21935

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:

LuAnn Therrell

as proper person to examine into the affairs of the

**NISSAY DOWA GENERAL INSURANCE COMPANY, LIMITED
(UNITED STATES BRANCH)**

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

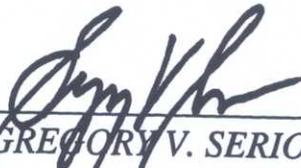
Branch

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 29th day of August, 2002





GREGORY V. SERIO
Superintendent of Insurance