

REPORT ON EXAMINATION

OF

CODAN INSURANCE COMPANY, LTD. (U.S. BRANCH)

AS OF

DECEMBER 31, 2019

DATE OF REPORT

JANUARY 22, 2021

EXAMINER

JUSTIN MATHEW

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Department of Financial Services

ANDREW M. CUOMO
Governor

LINDA A. LACEWELL
Superintendent

January 22, 2021

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 32125 dated August 26, 2020, attached hereto, I have made an examination into the condition and affairs of the Codan Insurance Company, Ltd. (U.S. Branch) as of December 31, 2019, and submit the following report thereon.

Wherever the designation “the Branch” appears herein without qualification, it should be understood to indicate the Codan Insurance Company, Ltd. (U.S. Branch). Wherever the designation “the Manager” appears herein without qualification, it should be understood to indicate G.F. Dobson & Company, LLC, the U.S. Manager of the Branch. Wherever the term “Home Office” appears herein without qualification, it should be understood to indicate Codan Insurance Company, Ltd. (a/k/a Codan Forsikring A/S).

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 remotely due to the Governor’s Executive Order of New York State on PAUSE regarding the COVID-19 pandemic.

1. SCOPE OF EXAMINATION

The Department has performed an individual examination of the Branch, a single-state insurer. The previous examination was conducted as of December 31, 2014. This examination covered the five-year period from January 1, 2015 through December 31, 2019. 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, which requires that we plan and perform the examination to evaluate the financial condition by obtaining information about the Branch, including corporate governance. This examination also includes evaluating the overall financial statement presentation, management’s compliance with New York laws 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
- Reinsurance
- Holding company description
- Financial statement presentation
- Loss review and analysis
- Summary of recommendations

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 was licensed in 1976 under the laws of the State of New York as the United States Branch of Hansa Marine Insurance Company, Ltd., a Swedish insurer established in 1918.

Effective October 1989, the Home Office changed its name from Hansa Marine Insurance Company, Ltd. to Trygg-Hansa Insurance Company, Ltd. (“Trygg-Hansa”). On August 6, 1990, an amended license was issued by the Department reflecting the name change. Further, having met the financial requirements of Sections 1312 and 4103(c) of the New York Insurance Law, the Branch was granted authority to transact

the kinds of business noted in section 2(B) of this report and for which its Home Office is licensed in its domiciliary jurisdiction.

The Branch was placed into run-off status on December 15, 1994, with a resolution from the Home Office board of directors.

On July 1, 1999, Codan Insurance Company, Ltd. purchased 100% of the stock of Trygg-Hansa. Effective March 31, 2015, Codan Insurance Company, Ltd. merged with its wholly-owned subsidiary Trygg-Hansa, with Codan being the surviving entity. In connection with the merger, the Branch changed its name from Trygg-Hansa Insurance Company, Ltd. (U.S. Branch) to Codan Insurance Company, Ltd. (U.S. Branch). An amended license was issued by the Department on April 1, 2015 reflecting the name change.

A. Corporate Governance

Effective May 1, 1995, G.F. Dobson & Company LLC was appointed the manager of the Branch. The Manager is a New York corporation and is not part of a holding company system. The Branch's run-off operations are conducted by the Manager. Pursuant to the terms of the management agreement, the Manager was granted binding authority for and on behalf of the Branch and is appointed as the attorney-in-fact with full power and authority to invest all the Branch's funds in accordance with the insurance investment laws of New York State and the Branch's investment guidelines, to perform all administrative services, to participate in and direct all loss audits and claims administration as directed by the executive review committee and to do all other acts and things necessary or proper for the conduct of the Branch's business and operations. The Manager is not authorized to underwrite on the Branch's behalf and is not authorized to commit the Branch to underwrite any insurance or reinsurance of any kind or nature without the prior written consent of the Branch.

The Branch does not have a board of directors; however, it has an executive review committee ("ERC") which oversees the activities of the Branch and reports to the Home Office. The ERC meets three times during each calendar year. At December 31, 2019, the ERC was composed of one member from the Home Office and one member from the Manager. The members of the ERC as of December 31, 2019 were as follows:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Johan Isaksson Sweden	Head of Legal Scandinavia, Codan Trygg-Hansa Group
Scott Gottesman New York	President and Treasurer, G.F. Dobson & Company, LLC

In the fourth quarter of 2019, Eva Bostrom resigned as a member of the executive review committee and was replaced by Oliver Larsen in the second quarter of 2020.

As of December 31, 2019, the principal officers of the Manager were as follows:

<u>Name</u>	<u>Title</u>
Scott Gottesman	President and Treasurer
Josianne Leveille	Secretary

B. Territory and Plan of Operation

As of December 31, 2019, the Branch was licensed to write business solely in New York.

As of the examination date, the Branch was authorized to transact the kinds of insurance as defined in the following numbered paragraphs of Section 1113(a) of the New York Insurance Law:

<u>Paragraph</u>	<u>Line of Business</u>
3	Accident & 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
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine
21	Marine protection and indemnity

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 trusted surplus in the amount of \$1,550,000.

C. Reinsurance

On July 1, 1999, the Branch entered into a contract whereby 100% of all the net outstanding loss and loss adjustment expense reserves were transferred to Suecia Insurance Company (“Suecia”). Additionally, Suecia took on the risk of the collectability of the Branch’s third-party reinsurance recoverables as part of this agreement. The transaction was approved by the Department.

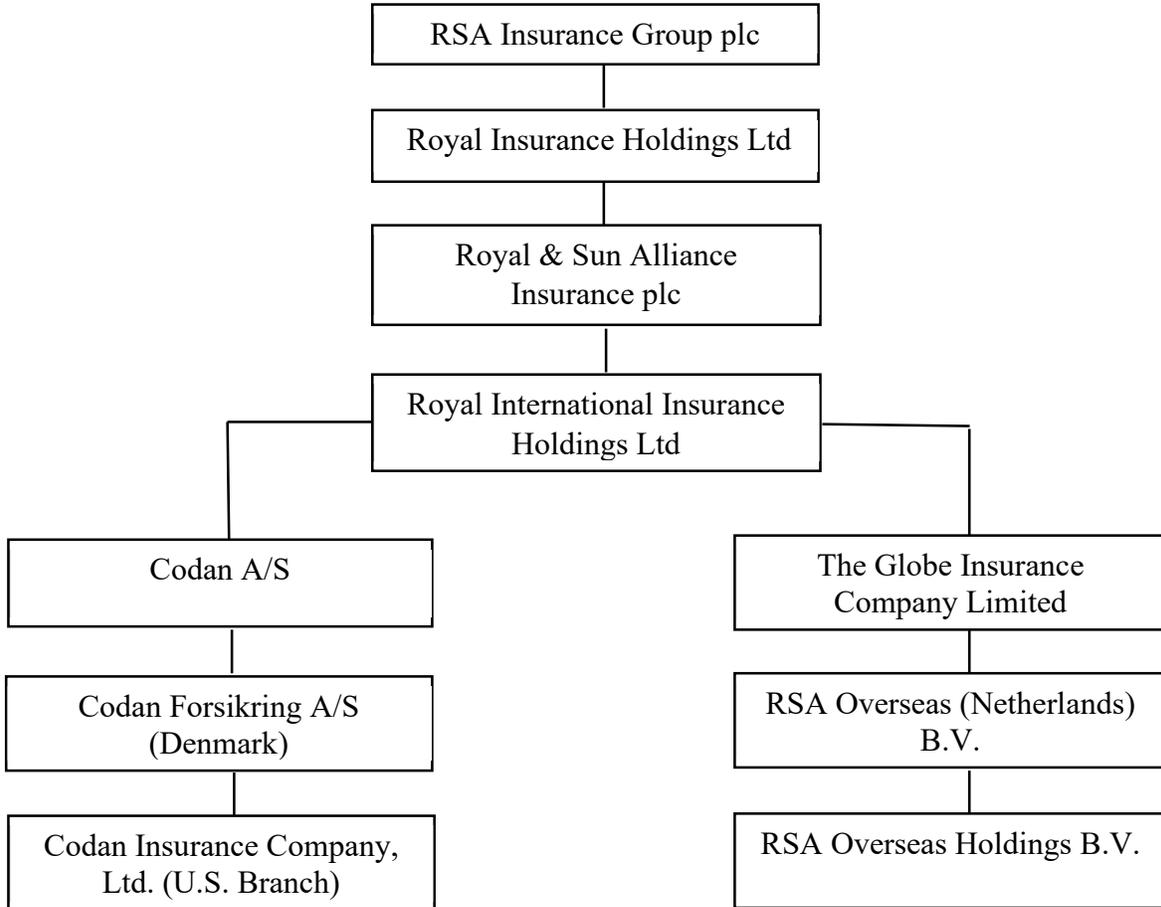
Effective March 16, 2018, the Branch executed a commutation agreement with its reinsurer, Equitas Limited (“Equitas”). At the time of commutation, the Branch had been in run-off for over 23 years and Equitas represented almost the entire remaining inward and outward book of business. Subsequent to the commutation, the liability for unpaid loss and loss adjustment expense reserves was reduced to zero.

D. Holding Company System

The Home Office is a member of Great Britain’s RSA Insurance Group plc (fka Royal & Sun Alliance Insurance Group plc). The Home Office is wholly owned by Codan A/S (Denmark). The Home Office’s entry to the U.S. market is through the Branch.

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, 2019:



E. Significant Ratios

The adjusted liabilities to liquid asset ratio of 2%, computed as of December 31, 2019, falls within the benchmark range set forth in the Insurance Regulatory Information System of the NAIC. All other operating and underwriting ratios were not computed because they are not meaningful due to the Branch's run-off status.

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2019, as reported by the Branch:

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Cash	\$ 34,488	\$0	\$ 34,488
Cash equivalents	128,279	0	128,279
Short-term investments	1,567,131	0	1,567,131
Investment income due and accrued	3,072	0	3,072
Funds held by or deposited with reinsured Companies	738	0	738
Current federal and foreign income tax recoverable and interest thereon	24,138	0	24,138
100% Retroactive reinsurance balances	<u>(738)</u>	<u>0</u>	<u>(738)</u>
Total assets	<u>\$1,757,108</u>	<u>\$0</u>	<u>\$1,757,108</u>

Liabilities, Surplus and Other FundsLiabilities

Other expenses (excluding taxes, licenses and fees)	\$ 35,750
Funds held by company under reinsurance treaties	29,707
100% Retroactive reinsurance – balances	<u>(29,707)</u>
 Total liabilities	 \$ 35,750

Surplus and Other Funds

Initial statutory deposit	\$ 250,000
Unassigned funds (surplus)	<u>1,471,358</u>
 Surplus as regards policyholders	 <u>1,721,358</u>
 Total liabilities, surplus and other funds	 <u>\$1,757,108</u>

Note: During the examination period, the Branch was not subject to audit by the Internal Revenue Service. 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 \$635,694, as detailed below:

Underwriting Income

Premiums earned		\$ (7,519)
Deductions:		
Losses and loss adjustment expenses incurred	\$(4,630,544)	
Other underwriting expenses incurred	<u>1,042,124</u>	
Total underwriting deductions		<u>(3,588,420)</u>
Net underwriting gain or (loss)		\$ 3,580,901

Investment Income

Net investment income earned	\$ 90,981	
Net investment gain or (loss)		90,981

Other Income

100% Retroactive reinsurance – gain or (loss)	\$(4,379,990)	
Total other income or (loss)		<u>(4,379,990)</u>
Net income after dividends to policyholders but before federal and foreign income taxes		\$ (708,108)
Federal and foreign income taxes incurred		<u>(72,414)</u>
Net income		\$ <u>(635,694)</u>

C. Capital and Surplus

Surplus as regards policyholders decreased \$594,328 during the examination period January 1, 2015 through December 31, 2019, as reported by the Branch, detailed as follows:

Surplus as regards policyholders, as reported by the Branch as of December 31, 2014			\$2,315,686
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income		\$635,694	
Change in provision for reinsurance	\$ <u>41,366</u>	<u>0</u>	
Total gains and losses	\$ <u>41,366</u>	\$ <u>635,694</u>	
Net decrease in surplus			<u>(594,328)</u>
Surplus as regards policyholders, as reported by the Branch as of December 31, 2019			<u>\$1,721,358</u>

D. Trusteed Surplus Statement

The following statement shows the trusteed surplus of the Branch calculated in accordance with the provisions of Section 1312 of the New York Insurance Law as of December 31, 2019:

Assets

Securities deposited with state officers
and United States trustees

Bonds	\$1,567,131	
Money market funds	8,614	
Accrued interest on trusteed assets	<u>3,072</u>	
Total trusteed assets		<u>\$1,578,817</u>

Liabilities \$ 35,750

Addition to liabilities

Retroactive reinsurance \$738

Deductions from liabilities

Unpaid reinsurance premiums receivable, not
exceeding losses and loss adjustment expenses
due to reinsured – unauthorized companies 738

Total adjusted liabilities 35,750

Trusteed surplus 1,543,067

Total adjusted liabilities and trusteed surplus \$1,578,817

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of \$0 is the same as reported by the Branch as of December 31, 2019. The zero liability is reflective of the commutation agreement, effective March 16, 2018, and the loss portfolio transfer, effective July 1, 1999, as discussed in section 2C of this report. The loss portfolio transfer was accounted for on a retrospective basis with the statutory credit recorded as a write-in item on the balance sheet.

5. SUBSEQUENT EVENTS

On March 11, 2020, the World Health Organization declared an outbreak of a novel coronavirus (“COVID-19”) pandemic. The COVID-19 pandemic has continued to develop throughout 2020, with significant uncertainty remaining regarding the full effect of COVID-19 on the U.S. and global insurance and reinsurance industry. At the time of releasing this report, the examination’s review noted that there has not been a significant impact to the Branch. The Department has been in communication with the Branch regarding the impact of COVID-19 on its operations and financial position and will take necessary action if a solvency concern arises.

6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination contained no comments or recommendations.

7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

This report on examination contains no comments or recommendations.

Respectfully submitted,

_____/S/_____
Justin Mathew
Senior Insurance Examiner

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

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

_____/S/_____
Justin Mathew

Subscribed and sworn to before me

this _____ day of _____, 2021

APPOINTMENT NO. 32125

NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

I, Linda A. Lacewell, 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:

Justin Mathew

as a proper person to examine the affairs of the

Codan Insurance Company, Ltd. (U.S. Branch)

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 26th day of August, 2020

LINDA A. LACEWELL
Superintendent of Financial Services

By:

Joan Riddell

Joan Riddell
Deputy Bureau Chief

