

REPORT ON EXAMINATION

OF THE

NIPPONKOA INSURANCE COMPANY, LIMITED (U.S. BRANCH)

AS OF

DECEMBER 31, 2011

DATE OF REPORT

JANUARY 25, 2013

EXAMINER

SHEIK MOHAMED

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NEW YORK STATE
DEPARTMENT *of*
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Benjamin M. Lawsky
Superintendent

January 25, 2013

Honorable Benjamin M. Lawsky
Superintendent of Financial Services
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 30851 dated May 11, 2012, attached hereto, I have made an examination into the condition and affairs of the NIPPONKOA Insurance Company, Limited (U.S. Branch) as of December 31, 2011, and submit the following report thereon.

Wherever the designation “the Branch” appears herein without qualification, it should be understood to indicate the NIPPONKOA Insurance Company, Limited (U.S. Branch).

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

Whenever the terms “U.S. Manager” or “TM” appear in this report, they should be understood to indicate the Travelers Marine LLC.

Whenever the term “NKM” appears in this report, it should be understood to indicate the NIPPONKOA Management Corporation, an affiliate of the Branch and its Assistant U.S. Manager.

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 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 LLC, is the main provider of personnel and facilities for the operation of the Branch’s insurance business.

1. SCOPE OF EXAMINATION

The Department has performed an individual examination of the Branch, a multi-state insurer. The previous examination was conducted as of December 31, 2006. This examination covered the five-year period from January 1, 2007 through December 31, 2011. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

This examination was conducted in accordance with the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners Handbook (“Handbook”), which requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Branch by obtaining information about the Branch including corporate governance, identifying and assessing inherent risks within the Branch and evaluating system controls and procedures used to mitigate those risks. This examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management’s compliance with Statutory Accounting Principles, annual statement instructions and when applicable, to domestic state statutes.

All financially significant accounts and activities of the Branch were considered in accordance with the risk-focused examination process. The examiners also relied upon audit work performed by the Branch’s independent public accountants when appropriate.

This examination report includes a summary of significant findings for the following items as called for in the Handbook:

- Significant subsequent events
- Branch history
- Corporate records
- Management and control
- Fidelity bonds and other insurance
- Territory and plan of operation
- Growth of Branch
- 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 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 on May 17, 1973 and began business with a New York port of entry on July 1, 1973 as the United States Branch of The Nippon Fire & Marine Insurance Company Limited of Tokyo, Japan (“Nippon Fire”). 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 surviving company was changed to NIPPONKOA Insurance Company Limited (“NK-Tokyo”). Effective April 2002, Taiyo Fire & Marine merged with NK-Tokyo, with NK-Tokyo as the surviving entity.

Effective July 1, 2006, the Branch assumed all of the insurance obligations of the NIPPONKOA Insurance Company of America (“NKA”), a former affiliate, pursuant to a Transfer and Assumption Agreement. Pursuant to the agreement, NKA transferred assets to the Branch equal to the liabilities transferred; therefore, the transaction had no effect on the Branch’s surplus as regards policyholders.

Effective April 1, 2010, NK-Tokyo integrated with Sompo Japan Insurance Inc. (“Sompo-Japan”) by establishing NKSJ Holdings, Inc. (“NKSJ”) as a holding company and the two companies’ sole parent. Since Sompo-Japan is also part of the holding company system under NKSJ, Sompo-Japan’s subsidiaries in the United States are considered affiliates of the Branch.

Pursuant to a deed of trust, approved by the Department in January 2000, UFJ Trust Company of New York (“UFJ,” formerly known as Toyo Trust Company of New York) was appointed as United States trustee for the Branch. As the United States trustee, UFJ holds the Branch’s trusteed 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.

A. Management

Pursuant to a Power of Attorney executed by the Home Office in 1972, Travelers Marine LLC (“TM”), a Delaware management company having its corporate headquarters in Hartford, CT, acts as

the U.S. Manager for the Branch. TM is a wholly-owned subsidiary of The Travelers Indemnity Company (“TIC”). The Branch has a Management Agreement with TM, which provides that TM has the responsibility to act for and on behalf of the Branch in the transaction of its insurance and reinsurance business and has the authority to perform administrative, investment, underwriting, claims handling and management functions for the Branch. TM has no personnel or facilities of its own, but fulfills its obligations to the Branch through its parent, TIC. TIC is reimbursed for these services by way of a cost sharing agreement in place between TM and TIC

Additionally, the Branch has an Assistant U.S. Manager, NIPPONKOA Management Corporation, that provides certain services to the Branch pursuant to a Sub-Management Agreement. NIPPONKOA Management Corporation is an affiliate of the Branch.

Management of the Branch is vested in a board of directors consisting of not more than fifteen members of the U.S. Manager. At December 31, 2011, the board of directors was comprised of the following seven members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Scott C. Belden Hartford, CT	Senior Vice President – Reinsurance, The Travelers Indemnity Company
Michael J. Doody Hartford, CT	Second Vice President – Finance, The Travelers Indemnity Company
Bruce R. Jones Hartford, CT	Senior Vice President – Enterprise Management, The Travelers Indemnity Company
Michael F. Klein Hartford, CT	President – Middle Markets, The Travelers Indemnity Company
Paul S. Privitera Hartford, CT	Zone Vice President, The Travelers Indemnity Company
Scott W. Rynda St. Paul, MN	Senior Vice President – Corporate Tax, The Travelers Indemnity Company
Richard A. Waskiewicz Hartford, CT	Senior Vice President & Chief Underwriting Officer, The 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 Manager's 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.

In addition to the board of directors, the Branch's business functions are closely and frequently overseen by a Management Committee, which is comprised of various individuals that handle some of the Branch's key business functions. These individuals are from both its U.S. Manager and its Assistant U.S. Manager. The Branch Management Committee is structured appropriately to ensure the Branch is operating according to the direction of the Home Office in Japan and that the services provided by the U.S. Manager are in accordance with the Management Agreement. This management committee meets formally as a group approximately every six weeks.

As of December 31, 2011, the principal officers of the Branch were as follows:

<u>Name</u>	<u>Title</u>
Michael F. Klein	Chairman of the Board
Paul S. Privitera	President & Chief Executive Officer
Scott W. Rynda	Senior Vice President
Guy Graff	Vice President
Michael C. Hebert	Vice President & Chief Financial Officer
Mark J. Knudsen	Vice President, Legal – Canada
Cathleen C. Muller	Vice President & Chief Operating Officer
Paul E. Munson	Vice President, Finance & Assistant Treasurer
Alan T. Reynard	Vice President & Actuary
Maria Olivo	Treasurer
Robert S. Cohn	Secretary

B. Territory and Plan of Operation

As of December 31, 2011, the Branch was licensed to write business in forty-seven states, District of Columbia, and Puerto Rico. 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
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 trusted surplus in the amount of \$1,950,000.

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 Premiums</u>	<u>Premiums Written in New York State as a percentage of Total Premiums</u>
2007	\$6,024,910	\$27,426,146	21.97%
2008	\$5,361,713	\$25,150,517	21.32%
2009	\$4,838,433	\$25,834,929	18.73%
2010	\$5,453,053	\$26,052,078	20.93%
2011	\$4,845,967	\$34,379,755	14.10%

The majority of the Branch's direct and assumed premiums are comprised of insureds of the Home Office that have exposures in the United States. 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.

C. Reinsurance

Assumed reinsurance accounted for 52.2% of the Branch's gross premium written at December 31, 2011. The Branch's assumed reinsurance business has not changed significantly since the last examination. The Branch's assumed reinsurance program consists mainly of multi-line coverage assumed on a quota share basis, pursuant to the terms of treaty agreements.

Effective September 23, 2011, the Branch entered into a facultative reinsurance agreement with an affiliated company, Sompo Japan Insurance Company of America ("Sompo-America"). Pursuant to the general terms and conditions of the agreement, either party, as insurer, may offer to cede business to the other party as the reinsurer. The reinsurer, in its sole discretion, may accept or decline to reinsure such policy. This agreement was submitted to and non-disapproved by the Department in accordance with Article 15 of the New York Insurance Law.

Additionally, the Branch's participation in various mandated pools is reflected in its assumed reinsurance activity. The Branch utilizes reinsurance accounting as defined in Statement of Statutory Accounting Principle ("SSAP") No. 62 for all of its assumed reinsurance business.

Ceded Reinsurance

A summary of the Branch's ceded reinsurance program in effect at December 31, 2011, which consisted of two excess of loss treaty covers, is as follows:

<u>Type of Treaty</u>	<u>Cession</u>
Ocean marine excess of loss 100% authorized.	\$50 million in excess of \$500,000 ultimate net loss, each and every loss or series of losses arising from one event; subject to an annual aggregate limit of \$100 million.
Non-ocean marine excess of loss 100% authorized.	Section A - Business written by Travelers Indemnity Company and its affiliates: The amount of ultimate net loss in excess of \$500,000 ultimate net loss, each and every loss occurrence. Section B – Business other than business referred to in Section A: The amount of ultimate net loss in excess of \$500,000 ultimate net loss, each and every loss occurrence, subject to limits of: \$200 million, any one policy, for commercial property business;

Type of TreatyCession

\$100 million, any one occurrence, for surety business;
 \$400 million, any one occurrence, for non-marine
 and/or inland marine 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.

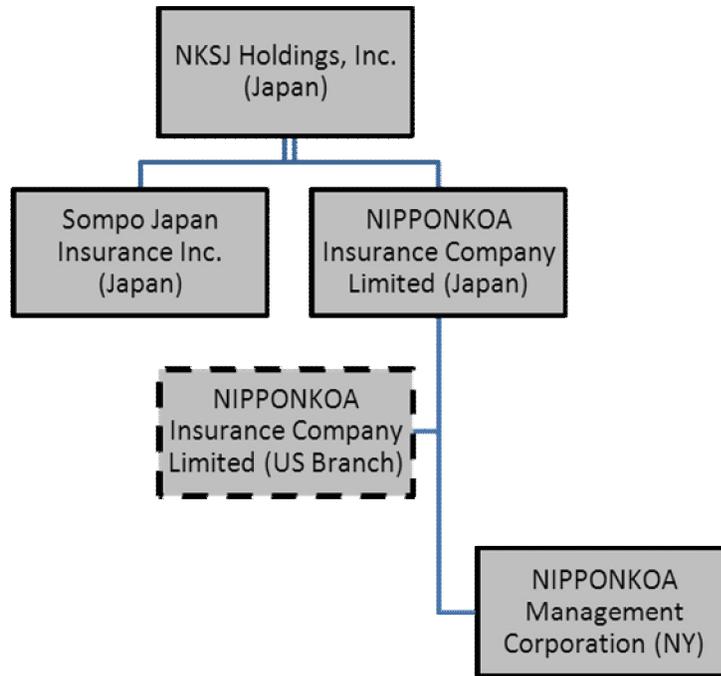
Examination review of the Schedule F data reported by the Branch in its filed annual statement was found to accurately reflect its reinsurance transactions. Additionally, management has represented that all material ceded reinsurance agreements transfer both underwriting and timing risk as set forth in SSAP No. 62. Representations were supported by appropriate risk transfer analyses and an attestation from the Branch's Chief Executive Officer pursuant to the NAIC Annual Statement Instructions. Additionally, examination review indicated that the Branch was not a party to any finite reinsurance agreements. All ceded reinsurance agreements were accounted for utilizing reinsurance accounting as set forth in SSAP No. 62R.

D. Holding Company System

The Branch is a member of a holding company system, which is ultimately controlled by NKSJ Holdings, Inc., a Japanese holding company. The Branch's Home Office, NIPPONKOA Insurance Company Limited, is a Japan domiciled insurer, which is wholly-owned by NKSJ Holdings, Inc.

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, 2011:



Sub-Management Agreement

Effective February 13, 1994, a sub-management agreement was entered into between the Branch, TM, as the Branch's U.S. Manager, and Nipponkoa Management Corporation ("NKM"). NKM, a subsidiary of the Home Office, 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"), a former affiliate, 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. The reappointment of NKM was done concurrent with the Transfer and Assumption Agreement between the Branch and NKA, pursuant to which, NKA became a clean shell for the purpose of being offered for sale.

This agreement and subsequent amendments were filed with and non-disapproved by the Department pursuant to Section 1505 of the New York Insurance Law.

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2011, based upon the results of this examination:

Net premiums written to surplus as regards policyholders	75%
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	65%
Premiums in course of collection to surplus as regards policyholders	7%

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	\$125,199,423	45.39%
Other underwriting expenses incurred	132,256,406	47.94%
Net underwriting gain	<u>18,398,149</u>	<u>6.67%</u>
Premiums earned	<u>\$275,853,978</u>	<u>100.00%</u>

3. FINANCIAL STATEMENTS

A Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2011 as determined by this examination and as reported by the Branch:

<u>Assets</u>	<u>Assets</u>	Assets Not <u>Admitted</u>	Net Admitted <u>Assets</u>
Bonds	\$211,378,516	\$ 0	\$211,378,516
Common stocks	293,897	0	293,897
Cash, cash equivalents and short-term investments	11,040,318	0	11,040,318
Investment income due and accrued	671,051	0	671,051
Uncollected premiums and agents' balances in the course of collection	6,249,360	86,860	6,162,500
Deferred premiums, agents' balances and installments booked but deferred and not yet due	10,892,654	0	10,892,654
Amounts recoverable from reinsurers	1,339,167	0	1,339,167
Net deferred tax asset	7,304,255	2,410,510	4,893,745
Guaranty funds receivable or on deposit	3,612	0	3,612
Receivables from parent, subsidiaries and affiliates	162,148	0	162,148
Assumed reinsurance receivable and payable	200,395		200,395
State surcharge receivable	122,722		122,722
Equities and deposits in pools and associations	<u>31,160</u>	<u>0</u>	<u>31,160</u>
Total assets	<u>\$249,689,255</u>	<u>\$2,497,370</u>	<u>\$247,191,885</u>

Liabilities, Surplus and Other Funds

<u>Liabilities</u>		<u>Examination</u>
Losses and loss adjustment expenses		\$121,180,038
Commissions payable, contingent commissions and other similar charges		1,205,116
Other expenses (excluding taxes, licenses and fees)		1,624,886
Taxes, licenses and fees (excluding federal and foreign income taxes)		307,176
Current federal and foreign income taxes		622,065
Unearned premiums		30,320,952
Amounts withheld or retained by company for account of others		226,307
Remittances and items not allocated		(56,242)
Provision for reinsurance		46,372
Due to unaffiliated companies		1,389,164
Escheat liability		<u>1,773</u>
Total liabilities		<u>\$156,867,606</u>
 <u>Surplus and Other Funds</u>		
Special surplus for deferred taxes	\$ 1,479,572	
Statutory deposits	1,000,000	
Unassigned funds (surplus)	<u>87,844,708</u>	
Surplus as regards policyholders		<u>\$ 90,324,280</u>
Total liabilities, surplus and other funds		<u>\$247,191,885</u>

Note: The Internal Revenue Service has not yet begun to audit tax returns covering tax years 2007 through 2011. 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

Surplus as regards policyholders increased \$32,481,941 during the five-year examination period January 1, 2007 through December 31, 2011, detailed as follows:

Underwriting Income

Premiums earned		\$275,853,978
Deductions:		
Losses and loss adjustment expenses incurred	\$125,199,423	
Other underwriting expenses incurred	<u>132,256,406</u>	
Total underwriting deductions		<u>257,455,829</u>
Net underwriting gain or (loss)		\$ 18,398,149

Investment Income

Net investment income earned	\$ 27,864,180	
Net realized capital gain	<u>397,082</u>	
Net investment gain or (loss)		28,261,262

Other Income

Net gain or (loss) from agents' or premium balances charged off	\$ 201	
Miscellaneous income	<u>(42,846)</u>	
Total other income		<u>(42,645)</u>

Net income before federal income taxes		\$ 46,616,766
Federal and foreign income taxes incurred		<u>(15,051,450)</u>
Net Income		\$ <u>31,565,316</u>

C Capital and Surplus Account

Surplus as regards policyholders per report on examination as of December 31, 2006			\$57,842,339
	Gains in <u>Surplus</u>	Losses in <u>Surplus</u>	
Net income	\$31,565,316		
Net unrealized capital gains or (losses)	16,708		
Change in net deferred income tax		\$ 1,007,935	
Change in nonadmitted assets	399,426		
Change in provision for reinsurance	28,851		
Aggregate write-ins for gains and losses in surplus	<u>1,479,575</u>	<u>0</u>	
Net increase (decrease) in surplus	<u>\$33,489,876</u>	\$ <u>1,007,935</u>	<u>\$32,481,941</u>
Surplus as regards policyholders per report on examination as of December 31, 2011			<u>\$90,324,280</u>

D. Trusteed Surplus Statement

The following statement shows the trustee surplus of the Branch calculated in accordance with Section 1312 of the New York Insurance Law and as determined by this examination. The examination trustee surplus of \$27,171,405 is the same as reported by the Branch in its filed Trusteed Surplus Statement for 2011.

Assets

Securities deposited with State Insurance Departments for the protection of all policyholders and creditors within the United States:		
Bonds	\$ 4,149,443	
Accrued interest	<u>19,565</u>	
Total deposits with State Officers		\$ 4,169,008
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	\$135,784,154	
Accrued interest	<u>516,879</u>	
Total vested in and held by United States Trustee		<u>\$136,301,033</u>
Total gross trustee assets		<u>\$140,470,041</u>
Total balance sheet liabilities		\$156,867,606
Deduction from liabilities:		
Reinsurance recoverable on paid losses and loss adjustment expenses	\$ 1,339,167	
Special state deposits	25,180,018	
Accrued interest on special state deposits	50,872	
Agents' balances or uncollected premiums not more than ninety days past due, not exceeding unearned premium reserves carried thereon	10,759,791	
Unpaid reinsurance premiums receivable, not exceeding losses and loss adjustment expenses due to reinsured	6,295,364	
Remittances and items not allocated	<u>(56,242)</u>	
Total deductions		<u>43,568,970</u>
Total adjusted liabilities		\$113,298,636
Trusteed surplus		<u>27,171,405</u>
Total liabilities and surplus		<u>\$140,470,041</u>

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of \$121,180,038 is the same as reported by the Branch as of December 31, 2011. 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. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

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

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Accounts and Records</u>	11

Reinsurance Recoverable

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

The Branch has complied with this recommendation.

6. SUMMARY OF COMMENTS AND RECOMMENDATIONS

This report contains no recommendations.

APPOINTMENT NO. 30851

NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

I, **BENJAMIN M. LAWSKY**, 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:

Sheik Mohamed

as a proper person to examine the affairs of the

NIPPONKOA INSURANCE COMPANY, LIMITED

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

COMPANY

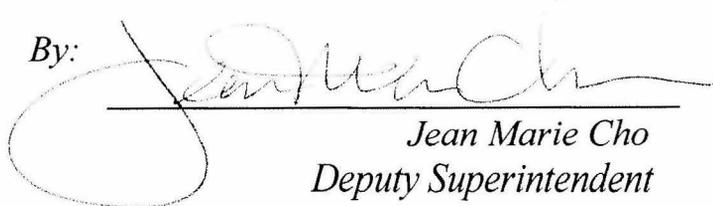
with such other information as he shall deem requisite.

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

this 11th day of May, 2012

BENJAMIN M. LAWSKY
Superintendent of Financial Services

By:



Jean Marie Cho
Deputy Superintendent

