REPORT ON EXAMINATION

OF

KOOKMIN BEST INSURANCE COMPANY, LTD. U.S. BRANCH

AS OF

DECEMBER 31, 2017

DATE OF REPORT	MARCH 27, 2019
EXAMINER	KAREN GARD, CFE

TABLE OF CONTENTS

June 26, 2019

Honorable Linda A. Lacewell
Superintendent
New York State Department of Financial Services
Albany, New York 12257

Madam:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 31759 dated April 13, 2018, attached hereto, I have made an examination into the condition and affairs of Kookmin Best Insurance Company, Ltd. U.S. Branch as of December 31, 2017, and submit the following report thereon.

Wherever the designation "the Branch" appears herein without qualification, it should be understood to indicate Kookmin Best Insurance Company, Ltd. U.S. Branch.

Wherever the term "Department" appears herein without qualification, it should be understood to mean the New York State Department of Financial Services.

The examination was conducted at the Branch's administrative office located at 400 Kelby Street, Fort Lee, New Jersey 07024.

1. SCOPE OF EXAMINATION

The Department has performed an examination of the Branch, a multi-state insurer. The previous examination was conducted as of December 31, 2013. This examination covered the four-year period from January 1, 2014 through December 31, 2017. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

This examination was conducted in accordance with the National Association of Insurance Commissioners ("NAIC") Financial Condition Examiners Handbook ("Handbook"), which requires that we plan and perform the examination to evaluate the financial condition and identify current and prospective risks of the Branch by obtaining information about the Branch including corporate governance, identifying and assessing inherent risks within the Branch and evaluating system controls and procedures used to mitigate those risks. This examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with New York laws, statutory accounting principles, and annual statement instructions.

This examination report includes, but is not limited to, the following:

Branch history
Management and control
Territory and plan of operation
Holding company description
Reinsurance
Loss review and analysis
Financial statement presentation
Summary of recommendations

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

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

2. DESCRIPTION OF BRANCH

The Branch became licensed in the State of New York on February 28, 1990 as the United States Branch of Lucky Insurance Company, Ltd., Seoul, South Korea. Lucky Insurance Company, Limited was incorporated under the laws of Seoul, South Korea on December 17, 1958. In 1995, Lucky Insurance Company, Limited changed its name to LG Insurance Co., Ltd. In 2006, its name was changed to LIG Insurance Co., Ltd., and in 2008, its name was changed to Leading Insurance Group Insurance Co., Ltd. (“LIG Insurance Company.”).

In June 2015, KB Financial Group Inc. (“KBFG”), a Korean-based publicly traded financial holding company, in its desire to expand its non-banking business, purchased a 19.47% controlling interest in LIG Insurance Company, and changed LIG Insurance Company’s name to KB Insurance Co., Ltd. (“KBIC” or “Home Office”). On July 7, 2017, subsequent to a period of stock purchases, a tender offer, and a comprehensive stock swap, KBIC became a wholly-owned subsidiary of KBFG. The Branch is KBIC’s port of entry into the U.S. insurance market.

A. Corporate Governance

Since November 1, 2005, the Branch has been managed by Leading Insurance Services, Inc., (“LIS” or “U.S. Manager”), formerly known as LIG Management Services, Inc. LIS is a direct wholly-owned subsidiary of KBIC.

Management of the Branch is vested in a board of directors consisting of not less than three board members of LIS. As of December 31, 2017, the board of directors was comprised of the following three members:

Name and Residence	Principal Business Affiliation
Changsu Choi[1] Seoul, Korea	Senior Vice President, Global Operations and Business Division KB Insurance Company, Ltd.
Sanghyun Kim[2] Fort Lee, New Jersey	Chief Financial Officer, Leading Insurance Services, Inc.
Chul Park[3] Tenafly, New Jersey	President, Leading Insurance Services, Inc.

Section 312(b) of the New York Insurance Law states, in part:

> "A copy of the report shall be furnished by such insurer or other person to each member of its board of directors and each such member shall sign a statement which shall be retained in the insurer's files confirming that such member has received and read such report. . ."

The examiner requested the board member's signed statement, which indicated that he has received and read the report on examination as of December 31, 2013. The Branch failed to provide the examiner with all the board members' statements regarding the prior report on examination. Since the filing of the prior report on examination, there has been a change in the ownership and the board membership. The examiner recommends that the Branch comply with the provisions of Section 312(b) of the New York Insurance Law and ensure that a copy of the report on examination is furnished to each board member, and that the requisite board member statement is available for review.

The prior report on examination included a recommendation that all directors, officers and key employees of the U.S. Manager sign a conflict of interest statement on an annual basis. Incorporated into LIS' Employee Handbook is the conflict of interest policy, which states "…All employees are required to report to their manager and to the Human Resources Department any outside employment, relationship, activities or interest, which could be construed as a conflict…". It is LIS' policy to have an employee, upon hire or upon revision of the Handbook, sign an acknowledgement which indicates that he/she has read, understands and agrees to abide by the policies in the Handbook. All three officers provided signed acknowledgements only after examination request.

The examiner reiterates the recommendation that all directors, officers and key employees of the U.S. Manager sign a conflict of interest statement on an annual basis.

The prior report on examination included a recommendation that the Branch strengthen its corporate governance function. Although the Branch has made progress in this area, due to the following reasons, the examiner recommends that the Branch continue its efforts in strengthening its corporate governance function:

1) the Branch was not in compliance with Section 312(b) of the New York Insurance Law regarding the prior report on examination,
2) the Branch does not require annual conflict of interest statements from its board members or officers,

3) the Branch is not in compliance with Department Regulation 118 regarding the composition of its audit committee (for further description, refer to section 2D of this report), and
4) the Branch is not in compliance with Department Regulation 203 regarding ORSA reporting (for further description, refer to section 2D of this report).

As of December 31, 2017, the principal officers of the Branch were as follows:

Name	Title
Chul Park[4]	President
Sanghyun Kim[5]	Chief Financial Officer
Shashi Galav	Director of Finance

B. Territory and Plan of Operation

As of December 31, 2017, the Branch was licensed to write business in the District of Columbia and the following 17 states: Arizona, California, Colorado, Georgia, Hawaii, Illinois, Indiana, Maryland, Massachusetts, Michigan, New Jersey, New York, Pennsylvania, South Carolina, Texas, Virginia, and Washington.

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:

Paragraph	Line of Business
4	Fire
5	Miscellaneous property
6	Water damage
7	Burglary and theft
8	Glass
9	Boiler and machinery
10	Elevator
12	Collision
13	Personal injury liability
14	Property damage liability
15	Workers' compensation and employers' liability
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine
21	Marine protection and indemnity

The Branch is also authorized to transact workers' compensation insurance as may be incidental to coverages contemplated under paragraphs 20 and 21 of Section 1113(a) of the New York Insurance Law, including insurances described in the Longshoremen's and Harbor Workers' Compensation Act (Public Law No. 803, 69th Congress, as amended; 33 USC Section 901 et seq. as amended). 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 in the amount of $2,800,000, and to maintain its trusteed surplus at or above its level of minimum surplus to policyholders.

The following schedule shows the direct premiums written by the Branch for the period under examination:

Calendar Year	Direct Premiums
2014	$109,202,852
2015	$ 45,541,694
2016	$ 38,957,582
2017	$ 40,033,146

The significant decline in written premiums during the examination period is due to the Department's cease and desist order dated March 7, 2014 issued pursuant to Sections 1312(c) and 1324 of the New York Insurance Law in response to the Branch's 2013 statutory trusteed surplus statement filing. Pursuant to Sections 1312 and 4103 of the New York Insurance Law, the Branch is required to maintain a minimum surplus to policyholders in the amount of $2.8 million, and is required to maintain its trusteed surplus at or above its level of minimum surplus to policyholders. On March 1, 2014, the Branch filed its statutory trusteed surplus statement as of December 31, 2013, reporting trusteed assets of $136.4 million and total adjusted liabilities of $149.3 million, resulting in a deficiency of $12.8 million and rendering the Branch's trusteed surplus impaired in the amount of $15.6 million[6].

As a result of this filing, on March 7, 2014, the Department ordered the Branch to take various actions to restore its financial condition, which included cessation of writings. On March 10, 2014, because the Branch received a $45 million capital contribution from its Home Office, the Department lifted the restriction on writing renewal business. Furthermore, effective April 2014, the Department granted the Branch authority to write new business, subject to a $2.25 million monthly limit. Due to persistent underwriting losses, the Branch received an additional $60 million capital contribution from the Home

Office in 2014, as well as an additional $255 million in 2015. Because of the Branch's stabilized and improved financial condition, and pursuant to Sections 1312 and 1324(g) of the New York Insurance Law, on September 22, 2016, the Department lifted the limitation on writings. Hence, direct written premiums increased in 2017.

The Branch does not assume business. It primarily writes commercial multiple peril insurance for small business owners. The premium split for this line of business between property and liability is approximately 50/50. In 2011, the Branch began writing workers compensation business in New York and New Jersey; however, this line was placed in run-off in 2014.

During the examination period, the Branch's target markets were New York and California. In 2017, California accounted for 50.4% of direct written premiums, New York accounted for 46.2%, New Jersey accounted for 3.3%, and Illinois accounted for 0.2%. The Branch's business is produced through brokers. In 2017, 14 brokers produced approximately 33% of the business.

C. Reinsurance Ceded

The Branch has structured its ceded reinsurance program as follows:

Type of treaty	**Cession**
Property	
Property Excess of Loss	
Three layers	$29,000,000 excess of $1,000,000 risks attaching.
Property Catastrophe Excess of Loss	
Two layers	$14,000,000 excess of $2,000,000 each loss occurrence subject to at least two risks involved.
Boiler and Machinery Semi-Automatic	100% quota share for all business written not exceeding $15,000,000 single total insurable value.
Liability	
Commercial Umbrella Facultative	90% share of up to $1,000,000 of ultimate net loss, each loss occurrence, each policy.

Type of treaty	**Cession**
Employment Practices Liability Quota Share	100% quota share subject to an annual aggregate limit in the policy of $1,000,000.

A majority of the business was ceded to authorized unaffiliated reinsurers. As of December 31, 2017, reinsurance recoverables of approximately $37 million was attributable to Everest Reinsurance Company ("Everest Re"), an authorized reinsurer rated A+ by A.M. Best. The $37,000,000 recoverable relates to two separate 50% quota share contracts with Everest Re as a subscribing reinsurer. These contracts are in run-off: the first contract terminated on April 1, 2014, and the second terminated on March 31, 2015.

It is the Branch's policy to obtain the appropriate collateral for its cessions to unauthorized reinsurers. Letters of credit obtained by the Branch to take credit for cessions to unauthorized reinsurers were reviewed for compliance with Department Regulation 133. No exceptions were noted. The Branch also reduces its provision for reinsurance pursuant to the provisions of Department Regulation 20.

All significant ceded reinsurance agreements in effect as of the examination date were reviewed and found to contain the required clauses, including an insolvency clause meeting the requirements of Section 1308 of the New York Insurance Law. Additionally, management has represented that all material ceded reinsurance agreements transfer both underwriting and timing risk as set forth in the Statement of Statutory Accounting Principles ("SSAP") No. 62R. Representations were supported by attestations from the Branch's Chief Executive Officer and Chief Financial Officer pursuant to the NAIC Annual Statement Instructions. Additionally, examination review indicated that the Branch was not a party to any finite reinsurance agreements.

Significant reinsurance recoverables are in dispute and subject to an arbitration proceeding. In the 2017 and 2018 filed Annual Statements, Note 14G, the Branch stated that it is "pursuing a private and confidential dispute resolution to recover damages and expense due to breach of contract from a reinsurer."

D. Holding Company System

As noted previously, the Branch is a member of KBFG, and is the U.S. Branch of KBIC. The U.S. manager of the Branch, LIS, is a New Jersey corporation, and is a wholly-owned subsidiary of KBIC.

KBFG is a financial holding company that was established in September 2008 pursuant to a comprehensive stock transfer under Korean law, whereby holders of the common stock of Kookmin Bank and certain of its subsidiaries transferred all of their shares in return for shares of KBFG. The former Kookmin Bank was established by the Korean government in 1963, under the name of Citizens National Bank ("CNB"), pursuant to the Citizens National Bank Act of Korea. Under this Act, CNB was limited to providing banking services to the general public, and to small- and medium-sized companies. In September 1994, CNB became a publicly-traded company in Korea. In January 1995, the Citizens National Bank Act was repealed and CNB's status was changed from a specialized bank to a nationwide commercial bank. The repeal allowed the bank to engage in lending to large businesses, and later that year, CNB's name was changed to Kookmin Bank.

H&CB (f/k/a Housing & Commercial Bank) was established by the Korean government in 1967 under the name Korea Housing Finance Corporation. In 1969, pursuant to the Korea Housing Bank Act, Korea Housing Finance Corporation became the Korea Housing Bank. H&CB was originally established to provide low- and middle-income households with long-term, low-interest mortgages, and to promote the increase of housing supply in Korea by providing low-interest housing loans to construction companies. Until 1997, the year that the Korea Housing Bank Act was repealed, H&CB was the only entity in Korea that was allowed to provide mortgage loans with a term of longer than 10 years. Effective November 1, 2011, the former Kookmin Bank and H&CB merged into a new entity named Kookmin Bank. This merger resulted in Kookmin Bank becoming the largest commercial bank in Korea.

Since becoming a publicly traded company in both Korea and in the United States (via American depository shares on the New York Stock Exchange), KBFG has diversified its banking business by acquiring other businesses, such as KBIC. The Branch enables KBFG's diversification efforts to include the U.S. insurance market. KBFG falls under the purview of the Federal Reserve Board, the Securities and Exchange Commission, the Financial Services Commission (Korea), and the Financial Supervisory Service (Korea). Since KBIC became a subsidiary of KBFG, the Branch is subject to domestic regulatory requirements of holding companies and of large insurers[7], such as the audit committee requirements of Department Regulation 118 and the own risk and solvency assessment ("ORSA") requirements of Department Regulation 203.

Section 89.12 of Department Regulation 118 states, in part:

> ". . . (b) Every member of the audit committee shall be a member of the board of directors, a member of the board of directors of a member of the holding company system described in subdivision (j) of Section 89.1 of this Part or, for a United States Branch of an alien company, a member of the audit committee of the person that controls the Branch . . ."

Furthermore, Section 1501(a)(2) of the New York Insurance Law states, in part:

> ". . . control shall be presumed to exist if any person directly or indirectly owns, controls or holds with the power to vote ten percent or more of the voting securities of any other person."

Since KBFG took controlling interest of KBIC, none of KBFG's audit committee members were members of the Branch's audit committee. The examiner recommends that the Branch comply with the provisions of Department Regulation 118 and comprise its audit committee with at least one member who is also a member of the audit committee of KBFG, or comprise the audit committee of KBIC with at least one member who is also a member of the audit committee of KBFG.

Since KBIC became a wholly-owned subsidiary of KBFG in July 2017, the Branch is exempt from the specified audit committee member requirement of Section 89.12(b) of Department Regulation 118, as noted in Section 89.12(h) of the Regulation which specifically exempts a company that is a directly or indirectly wholly-owned subsidiary of a SOX-compliant company.

Section 82.3 of Department Regulation 203 states, in part:

> ". . . a domestic insurer shall conduct regularly an own risk and solvency assessment consistent with the process set forth in the ORSA guidance manual. A domestic insurer also shall conduct an ORSA any time there are significant changes to the domestic insurer's risk profile, but no less than annually . . . a domestic insurer shall submit electronically to the superintendent annually, but no later than December 1, starting in 2015, an ORSA summary report or any combination of ORSA summary reports that together contain the information described in the ORSA guidance manual, applicable to the domestic insurer and/or the holding company system . . . A domestic insurer shall maintain and make available documentation and supporting information upon examination . . ."

An ORSA, which is a component of an insurer's enterprise risk management framework, is a confidential internal assessment appropriate to the nature, scale and complexity of an insurer conducted by that insurer of the material and relevant risks identified by the insurer associated with an insurer's current business plan and the sufficiency of capital resources to support those risks. The two primary goals of the ORSA are:

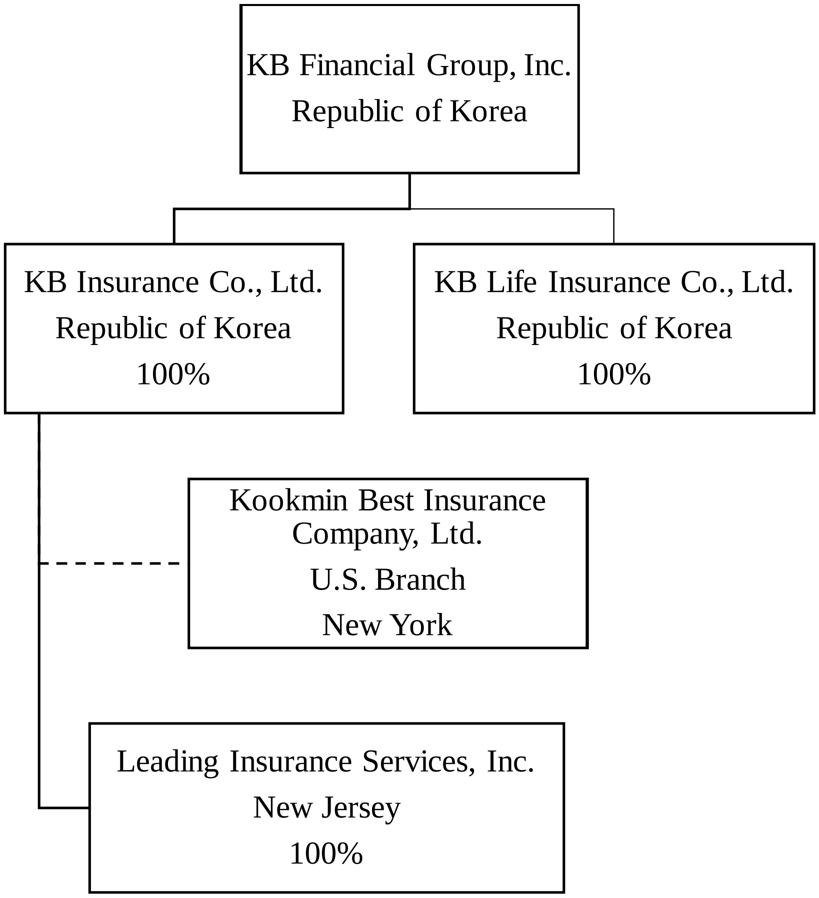
1) To foster an effective level of enterprise risk management at all insurers, through which each insurer identifies, assesses, monitors, prioritizes, and reports on its material and relevant risks identified by the insurer, using techniques that are appropriate to the nature, scale, and complexity of the insurer’s risks, in a manner that is adequate to support risk and capital decisions; and
2) To provide a group-level perspective on risk and capital, as a supplement to the existing legal entity view.

Since KBIC became a subsidiary of KBFG, the Branch has not filed an ORSA report with the Department. The examiner recommends that the Branch comply with the provisions of Department Regulation 203 and file the requisite ORSA report.

Subsequent to the report date, on April 2, 2019, the Branch filed its 2017 ORSA Report with the Department.

A review of the Holding Company Registration Statements filed with this Department indicated that such filings were complete and were filed in a timely manner.

The following is an abridged chart of KBFG at December 31, 2017:



LIS was appointed the U.S. manager of the Branch in 2005. Pursuant to the management agreement dated July 1, 2005, and subsequently amended in 2011, 2015 and 2016, LIS furnishes the following services to the Branch: claims, underwriting, policyholder services, investment, producer management, collection and handling of premiums and other funds, reinsurance, accounting and financial, marketing support and product development and administration, information technology, and legal and governmental relations. In 2017, the Branch paid LIS approximately $11.5 million for services rendered.

During the examination period, the management agreement was amended in 2015 to reflect the Branch's corporate name change. The agreement was also amended to allow LIS to be reimbursed and indemnified, retroactive to 2013, for the Branch's share of taxes levied, imposed, or assessed on LIS due to the profit element charged under U.S. transfer pricing. This amendment was filed with the Department in October 2016.

E. Significant Ratios

The following operating ratios, computed as of December 31, 2017, fall within the benchmark ranges set forth in the Insurance Regulatory Information System ("IRIS") of the NAIC.

Operating Ratios	Result
Net premiums written to policyholders' surplus	29%
Adjusted liabilities to liquid assets	59%

The Branch's two-year overall operating ratio of 148% falls outside of the benchmark range set forth in the IRIS of the NAIC due to high operating expenses, legal expenses, and adverse loss development. Subsequent to the examination period, the Branch has taken various cost-effective measures (such as re-locating its administrative offices and changing its integrated policy administration system) that will presumably lead the overall operating ratio to fall within the benchmark range.

Underwriting Ratios

The underwriting ratios presented below are on an earned/incurred basis and encompass the four-year period covered by this examination:

	Amounts	Ratio
Losses and loss adjustment expenses incurred	$340,122,158	211.94%
Other underwriting expenses incurred	102,168,089	63.66
Net underwriting loss	(281,809,695)	(175.60)
Premiums earned	$160,480,552	100.00%

A significant portion of the losses and loss adjustment expenses incurred are due to the earlier years of the examination period (specifically, $116,517,880 in 2014 and $160,396,327 in 2015), when lax underwriting and pricing compliance in early 2014, and previously, led to significant losses in 2014 and 2015. Furthermore, because the Branch was under a Department order to limit writings during most of the examination period (from March 2014 to September 2016), the losses and expense ratios are not as meaningful as they would be had the Branch not had the limitation on writings in place.

The Branch's reported risk-based capital score ("RBC") was 332.5% at December 31, 2017. The RBC is a measure of the minimum amount of capital appropriate for a reporting entity to support its overall business operations in consideration of its size and risk profile. An RBC of 200 or below can result in regulatory action. There were no financial adjustments in this report that impacted the Branch's RBC score.

F. Risk Management and Internal Controls

During the examination period, the Branch utilized the services of outside vendors. It is considered a best practice for insurers to maintain a risk-based vendor risk management framework which risk ranks all vendors based on criticality to business operations and access to non-public information. In conjunction with this risk ranking, the insurer should periodically obtain and review vendor Service Organization Control ("SOC") II Type II reports. An SOC II Type II report reports on the design and operating effectiveness of a service organization's non-financial reporting information systems controls, such as process integrity (system processing is complete, accurate, timely and authorized), and availability (the system is available for operation or use as committed or agreed). Due to various issues with one of the Branch's new systems during the last examination period, the prior report on examination contained a recommendation that the Branch obtain a Service Organization Control ("SOC") II Type II report for evaluation prior to contracting with third party vendors.

During the examination period, the Branch determined that it would change its end-to-end policy administration system because it did not meet the Branch's operational and strategic needs. The Branch engaged an advisory firm to help identify a suitable system. Upon recommendation, the Branch selected the Majesco insurance administration system. Although the Branch (and the advisory firm) did not obtain a SOC II Type II report for evaluation prior to the Branch contracting with Majesco, the Branch did receive the report upon examiner request. The examiner reiterates the recommendation that the Branch obtain an SOC II Type II report for evaluation prior to contracting with third party vendors.

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2017 as reported by the Branch:

Assets

	Assets	Assets Not Admitted	Net Admitted Assets
Bonds	$220,987,418		$220,987,418
Cash, cash equivalents and short-term investments	31,034,868		31,034,868
Investment income due and accrued	2,266,767		2,266,767
Uncollected premiums and agents' balances in the course of collection	1,705,603	$431,638	1,273,965
Deferred premiums, agents' balances and installments booked but deferred and not yet due	8,250,291		8,250,291
Amounts recoverable from reinsurers	9,555,519		9,555,519
Current federal and foreign income tax recoverable and interest thereon	2,962		2,962
Other assets	790,634	253,753	536,881
Total assets	$274,594,062	$685,391	$273,908,671

Liabilities, surplus and other funds

Liabilities

Losses and loss adjustment expenses		$133,800,513
Reinsurance payable on paid losses and loss adjustment expenses		30,000
Commissions payable, contingent commissions and other similar charges		542,409
Other expenses (excluding taxes, licenses and fees)		1,425,000
Unearned premiums		18,489,521
Ceded reinsurance premiums payable (net of ceding commissions)		1,304,000
Payable to parent, subsidiaries and affiliates		1,088,750
Premium deficiency reserve		2,095,000
Liabilities for state policy fees and surcharges		68,787
Total liabilities		$158,843,980
Surplus and other funds		
Statutory deposit with Superintendent of Insurance – New York	$ 2,800,000	
Gross paid in and contributed surplus	399,800,000	
Unassigned funds (surplus)	(287,535,309)	
Surplus as regards policyholders		115,064,691
Total liabilities, surplus and other funds		$273,908,671

Note: The examiner is unaware of any potential exposure of the Branch to any tax assessment and no liability has been established herein relative to such contingency.

B. Statement of Income

The net loss for the examination period as reported by the Branch was $255,062,854 as detailed below:

Underwriting Income		
Premiums earned		$160,480,552
Deductions:		
Losses and loss adjustment expenses incurred	$340,122,158	
Other underwriting expenses incurred	99,790,026	
Premium deficiency reserve	2,095,000	
Miscellaneous expenses	283,063	
Total underwriting deductions		442,290,247
Net underwriting gain or (loss)		$(281,809,695)
Investment Income		
Net investment income earned	$27,431,436	
Net realized capital gain	1,297,105	
Net investment gain		28,728,541
Other Income		
Net gain or (loss) from agents' or premium balances charged off	$(3,519,983)	
Finance and service charges not included in premiums	1,231,245	
Miscellaneous income	122,713	
Total other income		(2,166,025)
Net income before federal and foreign income taxes		$(255,247,179)
Federal and foreign income taxes incurred		(184,325)
Net loss		$(255,062,854)

C. Capital and Surplus

Surplus as regards policyholders increased $109,661,486 during the four-year examination period January 1, 2014 through December 31, 2017 as reported by the Branch, detailed as follows:

	Gains in Surplus	Losses in Surplus	
Surplus as regards policyholders as reported by the Branch as of December 31, 2013			$ 5,403,205
Net income		$255,062,854	
Net unrealized capital gains or losses	$ 147,486		
Change in net deferred income tax		19,595,502	
Change in non-admitted assets	25,394,076		
Change in provision for reinsurance	78,524		
Surplus adjustments paid in	360,000,000		
Aggregate write-ins for gain or losses in surplus	0	1,300,244	
Net increase in surplus	$385,620,086	$275,958,600	109,661,486
Surplus as regards policyholders as reported by the Branch as of December 31, 2017			$115,064,691

Due to the insolvency of approximately $111,000,000 of the trusteed surplus that was reported in 2014 for year-end 2013, the impairment of approximately $114,000,000 of the required to be maintained surplus for year-end 2013, and the magnitude of underwriting losses in 2014 and 2015 of $76,000,000 and $161,000,000, respectively, the Home Office provided the Branch capital contributions of $105,000,000 in 2014 and $255,000,000 in 2015. No adjustments were made to surplus as a result of this examination.

Gross paid in and contributed surplus increased by $360,000,000 during the examination period, as follows:

Year	Description		Amount
2014	Beginning gross paid in and contributed surplus		$ 39,800,000
2014	Surplus adjustments paid in	$105,000,000	
2015	Surplus adjustments paid in	255,000,000	
	Total surplus adjustments		360,000,000
2017	Ending gross paid in and contributed surplus		$399,800,000

D. Trusteed Surplus Statement

The following shows the assets, liabilities and trusteed surplus as of December 31, 2017, as reported by the Branch:

Assets		
Securities deposited with state insurance departments		$ 3,732,845
Vested in and held by U.S. Trustee:		
Bonds	217,013,758	
Cash	10,031,500	
Accrued investment income	2,136,089	229,181,347
Total gross assets		$232,914,192
Liabilities and trusteed surplus		
Liabilities		$158,843,980
Deductions from liabilities:		
Reinsurance recoverable on paid losses and loss adjustment expenses:		
Authorized companies	8,351,524	
Certified companies	1,203,995	9,555,519
Special state deposits:		
Special state deposits	110,983	
Accrued interest on special state deposits	2,165	
Agents balances or uncollected premiums not more than 90 days past due, not exceeding unearned premium reserves carried thereon	9,524,256	9,637,404
Total deductions		19,192,923
Total adjusted liabilities (liabilities less deductions)		$139,651,057
Trusteed surplus		93,263,135
Total adjusted liabilities and trusteed surplus		$232,914,192

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of $133,800,513 is the same as reported by the Branch as of December 31, 2017. The examination analysis of the loss and loss adjustment expense reserves was conducted in accordance with generally accepted actuarial principles and statutory accounting principles, including SSAP No. 55. The Branch's reserves are concentrated in the commercial multiple peril line of business.

5. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination contained four comments and fifteen recommendations as follows (page numbers refer to the prior report):

ITEM		PAGE NO.
A.	Insolvency	
	The examiner commented that the examination determined that as of December 31, 2013, the Branch's trusteed surplus was insolvent in the amount of $110,783,855, and it's required to be maintained surplus of $2,800,000 was impaired in the amount of $113,583,855.	2, 25, 30
	The Branch received $105,000,000 in capital contributions from the Home Office in 2014, and an additional $255,000,000 in 2015.	
B.	Management	
i.	The examiner recommended that the Branch take better care in reporting accurate information on the jurat page of its filed annual statement.	5
	The Branch has complied with this recommendation.	
ii.	The examiner recommended that all directors, officers and key employees of the Branch's Manager sign a conflict of interest statement on an annual basis.	6
	The Branch has not complied with this recommendation.	
D.	Reinsurance	
	The examiner recommended that the Branch ensure effective communication within the organization.	10
	The Branch has complied with this recommendation.	
E.	Accounts and Records	
	The examiner recommended that the Branch ensure that all future engagement letters entered into with its certified public accountants comply with Department Regulation No. 118.	13
	The Branch has complied with this recommendation.	

F. Risk Management, Corporate Governance, and Internal Controls

i. The examiner recommended that the Branch establish an internal actuarial department and hire a credentialed actuary and support staff. 15

The Branch has complied with this recommendation.

ii. The examiner recommended that the Branch ensure that all employees fully understand all provisions contained in the EP&P, monitor compliance to the provisions, and reimburse employees only appropriate business-related expenses. 16

The Branch has complied with this recommendation.

iii. The examiner recommended that the Branch expand its claims department with experienced adjusters. 17

The Branch has complied with this recommendation.

iv. The examiner recommended that LIS expand its board membership to include independent directors to ensure its effectiveness in providing proper oversight, guidance and governance. 17

The Branch has not complied with this recommendation. However, because the organizational structure has changed (specifically, the ultimate parent is now a holding company and no longer an insurance company), this recommendation is no longer pertinent because the board membership of the ultimate parent is mainly comprised of independent directors.

v. The examiner recommended that the Branch appoint an audit committee with at least one independent member. 18

The Branch has complied with this recommendation.

vi. The examiner recommended that the Branch establish and maintain an internal audit function. 18

The Branch has complied with this recommendation.

vii. The examiner recommended that the Branch establish an Information Technology Steering Committee. 20

The Branch has complied with this recommendation.

viii. The examiner recommended that the Branch obtain SOC II Type II Reports for evaluation prior to contracting with third party providers. 20

The Branch has not complied with this recommendation.

ix. The examiner recommended that the Branch strengthen its corporate governance function. 20

Although the Branch has improved its corporate governance function, a similar recommendation is made in this report on examination.

G. Amounts Recoverable from Reinsurers

The examiner commented that $3,817,710 in reinsurance recoverables on paid losses were written off as a result of an erroneously double-booked entry. 26

The Branch's reconciliation process by finance and reinsurance is now timely performed on a monthly basis.

H. Net Deferred Tax Asset

The examiner commented that $527,387 in net deferred tax assets were written off as a result of the Branch's RBC ratio being below 200% as of the examination date. 26

In accordance with SSAP No. 101, although the Branch's RBC ratio has exceeded 200% since 2015, the Branch has not reported a net deferred tax asset during the examination period due to the realization threshold.

I. Losses and Loss Adjustment Expenses

The examiner recommended that the Branch address the reserving inadequacies and increase its carried reserves to an appropriate level. 27

The Branch has complied with this recommendation.

J. Premium Deficiency Reserve

i. The examiner recommended that the Branch establish a PDR, when necessary, in accordance with the provisions of SSAP No. 53. 27

The Branch has complied with this recommendation.

ii. The examiner commented that a premium deficiency reserve of $24,800,000 was incorporated into the financial presentation of this report. 27

The Branch maintains a premium deficiency reserve in accordance with SSAP No. 53.

6. SUMMARY OF COMMENTS AND RECOMMENDATIONS

ITEM			PAGE NO.
A.		Corporate governance	
	i.	The examiner recommends that the Branch comply with the provisions of Section 312(b) of the New York Insurance Law and ensure that a copy of this report on examination is furnished to each board member and that the requisite Board member statement is available for review.	4
	ii.	The examiner recommends that all directors, officers and key employees of the Branch's Manager sign a conflict of interest statement on an annual basis. This is a repeat recommendation.	4
	iii.	The examiner recommends that the Branch continue its efforts in strengthening its corporate governance function.	4
B.		Holding company system	
	i.	The examiner recommends that the Branch comply with the provisions of Section 89.12(b) of Department Regulation 118 and comprise its audit committee with at least one member who is also a member of the audit committee of KBFG, or comprise the audit committee of KBIC with at least one member who is also a member of the audit committee of KBFG. Since KBIC became a wholly-owned subsidiary of KBFG in July 2017, the Branch is exempt from the specified audit committee member requirement of Section 89.12(b) of Department Regulation 118, as noted in Section 89.12(h) of the Regulation which specifically exempts a company that is a directly or indirectly wholly-owned subsidiary of a SOX-compliant company.	10
	ii.	The examiner recommends that the Branch comply with the provisions of Department Regulation 203 and file the requisite ORSA report. Subsequent to the report date, on April 2, 2019, the Branch filed its 2017 ORSA Report with the Department.	11
C.		Risk management and internal controls	
	i.	The examiner recommends that the Branch obtain SOC II Type II reports for evaluation prior to contracting with third party vendors. This is a repeat recommendation.	14

LEGEND

[1] - Effective January 1, 2019, Mr. Hyun Kie Cho replaced Mr. Changsu Choi as director

[2] -Effective May 2018, Mr. Kyu Sung Lee replaced Mr. Sanghyun Kim as director.

[3] - Effective May 2018, Mr. Sung Kyoon Park replaced Mr. Chul Park as director.

[4]- Effective August 2018, Mr. Changsu Choi replaced Mr. Chul Park as President. Effective January 1, 2019, Mr. Chris Kwon replaced Mr. Choi as President.

[5] - Effective July 2018, Mr. Shashi Galav replaced Mr. Sanghyun Kim as Chief Financial Officer. The office of Director of Finance has been removed.

[6] - As noted in the prior Report on Examination, the examiner determined that the Branch's trusteed surplus as of December 31, 2013 was insolvent in the amount of $110,783,855 and its required to be maintained trusteed surplus of $2.8 million was impaired in the amount of $113,583,855 as of December 31, 2013.

[7] - In this context, large insurers are defined as domestic insurers in a holding company system, wherein the system has annual direct written and unaffiliated assumed premium, including international direct and assumed premium, but excluding premiums reinsured with the Federal Crop Insurance Corporation and Federal Flood Insurance Program, of more than $1 billion. The pertinent direct written and unaffiliated assumed insurance premium of the Branch is greater than $1 billion as of December 31, 2017.

Respectfully submitted,

______________/S/________________
Karen Gard, CFE
Associate Insurance Examiner

STATE OF NEW YORK)
)ss:
COUNTY OF NEW YORK)

Karen Gard, being duly sworn, deposes and says that the foregoing report, subscribed by her, is true to the best of her knowledge and belief.

_____________/S/______________
Karen Gard

Subscribed and sworn to before me

this_________ day of __________________, 2019.

APPOINTMENT NO. 31759

NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

I, Maria T. Vullo, Superintendent of Financial Services of the State of New York, pursuant to the provisions of the Financial Services Law and the Insurance Law, do hereby appoint:

Karen Gard

as a proper person to examine the affairs of the

Kookmin Best Insurance Company, Ltd. (US Branch)

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

COMPANY

with such other information as she shall deem requisite.

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

this 13th day of April, 2018

MARIA T. VULLO
Superintendent of Financial Services

By:

Joan Riddell
Deputy Bureau Chief