

REPORT ON EXAMINATION
OF THE
UNITED STATES BRANCH
OF THE
NIPPONKOA INSURANCE COMPANY, LIMITED
AS OF
DECEMBER 31, 2001

DATE OF REPORT

DECEMBER 15, 2002

EXAMINER

ROBERT A. VARGAS

TABLE OF CONTENTS

<u>ITEM</u>	<u>PAGE NO.</u>
1. Scope of examination	2
2. Description of the Branch	3
A. Management	4
B. Territory and plan of operation	6
C. Reinsurance	8
D. Holding company system	9
E. Significant operating ratios	10
G. Accounts and records	10
H. Abandoned Property Law	11
3. Financial statements	12
A. Balance sheet	12
B. Underwriting and investment exhibit	14
C. Trusteed surplus statement	16
4. Losses and loss adjustment expenses	17
6. Market conduct activities	17
7. Compliance with prior report on examination	18
8. Summary of comments and recommendations	19



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

December 15, 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 21809, dated December 6, 2001, attached hereto, I have made an examination into the condition and affairs of the United States Branch of the NIPPONKOA Insurance Company, Limited, of Japan as of December 31, 2001 and submit the following report thereon.

The examination was conducted at the main administrative office of the Travelers Insurance Company, located at One Tower Square, Hartford, CT, 06183, which, through arrangements with the Branch's United States Manager, Travelers Marine Corporation, is the main provider of personnel and facilities for the operation of the Branch's insurance business.

Wherever the term "the Branch" appears in this report without qualification, it should be understood to indicate the United States Branch of the NIPPONKOA Insurance Company, Limited of Japan.

Whenever the terms “NK-Tokyo” or “Home Office” appear in this report, they should be understood to indicate the NIPPONKOA Insurance Company, Limited of Tokyo, Japan.

Whenever the terms “U. S. Manager” or “TMC” appear in this report, they should be understood to indicate the Travelers Marine Corporation.

Whenever the term “TIC” appears in this report, it should be understood to indicate the Travelers Indemnity Company.

Whenever the term “Department” appears in this report without qualification, it should be understood to mean the New York State Insurance Department.

1. SCOPE OF EXAMINATION

The prior examination was conducted as of December 31, 1996. The current examination covers the five year period from January 1, 1997 through December 31, 2001. Transactions occurring 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, disbursements and company records deemed necessary to accomplish such analysis or 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 the Branch
- Management and control
- Corporate records
- Fidelity bond and other insurance
- Territory and plan of operation
- Growth of the Branch
- Business in force by states
- Reinsurance
- Accounts and records
- Financial statements

A review was also made to ascertain what action was taken by the Company 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 THE BRANCH

The Branch is part of NIPPONKOA Insurance Company, Limited of Tokyo, Japan. Effective April 1, 2001, the Nippon Fire & Marine Insurance Company, Limited merged with the Koa Fire & Marine Insurance Company, Limited. The surviving Company, the NIPPONKOA Fire & Marine Insurance Company, Limited changed its name to NIPPONKOA Insurance Company, Limited. Also, effective with the merger, the Nippon Fire & Marine Insurance Company, Limited (U.S. Branch) changed its name to NIPPONKOA Insurance Company, Limited (U.S. Branch).

NK-Tokyo entered the United States through New York State on May 17, 1973, with the licensing of its previously formed United States Branch. Since that date, the Branch has continually conducted an insurance business in this country. Initially, business was confined to ocean marine policies and to participation in pools and quota share assumption arrangements. Later, both on a direct and assumed basis, the Branch expanded into a wide range of property/casualty lines written principally on behalf of the Japanese business community in the United States.

NK-Tokyo was formed under the laws of Japan in 1944 through the amalgamation of three previously established reinsurers.

Under a deed of trust, approved by the Department in January 2000, NK-Tokyo appointed Toyo Trust Company of New York as United States Trustee. As the United States Trustee, Toyo Trust Company of New York holds the Branch's trusteed assets in trust for the security of the Branch's

policyholders and creditors within the United States pursuant to the requirements of Section 1315 of the New York Insurance Law. Effective January 15, 2002, Toyo Trust Company of New York changed its name to UFJ Trust Company of New York.

In 1972, NK-Tokyo executed a general power of attorney appointing TMC as its lawful attorney and United States Manager. TMC is a California management company having its corporate headquarters in Hartford, CT., and is wholly-owned by the Travelers Indemnity Company.

A management agreement provides that TMC, acting under the authority contained in the general power of attorney of 1972 and in accordance with other authority and instructions given from time to time by NK-Tokyo, will conduct the Branch's insurance business. TMC has no personnel or facilities of its own; TMC is able to fulfill its obligations toward the Branch through the services of the Travelers Indemnity Company.

A. Management

Pursuant to the charter and by-laws of TMC, the management of the business, property and affairs of the corporation shall be managed by its board of directors consisting of no fewer than six nor more than nine members. Directors are elected at each annual shareholders' meeting for a term of one year. As of December 31, 2001, the following seven persons served as board members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Scott Chandler Belden Glastonbury, CT.	Vice President, Travelers Indemnity Company
Michael Joseph Doody Wethersfield, CT.	Vice President, Travelers Indemnity Company
Karen Ann Hellendrung Cheshire, CT.	Manager, Travelers Indemnity Company

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Peter Norris Higgins Madison, CT.	President, Travelers Indemnity Company
Bruce Richard Jones West Hartford, CT.	Vice President, Travelers Indemnity Company
Paul Sebastian Privitera Wethersfield, CT.	Vice President, Travelers Indemnity Company
Louis A. Verdi North Haven, CT.	Director, Travelers Indemnity Company

At December 31, 2001, the principal officers of the U.S. Manager were as follows:

<u>Name</u>	<u>Title</u>
Peter Norris Higgins	Chairman of the Board
Paul Sebastian Privitera	President and Chief Executive Officer
Kimberly Jane Mizesko	Vice President and Chief Financial Officer
Cathleen Carini Muller	Vice President and Chief Operating Officer
Alan Timothy Reynard	Vice President and Actuary
George Albert Ryan	Vice President
Louis Anthony Verdi	Vice President
William Hedges White	Treasurer
Emil James Molinaro, Jr.	Assistant Treasurer
Robert Steven Cohn	Secretary
Paul Howard Eddy	Assistant Secretary

The minutes of all the meetings of the board of directors of the U.S. Manager held during the examination period were reviewed. It was noted that the minutes did not mention board of directors' oversight of the operations, financial condition, and affairs of the Branch. While the US Manager does submit periodic reports to the Home Office, the minutes do not indicate that the board has reviewed these reports. It is recommended that minutes of the board of directors reflect that the board is actively monitoring the operations, financial condition and affairs of the Branch, including a review of the reports submitted to the Home Office. Such reports should be attached to the minutes.

B. Territory and Plan of Operation

The Branch is licensed to conduct business in 25 states and the District of Columbia. Approximately 88% of the Branch's direct writings in 2001 were concentrated in California, Hawaii, Illinois and New York.

As of the examination date, the Company was authorized 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 Insurance</u>
3	Accident and health
4	Fire
5	Miscellaneous property
6	Water damage
7	Burglary and theft
8	Glass
9	Boiler and machinery
11	Animal
12	Collision
13	Personal injury liability
14	Property damage liability
15	Workers' compensation and employers' liability
16	Fidelity and surety
19	Motor vehicle and aircraft
20	Marine
21	Marine protection and indemnity

The Branch 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.

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 trusteed surplus in the amount of \$1,950,000.

The following is a schedule of net direct business written countrywide and in New York State for the five-year period covered by this examination:

<u>Year</u>	<u>New York Net Direct Premiums Written</u>	<u>Countrywide Net Direct Premiums Written</u>	<u>Percentage of New York Direct Premiums Written To Countrywide</u>
1997	\$2,884,843	\$16,300,171	17.5%
1998	\$729,334	\$12,150,977	6.0%
1999	\$1,438,639	\$9,900,272	14.5%
2000	\$1,192,822	\$9,591,888	12.5%
2001	\$1,027,544	\$10,166,166	10.0%

The majority of the Branch's premiums, both direct and assumed, were written on business with direct ties to Japanese enterprises. A large segment of business is assumed through a facultative reinsurance agreement with TIC. TIC, via this facultative reinsurance agreement, secures business in jurisdictions where the Branch is not licensed and where there are national accounts that include risks in such jurisdictions. This segment of the Branch's business consists almost entirely of commercial lines. Contracts leading to the production of this segment of the Branch's business are produced by NK-Tokyo and by Home Office representatives in the United States. The prospective insureds are referred to agents and brokers in the United States for presentation of the risks to the Branch.

C. Reinsurance

As of the examination date, the Branch had several assumed agreements in effect. The majority of the Branch's insurance business is assumed via a facultative reinsurance agreement in effect with TIC. TIC owns and controls TMC, the Branch's United States Manager.

A summary of the Branch's ceded reinsurance program, consisting of two excess of loss covers, is as follows:

PROTECTIVE COVERS

<u>Agreement</u>	<u>Reinsured business</u>	<u>Cession</u>
Ocean marine excess of loss 100% authorized.	Policies and/or certificates of insurance or reinsurance including any replacements, thereof, issued by the ceding insurer covering ocean marine business.	\$17 million ultimate net loss each and every loss or series of losses arising from one event in excess of \$200,000.
Non-ocean marine excess of loss 100% authorized.	Policies and/ or certificates of insurance or reinsurance, including any replacenments thereof, issued by the ceding insurer covering non-ocean marine business	Unlimited ultimate net loss each and every loss or series of losses arising from one event or occurrence excess of \$500,000.

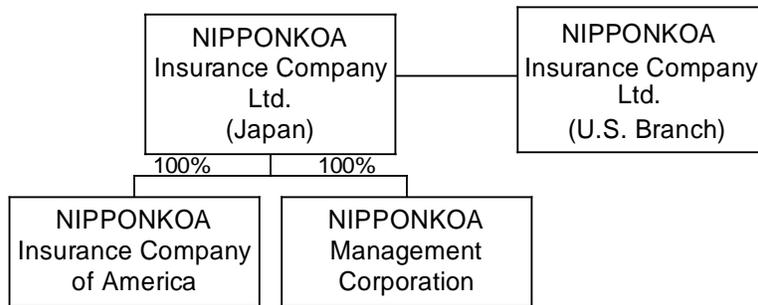
The above excess of loss covers contain an insolvency clause in conformity with the provisions of Section 1308 on the New York Insurance Law.

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

D. Holding Company System

The Branch is a member of a holding company system. The Company has made the appropriate filings pursuant to Section 1503 of the New York Insurance Law and Regulation 52.

The following chart shows the United States affiliations of the Branch and the percentages of ownership:



It was noted that the Branch did not complete Schedule Y, parts 1 and 2 of the annual statement that discloses information concerning the activities of a holding company group and transactions with affiliates.

It is recommended that the Branch comply with NAIC Annual Statement Instructions and complete Schedule Y, parts 1 and 2.

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 in 2001 to surplus as regards policyholders	.67:1
Liabilities to liquid assets (cash and invested assets)	74.19%
Premiums in course of collection to surplus as regards policyholders	16.31%

The 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 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 and loss adjustment expenses incurred	\$90,668,581	62.85%
Other underwriting expenses incurred	70,356,281	48.77
Net underwriting loss	<u>(16,755,883)</u>	<u>(11.62)</u>
Premiums earned	<u>\$144,268,979</u>	<u>100.00%</u>

F. Accounts and Records

The Home Office through its wholly-owned subsidiary, NIPPONKOA Management, provides certain marketing and administrative services to its various entities in Canada, Mexico and the United States, including the US Branch. The costs of these services are not passed through to the Branch and are not reported in the annual statement of the Branch, although the Branch does receive economic benefit of such services. It is recommended that the Branch include in its annual statement its representative share

of the costs of marketing and administrative services provided by the Home Office, from which the Branch receives economic benefit.

G. Abandoned Property Law

Section 1316 of the New York Abandoned Property Law requires the Company to file a report with the State Comptroller's Office annually, for any unclaimed amount payable to residents of New York State. The Branch has made the proper filings with the Office of the Comptroller.

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as determined by this examination and is the same as that reported by the Company in its filed annual statement as of December 31, 2001.

<u>Assets</u>	<u>Ledger Assets</u>	<u>Non-Ledger Assets</u>	<u>Assets Not Admitted</u>	<u>Admitted Assets</u>
Bonds	\$126,038,440	\$	\$	\$126,038,440
Common stocks	4,822,596			4,822,596
Cash	5,691,957			5,691,957
Receivable for securities	1,500,460			1,500,460
Agents' balances or uncollected premiums	8,201,436		308,603	7,892,833
Funds held by or deposited with reinsured companies	(28,924)			(28,924)
Amounts billed and receivable under high deductible policies	(38,380)			(38,380)
Reinsurance recoverables on losses and loss adjustment expense payments	1,310,756			1,310,756
Federal income tax recoverable	225,570			225,570
Guaranty funds receivable or on deposit	2,523			2,523
Interest, dividends and real estate income due and accrued	1,920,433			1,920,433
Equities and deposits in pools and associations	86,190			86,190
Assumed reinsurance receivable and payable	1,361,423			1,361,423
State surcharges receivable	<u>19,330</u>	_____	_____	<u>19,330</u>
Total assets	<u>\$151,113,810</u>	<u>\$ 0</u>	<u>\$308,603</u>	<u>\$150,805,207</u>

Liabilities, Surplus and Other Funds

Losses and loss adjustment expenses	\$83,107,581
Contingent commissions	1,740,495
Other expenses	(136,641)
Taxes, licenses and fees	88,295
Unearned premiums	16,651,406
Ceded reinsurance premiums payable	247,020
Remittances and items not allocated	271,033
Miscellaneous liabilities	<u>460,719</u>
Total liabilities	\$102,429,908

Surplus and Other Funds

Statutory deposits	\$1,000,000
Unassigned funds	<u>47,375,299</u>
Surplus as regards policyholders	<u>48,375,299</u>
Total liabilities, surplus and other funds	<u>\$150,805,207</u>

Note: The Internal Revenue Service has not audited the income tax returns filed on behalf of the Branch since 1987. 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 decreased \$ 4,588,123 during the five-year examination period, January 1, 1997 through December 31, 2001 detailed as follows:

Statement of Income

Underwriting Income

Premiums earned		\$144,268,979
Deductions:		
Losses incurred and loss adjustment expenses incurred	\$90,668,581	
Other underwriting expenses incurred	<u>70,356,281</u>	
Total underwriting deductions		<u>161,024,862</u>
Net underwriting gain (loss)		\$(16,755,883)

Investment Income

Net investment income earned	\$40,989,155	
Net realized capital gains	<u>671,624</u>	
Net investment gain		41,660,779

Other Income

Miscellaneous income	\$131,557	
Net loss from agents' balances charged off	<u>(32,074)</u>	
Total other income		99,477
Net income before federal and foreign income taxes		\$25,004,373
Federal income taxes incurred		<u>8,310,103</u>
Net income		<u>\$16,694,270</u>

Capital and Surplus Accounts

Surplus as regards policyholders, per report on
examination as of December 31, 1996 \$52,963,422

	<u>Gains</u>	<u>Losses</u>	
Net income	\$16,694,270		
Net unrealized capital gain	3,502,352		
Change in not-admitted assets		\$36,423	
Cumulative effect of changes in accounting principles		427	
Net remittances to home office		<u>24,747,895</u>	
Total gains and losses	<u>\$20,196,622</u>	<u>\$24,784,745</u>	
Net decrease in surplus			<u>(4,588,123)</u>
Surplus as regards policyholders, per the report on examination as of December 31, 2001			<u>\$48,375,299</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. The examination trustee surplus of \$18,303,513 is the same as reported by the Branch in its filed Trusteed Surplus Statement for 2001.

Assets

Securities deposited with State Insurance Departments for the protection of all policyholders and creditors within the United States:

Bonds	\$4,175,831	
Accrued interest	<u>95,780</u>	
Total general deposits		\$4,271,611

Vested in and held by United States Trustee:

Bonds	\$94,301,845	
Common stocks	4,822,596	
Short-term investments	6,500,000	
Accrued investment income	<u>1,329,184</u>	
Total vested in and held by United States Trustee		<u>106,953,625</u>

Total assets \$111,225,236

Total balance sheet liabilities \$102,429,908
Add: Additions to liabilities 67,304

Total liabilities and reserves \$102,497,212

Deduct:

Reinsurance recoverable on paid losses and loss adjustment expenses	\$1,310,756	
Agents' balances net of ceded reinsurance balance payable	4,440,423	
Unpaid reinsurance premiums receivable	3,452,411	
Special state deposits	363,561	
Accrued interest on special state deposits	<u>8,338</u>	

Total deductions 9,575,489

Net liabilities \$ 92,921,723

Trusteed surplus 18,303,513

Total liabilities and surplus \$111,225,236

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liabilities for losses and loss adjustment expenses totaling \$83,107,581 are the same as reported by the Branch in its December 31, 2001 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 Branch's internal control records and its filed annual statements.

5. MARKET CONDUCT ACTIVITIES

In the course of this examination, a review was made of the manner in which the Branch 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.

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

1. Sales
2. Underwriting
3. Rating
4. Claims

To accomplish this review, the Branch's advertising material, applications, policy forms, correspondence files, and claims were examined.

No problem areas were encountered.

7. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The previous report on examination as of December 31,1996, contained the following five comments and recommendations (page numbers refer to the prior report):

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Decription of Branch</u>	
i. It was recommended that the Branch submit an executed copy of amendment No. 1 to the amended and restated management agreement for approval by the Department as well as an executed copy of the amended and restated management agreement.	4
The Branch complied with this recommendation.	
ii. It was recommended that the Branch submit an executed copy of the Amended and restated sub-management agreement and all amendments, thereto, for approval by the Department.	5
The Branch complied with this recommendation.	
B. <u>Accounts and Records</u>	
i. It was recommended that the Branch obtain an executed copy of the advisory agreement with Travelers Asset Management International Corporation (“TAMIC”).	10
The Branch complied with this recommendation.	
ii. It was recommended that the Branch comply with Department’s Regulation No. 30 and the annual statement instructions in the preparation of the Underwriting and Investment Exhibit, Part 4 of the annual statement.	10
The Branch complied with this recommendation.	
C. <u>Financial Statements</u>	
It was recommended that the Branch prepare its Trusteed Surplus Statement in accordance with Section 1312 of the New York Insurance Law and the instructions of said statement.	16-17
The Branch complied with this recommendation.	

8. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>		<u>PAGE NO.</u>
A.	<u>Management</u>	
	It is recommended that minutes of the board of directors meetings of the U.S. Branch reflect that the board is actively monitoring the operations, financial condition and affairs of the Branch. This would include a review of the reports submitted to the Home Office. Such reports should be attached to the minutes.	5
B.	<u>Holding Company System</u>	
	It is recommended that the Branch comply with the NAIC Annual Statement Instructions and complete Schedule Y, parts 1 and 2.	9
C.	<u>Accounts and Records</u>	
	It is recommended that the branch include in the annual statement its representative share of the costs of the marketing and administrative services provided by the Home Office, from which the Branch receives economic benefit.	10

Appointment No. 21809

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:

Robert Vargaa

as proper person to examine into the affairs of the

**NIPPONKOA 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 she 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 6th day of December, 2001





GREGORY V. SERIO
Superintendent of Insurance