

REPORT ON EXAMINATION

OF THE

mitsui marine and fire insurance company of america

AS OF

DECEMBER 31, 2002

DATE OF REPORT

AUGUST 5, 2004

EXAMINER

MARC BRUCKSTEIN

TABLE OF CONTENTS

1.	Scope of Examination	2
2.	Description of Company	3
A.	Management	4
B.	Territory and plan of operation	6
C.	Reinsurance	8
D.	Holding company system	11
E.	Abandoned Property Law	13
F.	Significant operating ratios	14
3.	Financial statements	16
A.	Balance sheet	16
B.	Underwriting and investment exhibit	18
C.	Capital and surplus account	19
4.	Losses and loss adjustment expenses	20
5.	Market conduct activities	20
6.	Compliance with prior report on examination	21
7.	Summary of comments and recommendations	21



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

August 5, 2004

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 letter number 22054 dated May 28, 2003 attached hereto, I have made an examination into the condition and affairs of the Mitsui Marine and Fire Insurance Company of America as of December 31, 2002, and submit the following report thereon.

The examination was conducted at the Company's administrative offices located at 15 Independence Boulevard, P.O. Box 4602, Warren, New Jersey 07059.

Wherever the designation "the Company" appears in herein without qualification, it should be understood to indicate Mitsui Marine and Fire Insurance Company of America.

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

1. SCOPE OF EXAMINATION

The previous examination was conducted as of December 31, 1999. This examination covered the three-year period from January 1, 2000 through December 31, 2002. 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, 2002. The examination included a review of income, disbursements and company records deemed necessary to accomplish such analysis or verification and utilized, to the extent considered appropriate, work performed by the Company's independent public accountants. A review or audit was also made of the following items as called for in the Examiners Handbook of the National Association of Insurance Commissioners:

- History of Company
- Management and control
- Corporate records
- Fidelity bond and other insurance
- Territory and plan of operation
- Growth of Company
- Business in force by states
- Loss experience
- 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 COMPANY

The Company was established under the laws of New York as the U.S. Branch of Taisho Marine and Fire Insurance Company, Limited (Japan) (“the Branch”) on May 7, 1957. On December 31, 1988, the Branch was domesticated under the laws of the State of New York as Taisho Marine and Fire Insurance Company of America and commenced business on January 1, 1989. Under the terms of the domestication agreement, the Company succeeded all business, assets and liabilities of the former U.S. Branch. The Company adopted its current name, Mitsui Marine and Fire Insurance Company of America, on January 1, 1996.

The Company’s ultimate parent, Mitsui Sumitomo Insurance Company, Limited, was established in 1918 under the laws of Japan as the Taisho Marine and Fire Insurance Company, Limited (“Taisho”). Taisho changed its name to Mitsui Marine and Fire Insurance Company, Ltd. (“Mitsui”) on April 1, 1991. On October 1, 2001, Mitsui merged with the Sumitomo Marine and Fire Insurance Company, Limited and became Mitsui Sumitomo Insurance Company, Limited.

Capital paid-in is \$5,000,000 and consists of 50 shares of common stock with a par value at \$100,000 per share. Gross paid-in and contributed surplus is \$22,000,000. Gross paid-in and contributed surplus increased by \$22,000,000 during the examination period, as follows:

<u>Year</u>	<u>Description</u>	<u>Amount</u>
1999	Beginning gross paid in and contributed surplus	\$ 0
2001	Surplus contribution	<u>22,000,000</u>
	Total Surplus Contributions	<u>\$22,000,000</u>
2002	Ending gross paid in and contributed surplus	<u>\$22,000,000</u>

On September 9, 2002, the Company issued a surplus note in the amount of \$30,000,000 to its immediate parent, Mitsui Sumitomo Insurance Group Holdings (U.S.A.). This note was approved by the Department pursuant to the provisions of Section 1307 of the New York Insurance Law. In March 2003, the Department approved the repayment of this note.

A. Management

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 thirteen nor more than twenty-one members. The board met four times during each calendar year during the examination period. At December 31, 2002, the board of directors was comprised of the following thirteen members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Edward Henry Bennett Bedford, NY	Retired
Leonard S. Dome Roslyn Heights, N Y	Partner, Mound, Cotton and Wollan
John T. Elser Yonkers, N Y	Partner, Wilson, Elser, Moskowitz, Edelman and Dicker
Joesph Lawrence Farrell Hillsborough, N J	Treasurer, Mitsui Marine and Fire Insurance Company of America
Robert Landis Hitch Villa Hills, KY	Executive Vice President, Co-Chief Operating Officer, Mitsui Sumitomo Marine Management (USA), Inc.

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Katsuaki Ikeda Tokyo, Japan	General Manager, Accounting Department Mitsui Marine and Fire Insurance Company of America
Teruhiko Ito Rye, NY	Senior Vice President, Mitsui Marine and Fire Insurance Company of America
Patricia Ann Keating Milford, NJ	Vice President, Sumitomo Marine and Fire insurance Company of America
Robert Bruce Miller Basking Ridge, NJ	Senior Vice President, Sumitomo Marine and Fire Insurance Company of America
Michio Nozaki Tokyo, Japan	Associate Director, Mitsui Sumitomo Insurance Company, Ltd
Hisatoshi Saito Palisades Park, NJ	Senior Vice President and Co-Treasurer & Secretary, Sumitomo Marine and Fire Insurance Company of America
Kenichi Wantanabe Edgewater, NJ	Senior Vice President, Mitsui Sumitomo Marine (USA), Inc.
Koji Yoshida New York, NY	President, Sumitomo Marine and Fire Insurance Company of America

A review of the minutes of the board of directors' meetings held during the examination period indicated that the meetings were generally well attended, with the exception of Katsuaki Ikeda and Michio Nozaki, each of whom attended less than 50% of the meetings for which they were eligible to attend.

Members of the board have a fiduciary responsibility and must evince an ongoing interest in the affairs of the insurer. It is essential that board members attend meetings consistently and set forth their views on relevant matters so that the board may reach appropriate decisions. Individuals who fail to attend at least one-half of the regular meetings do not fulfill such criteria. It is recommended that board members who are unable or unwilling to attend meetings consistently should resign or be replaced.

As of December 31, 2002, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Koji Yoshida	President
Joseph Lawrence Farrell	Senior Vice President and Co-Treasurer
Teruhiko Ito	Senior Vice President
Masato Ata	Senior Vice President
Katsuhiro Haraguchi	Senior Vice President
Robert Landis Hitch	Executive Vice President
Kazuo Imazu	Senior Vice President
Hisatoshi Saito	Vice President, Secretary & Co-Treasurer
Robert Bruce Miller	Senior Vice President
Kazunobu Mizoguchi	Senior Vice President
Tomotaka Seki	Senior Vice President
Frank Croft Shore	Senior Vice President

B. Territory and Plan of Operation

As of December 31, 2002, the Company was licensed to write business in all fifty 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 & health
4	Fire
5	Miscellaneous property damage
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
18	Title
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine
21	Marine protection and indemnity

The following schedule shows the direct premiums written by the Company both in total United States and in New York for the period under examination:

DIRECT PREMIUMS WRITTEN (\$000s omitted)

<u>Calendar Year</u>	<u>New York State</u>	<u>Total United States</u>	Percentage Written in New York State as a Percentage of United States <u>Premiums Written</u>
2000	\$3,817	\$6,031	63.29%
2001	3,067	5,523	55.53
2002	<u>5,327</u>	<u>8,495</u>	<u>62.71</u>
Totals	<u>\$12,211</u>	<u>\$20,049</u>	<u>60.09%</u>

Based on the lines of business for which the Company is licensed and the Company's current capital structure, and pursuant to the requirements of Articles 13 and 41 of the New York Insurance Law, the Company is required to maintain a minimum surplus to policyholders in the amount of \$5,000,000.

C. Reinsurance

Assumed

In 2002, the Company's assumed premiums represented approximately 99% of its total book of business for the year. Approximately 98% of the assumed business was from a 100% quota share agreement with the Great American Group of companies. The remaining 2% of the Company's assumed business was from the Company's current and prior participation in several pools which are now in runoff. The most significant pool was the McGee pool, for which the Company's participation stopped effectively for the underwriting year January 1, 2000.

Effective January 1, 2001, the Company acquired the Japanese Division of the Great American Insurance Company ("Great American") pursuant to reinsurance and purchase agreements. The business acquired from Great American has been accounted for as retroactive reinsurance assumed on the financial statements. The Company also acquired various subsidiaries of the Great American Group related to the Japanese division business and the rights to new and renewal business. Concurrent with the acquisitions, the Company terminated its then existing quota share reinsurance agreement and management service agreements with Great American. Mitsui entered into new agreements with the Great American Group to service the existing, new, and renewal business arising from the Japanese Division. The Company primarily insures United States risks of Japanese companies through the new 100% assumed quota share reinsurance agreement.

Ceded

The Schedule F data as contained in the Company's filed annual statement was found to accurately reflect its reinsurance transactions.

The examiner reviewed all ceded reinsurance contracts in effect at December 31, 2002. All the contracts contained the required standard clauses, including insolvency clauses meeting the requirements of Section 1308 of the New York Insurance Law.

The Company had the following ceded reinsurance program in effect at December 31, 2002:

<u>Type of Treaty</u>	<u>Cession</u>
<u>Property:</u>	
Quota share 72.67% Authorized 27.33% Unauthorized	92% of \$25,000,000 per occurrence.
First Surplus 100% Unauthorized	Up to two times the Company's net retained liability, not to exceed \$14,000,000 any one risk.
Second Surplus 100% Unauthorized	Up to two times the Company's gross retention liability, not to exceed \$60,000,000 any one risk.
Excess of Loss One Layer 100% Authorized	\$25,000,000 excess of \$25,000,000, each risk. Occurrence limit \$25,000,000.
Catastrophe Excess of Loss Four Layers 10%, 79%, and 84.25% and 84.25% Authorized 90%, 21%, and 15.75% and 15.75% Unauthorized	\$38,000,000 excess of \$2,000,000, each risk, each occurrence.

<u>Type of Treaty</u>	<u>Cession</u>
Obligatory Facultative for Marine Policies Two layers 100% Unauthorized	90% of the ultimate loss if the policy limit is equal to or less than \$10,000,000 each and every risk, but the reinsurer's liability shall not exceed each and every loss, each and every risk \$9,000,000. 94% of the ultimate loss if the policy limit is more than \$10,000,000 on each and every loss, each and every risk, but the reinsurer's liability shall not exceed each and every loss, each and every risk \$15,040,000.
Obligatory Facultative for Non-Marine Policies 100% Unauthorized	100% of the ultimate loss on each and every loss, each and every risk. Per occurrence limit: \$160,000,000.
<u>Casualty</u> Excess of Loss Two Layers 55%, and 100% Authorized 45%, and 0% Unauthorized	\$5,000,000 excess \$1,000,000 each risk, each occurrence.
Excess of Loss Loss Adjustment Expense only 100% Authorized	\$5,000,000 excess \$6,000,000 each risk, each occurrence.
Excess of Loss Umbrella Policies 100% Authorized	\$20,000,000 excess \$5,000,000 each policy, each occurrence.

Unauthorized Reinsurance

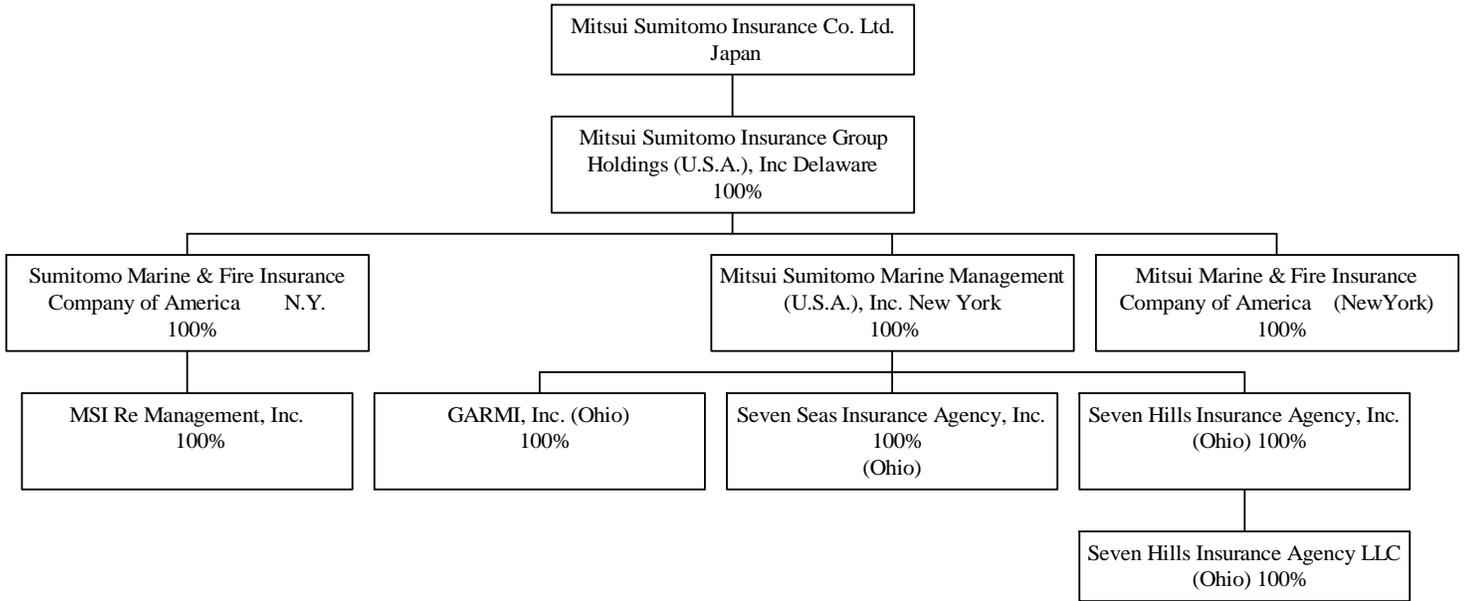
The letters of credit obtained by the Company in order to take credit for cessions made to unauthorized reinsurers were reviewed for compliance with Department Regulation 133. No exceptions were noted.

D. Holding Company System

The Company is a member of the Mitsui Sumitomo Group. The Company is a wholly-owned subsidiary of Mitsui Sumitomo Insurance Group Holdings (USA) Inc., and is ultimately owned by Mitsui Sumitomo Insurance Co. Ltd., Tokyo, Japan, which is the Company's ultimate parent.

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 a chart of the holding system at December 31, 2002:



At December 31, 2002 the Company was a party to the following agreements with other members of its holding Company system:

1) Tax Allocation Agreement

The Company entered into a tax allocation agreement on July 1, 2003 for the tax year December 31, 2002. This agreement allocates federal income taxes among the group members. The tax allocation agreement complied with Circular Letter No. 33 (1979).

2) Management Agreement

The Company entered into a management agreement with Mitsui Sumitomo Marine Management (“MSMM”) dated January 1, 2002. MSMM provides under the terms of the agreement various services on behalf of the Company, including 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, legal and governmental relations and human resources.

Both agreements were filed with this Department.

E. Abandoned Property Law

Section 1316 of the New York Abandoned Property Law provides that amounts payable to a resident of this state from a policy of insurance, if unclaimed for three years, shall be deemed to be abandoned property. Such abandoned property shall be reported to the comptroller on or before the first day of April each year. Such filing is required of all insurers regardless of whether or not they have any abandoned property to report. With the exception of the year 2001 the Company filed its abandoned

property reports pursuant to Section 1316 of the New York Abandoned Property Law. It is recommended that the Company file its abandoned property reports on a timely basis pursuant to the provisions of Section 1316 of the New York Abandoned Property Law.

F. Significant Operating Ratios

The following ratios have been computed as of December 31, 2002, based upon the results of this examination:

Net premiums written to surplus as regards policyholders	137%
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	115%*
Premiums in course of collection to surplus as regards policyholders	32%

The second ratio falls outside the benchmark range set forth in the Insurance Regulatory Information System of the National Association of Insurance Commissioners ('NAIC'). The Company's liabilities increased substantially from prospective business written since the year 2001 and assumed from the Great American Insurance Group. The Great American Insurance Group is servicing this business on a direct basis. The asset "Funds held by or deposited with reinsured companies" reduced the Company's liquid assets. Management has indicated that once these funds are returned they will be included in the invested assets section of the Company's balance sheet, increasing its liquid assets.

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

	<u>Amounts</u>	<u>Ratios</u>
Losses and loss adjustment expenses incurred	\$193,112,613	81.18%
Other underwriting expenses incurred	83,585,281	35.14
Net underwriting loss	<u>(38,812,982)</u>	<u>(16.32)</u>
Premiums earned	<u>\$237,884,912</u>	<u>100.00%</u>

3. FINANCIAL STATEMENTS

A Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as determined by this examination as of December 31, 2002 and as reported by the Company:

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$171,711,507	\$	\$171,711,507
Common stocks (stocks)	31,058,517		31,058,517
Cash and short-term investments	48,506,322		48,506,322
Goodwill	15,963,277	15,963,277	
Premiums and agents' balances in course of collection	24,451,026	4,031,479	20,419,547
Premiums, agents' balances and installments booked but deferred and not yet due	53,749		53,749
Accrued retrospective premiums	1,877,247	187,724	1,689,523
Funds held by or deposited with reinsured companies	41,358,836		41,358,836
Amounts billed and receivable under high deductible policies	4,676,575		4,676,575
Reinsurance recoverables on loss and loss adjustment expense payments	9,013,384		9,013,384
Federal and foreign income taxes recoverable	29,484,217	11,057,240	18,426,977
EDP equipment and software	35,176	35,176	
Interest, dividends and real estate income due and accrued	2,839,153		2,839,153
Receivable from parent, subsidiaries and affiliates	3,948,533		3,948,533
Equities and deposits in pools and associations	1,784,427	4,164	1,780,263
State income tax recoverable	37,937		37,937
Furniture and equipment	46,008	46,008	
Aggregate write-ins for other than invested assets	<u>244,152</u>	<u>244,152</u>	<u> </u>
Total Assets	<u>\$387,090,043</u>	<u>\$31,569,221</u>	<u>\$355,520,822</u>

Liabilities, Surplus and Other Funds

Losses and loss adjustment expenses	119,568,683
Reinsurance payable on paid losses and loss adjustment expenses	6,369,889
Commissions payable, contingent commissions and other similar charges	673,937
Other expenses (excluding taxes, licenses and fees)	521,327
Taxes, licenses and fees (excluding federal and foreign income taxes)	897,235
Federal and foreign income taxes	30,741
Unearned premiums	38,681,242
Ceded reinsurance premiums payable (net of ceding commissions)	24,213,662
Funds held by company under reinsurance treaties	180,607
Amounts withheld or retained by company for account of others	840,978
Provision for reinsurance	2,613,795
Payable to parent, subsidiaries and affiliates	2,864,650
Retroactive insurance liability	74,863,198
Due to Great American	17,804,976
Claims payable	1,535,238
Payable for employee relations	230,672
Accounts payable-sundry	<u>55,872</u>
 Total liabilities	 \$291,946,702

Surplus and Other Funds

Common capital stock	\$5,000,000
Surplus notes	30,000,000
Gross paid in and contributed surplus	22,000,000
Unassigned funds (surplus)	<u>6,574,120</u>
Surplus as regards policyholders	<u>63,574,120</u>
 Total liabilities, surplus and other funds	 <u>\$355,520,822</u>

Note: The Internal Revenue Service has completed its audits of the Company's federal income tax returns through tax year 1999. All material adjustments, if any, made subsequent to the date of examination and arising from said audits, are reflected in the financial statements included in this report. The Internal Revenue Service has not yet begun to audit tax returns covering tax years 2000 through 2002. 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. Underwriting and Investment Exhibit

Surplus as regards policyholders increased \$2,117,361 during the three-year examination period

January 1, 2000 through December 31, 2002, detailed as follows:

Underwriting Income

Premiums earned		\$ 237,884,912
Deductions:		
Losses incurred	\$139,790,444	
Loss adjustment expenses incurred	53,322,169	
Other underwriting expenses incurred	<u>83,585,281</u>	
Total underwriting deductions		<u>276,697,894</u>
Net underwriting gain or (loss)		\$ (38,812,982)

Investment Income

Net investment income earned	\$23,374,037	
Net realized capital gain	<u>500,295</u>	
Net investment gain or (loss)		23,874,332

Other Income

Net gain or (loss) from agents' or premium balances charged off	\$(113,403)	
Finance and service charges not included in premiums	87,582	
Loss on Retroactive Reinsurance	(6,640,486)	
Aggregate write-ins for miscellaneous income	<u>(1,564,238)</u>	
Total other income		<u>(8,230,545)</u>
Net income before dividends to policyholders and before Federal and foreign income taxes		\$(23,169,195)
Dividends to policyholders		<u>17,266</u>
Net income after dividends to policyholders but before federal and foreign income taxes		\$(23,186,461)
Federal and foreign income taxes incurred		<u>(1,353,700)</u>
Net income		<u>\$(21,832,761)</u>

C. Capital and Surplus Account

Surplus as regards policyholders per report on Examination as of December 31, 1999			\$61,456,759
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income		\$21,832,761	
Net unrealized capital gains or (losses)		10,520,000	
Change in net unrealized foreign exchange capital gain (loss)		3,858	
Change in net deferred income tax	\$1,043,965		
Change in non-admitted assets		20,123,050	
Change in provision for reinsurance		1,906,274	
Change in excess of statutory reserves over statement reserves	848,800		
Change in surplus notes	30,000,000		
Cumulative effect of changes in accounting principles	6,574,138		
Surplus adjustments paid in	22,000,000		
Aggregate write-ins for gains and losses in surplus	<u> </u>	<u>2,265,999</u>	
Total gains and losses in surplus	<u>\$59,618,103</u>	<u>\$57,500,742</u>	
Net increase (decrease) in surplus			<u>2,117,361</u>
Surplus as regards policyholders per report on examination as of December 31, 2002			<u>\$63,574,120</u>

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of \$119,568,683 is the same as reported by the Company as of December 31, 2002. The examination analysis was conducted in accordance with generally accepted actuarial principles and practices and was based on statistical information contained in the Company's internal records and in its filed annual statements.

5. MARKET CONDUCT ACTIVITIES

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

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

- A. Sales and advertising
- B. Underwriting
- C. Rating
- D. Claims and complaint handling

No problem areas were encountered.

6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination contained one recommendation as follows (page numbers refer to the prior report):

<u>ITEM</u>		<u>PAGE NO.</u>
A	<u>Reinsurance</u>	8
	It was recommended that the Company's reinsurance agreements in which the Company cedes business include a clause stating that the agreement represents the entire contract between parties.	
	The Company has complied with this recommendation.	

7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>		<u>PAGE NO.</u>
A.	<u>Management</u>	
	It is recommended the board members who are unable or unwilling to attend meetings consistently should resign or be replaced.	6
B.	<u>Abandoned Property Law</u>	
	It is recommended that the Company file its abandoned property reports on a timely basis pursuant to the provisions of Section 1316 of the New York Abandoned Property Law.	14

Respectfully submitted,

Marc H. Bruckstein
Senior Insurance Examiner

STATE OF NEW YORK)
)SS:
)
COUNTY OF NEW YORK)

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

Marc H. Bruckstein

Subscribed and sworn to before me

this _____ day of _____, 2004.

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:

Marc Bruckstein

as proper person to examine into the affairs of the

Mitsui Marine and Fire Insurance Company of America

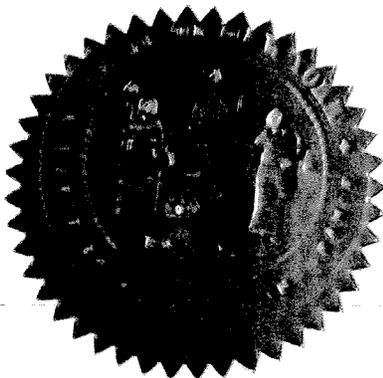
and to make a report to me in writing of the condition of the said

Company

with such other information as he shall deem requisite.

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

this 28th day of May, 2003



A handwritten signature in black ink, appearing to read "Gregory V. Serio", written over a horizontal line.

GREGORY V. SERIO
Superintendent of Insurance