

REPORT ON EXAMINATION

OF

SOMPO AMERICA FIRE & MARINE INSURANCE COMPANY

AS OF

DECEMBER 31, 2017

DATE OF REPORT

MAY 1, 2019

EXAMINER

WAYNE LONGMORE

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## Department of Financial Services

**ANDREW M. CUOMO**  
Governor

**LINDA A. LACEWELL**  
Acting Superintendent

May 1, 2019

Honorable Linda A. Laceywell  
Acting Superintendent  
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 31802 dated August 9, 2018, attached hereto, I have made an examination into the condition and affairs of Sampo America Fire & Marine Insurance Company as of December 31, 2017, and submit the following report thereon.

Wherever the designation “the Company” or “SAFM” appears herein, without qualification, it should be understood to indicate Sampo America Fire & Marine Insurance Company.

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 Company’s office located at 11405 North Community House Road, Suite 600, Charlotte, North Carolina, 28277. The Company’s statutory home office is located at 1221 Sixth Avenue, 19th Floor, New York, NY 10020.

## 1. SCOPE OF EXAMINATION

The Department has performed an examination of the Company, a multi-state insurer. The previous examination was conducted as of December 31, 2012. This examination covered the five-year period from January 1, 2013, through December 31, 2017. Transactions occurring subsequent to this period were reviewed when deemed appropriate by the examiner.

The examination of the Company was conducted concurrently with the examination of Sompo America Insurance Company (“SAIC”).

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 Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company 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:

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

A review was also made to ascertain what action was taken by the Company regarding 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 COMPANY

Sompo America Fire & Marine Insurance Company (“SAFM”), formerly known as Sompo Japan Fire & Marine Insurance Company of America, was incorporated under the laws of the State of New York on December 21, 2001. It became licensed on June 28, 2002 and commenced business on July 1, 2002.

The Company was incorporated to serve as the vehicle for the domestication of the United States branch of the Nissan Fire & Marine Insurance Company, Ltd. (“Nissan Fire”). Nissan Fire was established in 1911 under the laws of Japan. The United States branch was licensed under the laws of the State of New York on October 1, 1980. Effective July 1, 2002, a merger was consummated in Japan between the Yasuda Fire & Marine Insurance Company, Ltd. and Nissan Fire. The name of the surviving entity was Sompo Japan Insurance, Inc., which was the Company’s ultimate parent.

On April 1, 2015, SAIC transferred to its parent, Sompo America Holdings, Inc (“SAH”), the stock of SAFM as a dividend in kind.

Effective January 1, 2017, the Company’s charter was amended to change its former name to its current name. SAFM was a wholly owned subsidiary of SAH. On December 31, 2017, SAH, merged with and into an affiliate, Endurance U.S. Holdings Corp. (“EUSH”), with EUSH as the surviving corporation. As of December 31, 2017, EUSH became the sole shareholder of both SAFM and its affiliate SAIC.

### A. Corporate Governance

Pursuant to the Company’s charter and by-laws, management of the Company is vested in a board of directors consisting of not less than seven nor more than 13 persons. In 2016, SAIC and SAFM began using unanimous written consents, in lieu of regular meetings of the board, citing Business Corporate Law section 708 (b) as the basis for doing so.

At December 31, 2017, the Company’s board of directors was comprised of the following eight members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
John Barbieri Davidson, NC	Vice President, Sompo America Insurance Services, LLC
John Gregory Calotta New York, NY	Secretary, Sompo America Fire & Marine Insurance Company
Lisa Halliday Davis Charlotte, NC	Chief Operating Officer and President, Sompo America Insurance Services, LLC
Harold Clark Jackson Charlotte, NC	Chief Marketing Officer, Sompo America Insurance Services, LLC
Christine Michals-Bucher Charlotte, NC	Executive Vice President, Sompo America Insurance Services, LLC
Atsushi Mizuguchi New York, NY	Chairman, Sompo America Fire & Marine Insurance Company
Tetsuo Sugawara Charlotte, NC	Senior Vice President and Treasurer, Sompo America Fire & Marine Insurance Company
Seiya Tsuruta Charlotte, NC	President and Chief Executive Officer, Sompo America Fire & Marine Insurance Company

Due to the merger with EUSH, new board members were appointed in 2018. At December 31, 2018, the board of directors was comprised of the following seven members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Michael Anthony Chang New York, NY	Chief Executive Officer- Global Risk Solutions, Endurance Services Limited
John Virgilio Del Col Bermuda	General Counsel, Sompo International Holdings Ltd.
Christopher Brian Gallagher Bermuda	Chief Risk Officer/ Group Actuary, Sompo International Holdings Ltd.

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Brian William Goshen Alpharetta, GA	Chief Administrative Officer, Endurance Services Limited
John Andrew Kuhn Bermuda	Chief Underwriting Officer and Chief Executive Officer- Global Insurance, Sompo International Holdings Ltd.
Michael James McGuire Bermuda	Chief Financial Officer, Sompo International Holdings Ltd.
Christopher Louis Sparro New York, NY	Executive Vice President and Chief Executive Officer - U.S. Insurance, Endurance Services Limited

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

<u>Name</u>	<u>Title</u>
Seiya Tsuruta	President and Chief Executive Officer
Tetsuo Sugawara *	Treasurer, Senior Vice President
John Gregory Calotta	Secretary
Kevin Kimo Westervelt *	Vice President

\*Mr. Sugawara was reassigned to Sompo Japan Nipponkoa Insurance, Inc. effective April 1, 2018. Mr. Westervelt replaced Mr. Sugawara as Treasurer effective that date.

#### B. Territory and Plan of Operation

As of December 31, 2017, the Company was licensed to write business in 49 states and the District of Columbia.

As of the examination date, 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>Line of Business</u>
3	Accident and health
4	Fire
5	Miscellaneous property
6	Water damage
7	Burglary and theft
8	Glass
9	Boiler and machinery
10	Elevator
11	Animal
12	Collision
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 licensed to write special risks pursuant to Article 63 of the New York Insurance Law.

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, 41 and 63 of the New York Insurance Law, the Company is required to maintain a minimum surplus to policyholders in the amount of \$4,400,000.

The following schedule shows the direct and assumed premiums written by the Company for the period under examination:

<u>Calendar Year</u>	<u>Direct Premiums</u>	<u>Assumed Premiums</u>	<u>Total Gross Premiums</u>
2013	\$ 4,334,425	\$103,315	\$ 4,437,740
2014	\$ 4,356,607	\$ 7,762	\$ 4,364,369
2015	\$ 6,303,488	\$ 63,462	\$ 6,366,950
2016	\$ 8,695,389	\$135,032	\$ 8,830,421
2017	\$11,207,640	\$178,074	\$11,385,714

As of December 31, 2017, the Company primarily insured the U.S. subsidiaries of Japanese companies. The Company's predominant lines of business are workers' compensation, commercial auto liability and auto physical damage, which accounted for 96%, 2% and 1%, respectively, of the 2017 direct written premiums. Reinsurance assumed reflects the Company's participation in the Excess Casualty Reinsurance Association pool.

During the examination period, the Company's business was generated through independent agents and brokers. An affiliate, Sompo America Insurance Services, LLC ("SAIS"), on behalf of the Company, contracted with 112 brokers throughout the United States. These brokers have 234 producer locations. A sizable portion of the business is conducted through multi-office national brokerages.

Due to the pooling agreement (described in section 2C of this report), the net exposure of the Company is significantly lower than its direct and assumed exposure.

C. Reinsurance Ceded

Pursuant to an agreement between SAIC and SAFM, entered into on October 1, 2008, SAFM cedes to SAIC 100% of the ultimate net loss of SAFM arising out of, or under, any SAFM policies, except losses and case reserves incurred by SAFM prior to October 1, 2008. Policies are defined in the agreement as every binder, policy and contract of insurance or reinsurance issued, or entered into, by SAFM with a policy start date after July 1, 2007. This agreement does not include the business related to SAFM's participation in the Excess Casualty Reinsurance Association pool.

D. Holding Company System

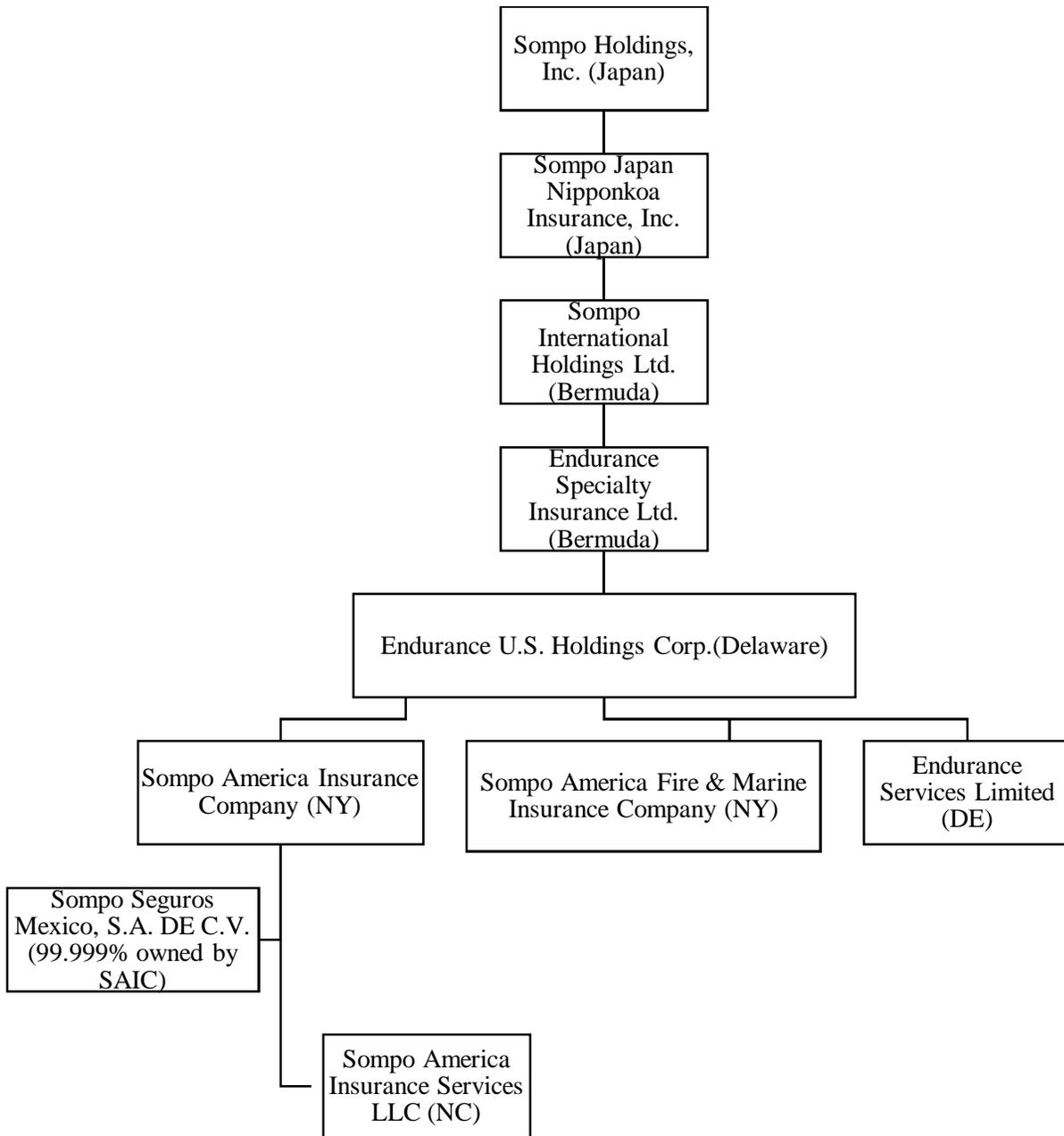
The Company is a member of the Sompo Holdings, Inc., ("Sompo Holdings") holding company system. Sompo Holdings is an entity established under the laws of Japan and traded on the Tokyo Stock Exchange. The Company is a wholly-owned subsidiary of EUSH, which is ultimately controlled by Sompo Holdings. The Company mainly writes in four states. The largest concentration of 2017 gross premium written by state are California (67%), New York (9%), Arkansas (5%) and North Carolina (4%).

Sompo Holdings directly owns all the outstanding capital stock of Sompo Japan Nipponkoa Insurance, Inc. (“SJNKI”), domiciled in Japan. SJNKI directly owns all the issued and outstanding voting shares of Sompo International Holdings Ltd., a Bermuda corporation (“SIH”). Through its operating subsidiaries, including the Company, SIH is a global specialty provider of property and casualty insurance and reinsurance. SIH owns all the issued and outstanding voting shares of Endurance Specialty Insurance Ltd., a Bermuda corporation (“ESIL”).

On March 28, 2017, Sompo Holdings acquired all the issued and outstanding securities of Endurance Specialty Holdings Ltd. (“ESHL”), the former parent of ESIL. On September 29, 2017, SIH acquired the assets of ESHL, including ESIL and its subsidiaries. Subsequently, ESHL has been liquidated. ESIL owns all the issued and outstanding securities of EUSH. As noted previously, on December 31, 2017, SAH merged with and into EUSH with EUSH as the surviving corporation. As a result, EUSH owns all the issued and outstanding voting securities of the Company.

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 pursuant to Article 15 of the New York Insurance Law and Department Regulation 52.

The following is an abridged chart of the holding company system at December 31, 2017 (ownership of subsidiaries is 100% unless otherwise noted):



## Holding Company Agreements

At December 31, 2017, the Company was party to the following agreements with other members of the holding company system:

### Salary Allocation Agreement

Effective December 10, 2013, the Company entered into a salary allocation agreement with Sompo Japan Insurance Inc. (since renamed SJNKI), SAH (since merged into EUSH with EUSH as the surviving entity), SAIC, and various other affiliates. SJA Insurance Agency Inc. (since renamed SAIS and merged with and into Endurance Services Limited (“ESL”), with ESL as the surviving entity), and Sompo Japan Nipponkoa Asset Management Co. Ltd. (“SNAM”). This agreement replaced the salary allocation agreement effective March 29, 2012.

This agreement stipulates that the annual compensation for a shared employee of any party who performs services for any other party to the agreement, shall be allocated and charged to all such parties based on the proportion of time such shared employee performs services for each of such parties. To the extent that there is any allocation of expenses or fees, then such allocation shall be in accordance with Department Regulation 30. The agreement was amended on December 31, 2014 to reflect changes to the parties of the agreement.

This agreement and amendment were filed with this Department pursuant to Section 1505 of the New York Insurance Law and were non-disapproved on October 15, 2013 and December 5, 2014, respectively.

### Space Allocation Agreement

Effective December 10, 2013, the Company entered into a space allocation agreement with Sompo Japan Insurance Inc. (since renamed SJNKI), Sompo Japan Nipponkoa Holdings (Americas) Inc. (since renamed SAH and merged into EUSH with EUSH as the surviving entity), SAIC, SJA Insurance Agency Inc. (since renamed SAIS and merged into ESL with ESL as the surviving entity), SNAM, and TACT Asset Management Inc. (a subsidiary of SNAM). This agreement replaced the space allocation agreement effective March 29, 2012.

This agreement calls for the parties to share certain office space, including fixture, furniture, equipment and office services. The shared office space costs shall be allocated and charged based on the percentage of the office space used.

This agreement was filed with this Department pursuant to Section 1505 of the New York Insurance Law and was non-disapproved on October 15, 2013.

#### Tax Allocation Agreement

Effective December 10, 2013, the Company entered into a tax allocation agreement with various affiliates including SJA Insurance Agency, LLC (since renamed SAIS and merged into ESL with ESL as the surviving entity) and SAIC. This agreement replaced the tax allocation agreement effective July 1, 2003.

The Company filed this agreement with the Department in accordance with Department Circular Letter No. 33 (1979) and pursuant to Section 1505 of the New York Insurance Law. The Department non-disapproved this agreement on October 15, 2013.

#### Agency Services Agreement

Effective December 10, 2013, the Company entered into an agency services agreement with SJA Insurance Agency, LLC (since renamed SAIS and merged into ESL with ESL as the surviving entity) and SAIC. Through this agreement, each insurer appointed SAIS as the authorized underwriter for SAIC and SAFM. The agency provides to each insurer general management and administration services. Each insurer compensates the agency in accordance with the terms of the agreements and by paying a flat fee that is related to each insurer's equitable share of the cost of operating the agency. This agreement replaced the amended and restated agency services agreement effective October 1, 2006.

This agreement was filed with this Department pursuant to Section 1505 of the New York Insurance Law and was non-disapproved on October 15, 2013.

#### Administrative Services Agreement

Effective October 1, 2006, the Company entered into an administrative services agreement with SAIC and outlines certain management and administration services SAIC will provide to SAFM. SAIC

will be compensated for the actual cost incurred to provide the service. To the extent that any expenses are allocated between the parties, the method used to allocate such expenses shall be in accordance with Department Regulation 30 (11 NYCRR 105-109).

This agreement was filed with this Department pursuant to Section 1505 of the New York Insurance Law and was non-disapproved on September 8, 2006.

As noted previously, effective January 1, 2019, SAIS merged with and into ESL, with ESL as the surviving entity. Following the merger, ESL will continue to administer the agency services agreement and the administrative services agreement.

E. Significant Ratios

The Company's operating ratios, computed as of December 31, 2017, fall within the benchmark ranges set forth in the Insurance Regulatory Information System of the NAIC.

<u>Operating Ratios</u>	<u>Result</u>
Net premiums written to policyholders' surplus	0%
Adjusted liabilities to liquid assets	1%
Two-year overall operating	0%

Underwriting Ratios

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	\$920,501	310.48%
Other underwriting expenses incurred	136,500	46.04
Net underwriting loss	<u>(760,521)</u>	<u>(256.52)</u>
Premiums earned	<u>\$296,480</u>	<u>100.00%</u>

The Company's reported risk-based capital ("RBC") score was 51,139% as of 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 Company's RBC score.

### 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 Company.

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$72,036,472	\$ 0	\$72,036,472
Cash, cash equivalents and short-term investments	2,416,546	0	2,416,546
Investment income due and accrued	589,406	0	589,406
Uncollected premiums and agents' balances in the course of collection	1,665,094	86,368	1,578,726
Deferred premiums, agents' balances and installments booked but deferred and not yet due	4,488,474	0	4,488,474
Amounts recoverable from reinsurers	1,306,745	0	1,306,745
Funds held by or deposited with reinsured companies	2,443	0	2,443
Net deferred tax asset	<u>388,202</u>	<u>0</u>	<u>388,202</u>
Totals assets	<u>\$82,893,382</u>	<u>\$86,368</u>	<u>\$82,807,014</u>

Liabilities, Surplus and Other FundsLiabilities

Losses and loss adjustment expenses	\$ 154,652
Other expenses (excluding taxes, licenses and fees)	151,887
Taxes, licenses and fees (excluding federal and foreign income taxes)	41,135
Current federal and foreign income taxes	853,925
Ceded reinsurance premiums payable (net of ceding commissions)	5,063,526
Payable to parent, subsidiaries and affiliates	1,632,170
Miscellaneous account payable	<u>448</u>
 Total liabilities	 \$ 7,897,743

Surplus and Other Funds

Common capital stock	\$ 5,000,000
Gross paid in and contributed surplus	55,967,997
Unassigned funds (surplus)	<u>13,941,274</u>
 Surplus as regards policyholders	 <u>74,909,271</u>
 Total liabilities, surplus and other funds	 <u>\$82,807,014</u>

NOTE: The Internal Revenue Service did not audit any of the Company's federal income tax returns during the period under examination. The examiner is unaware of any potential exposure of the Company to any tax assessment and no liability has been established herein relative to such contingency.

B. Statement of Income

The net income for the examination period as reported by the Company was \$2,465,028 as detailed below:

Underwriting Income

Premiums earned		\$ 296,480
Deductions:		
Losses and loss adjustment expenses incurred	\$ 920,501	
Other underwriting expenses incurred	<u>136,500</u>	
Total underwriting deductions		<u>1,057,001</u>
Net underwriting gain or (loss)		\$(760,521)

Investment Income

Net investment income earned	\$5,527,061	
Net realized capital gain	<u>15,845</u>	
Net investment gain or (loss)		5,542,906

Other Income

Net gain or (loss) from agents' or premium balances charged off	\$ (32,085)	
Finance and service charges not included in premiums	682	
Retroactive reinsurance	<u>(7,985)</u>	
Total other income		<u>(39,388)</u>
Net income before federal income taxes		\$4,742,997
Federal income taxes incurred		<u>2,277,969</u>
Net income		<u>\$2,465,028</u>

C. Capital and Surplus Account

Surplus as regards policyholders increased \$1,829,936 during the examination period January 1, 2013 through December 31, 2017 as reported by the Company, detailed as follows:

Surplus as regards policyholders as reported by the Company as of December 31, 2012				\$73,079,335
		<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income	\$2,465,028			
Change in net deferred income tax	417,144			
Change in nonadmitted assets			\$ 86,368	
Change in provision for reinsurance	1,037			
Dividends to stockholders			1,000,000	
Correction of error	<u>33,095</u>		<u>0</u>	
Net increase (decrease) in surplus	\$2,916,304		\$1,086,368	<u>\$ 1,829,936</u>
Surplus as regards policyholders as reported by the Company as of December 31, 2017				<u>\$74,909,271</u>

As of December 31, 2017, capital paid in was \$5,000,000, consisting of 5,000 shares of common stock at \$1,000 par value per share. Gross paid in and contributed surplus was \$55,967,997. There were no changes to either capital paid in or gross paid in and contributed surplus during the examination period. No adjustments were made to surplus as a result of this examination.

**4. LOSSES AND LOSS ADJUSTMENT EXPENSES**

The examination liability for the captioned items of \$154,652 is the same as that reported by the Company 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 the NAIC Accounting Practices & Procedures Manual, Statement of Statutory Accounting Principle No. 55 (“SSAP No. 55”). The reported reserves are concentrated in the workers’ compensation line, which is consistent with the business written by the Company.

**5. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION**

The prior report on examination contained the following recommendations (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 was recommended that the Company have each board member sign a statement confirming that they have received and read the report on examination and retain such statements in its files pursuant to the provisions of Section 312(b) of the New York Insurance Law.	5
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The Company has complied with this recommendation.

**6. SUMMARY OF COMMENTS AND RECOMMENDATIONS**

This report on examination contains no comments or recommendations.

Respectfully submitted,

\_\_\_\_\_/S/  
Wayne Longmore  
Associate Insurance Examiner

STATE OF NEW YORK     )

)ss:

COUNTY OF ERIE     )

Wayne Longmore, being duly sworn, deposes and says that the foregoing report, subscribed by him, is true to the best of his knowledge and belief.

\_\_\_\_\_/S/  
Wayne Longmore

Subscribed and sworn to before me

this \_\_\_\_\_ day of \_\_\_\_\_, 2019.

*APPOINTMENT NO. 31802*

**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:*

**Wayne Longmore**

*as a proper person to examine the affairs of the*  
**Sompo America Fire and Marine Insurance Company**  
*and to make a report to me in writing of the condition of said*

**COMPANY**

*with such other information as he 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 9th day of August, 2018*

**MARIA T. VULLO**  
*Superintendent of Financial Services*



By:

*Joan P. Riddell*

Joan Riddell  
Deputy Bureau Chief