

REPORT ON EXAMINATION

OF THE

UNITED STATES BRANCH OF THE NIPPONKOA INSURANCE COMPANY LIMITED, JAPAN

AS OF

DECEMBER 31, 2006

DATE OF REPORT

AUGUST 4, 2008

EXAMINER

ADEBOLA AWOFOESO

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

August 4, 2008

Honorable Eric R. Dinallo  
Superintendent of Insurance  
Albany, New York 12257

Sir:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 22586 dated January 22, 2007 attached hereto, I have made an examination into the condition and affairs of United States Branch of the NIPPONKOA Insurance Company Limited, of Tokyo, Japan, as of December 31, 2006, and submit the following report thereon.

Wherever the designation "the Branch" appears herein without qualification, it should be understood to indicate United States Branch of the NIPPONKOA Insurance Company Limited, of Tokyo, Japan.

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

Whenever the terms "NKA" appear in this report, they should be understood to indicate the NIPPONKOA Insurance Company of America, an affiliate of the Branch.

Whenever the terms "NKM" appear in this report, they should be understood to indicate the NIPPONKOA Management Corporation, an affiliate of the Branch.

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

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

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

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

## 1. SCOPE OF EXAMINATION

The previous examination was conducted as of December 31, 2001. This examination covered the five-year period from January 1, 2002 through December 31, 2006. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

The examination comprised a verification of assets and liabilities as of December 31, 2006. 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 Branch's independent certified public accountants ("CPA"). 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 ("NAIC"):

- History of Branch
- Management and control
- Corporate records
- Fidelity bond and other insurance
- Territory and plan of operation
- Growth of Branch
- 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 Branch 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 BRANCH

The Branch was licensed on May 17, 1973 under the laws of the State of New York as the United States Branch of Nippon Fire & Marine Insurance Company Limited (“Nippon Fire”). Nippon Fire was formed under the laws of Japan in 1944 through the amalgamation of three previously established reinsurers. Since its licensing, the Branch has continually conducted an insurance business in this country. Initially, business was confined to ocean marine policies and to participation in pools and quota share assumption arrangements. Later, both on a direct and assumed basis, the Branch expanded into a wide range of property/casualty lines written principally on behalf of the Japanese business community in the United States.

Under a deed of trust, approved by the Department in January 2000, Toyo Trust Company of New York was appointed as United States trustee for the Branch. As the United States trustee, Toyo Trust Company of New York holds the Branch’s trusted assets in trust for the security of the Branch’s policyholders and creditors within the United States pursuant to the requirements of Section 1315 of the New York Insurance Law. Effective January 15, 2002, Toyo Trust Company of New York changed its name to UFJ Trust Company of New York.

Effective April 1, 2001, Nippon Fire merged with Koa Fire & Marine Insurance Company, Limited, with Nippon Fire as the surviving entity. Concurrent with the merger, the name of the Company was changed to NIPPONKOA Insurance Company Limited, of Tokyo, Japan (“NK-Tokyo”). Effective April 2002, Taiyo Fire & Marine also merged with NK-Tokyo, with NK-Tokyo as the surviving entity.

### A. Management

In 1972, the Home Office executed a general power of attorney appointing Travelers Marine Corporation (“TMC”) as its lawful attorney and U. S. Manager. TMC is a California management company having its corporate headquarters in Hartford, CT., and is wholly-owned by the Travelers Indemnity Company. A management agreement provides that TMC, acting under the authority contained in the general power of attorney of 1972 and in accordance with other authority and instructions given from time to time by the Home Office, will conduct the Branch’s insurance business. TMC has no personnel or facilities of its own; TMC is able to fulfill its obligations toward the Branch through its parent, Travelers Indemnity Company.

Management of the Branch is vested in a board of directors consisting of not less than six nor more than nine members of the U. S. Manager. At December 31, 2006, the board of directors was comprised of the following nine members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
John Joseph Albano South Windsor, CT	Executive Vice President, Business Insurance Travelers Indemnity Company
Scott Chandler Belden Glastonbury, CT.	Senior Vice President, Reinsurance Travelers Indemnity Company
Michael Joseph Doody Wethersfield, CT.	Second Vice President, Travelers Indemnity Company
Bruce Richard Jones West Hartford, CT.	Senior Vice President and Actuary, Travelers Indemnity Company
Paul Sebastian Privitera Wethersfield, CT.	Second Vice President, Travelers Indemnity Company
Scott William Rynda Bloomington, MN	Senior Vice President, Tax Administration Travelers Indemnity Company
Richard Smith Rosemount, MN	Regional President, Field Management Travelers Indemnity Company
Louis A. Verdi North Haven, CT.	Account Executive, Travelers Indemnity Company
Richard Allen Waskiewicz Kensington, CT	Senior Vice President and Chief Underwriting Officer, Travelers Indemnity Company

A review of the minutes of the board of directors revealed that the board did not hold any regular or annual meetings during the period covered by this examination. In lieu of formal board meetings, the by-laws allowed that if all the directors severally or collectively consented in writing to any action to be taken by the corporation, and the number of such directors constituted a quorum for such action, such action would be a valid corporate action as if it had been authorized at a regular meeting of the board of directors.

As of December 31, 2006, the principal officers of the United States manager were as follows:

<u>Name</u>	<u>Title</u>
John Joseph Albano	Chairman of the Board
Paul Sebastian Privitera	President and Chief Executive Officer
Scott William Rynda	Senior Vice President
Kimberly Jane Mizesko	Vice President and Chief Financial Officer
Cathleen Carini Muller	Vice President and Chief Operating Officer
Alan Timothy Reynard	Vice President and Actuary
Louis Anthony Verdi	Vice President
Douglas Kenneth Russell	Treasurer
Robert Steven Cohn	Secretary

B. Territory and Plan of Operation

The Branch is licensed to conduct business in forty-nine states and the District of Columbia. Approximately 73% of the Branch's direct writings in 2006 were concentrated in California, Illinois and 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 damage
6	Water damage
7	Burglary and theft
8	Glass
9	Boiler and machinery
11	Animal
12	Collision
13	Personal injury liability
14	Property damage liability
15	Workers' compensation and employers' liability
16	Fidelity and surety
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine
21	Marine protection and indemnity



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

The majority of the Branch's premiums, both direct and assumed, were written on business with direct ties to Japanese enterprises. A large segment of business is assumed through a facultative reinsurance agreement with TIC. TIC, via this facultative reinsurance agreement, secures business in jurisdictions where the Branch is not licensed and where there are national accounts that include risks in such jurisdictions.

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

DIRECT PREMIUM WRITTEN

<u>Calendar Year</u>	<u>New York State</u>	<u>Total United States</u>	<u>Premiums Written in New York State as a percentage of United States Premium</u>
2002	\$875,019	\$11,048,095	7.92%
2003	\$2,069,489	\$22,631,635	9.14%
2004	\$6,428,281	\$26,014,691	24.71%
2005	\$7,384,804	\$29,171,490	25.32%
2006	\$5,166,228	\$26,411,928	19.56%

C. Reinsurance

Assumed reinsurance accounted for 55% of the Branch's gross premium written at December 31, 2006. During the period covered by this examination, the Branch's assumed reinsurance business has increased since the last examination. The majority of the Branch's insurance business is assumed via a facultative reinsurance agreement in effect with TIC.

A summary of the Branch's ceded reinsurance program in effect at December 31, 2006, consisting of two excess of loss covers, is as follows:

<u>Agreement</u>	<u>Reinsured business</u>	<u>Cession</u>
Ocean marine excess of loss 100% authorized.	Policies and/or certificates of insurance or reinsurance including any replacements, thereof, issued by the ceding insurer covering ocean marine business.	\$50 million ultimate net loss each and every loss or series of losses arising from one event in excess of \$500,000.
Non-ocean marine excess of loss, 100% authorized.	Policies and/ or certificates of insurance or reinsurance, including any replacements thereof, issued by the ceding insurer covering non-ocean marine business.	Unlimited ultimate net loss each and every loss or series of losses arising from one event or occurrence excess of \$500,000, only for business written by TIC and its affiliates and assumed as reinsurance by the Branch. The limit became \$100 million for surety and to \$250 million for other business.

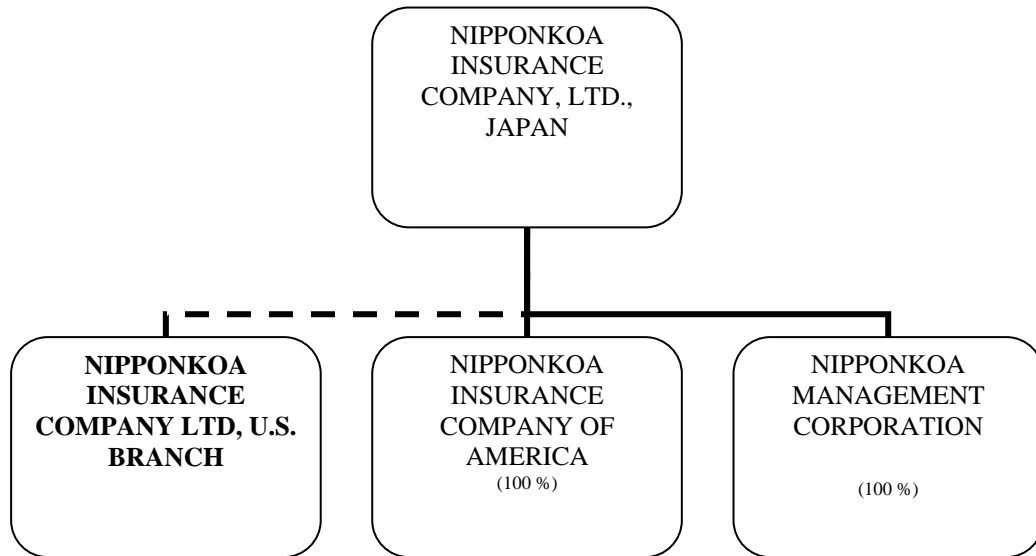
All ceded reinsurance agreements in effect as of the examination date were reviewed and found to contain the required clauses, including an insolvency clause meeting the requirements of Section 1308 of the New York Insurance Law.

#### D. Holding Company System

The Branch is a member of a holding company system. It is 100% owned by NIPPONKOA Insurance Company, Limited of Tokyo, a Japan domiciled 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, 2006:



At December 31, 2006, the Branch was party to the following agreements with other members of its holding company system:

Service Agreement

Effective February 13, 1994, a sub-management agreement was entered into between the Branch, TMC as the Branch's U. S. Manager, and Nipponkoa Management Corporation ("NKM"). NKM, a subsidiary of NK-Tokyo, was established as Assistant U. S. Manager with authority to accept insurance on behalf of the Branch.

On April 1, 2003, an amendment was entered into whereby Nipponkoa Insurance Company of America ("NKA") was appointed as the Assistant U. S. Manager to replace NKM.

On July 1, 2006, another amendment was entered into whereby NKM was reappointed as the Assistant U. S. Manager of the Branch.

This agreement and subsequent amendments were filed with and non-disapproved by the Department in accordance with Section 1505(d)(3) of the New York Insurance Law.

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2006, based upon the results of this examination:

Net premiums written to surplus as regards policyholders	94%
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	76%
Premiums in course of collection to surplus as regards policyholders	8%

All of the above ratios fall within the benchmark ranges set forth in the Insurance Regulatory Information System of the National Association of Insurance Commissioners.

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

	<u>Amounts</u>	<u>Ratios</u>
Losses and loss adjustment expenses incurred	\$150,091,626	64.75%
Other underwriting expenses incurred	107,026,504	46.17
Net underwriting loss	<u>(25,298,721)</u>	<u>(10.91)</u>
Premiums earned	<u>\$231,819,409</u>	<u>100.00%</u>

F. Accounts and Records

Reinsurance Recoverable

A review of the \$1,713,645 reinsurance recoverable due the Branch from Travelers Indemnity Company as of December 31, 2006 revealed that it was still outstanding at the end of first quarter 2007. Article 7 of the reinsurance agreement between the Branch and Travelers Indemnity Company (“Travelers”) states:

“In the event any loss or other payment due the Company is not received by the Company by the payment due date (or in the event a payment due date is not specified herein, the payment due date for the purposes of this article shall be thirty (30) days from the date the Company has mailed to the Reinsurer a definitive statement of loss), then within thirty (30) days of the Company’s demand, the Reinsurer shall reimburse the Company for any and all costs and expenses ... incurred by the Company in connection with the collection or enforcement of any of the Reinsurer’s payment obligations to the Company.”

It is recommended that the Branch comply with the provision of its reinsurance agreement with Travelers and collect the reinsurance recoverable balances in a timely manner.

### 3. FINANCIAL STATEMENTS

#### A Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2006 as determined by this examination and as reported by the Branch:

Assets	<u>Examination</u>		
	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$183,867,730		\$183,867,730
Common stocks	267,209		267,209
Cash, cash equivalents and short-term investments	11,390,262		11,390,262
Investment income due and accrued	2,472,075		2,472,075
Uncollected premiums and agents' balances in the course of collection	5,224,903	\$616,653	4,608,250
Deferred premiums, agents' balances and installments booked but deferred and not yet due	11,292,435	94,269	11,198,166
Amounts recoverable from reinsurers	1,713,645		1,713,645
Net deferred tax asset	8,322,171	3,665,446	4,656,725
Guaranty funds receivable or on deposit	4,147		4,147
State surcharges receivable	80,998		80,998
Equities and deposits in pools and associations	35,950		35,950
Assumed reinsurance receivable and payable	(109,005)	_____	(109,005)
Total assets	<u>\$224,562,520</u>	<u>\$4,376,368</u>	<u>\$220,186,151</u>

Liabilities, Surplus and Other Funds

<u>Liabilities</u>	<u>Examination</u>
Losses	\$117,794,007
Reinsurance payable on paid losses and loss adjustment expenses	(1,742)
Loss adjustment expenses	16,025,279
Commissions payable, contingent commissions and other similar charges	1,496,954
Other expenses (excluding taxes, licenses and fees)	1,100,003
Taxes, licenses and fees (excluding federal and foreign income taxes)	248,951
Current federal and foreign income taxes	1,115,615
Unearned premiums	21,498,267
Ceded reinsurance premiums payable (net of ceding commissions)	49,560
Amounts withheld or retained by company for account of others	63,489
Remittances and items not allocated	410,110
Provision for reinsurance	75,223
Miscellaneous liabilities	<u>2,468,097</u>
Total liabilities	<u>\$162,343,813</u>
 <u>Surplus and Other Funds</u>	
Statutory deposits	\$ 1,000,000
Unassigned funds (surplus)	<u>56,842,339</u>
Surplus as regards policyholders	<u>\$ 57,842,339</u>
Total liabilities, surplus and other funds	<u>\$220,186,151</u>

NOTE: The Internal Revenue Service has not yet begun to audit tax returns covering tax years 2002 through 2006. 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. Underwriting and Investment Exhibit

Surplus as regards policyholders increased \$9,467,040 during the five-year examination period January 1, 2002 through December 31, 2006, detailed as follows:

Statement of Income

Underwriting Income

Premiums earned		\$231,819,409
Deductions:		
Losses incurred	\$127,804,240	
Loss adjustment expenses incurred	22,287,386	
Other underwriting expenses incurred	<u>107,026,504</u>	
Total underwriting deductions		<u>257,118,130</u>
Net underwriting gain or (loss)		\$(25,298,721)

Investment Income

Net investment income earned	\$35,958,504	
Net realized capital gain	<u>6,434,266</u>	
Net investment gain or (loss)		42,392,770

Other Income

Net loss from agents' balances charged off	\$(8,482)	
Miscellaneous income	<u>(12,336)</u>	
Total other income		<u>(20,818)</u>
Net income before federal income taxes		\$17,073,231
Federal and foreign income taxes incurred		<u>(7,313,449)</u>
Net Income		<u>\$ 9,759,782</u>



C. Capital and Surplus Accounts

Surplus as regards policyholders per report on examination as of December 31, 2001			\$48,375,299
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income	\$9,759,783		
Net unrealized capital gains or (losses)		\$4,491,536	
Change in net deferred income tax	2,114,936		
Change in non admitted assets	426,916		
Change in provision for reinsurance		75,223	
Cumulative effect of changes in accounting principles	<u>1,732,164</u>	<u>0</u>	
Total gains and losses	<u>\$14,033,799</u>	<u>\$4,566,759</u>	
Net increase in surplus			<u>9,467,040</u>
Surplus as regards policyholders per report on examination as of December 31, 2006			<u>\$57,842,339</u>

Trusteed Surplus Statement

The following statement shows the trusteed surplus of the Branch calculated in accordance with Section 1312 of the New York Insurance Law and as determined by this examination. The examination trusteed surplus of \$11,293,292 is the same as reported by the Branch in its filed Trusteed Surplus Statement for 2006.

Assets

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

Bonds	\$4,143,545	
Accrued interest	62,938	
Common Stock	<u>209,181</u>	
Total deposits with State Officers		\$ 4,415,664

Vested in and held by United States Trustee for the protection of all of the Branch's policyholders and creditors within the United States:

U.S Treasury Bonds	\$133,479,376
Accrued interest receivable	<u>1,672,575</u>

Total vested in and held by United States Trustee 135,151,951

Total gross trusteed assets \$139,567,615

Total balance sheet liabilities \$162,343,813

Add: Additions to liabilities 109,005

Total liabilities and reserves \$162,452,818

Deductions from liabilities:

Reinsurance recoverable on paid losses and loss adjustment expenses	\$1,713,645
Special state deposits	16,412,731
Accrued interest on special state deposits	247,444
Agents' balances or uncollected premiums not more than ninety days past due, not exceeding unearned premium reserves carried thereon.	8,540,432
Unpaid reinsurance premiums receivable, not exceeding losses and loss adjustment expenses due to reinsured	7,265,985
Aggregate write-in for other deductions	<u>(1,742)</u>
Total deductions	<u>34,178,495</u>

Total adjusted liabilities \$128,274,323

Trusteed surplus 11,293,292

Total liabilities and surplus \$139,567,615

#### **4. LOSSES AND LOSS ADJUSTMENT EXPENSES**

The examination liability for the captioned items of \$133,819,286 is the same as reported by the Branch as of December 31, 2006. The examination analysis was conducted in accordance with generally accepted actuarial principles and practices and was based on statistical information contained in the Branch's internal 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 Branch 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 Branch in the following areas:

##### **A. Claims and complaint handling**

No problem areas were encountered.

## 6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

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

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

**7. SUMMARY OF COMMENTS AND RECOMMENDATIONS**ITEMPAGE NO.A. Accounts and RecordsReinsurance Recoverable

It is recommended that the Branch comply with the provision of its reinsurance agreement with Travelers and collect the reinsurance recoverable balances in a timely manner.

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Respectfully submitted,

\_\_\_\_\_  
/S/  
Adebola Awofeso,  
Senior Insurance Examiner

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

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

\_\_\_\_\_  
/S/  
Adebola Awofeso,

Subscribed and sworn to before me

this \_\_\_\_\_ day of \_\_\_\_\_, 2008.

Appointment No. 22586

STATE OF NEW YORK  
INSURANCE DEPARTMENT

I, Eric R. Dinallo, Acting Superintendent of Insurance of the State of New York,  
pursuant to the provisions of the Insurance Law, do hereby appoint:

**Adebola Awofeso**

*as proper person to examine into the affairs of the*

**NIPPONKOA INSURANCE COMPANY, LIMITED  
UNITED STATES BRANCH**

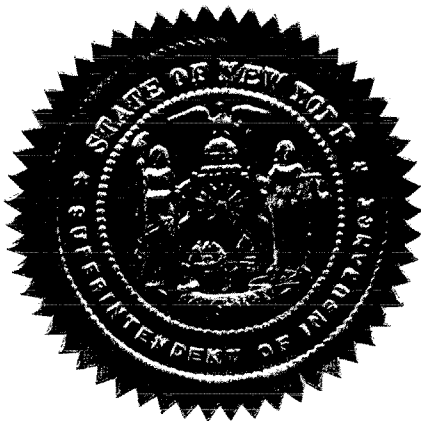
*and to make a report to me in writing of the condition of the said*

**Branch**

*with such other information as 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 22nd day of January, 2007*



ERIC R. DINALLO

Acting Superintendent of Insurance