

REPORT ON EXAMINATION

OF

TNUS INSURANCE COMPANY

AS OF

DECEMBER 31, 2014

DATE OF REPORT

APRIL 1, 2016

EXAMINER

KEVIN MCNAMEE

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NEW YORK STATE  
DEPARTMENT *of*  
FINANCIAL SERVICES

Andrew M. Cuomo  
Governor

Maria T. Vullo  
Superintendent

April 1, 2016

Honorable Maria T. Vullo  
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 31224 dated April 6, 2015, attached hereto, I have made an examination into the condition and affairs of TNUS Insurance Company as of December 31, 2014, and submit the following report thereon.

Wherever the designation “the Company” or (“TNUS”) appears herein without qualification, it should be understood to indicate TNUS Insurance Company.

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

The examination was conducted at the Company’s home office located at 230 Park Avenue, New York, NY 10169.

## 1. **SCOPE OF EXAMINATION**

The Department has performed a group examination of the Company, a multi-state insurer. The previous examination was conducted as of December 31, 2009. This examination covered the five year period from January 1, 2010 through December 31, 2014. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

The examination of the Company was performed concurrently with the examinations of the following insurers: Tokio Marine America Insurance Company (“TMAIC”) and Trans Pacific Insurance Company (“TPI”).

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 Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company and evaluating system controls and procedures used to mitigate those risks. This examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management’s compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All financially significant accounts and activities of the Company were considered in accordance with the risk-focused examination process. This examination also included a review and evaluation of the Company’s own control environment assessment. The Company utilizes a process used by its ultimate parent, Tokio Marine & Nichido Fire Insurance Co., Ltd, domiciled in Japan (“TMNF-Japan”). The process is known as “J-SOX” and is substantially similar to Sarbanes Oxley. The examiners also relied upon audit work performed by the Company’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
- Company history
- Corporate records
- Management and control

Fidelity bonds and other insurance  
Territory and plan of operation  
Growth of Company  
Loss experience  
Reinsurance  
Accounts and records  
Financial statements  
Summary of recommendations

A review was also made to ascertain the action 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 that involve departures from laws, regulations, rules or that are deemed to require explanation or description.

## **2. DESCRIPTION OF COMPANY**

TNUS is a wholly owned subsidiary of Tokio Marine North America, Inc. ("TMNA"). The Company commenced business on September 4, 1975, as the United States Branch of the Nichido Fire & Marine Insurance Company, Limited of Tokyo, Japan ("Nichido"). In October 2004, Nichido merged with the Tokio Marine and Fire Insurance Company, Limited of Tokyo, Japan and the surviving entity was named Tokio Marine & Nichido Fire Insurance Co., Ltd. of Tokyo, Japan. Effective February 11, 2004, TNUS was formed as the vehicle for the domestication of Nichido and the domestication was finalized on July 1, 2004. TNUS was a wholly-owned subsidiary of TMNF –Japan until November 30, 2012 when TMNF-Japan contributed the shares of TNUS to TMNA. Since the domestication, TNUS has been managed by Tokio Marine Management, Inc. ("TMM"), a U.S. affiliate. Subsequently, effective December 31, 2015, the common stock of TNUS and TMM was contributed to TMAIC by TMNA.

The Company's capital paid in is \$5,000,000 consisting of 500,000 shares of common stock at \$10 par value per share. Gross paid in and contributed surplus of \$4,900,000 remained unchanged during the examination period.

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 seven nor more than thirteen members. Corporate governance is performed at two levels. At a group level, TMM conducts quarterly and annual meetings where the affairs of the Company are discussed. The majority of discussions regarding the Company are held at this level. Corporate governance is also performed at the individual entity level. However, most of the board meetings are conducted by unanimous written consent. As noted in the by-laws, there is no requirement for the board of directors to physically meet.

As of December 31, 2014, the board of directors was comprised of the following seven members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Ann Ginn Summit, NJ	Senior Vice President - Underwriting, Tokio Marine Management, Inc.
B. Steven Goldstein New York, NY	Executive Vice President & General Counsel, Tokio Marine Management, Inc.
David Gottschall Tarrytown, NY	Senior Vice President and Chief Quality Officer, Tokio Marine Management, Inc.
Shigeo Kuwabara Eastchester, NY	Senior Vice President and Chief Information Officer, Tokio Marine Management, Inc.
Adam LaPierre Simi Valley, CA	Senior Vice President, Tokio Marine Management, Inc.
Satoru Teramoto Harrison, NY	Corporate Liaison, Tokio Marine Management, Inc.
Koki Umeda New York, NY	President Tokio Marine Management, Inc.

A review of the minutes of the board of directors' meetings held during the examination period indicated that the meetings were generally well attended and each board member had an acceptable record of attendance.

As of December 31, 2014, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Koki Umeda	President
Karen Gilmer-Pauciello	Chief Financial Officer
Edward Sayago	Secretary
Arlene Mahmoud	Treasurer

B. Territory and Plan of Operation

As of December 31, 2014, TNUS was licensed to write insurance business in the District of Columbia and all states except Maine, North Carolina and Wyoming. The company is licensed as a reinsurer in Wyoming. As of the examination date, the Company was authorized to transact the kinds of insurance as defined in the following numbered paragraphs of Section 1113(a) of the New York Insurance Law:

<u>Paragraph</u>	<u>Line of Business</u>
3	Accident and health
4	Fire
5	Miscellaneous property damage
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	Worker's compensation and employer's liability
16	Fidelity and surety
17	Credit
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine
21	Marine protection and indemnity

Based upon the line of business for which TNUS is licensed, current capital structure and pursuant to the requirements of Articles 13, 41 and 63 of the New York Insurance Law, the Company is required to maintain a minimum surplus to policyholders in the amount of \$4,300,000 and minimal capital of \$1 million.

Prior to December 31, 2009, assumed reinsurance accounted for 100% of the Company's gross premium written. The Company assumed business under a 40% quota share agreement with the United States Branch of Tokio Marine & Nichido Fire Insurance Co., Ltd. of Tokyo, Japan, an affiliate, on all business produced by a specific producer, the National Specialty Underwriters. Subsequently this quota share agreement was commuted effective January 1, 2010.

Effective in 2010, TNUS commenced writing direct business. The Company primarily underwrites workers' compensation and commercial property products at preferred rates. TNUS is also authorized to transact such workers' compensation insurance under paragraphs 20 and 21 of Section 1113(a), including insurance described in the longshoremen's and Harbor Workers' Compensation Act (Public Law No.803, 69 Cong, as amended; 33 USC Section 901 et seq. as amended), and as authorized by section 4102(c), insurance of every kind or description outside of the United States and reinsurance of every kind or description. The Company was also licensed to do within New York State, the business of Special Risk Insurance pursuant of Article 63 of the New York Insurance Law.

The total direct premium written in 2014 was \$12,971,172. Premiums are generated mostly from Workers' compensation \$8,177,053 (63.0%), Commercial multiple peril \$3,198,283 (24.7%), Other liability-occurrence \$568,125 (4.4 %) and Commercial auto liability \$554,121 (4.3%).

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

<u>Calendar Year</u>	<u>New York State</u>	<u>Total United States</u>	<u>Percentage of Premiums Written in New York</u>
2010	\$447,302	\$4,749,782	9.41 %
2011	\$817,562	\$7,923,173	10.32 %
2012	\$68,437	\$11,182,207	0.61 %
2013	\$884,053	\$15,039,286	5.88 %
2014	\$936,756	\$12,971,172	7.22 %

In terms of direct premium written, the Company's predominant territory market share of business is in California \$4,053,214 (31.25%), Illinois \$1,762,314 (13.59%), Georgia \$1,306,827 (10.07%) and New Jersey \$1,013,685 (7.8%). The Company markets its business as a direct writer through a network of appointed agents and brokers.

C. Reinsurance

Assumed

Assumed reinsurance accounted for 47.5% of the Company's gross premium written as of December 31, 2014. During the period covered by this examination, the Company's assumed reinsurance business has decreased since the last examination. The Company's assumed reinsurance program consists mainly of multi-line coverage assumed on a quota share basis, pursuant to the terms of treaty agreements with affiliated authorized ceding insurers. Additionally, the Company's participation in various mandated pools is reflected in its assumed reinsurance activity. The Company utilizes reinsurance accounting as defined in Statement of Statutory Accounting Principle ("SSAP") No. 62 for all of its assumed reinsurance business.

The Company has structured its ceded reinsurance program as follows:

<u>Type of Treaty</u>	<u>Cession</u>
*Property Per Risk Excess of Loss 3 layers	90% of \$95,000,000 in excess of \$5,000,000 in respect of each loss and each risk
Casualty Excess of Loss 2 layers 1 <sup>st</sup> layer-87.5% placed 2 <sup>nd</sup> layer 65.% placed	\$27,000,000 in excess of \$3,000,000 per occurrence; each layer subject to a maximum limit liability of \$9,000,000 first layer and \$18,000,000 second layer
*Catastrophe Excess of Loss	88% of \$75,000,000 in excess of \$50,000,000 each loss occurrence subject to a limit liability of \$75,000,000 each loss occurrence
Non-Obligatory Quota Share Boiler and Machinery/Equipment Breakdown	50-100% Quota Share covering risks related to Boiler and Machinery/Equipment of highly protected risks and large property business
Non-Obligatory Quota Share Boiler and Machinery/Equipment Breakdown	50-100% Quota Share covering risks related to Boiler and Machinery/Equipment, middle market only
Facultative Non-Obligatory Quota Share Boiler and Machinery/Equipment	100% Quota Share covering business related to Boiler and Machinery/Equipment of both middle-market and highly protected and large property risks

\* TMNF-Japan is the largest participant on these treaties covering property, catastrophe and ocean marine risks.

In addition to the above, effective January 1, 2014, the Company entered into an excess of loss reinsurance agreement with its parent company, TMNF-Japan, which provides coverage for a portion of the Company's liability related to all property risks accepted by TNUS either by fronting or by facultative reinsurance. The reinsurer's liability under this contract shall not exceed \$160,000,000 in excess of \$100,000,000 with respect to each loss on any one risk. This agreement was not disapproved by the Department according to Article 1505 of the NYIL.

As of December 31, 2014, the Company was also party to a facultative reinsurance agreement with its parent company, TMNF-Japan. Under the terms of this agreement, the Company may cede to TMNF-Japan and TMNF-Japan shall obligatorily accept and provide reinsurance on policies written and issued by the Company in the United States and its territories. This agreement covers property, casualty and marine business.

The Company participates in a quota share agreement with Tokio Marine America Insurance Co. (TMAIC), whereby the Company agrees to cede and TMAIC agrees to assume 100% of the Company's premiums written and losses and loss adjustment expenses incurred, net of all other reinsurance. This agreement covers 100% of the Company's unallocated loss adjustment expenses, including management fee.

During the period covered by this examination, the Company commuted various reinsurance agreements where it is was a ceding reinsurer. These commutations resulted in gains to the Company's surplus position.

All significant 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.

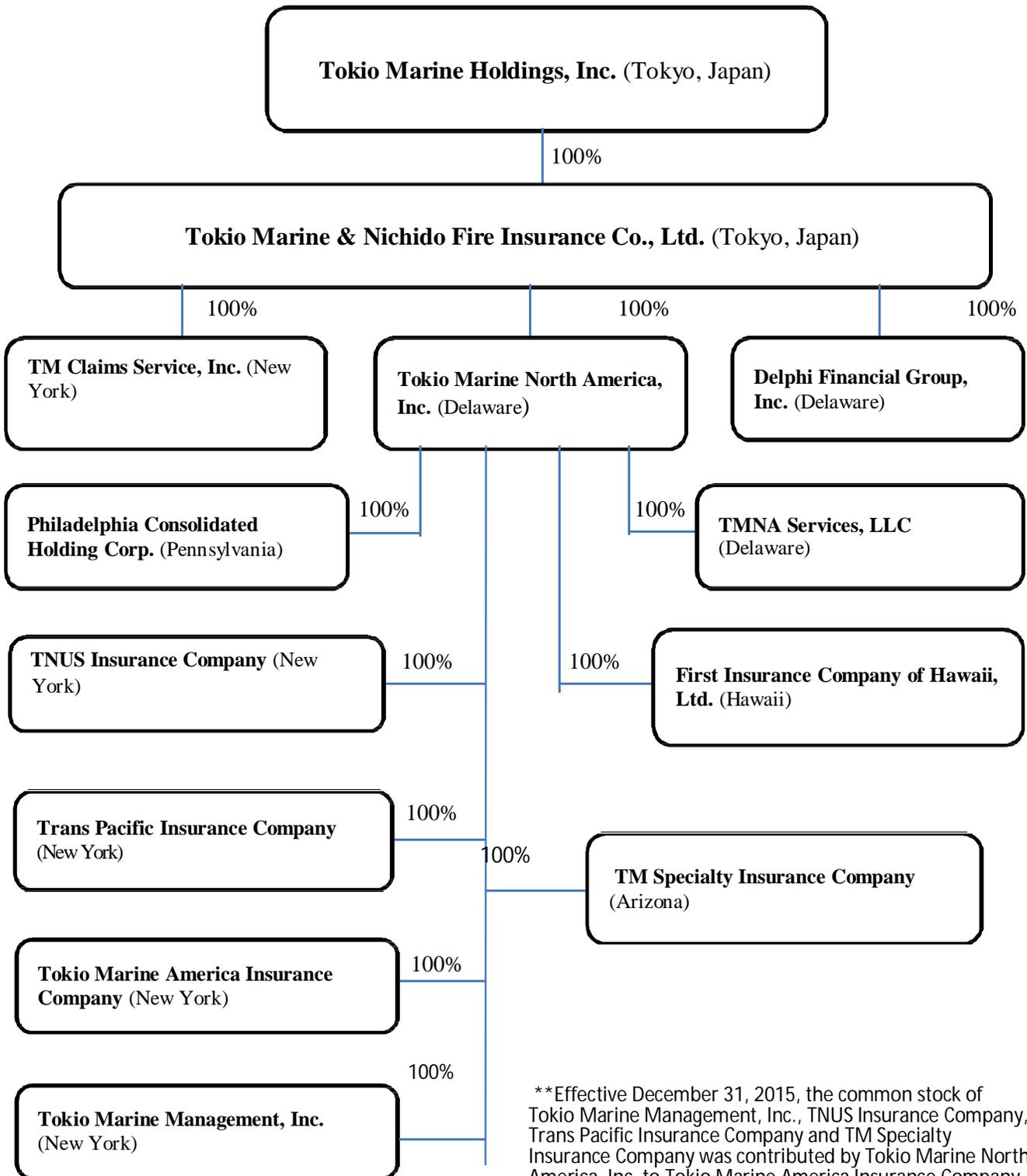
The majority of the business was ceded to authorized and affiliated reinsurers. Reinsurance agreements with affiliates were reviewed for compliance with Article 15 of the New York Insurance Law. It was noted that all affiliated reinsurance agreements were filed with the Department pursuant to the provisions of Section 1505(d)(2) of the New York Insurance Law.

Examination review found that the Schedule F data reported by the Company in its filed annual statement accurately reflected 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 an attestation from the Company's Chief Executive Officer and Chief Financial Officer pursuant to the NAIC Annual Statement Instructions. Additionally, examination review indicated that the Company 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. 62.

D.  Holding Company System

TNUS Insurance Company is a member of the Tokio Marine Holdings Group. The Company is 100% wholly-owned subsidiary of Tokio Marine North America, Inc., an insurance holding company domiciled in the state of Delaware that is a wholly-owned subsidiary of Tokio Marine & Nichido Fire Insurance Co. Ltd., an insurance company domiciled in Japan which is ultimately controlled by Tokio Marine Holdings, Inc., an insurance holding company organized under the Companies Act of Japan and publicly trading on the Tokyo Stock Exchange and the Osaka Securities Exchange.

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, 2014:



\*\*Effective December 31, 2015, the common stock of Tokio Marine Management, Inc., TNUS Insurance Company, Trans Pacific Insurance Company and TM Specialty Insurance Company was contributed by Tokio Marine North America, Inc. to Tokio Marine America Insurance Company.

As of December 31, 2014, the Company was party to the following agreements with other members of its holding company system:

#### Service Agreement

Effective February 26, 2013, the Company entered into a Service Agreement with TMNA Services, LLC, to provide for certain services such as accounting, human resources, legal, investment, actuarial, enterprise risk management, and information technology to the Company.

#### Management Agreement

Effective February 26, 2013, the Company entered into a Management Agreement with Tokio Marine Management, Inc. under which the Manager will provide certain management services in respect to the Company's business in the United States such as claims, underwriting, policyholder services, producer management, collection and handling of premium and other funds, reinsurance, marketing support, product development, administration and facilities.

#### Tax Allocation Agreement

Effective December 1, 2012, the Company entered into an intercompany tax allocation agreement. The terms of the agreement name Tokio Marine North America, Inc. ("TMNA") as the parent for the Group Companies. The parties to the agreement agree that TMNA shall file a consolidated federal income tax return on behalf of the Group Companies. The parties include: TMNA, TMAIC, TMM, TPI, TM Specialty Insurance Company and TNUS.

#### Capital Support Agreement

Effective January 1, 2014, TMNF-Japan entered into a capital support agreement with TMAIC, TPI, TMS and TNUS. The agreement states that TMNF-Japan will provide certain support to the companies to maintain their respective financial strength ratings.

All agreements subject to Departmental approval or non-disapproval were filed pursuant to Section 1505 of the New York Insurance Law.

E. Significant Operating Ratios

The following IRIS ratios were computed as of December 31, 2014:

Liabilities to liquid assets (cash and invested assets less investments in affiliates)	26%
Premiums in course of collection to surplus as regards policyholders	9%

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

The underwriting ratios were not calculated because the Company cedes 100% of its net business to its affiliate, TMAIC; therefore these ratios are not relevant.

### 3. FINANCIAL STATEMENTS

#### A Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2014 as reported by the Company:

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$50,861,008	\$ 0	\$50,861,008
Cash, cash equivalents and short-term investments	1,274,660	0	1,274,660
Investment income due and accrued	368,650	0	368,650
Uncollected premiums and agents' balances in the course of collection	5,615,369	827,077	4,788,292
Deferred premiums, agents' balances and installments booked but deferred and not yet due	3,525,542	24,971	3,500,571
Accrued retrospective premiums	701,935	70,194	631,741
Amounts recoverable from reinsurers	6,687,731	0	6,687,731
Net deferred tax asset	332,714	0	332,714
Receivables from parent, subsidiaries and affiliates	286,042	0	286,042
Other assets	<u>76,996</u>	<u>0</u>	<u>76,996</u>
Totals	<u>\$69,730,647</u>	<u>\$922,242</u>	<u>\$68,808,405</u>

Liabilities, surplus and other funds

Losses and loss adjustment expenses	\$ 1,401,000
Reinsurance payable on paid losses and loss adjustment expenses	5,929,019
Commissions payable, contingent commissions and other similar charges	9,974
Other expenses (excluding taxes, licenses and fees)	42,577
Taxes, licenses and fees (excluding federal and foreign income taxes)	36,073
Current federal and foreign income taxes	82,271
Ceded reinsurance premiums payable (net of ceding commissions)	5,190,227
Provision for reinsurance	2,256,193
Drafts outstanding	122,720
Payable to parent, subsidiaries and affiliates	1,305,475
Miscellaneous liabilities	<u>706,060</u>
Total liabilities	<u>\$17,081,589</u>

Surplus and Other Funds

Common capital stock	\$5,000,000
Gross paid in and contributed surplus	\$4,900,000
Unassigned funds (surplus)	<u>41,826,816</u>
Surplus as regards policyholders	<u>\$51,726,816</u>
Total liabilities, surplus and other funds	<u>\$68,808,405</u>

Note: No Internal Revenue Service (“IRS”) audits have been performed for TNUS Insurance Company. The examiner is unaware of any potential exposure of the Company to any tax assessment and no liability has been established herein relative to such contingency.

B. Statement of Income

The net income for the examination period was \$6,344,547 as detailed as follows:

Underwriting Income

Premiums earned		\$0
Deductions:		
Losses and loss adjustment expenses incurred	\$2,703,146	
Other underwriting expenses incurred	<u>(2,724,008)</u>	
Total underwriting deductions		<u>(20,862)</u>
Net underwriting gain or (loss)		\$20,862

Investment Income

Net investment income earned	\$7,068,390	
Net realized capital gain	<u>523,291</u>	
Net investment gain or (loss)		\$7,591,681

Other Income

Fines and penalties	(21,348)	
Miscellaneous income (loss)	<u>(3,423)</u>	
Total other income		<u>(\$24,771)</u>
Net income before federal and foreign income taxes		\$7,587,772
Federal and foreign income taxes incurred		<u>1,243,225</u>
Net Income		<u>\$6,344,547</u>

C. Capital and Surplus account

Surplus as regards policyholders increased \$3,498,825 during the five-year examination period January 1, 2010 through December 31, 2014, detailed as follows:

Surplus as regards policyholders per report on examination as of December 31, 2009			\$48,227,991
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income	\$6,344,547		
Change in net deferred income tax		957,513	
Change in non-admitted assets	367,984		
Change in provision for reinsurance	<u>0</u>	<u>2,256,193</u>	
Total gains and losses	<u>\$6,712,531</u>	<u>\$3,213,706</u>	
Net increase (decrease) in surplus			<u>3,498,825</u>
Surplus as regards policyholders per report on examination as of December 31, 2014			<u>\$51,726,816</u>

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

The examination liability for the captioned items of \$1,401,000 is the same as reported by the Company as of December 31, 2014. The examination analysis of the Loss and loss adjustment expense reserves was conducted in accordance with generally accepted actuarial principles and statutory accounting principles, including the NAIC Accounting Practices & Procedures Manual, Statement of Statutory Accounting Principle No. 55 (“SSAP No. 55”).

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

The prior report on examination contained 2 recommendations as follows (page numbers refer to the prior report):

<u>ITEM</u>	<u>PAGE NO.</u>
A <u>Management</u>	
It was recommended that the Company make a more diligent effort to obtain signed conflict of interest statements.	5
It is additionally recommended that the Company obtain a signed conflict of interest statements from all directors and officers at the time they are hired and/or elected.	5
The Company has complied with these recommendations.	

#### 6. **SUMMARY OF COMMENTS AND RECOMMENDATIONS**

This report contains no comments or recommendations

Respectfully submitted,

\_\_\_\_\_/s/\_\_\_\_\_  
Kevin McNamee  
Senior Insurance Examiner

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

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

\_\_\_\_\_/s/\_\_\_\_\_  
Kevin McNamee

Subscribed and sworn to before me

this \_\_\_\_\_ day of \_\_\_\_\_, 2016.

**APPOINTMENT NO. 31224**

**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:

**Kevin McNamee**

as a proper person to examine the affairs of the

**TNUS Insurance Company**

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

**COMPANY**

with such other information as he shall deem requisite.

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

this 6th day of April, 2015

**BENJAMIN M. LAWSKY**  
Superintendent of Financial Services



By:

Rolf Kaumann  
Deputy Chief Examiner