

REPORT ON EXAMINATION  
OF THE  
TRANS PACIFIC INSURANCE COMPANY  
AS OF  
DECEMBER 31, 2000

DATE OF REPORT

SEPTEMBER 6, 2002

EXAMINER

ISAAC ZAMDAS

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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

September 6, 2002

Honorable Gregory V. Serio  
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 Number 21787 dated September 28, 2001, attached hereto, I have made an examination into the condition and affairs of the Trans Pacific Insurance Company as of December 31, 2000 and respectfully submit the following report thereon.

The examination was conducted at the Company's home office located at 101 Park Avenue, New York, New York 10178.

Wherever the designations "the Company", "TPI" or "Trans Pacific" appear herein without qualification, they should be understood to indicate the Trans Pacific Insurance Company.

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

## 1. SCOPE OF EXAMINATION

The prior examination was conducted as of December 31, 1996. This examination covered the four year period from January 1, 1997 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, losses and loss adjustment expense reserves and the provision for reinsurance. The examination including 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 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 bond 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

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

Concurrently examined with the Company was the United States Branch of the Tokio Marine and Fire Insurance Company, Ltd. of Tokyo, Japan, the Company's immediate parent and TM Casualty

Insurance Company, an affiliate. Separate reports on examination were issued for those entities.

This report on examination is confined to financial statements and comments on those matters which involve departures from laws, regulation or rules, or which 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.

All of the issued and outstanding capital stock of the Company, which consists of 50,000 shares of common stock with a par value of \$100 per share, is owned by the United States Branch of the Tokio Marine and Fire Insurance Company, Ltd., ("Branch") entered in the State of New York and thus, an authorized insurer. In 1989, the Company amended its charter to increase its paid in capital from \$2,500,000 to \$5,000,000 by issuing an additional 25,000 shares with a par value of \$100 per share. All of the outstanding shares were issued to the Branch. This capital increase was approved by the Department on August 23, 1989.

Trans Pacific is one of the nine companies that comprises the Tokio Marine and Fire Insurance Group. The Company's holding company system is further described in item 2D herein.

A. Management

Pursuant to the Company's charter, management of the Company is vested in a board of directors consisting of not less than thirteen nor more than twenty-one members. The exact number of directors is determined from time to time in accordance with the provisions of the Company's by-laws. Prior to May 1994, the number of directors of the Company consisted of 15 members. By an amendment to the by-laws, the number of directors was decreased from fifteen to thirteen in May 1994.

As of December 31, 2000, the members of the board of directors together with their residence and principal affiliation were as follows:

Name and Residence

Principal Business Affiliation

Wallace Appelson  
New York, NY

Vice-President and General Manager,  
TM Claims Service, Inc.

Lisa P. Cavanaugh  
New York, NY

Senior Counsel,  
Tokio Marine Management, Inc.

B. Steven Goldstein  
New York, NY

Corporate Vice-President, Secretary and  
General Counsel,  
Tokio Marine Management, Inc.

Jesse Kiefer

Corporate Vice-President,

Stewartsville, NJ	Tokio Marine Management, Inc.
Yoshifumi Kobayashi New York, NY	Senior Vice-President, Tokio Marine Management, Inc.
Toshio Nakamura Rye Brook, NY	Senior Vice-President, Tokio Marine Management, Inc.
Morio Ishii New York, NY	Chairman, President & Chief Executive Officer, Tokio Marine Management, Inc.
Shin-ichi Asami San Gabriel, CA	Executive Vice-President, Tokio Marine Management, Inc.

Name and ResidencePrincipal Business Affiliation

D. Michael Polizzi Middletown, NJ	Corporate Vice-President, Tokio Marine Management, Inc.
Harvey Sherman Glen Oaks, NY	Senior Vice-President and Chief Actuary, Tokio Marine Management, Inc.
Wayne Sparks Ridgewood, NJ	Senior Vice-President, Treasurer and Controller, Tokio Marine Management, Inc.
Hirotsugu Umeki New York, NY	Senior Vice-President, Tokio Marine Management, Inc.
Nobuki Tamesue Rye Brook, NY	Assistant to Chief Executive Officer, Tokio Marine Management, Inc.

The minutes of all meetings of the stockholders held during the period were reviewed. The Company's charter and by-laws provide that the Company shall hold an annual meeting of the shareholders to elect directors, who shall serve as directors until the next annual meeting and until their successors are elected and qualified. Section 602(b) of the New York Business Corporation Law also requires that a meeting of shareholders be held annually for the election of directors.

The Company had unanimous written consent in lieu of an annual meeting from its sole shareholder for each year under examination.

A review of the minutes of the meetings of the board of directors for the four year period covered by this examination indicated that the board held eleven regular meetings. All of the meetings were well attended.

As of December 31, 2000, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Morio Ishii	President
B. Steven Goldstein	Secretary
Wayne Sparks	Treasurer

#### Management Agreement

The management agreement between the Company and Tokio Marine Management, Inc. ("TMM"), an affiliate of the Company, has been in effect since December 31, 1981. Under this agreement, the Company has appointed TMM as its manager for the transaction of the business of insurance on the behalf of the Company, inclusive of underwriting, claims handling and other related functions.

In accordance with the agreement, the manager also agrees to comply with guidelines and instructions established by the Company's board of directors. In addition, the agreement states that the Company is the ultimate owner of all accounts and has the veto power over all decisions made by TMM. The agreement also generally provides that the manager shall deliver a monthly account current setting forth totals of all transactions undertaken on behalf of the Company. The agreement may be varied by an exchange of letters signed by the respective parties, and may be terminated with at least six months previous written notice to the other party or by mutual agreement.

#### Conflict of Interest Questionnaire

The Company's conflict of interest questionnaires for the examination period were reviewed. It was noted that new officers and directors did not complete the conflict of interest questionnaires in the year in which they were appointed.

Subsequent to the examination period the Company initiated procedures wherein all new officers and directors completed conflict of interest questionnaires upon their appointment

#### B. Territory and Plan of Operation

The Company is authorized to transact business in forty-six states as well as the District of Columbia. It is not licensed to do business in the states of Louisiana, New Hampshire, New Mexico and Vermont.

The following schedule shows the direct premiums written by the Company in New York State and country wide for the calendar years during the examination period, and the percentages which the New York premiums bear to the countrywide premiums:

Direct Premiums Written

<u>Calendar Year</u>	<u>New York State</u>	<u>Total United States</u>	<u>Percentage of U.S Premiums Written in New York</u>
1997	\$1,438,988	\$ 9,356,878	15.4%
1998	\$2,341,938	\$11,813,933	19.8%
1999	\$1,139,602	\$11,301,263	10.1%
2000	\$ 785,964	\$ 8,013,722	9.8%

As of December 31, 2000, 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>Kind of Insurance</u>
3(i)	Accident and health
4	Fire
5	Miscellaneous property damage
6	Water damage
7	Burglary and theft

	9	
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

The Company is also empowered to transact such workers' compensation 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. 69th Congress as amended; 33 U.S. Section 901 et seq. as amended).

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,

the Trans Pacific Insurance Company, is required to maintain a minimum surplus to policyholders in the amount \$5,000,000.

The Company has written only workers' compensation insurance policies since its inception. The business of TPI is developed through a network of independent agents and brokers.

C. Reinsurance

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

Assumed Reinsurance

At December 31, 2000, the Company's assumed business was generated entirely from its participation in voluntary pools/associations.

In 2000, the Company's assumed business as a ratio of its total writings was one percent.

Ceded Reinsurance

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

As of the examination date, the Company was reinsured by its authorized parent, the United States Branch of the Tokio Marine and Fire Insurance Company, Ltd., of Tokyo, Japan (“Branch”) under the following quota share agreement and working excess of loss treaty for its workers’ compensation business:

<u>Type of Contract</u>	<u>Limits and Retention</u>
<u>Quota Share</u> 100% Authorized	95% quota share of the net liability under policies, contracts and binders of insurance or reinsurance
<u>Non-Marine Casualty Excess of Loss</u> 100% Authorized	\$2,000,000 excess of \$200,000 in each occurrence.

In addition to the above, the Company had the following excess of loss treaties which cover both the Company and its parent:

<u>Type of Contract</u>	<u>Limits and Retention</u>
<u>First Excess of Loss Casualty</u> 100% unauthorized	\$3,000,000 excess of \$3,000,000 ultimate net loss each loss occurrence, claims made or loss discovered, subject to a maximum annual aggregate of \$12,000,000. This treaty also provides coverage for losses occurring, claims made or losses discovered during the period 12/31/85 to 12/31/88. For the period ended 12/31/85 to 12/31/87: \$2,850,000 excess of \$2,000,000. For the period ended 12/31/87 to 12/31/88: \$3,000,000 excess of \$2,000,000. For all periods as respect to Workers’ compensation: \$1,000,000 excess of \$5,000,000.
<u>Second Excess of Loss Casualty</u> 100% unauthorized	\$6,000,000 excess of \$6,000,000 ultimate net loss each loss occurrence, claims made or loss discovered, subject to a maximum annual aggregate of \$24,000,000.

Type of ContractLimits and Retention

This treaty also provides coverage for losses occurring, claims made or losses discovered during the period 12/31/85 to 12/31/88.

For the period ended 12/31/85 to 12/31/86: \$7,000,000 excess of \$5,000,000.

For the period ended 12/31/86 to 12/31/87: \$6,650,000 excess of \$5,000,000.

For the period ended 12/31/87 to 12/31/88: \$7,000,000 excess of \$5,000,000.

Third Excess of Loss Casualty

100% unauthorized

\$18,000,000 excess of \$12,000,000

ultimate net loss each loss occurrence, claims made or loss discovered.

This treaty also provides coverage for losses occurring, claims made or losses discovered during the period 12/31/85 to 12/31/88.

For the period ended 12/31/85 to 12/31/87: \$8,000,000 excess of \$12,000,000.

For the period ended 12/31/87 to 12/31/88: \$10,000,000 excess of \$12,000,000.

D. Holding Company System

The Company is a wholly-owned subsidiary of the United States Branch of the Tokio Marine and Fire Insurance Company, Ltd., of Tokyo, Japan.

Trans Pacific is a member of the Tokio Marine and Fire Insurance Group of Companies in the United States which consists of, in addition to the Company, the following entities:

Company

The United States Branch of the Tokio Marine and Fire Insurance Company,

Domiciled

New York

Ltd., Tokyo, Japan, the Company's parent, and the following subsidiaries of the Parent company:

<u>Company</u>	<u>Domiciled</u>
Tokio Marine Management, Inc., the United States Manager of the Branch, which in turn, owns TM Claims Service, Inc., AXIA Services Inc. And Morita & Co., Inc.	
Trans Pacific Insurance Company	New York
TM Specialty Insurance Company	Arizona
TM Casualty Insurance Company	New York
Tokio Re Corporation	New York

The Department has determined that the United States Branch is exempt from the provisions of Article 15 of the New York Insurance Law.

E. Internal Controls

A review of the Company's authorized check signing lists revealed that certain employees no longer working for TPI still had authority to sign checks. It was also noted that TPI's guidelines require that the check issuance log be retained separately from the blank – check stock. The examiners determined that one employee operated the check printing and check signing machines and had access to both the check issuance control log and the blank check stock.

Subsequent to the examination, TPI instituted procedures wherein banks are notified when an employee's check signing authority is revoked. In addition, procedures have been implemented to establish segregation of functions so that the person who operates the check

signing and printing machine does not have access to the check issuance control log.

F. Custodial Agreements

The Company's custodial agreements were reviewed and found to lack certain provisions

which are deemed by this Department to provide the necessary safeguards and to be representative of good business practices for the contents of such agreements. The missing protective covenants and provisions referred to are as follows:

1. The bank shall have in force, for its own protection, Bankers' Blanket Bond Insurance of the broadest form available for commercial banks, and will continue to maintain such insurance. There will be 60 days written notice of any material change in the form or amount of such insurance, or termination of this coverage.
2. The bank shall at all times give the securities held hereunder the same care given to its own property of a similar nature.
3. The bank will provide the insurer (at least quarterly) with a list of such securities showing a complete description of each issue, which shall include the number of shares or par value of bonds so held at the end of such quarter.
4. The bank will maintain records sufficient to verify information that the insurer is required to report in Schedule D of the Annual Statement blank of the Insurance Department of the State of New York.
5. The bank will furnish the insurers with appropriate affidavits in the form as may be acceptable to the New York Insurance Department in order for the securities referred to in such affidavits to be recognized as admitted assets of the Company.
6. Access shall be during regular banking hours and specifying those persons who shall be entitled to examine on your premises securities held by you on your premises and your records regarding securities held, but only upon furnishing you with written instructions to that effect from any specified authorized officer.
7. There should be a provision in the agreement what would give the insurer the opportunity to secure the most recent report on the review of the custodian's system of internal controls, pertaining to the custodian record keeping, issued by

internal or independent auditors.

It is recommended that the Company amend the agreements with its custodian to include the protective covenants and provisions deemed by this Department to be representative of good business practices for the contents of such agreements.

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	.02 to 1
Liabilities to liquid assets (cash and invested assets less investment in affiliates)	30.39%
Premiums in course of collection to surplus as regards policyholders	5.92%

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 four-year period covered by this examination:

	<u>Amounts</u>	<u>Ratios</u>
Losses incurred	\$ (1,418,903)	(63.58)%
Loss adjustment expenses	3,874,523	173.60

	16		
Other underwriting expenses		(7,803,781)	(349.68)
Net underwriting gain (loss)		<u>7,579,798</u>	<u>339.66</u>
Premiums earned		<u>\$ 2,231,637</u>	<u>100.00%</u>

H. Abandoned Property Law

Section 1316 of the New York Abandoned Property Law requires insurance companies to report to the Office of the State Comptroller annually on or before April 1, any property that is deemed abandoned

and has been unclaimed for a three-year period. This filing is required by all companies regardless of whether they have any abandoned property to report. The Company complied with the provisions of the New York Abandoned Property Law for all years covered by this examination.

### 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 Company:

<u>Assets</u>	<u>Ledger Assets</u>	<u>Non-ledger Assets</u>	<u>Not-Admitted Assets</u>	<u>Admitted Assets</u>
Bonds	\$ 25,395,810	\$	\$	\$ 25,395,810
Cash & short-term investments	5,163,678			5,163,678
Agents' balances or uncollected premiums:				
1. Premiums and agents' balances in course of collection	2,123,367		389,366	1,734,001
2. Premiums, agents' balances and installments booked but deferred and not yet due	2,082,253			2,082,253
Reinsurance recoverable on loss and loss adjustment expense payments	18,453			18,453
Interest, dividends and real estate income due and accrued		453,581		453,581
Receivable from parent subsidiaries and affiliates	719,982	2,962,541		3,682,523
Equities and deposits in pools and associations	2,522			2,522
Miscellaneous receivables	<u>51,719</u>	<u>                    </u>	<u>                    </u>	<u>51,719</u>
Total assets	<u>\$ 35,557,784</u>	<u>\$ 3,416,122</u>	<u>\$ 389,366</u>	<u>\$ 38,584,540</u>

Liabilities

Losses	\$	3,722,348
Loss adjustment expenses		1,787,000
Other expenses		65,056
Taxes, licenses and fees		(12,026)
Federal and foreign income taxes		14,790
Unearned premiums		116,506
Dividends declared and unpaid		3,118,464
Funds held by company under reinsurance treaties		2,814
Provision for reinsurance		43,313
Drafts outstanding		421,658
Other liabilities		<u>7,821</u>
Total liabilities	\$	<u>9,287,744</u>

Surplus and other funds

Capital stock	\$	5,000,000
Gross paid in and contributed surplus		10,000,000
Unassigned funds (surplus)		<u>14,296,796</u>
Surplus as regards policyholders	\$	<u>29,296,796</u>
Total liabilities and surplus	\$	<u>38,584,540</u>

NOTE: The Company has not been audited by the Internal Revenue Service. 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 \$ 6,321,325 during the four year examination period, January 1, 1997 through December 31, 2000.

Statement of Income

Underwriting Income

Premiums earned		\$	2,231,637
Deductions:			
Losses incurred	\$	(1,418,903)	
Loss adjustment expenses incurred		3,874,523	
Other underwriting expenses incurred		<u>(7,803,781)</u>	
Total underwriting deductions			<u>(5,348,161)</u>
Net underwriting gain		\$	7,579,798

Investment Income

Net investment income earned	\$	7,778,300	
Net realized gains		<u>29,100</u>	
Net investment gain			<u>7,807,400</u>
Net income before dividends to policyholders and federal and foreign income taxes	\$	15,387,198	
Dividends to policyholders		<u>7,284,355</u>	
Net income before federal and foreign income taxes	\$	8,102,843	
Federal and foreign income taxes incurred		<u>2,398,990</u>	
Net Income	\$		<u><u>5,703,853</u></u>

Capital and Surplus Account

Surplus as regards policyholders per prior report on examination as of December 31, 1996			\$22,975,471
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income	\$5,703,853		
Change in not admitted assets		\$368,977	
Change in provision for reinsurance		27,630	
Change in excess of statutory reserves over statement reserves	<u>1,014,079</u>	_____	
Total gains and losses	<u>\$6,717,932</u>	<u>\$396,607</u>	
Net gains in surplus			<u>6,321,325</u>
Surplus as regards policyholders, per report on examination as of December 31, 2000			<u>\$29,296,796</u>

**4. LOSSES AND LOSS ADJUSTMENT EXPENSES**

The examination liabilities of \$3,722,348 for losses and \$1,787,000 for loss adjustment expenses are the same as the amounts reported by the Company in its 2000 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 as verified by the examiners.

Based upon a review of the Company's historical loss and loss adjustment expense data as of December 31, 2000, and actuarial reports produced by the Company and an independent actuarial

consultant, as well as loss analysis developments prepared by this Department, it was concluded that the Company's reserves were adequate.

## 5. MARKET CONDUCT ACTIVITIES

In the course of this examination, a review was made of the manner in which the Company conducts its business practices and fulfills its contractual obligations to policyholders and claimants. The review was general in nature and is not to be construed to encompass the more precise scope of a market conduct investigation which is the responsibility of the Market Conduct Unit of the Property Bureau of this Department.

The general review was directed at practices of the Company in the following major areas:

- 1) Sales and advertising
- 2) Underwriting
- 3) Rating
- 4) Treatment of policyholders and claimants.

No problem areas were encountered.

## 6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The following recommendations cited in the prior report on examination as of December 31, 1996 are summarized below (page numbers refer to the prior report):

<u>ITEM</u>		<u>PAGE NO.</u>
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A.	<u>Management</u>	
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It is recommended that the Company comply with the provisions of its charter and by-laws as well as with the provisions of Section 602(b) of the Business Corporation Law with regard to the annual meeting of its shareholders.

A review of the Company's by-laws showed that the Company complied with the prior report on examination's recommendation.

**7. SUMMARY OF COMMENTS AND RECOMMENDATIONS**

<u>ITEM</u>		<u>PAGE NO.</u>
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A.)	<u>Custodial Agreements</u>	
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It is recommended that the Company amend the agreements with its custodian to include the protective covenants and provisions deemed by this Department to be representative of good business practices for the contents of such agreements.



Appointment No. 21787

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:

**Isaac Zamdaz**

*as proper person to examine into the affairs of the*

**TRANS PACIFIC INSURANCE COMPANY**

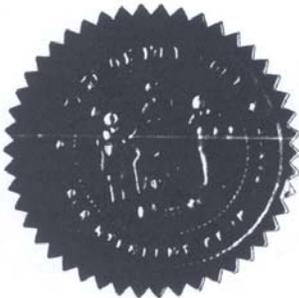
*and to make a report to me in writing of the condition of the said*

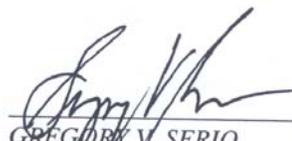
**Company**

*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 September, 2001*



  
\_\_\_\_\_  
GREGORY V. SERIO  
Superintendent of Insurance