

REPORT ON EXAMINATION

OF THE

AIOI NISSAY DOWA INSURANCE COMPANY OF AMERICA

AS OF

DECEMBER 31, 2012

DATE OF REPORT

DECEMBER 2, 2013

EXAMINER

NEAL RISCHALL

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NEW YORK STATE  
DEPARTMENT *of*  
FINANCIAL SERVICES

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Andrew M. Cuomo  
Governor

Benjamin M. Lawsky  
Superintendent

December 2, 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 30720 dated May 27, 2013, attached hereto, I have made an examination into the condition and affairs of Aioi Nissay Dowa Insurance Company of America as of December 31, 2012, and submit the following report thereon.

Wherever the designation "the Company" appears herein without qualification, it should be understood to indicate Aioi Nissay Dowa Insurance Company of America.

Wherever the term "the 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 475 North Martingale Road, Suite 330, Schaumburg, IL 60173.

## 1. SCOPE OF EXAMINATION

The Department has performed an individual examination of the Company, a multi-state insurer. The previous examination was conducted as of December 31, 2007. This examination covered the five year period from January 1, 2008 through December 31, 2012. 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 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. In addition, reliance was placed 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
- Statutory deposits
- Financial statements
- Summary of recommendations

A review was also made of the prior report on examination to ascertain what action was taken by the Company with regard to comments and recommendations. The prior report on examination did not contain any comments or recommendations that required follow up.

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 COMPANY**

The Company was formed as the Chiyoda Fire & Marine Insurance Company, Limited (United States Branch) and was admitted to the State of New York on October 18, 1977 and commenced writing business in 1978. Effective January 1, 1995, the Company converted to a domestic insurer. The domestic stock insurer became known as the Chiyoda Fire & Marine Insurance Company of America and assumed all the assets, liabilities and business operations of its predecessor. In August 2001, the Company's Articles of Incorporation were amended to change its name to Aioi Insurance Company of America.

In 2009, a merger and alliance ("Merger") between Mitsui Sumitomo Insurance Group Holdings, Inc. ("Holdings Japan"), Aioi Insurance Company, Limited ("Aioi Japan") and Nissay Dowa General Insurance Co., Ltd. ("Nissay Dowa Japan"), all of them Japanese corporations, was announced. Effective April 1, 2010, the Merger was implemented following a Share Exchange Agreement previously executed by the parties pursuant to the Japanese Corporation Law. Holdings Japan was the surviving entity on merger and its name was changed to MS & AD Insurance Group Holdings, Inc. effective that same date. Subsequent to the Merger, Nissay Dowa Japan merged with and into Aioi Japan on October 1, 2010. Aioi Japan was the surviving entity on merger with Nissay Dowa Japan and was renamed Aioi Nissay Dowa Insurance Company, Limited, also effective October 1, 2010. Holdings Japan, renamed as MS & AD Insurance Group Holdings, Inc., is the ultimate parent of both Mitsui Sumitomo Insurance Company, Limited and Aioi Japan.

Immediately following the merger of Aioi Japan and Nissay Dowa Japan on October 1, 2010, all the business assets and liabilities of Nissay Dowa General Insurance Company, Ltd. (United States Branch), were transferred to, and assumed by, the Company pursuant to the terms of a Transfer and Assumption Agreement. Concurrently, the Company changed its name to Aioi Nissay Dowa Insurance Company of America, and Nissay Dowa General Insurance Company, Ltd. (United States

Branch), withdrew from the State of New York. Holdings Japan has been engaged in an effort to integrate various Aioi Japan subsidiary operations worldwide with Holdings Japan's operations.

As part of the integration process, effective January 1, 2013, the Company was repositioned within MS & AD Insurance Group as a wholly-owned subsidiary of MSIG Holdings, Inc., a New York Corporation (MSIGH). Also effective January 1, 2013 as part of this repositioning, Aioi Japan acquired a 9% ownership interest in MSIGH, such that MSIGH now has two shareholders, Mitsui Sumitomo Insurance Company, Limited as majority shareholder (with approximately 91% ownership interest) and Aioi Japan as minority shareholder (with approximately 9% ownership interest), with Holdings Japan remaining as the ultimate parent company of all these enterprises. Consistent with its overall plan to streamline operations and reduce support costs, on April 2, 2013 the Company began to transfer its ocean marine business from Navigators Management Company, Inc. to Mitsui Sumitomo Marine Management (U.S.A.), Inc. (MSMM), affiliate manager of the Company. As part of this repositioning, the Company is undergoing operational changes to centralize operations under MSMM.

At December 31, 2012, capital paid in was \$5,000,000 consisting of 50,000 shares of common stock at \$100 par value per share. All shares were held by the parent, Aioi Japan. As of January 1, 2013, all 50,000 outstanding shares owned by Aioi Japan were contributed to the capital of MSIGH. Gross paid in and contributed surplus is \$28,281,547. Gross paid in and contributed surplus increased by \$18,281,547 during the examination period as a result of the Transfer and Assumption Agreement with Nissay Dowa General Insurance Company, Ltd. (U.S. Branch).

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 eighteen members. At December 31, 2012, the board of directors was comprised of the following thirteen members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Yoshitaka Asano Palatine, IL	President & Chief Executive Officer, Aioi Nissay Dowa Insurance Company of America
Peter P. Conway University Park, FL	Retired

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Robert F. Denny Marco Island, FL	Retired
Robert J. Hildebrand Wheaton, IL	Director, Robert W. Baird & Co. Incorporated
Yoshiki Isono New York, NY	Director, NY Branch Manager, Aioi Nissay Dowa Insurance Company of America
Toshiaki Koga Clarendon Hills, IL	Director, Personal Lines Business, Aioi Nissay Dowa Insurance Company of America
Nobuo Kobayashi Japan	Officer, Aioi Nissay Dowa Japan
Harry C. Meyer Bonita Springs, FL	Retired
Kazuyuki Miyata Arlington Heights, IL	Treasurer & Senior Vice President, Aioi Nissay Dowa Insurance Company of America
Frank H. Reis Naples, FL	Retired
Mathew S. Rubin Great Neck, NY	Assistant Controller, EmblemHealth
Makoto Suzuki Japan	General Manager, Aioi Nissay Dowa Japan
Robert M. Weber South Salem, NY	Partner, Wilson Elsner

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 has an acceptable record of attendance.

As of December 31, 2012, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Yoshitaka Asano	President & Chief Executive Officer
Kazuyuki Miyata	Senior Vice President & Treasurer
David C. Elstrom	Vice President & Controller
Mikitomo Ushijima	Vice President & Secretary

B. Territory and Plan of Operation

As of December 31, 2012, the Company was licensed to write business in thirty-seven states and the District of Columbia.

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

<u>Paragraph</u>	<u>Line of Business</u>
3	Accident & health
4	Fire
5	Miscellaneous property
6	Water damage
7	Burglary and theft
8	Glass
9	Boiler and machinery
10	Elevator
11	Animal
12	Collision
13	Personal injury liability
14	Property damage liability
15	Workers' compensation and employers' liability
16	Fidelity and surety
17	Credit
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine
21	Marine protection and indemnity

In addition, the Company is licensed to transact such workers' compensation insurance as may be incidental to coverages contemplated under Paragraphs 20 and 21 of Section 1113(a) of the New York Insurance Law, including insurances 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) of the New York Insurance Law, insurance of every kind or description outside of the United States and reinsurance of every kind or description.

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 \$35,000,000.

Assumed reinsurance accounted for 97 percent of the Company's gross premiums written in 2012. Business assumed by the Company consists primarily of workers' compensation, commercial multiple peril, general liability, allied lines, and commercial automobile business. Direct business written by the Company consists primarily of ocean marine business underwritten by Navigators Management Inc. All insureds are the Japanese clients of its parent company that are doing business in the United States. The following schedule shows the gross premiums written by the Company for the period under examination:

	<u>Total Gross Premiums</u> <u>Written</u>
2008	\$28,619,235
2009	\$25,893,052
2010	\$28,705,043
2011	\$38,868,565
2012	\$44,036,280

C. Reinsurance

The Company's assumed reinsurance business has increased 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 facultative and treaty agreements with authorized cedants. The majority of the Company's assumed business is assumed from the Chubb Insurance Group ("Chubb"). All business fronted by Chubb consists of Multinational clients of the Company's parent, Aioi Japan, doing business in the United States. Aioi Japan guarantees past, current, and future obligations of the Company in the event the Company fails to perform or is unable to perform its obligations in accordance with the terms of the operating and reinsurance agreement with Chubb. The Company utilizes reinsurance accounting as defined in Statement of Statutory Accounting Principle ("SSAP") No. 62R for all of its assumed reinsurance business.

The majority of the Company's ceded reinsurance contracts at December 31, 2012 are with its parent, Aioi Japan, an accredited reinsurer. The Company has structured its ceded reinsurance program as follows:

Type of ContractCessionCommercial LinesWorkers' Compensation

50% Quota Share

100% Authorized

50% of the Company's net liability on all business subject to a limit of 50% of \$100,000,000 any one occurrence.

First excess of loss

100% Authorized

\$3,850,000 excess of \$150,000 per risk per loss.

Second excess of loss

100% Authorized

\$10,000,000 excess of \$4,000,000 per risk per loss.

Third excess of loss

100% Authorized

\$36,000,000 excess of \$14,000,000 per risk per loss.

Marine Cargo

First excess of loss

100% Authorized

\$1,718,000 excess of \$100,000 per risk per loss.

Second excess of loss

100% Authorized

\$78,182,000 excess of \$1,818,000 per risk per loss.

Property

First excess of loss

100% Authorized

\$4,400,000 excess of \$150,000 per risk per loss.

Second excess of loss

100% Authorized

\$95,450,000 excess of \$4,550,000 per risk per loss.

Casualty

First excess of loss

100% Authorized

\$850,000 excess of \$150,000 per event.

Second excess of loss

100% Authorized

\$5,000,000 excess of \$1,000,000 per event.

Third excess of loss

100% Authorized

\$6,000,000 excess of \$6,000,000 per event.

Personal LinesProperty

First excess of loss

100% Authorized

\$2,850,000 excess of \$150,000 per risk per loss.

Casualty

First excess of loss

100% Authorized

\$850,000 excess of \$150,000 per event.

<u>Type of Contract</u>	<u>Cession</u>
Second excess of loss 100% Authorized	\$2,000,000 excess of \$1,000,000 per event.

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 and non-disapproved by the Department pursuant to the provisions of Section 1505(d)(2) of the New York Insurance Law.

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.

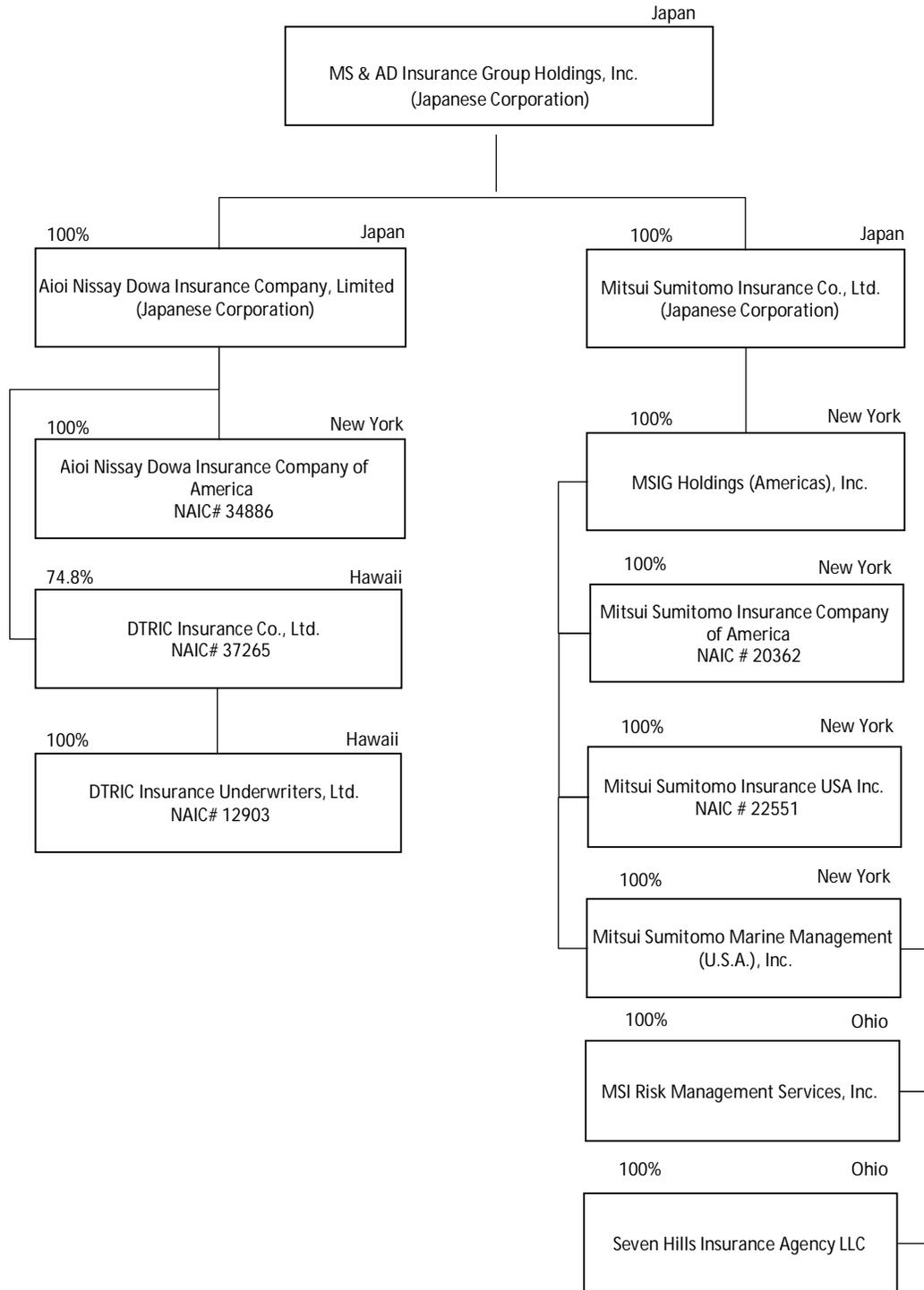
Examination review of the Schedule F data reported by the Company in its filed annual statement was found to accurately reflect its reinsurance transactions. Additionally, management has represented that all material ceded reinsurance agreements transfer both underwriting and timing risk as set forth in SSAP No. 62R. Representations were supported by appropriate risk transfer analyses and an attestation from the Company's Chief Executive 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. 62R.

D. Holding Company System

As of December 31, 2012, Aioi Nissay Dowa Insurance Company of America is 100% owned by Aioi Nissay Dowa Insurance Company, Limited, Japan, which is ultimately controlled by MS & AD Insurance Group Holdings, Inc., both of them Japanese corporations.

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 abbreviated chart of the holding company system at December 31, 2012:



At December 31, 2012, the Company was party to the following agreements with other members of its holding company system:

Secondment Agreement

Effective January 1, 2006, the Company entered into a secondment agreement with its parent, Aioi Japan. In accordance with the terms of the agreement, the Company has agreed to provide certain services beneficial to the parent, and the Company has agreed that the services will be performed by employees who are seconded from the parent to the Company to assist in executing the Company's business. The parties agree to share costs and expenses based upon the time records of the assigned employees or such basis as permitted under Department Regulation No. 30. This agreement was filed with and non-disapproved by the Department pursuant to Section 1505 of the New York Insurance Law.

Cost Allocation Agreement

Effective January 1, 2006, the Company entered into a cost allocation agreement with its parent, Aioi Japan. In accordance with the terms of the agreement, the Company has agreed to provide beneficial services, unrelated to the business of insurance, to the parent involving personnel and other capabilities operating from the Company's offices in the United States. This agreement was 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, 2012, based upon the results of this examination:

Net premiums written to surplus as regards policyholders	53%
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	50%
Premiums in course of collection to surplus as regards policyholders	6%

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	\$ 53,527,678	50.69%
Other underwriting expenses incurred	53,931,026	51.07
Net underwriting loss	<u>(1,857,915)</u>	<u>(1.76)</u>
Premiums earned	<u>\$105,600,789</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, 2012 as determined by this examination and as reported by the Company:

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$ 68,212,425	\$ 0	\$ 68,212,425
Cash, cash equivalents and short-term investments	21,544,448		21,544,448
Investment income due and accrued	670,850		670,850
Uncollected premiums and agents' balances in the course of collection	3,073,201		3,073,201
Deferred premiums, agents' balances and installments booked but deferred and not yet due	2,484,370		2,484,370
Amounts recoverable from reinsurers	2,642,334		2,642,334
Funds held by or deposited with reinsured companies	16,835		16,835
Net deferred tax asset	2,511,294	874,662	1,636,632
Electronic data processing equipment and software	199,664	199,664	0
Furniture and equipment	49,133	49,133	0
Aggregate write-ins for other than invested assets	<u>153,480</u>	<u>67,998</u>	<u>85,482</u>
Total assets	<u>\$101,558,034</u>	<u>\$1,191,457</u>	<u>\$100,366,577</u>

Liabilities, surplus and other fundsLiabilities

Losses and loss adjustment expenses	\$ 24,449,319
Reinsurance payable on paid losses and loss adjustment expenses	2,770,345
Other expenses (excluding taxes, licenses and fees)	492,558
Taxes, licenses and fees (excluding federal and foreign income taxes)	5,156
Current federal and foreign income taxes	596,303
Unearned premiums	14,922,627
Ceded reinsurance premiums payable (net of ceding commissions)	3,898,219
Payable to parent, subsidiaries and affiliates	<u>114,768</u>
Total liabilities	<u>\$ 47,249,295</u>

Surplus and Other Funds

Common capital stock	\$ 5,000,000
Gross paid in and contributed surplus	28,281,547
Unassigned funds (surplus)	<u>19,835,738</u>
Surplus as regards policyholders	<u>53,117,282</u>
Total liabilities, surplus and other funds	<u>\$100,366,577</u>

NOTE: The Internal Revenue Service has completed its audits of the Company's consolidated Federal Income Tax returns through tax year 2004. 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 2005 through 2012. 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

Surplus as regards policyholders increased \$22,647,177 during the five-year examination period January 1, 2008 through December 31, 2012, detailed as follows:

Underwriting Income

Premiums earned		\$105,600,789
Deductions:		
Losses and loss adjustment expenses incurred	\$53,527,678	
Other underwriting expenses incurred	<u>53,931,026</u>	
Total underwriting deductions		<u>107,458,704</u>
Net underwriting loss		\$ (1,857,915)

Investment Income

Net investment income earned	\$ 9,018,511	
Net realized capital loss	<u>(1,326,258)</u>	
Net investment gain		<u>7,692,253</u>

Other Income

Aggregate write-ins for miscellaneous income	<u>386,934</u>	
Total other income		<u>\$386,934</u>
Net income before dividends to policyholders and before federal and foreign income taxes		\$ <u>6,221,272</u>
Dividends to policyholders		<u>0</u>
Net income after dividends to policyholders but before federal and foreign income taxes		\$ 6,221,272
Federal and foreign income taxes incurred		<u>2,446,113</u>
Net income		\$ <u>3,775,159</u>

Surplus as regards policyholders per report on examination as of December 31, 2007			\$30,470,108
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income	\$ 3,775,159		
Change in net deferred income tax	292,292		
Change in non-admitted assets	296,739		
Surplus adjustments paid in	18,281,547		
Aggregate write-ins for gains and losses in surplus	<u>1,437</u>	<u>0</u>	
Total gains and losses	\$ <u>22,647,174</u>	\$ <u>0</u>	
Net increase (decrease) in surplus			<u>22,647,174</u>
Surplus as regards policyholders per report on examination as of December 31, 2012			<u>\$53,117,282</u>

#### 4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of \$24,449,319 is the same as reported by the Company as of December 31, 2012. 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. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination contained no recommendations.

#### 6. SUMMARY OF COMMENTS AND RECOMMENDATIONS

This report contains no comments or recommendations.

Respectfully submitted,

\_\_\_\_\_/s/  
Neal Rischall, CFE, MCM  
Examiner-in-Charge

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

NEAL RISCHALL, being duly sworn, deposes and says that the foregoing report, subscribed by her, is true to the best of her knowledge and belief.

\_\_\_\_\_/s/  
Neal Rischall

Subscribed and sworn to before me  
this \_\_\_\_\_ day of \_\_\_\_\_, 2014.

**APPOINTMENT NO. 31016**

**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:

**Neal Rischall**

as a proper person to examine the affairs of the

**Aioi Nissay Dowa Insurance Company of America**

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

**COMPANY**

with such other information as she shall deem requisite.

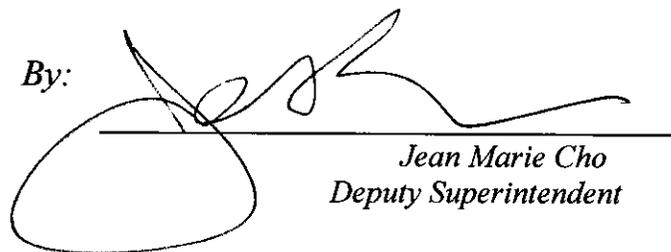
In Witness Whereof, I have hereunto subscribed by name  
and affixed the official Seal of the Department  
at the City of New York

this 8th day of August, 2013

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



By:

  
\_\_\_\_\_  
Jean Marie Cho  
Deputy Superintendent