REPORT ON EXAMINATION

OF THE

UNITED STATES BRANCH

OF

LEADING INSURANCE GROUP INSURANCE COMPANY, LTD.

AS OF

DECEMBER 31, 2013

DATE OF REPORT	JUNE 5, 2015
EXAMINER	KAREN GARD, CFE

TABLE OF CONTENTS

NEW YORK STATE
DEPARTMENT of
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Benjamin M. Lawsky
Superintendent

June 5, 2015

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 31178 dated December 18, 2014, attached hereto, I have made an examination into the condition and affairs of Leading Insurance Group Insurance Company, Ltd. (United States Branch) as of December 31, 2013, and submit the following report thereon.

Wherever the designation "the Branch" appears herein without qualification, it should be understood to indicate Leading Insurance Group Insurance Company, Ltd. (United States Branch).

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 offices of the Branch's manager, Leading Insurance Services, Inc. located at 400 Kelby Street, 15th Floor, Fort Lee, New Jersey 07024.

According to its filed 2013 Trusteed Surplus Statement, the Branch's trusteed surplus, as defined in Section 1312(c) of the New York Insurance Law was insolvent in the amount of $12,866,145 and it's required to be maintained trusteed surplus of $2,800,000 was impaired in the amount of $15,666,145.

This examination has determined that as of December 31, 2013, the Branch's trusteed surplus was insolvent in the amount of $110,783,855, and it's required to be maintained trusteed surplus of $2,800,000 was impaired in the amount of $113,583,855.

Subsequent to the examination date, the Branch received $140,000,000 in capital contributions from its Home Office.

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, 2011. This examination covered the two-year period from January 1, 2012 through December 31, 2013. 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 and annual statement instructions when applicable to domestic state regulations.

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
History of Branch
Corporate records
Management and control
Fidelity bonds and other insurance
Territory and plan of operation
Growth of Branch
Loss experience
Reinsurance
Accounts and records
Statutory deposits
Financial statements
Summary of recommendations

A review was also made to ascertain what action was taken by the Branch with regard to the 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 became licensed in the State of New York on February 28, 1990 as the United States Branch of Lucky Insurance Company, Ltd., Seoul, South Korea. Lucky Insurance Company, Ltd. (the "Home Office") was incorporated under the laws of Seoul, South Korea on December 17, 1958. In 1995, the Home Office changed its name to LG Insurance Company, Ltd. In 2008, the Home Office adopted Leading Insurance Group Insurance Company, Ltd. as its present name.

A. Management

The Branch appointed Wm. H. McGee & Co., Inc. as its lawful attorney and its United States manager under a duly executed power of attorney filed with the Department on October 31, 1989. On November 1, 2005, the Branch terminated the agreement with Wm. H. McGee & Co., and appointed LIG Management Services, Inc., a wholly-owned subsidiary of the Home Office, to manage the property and casualty business. The Branch is currently managed by Leading Insurance Services, Inc., ("LIS" or "U.S. Manager"), formerly known as LIG Management Services, Inc.

Management of the Branch is vested in a board of directors consisting of not less than three members of LIS. According to the 2013 filed Annual Statement, as of December 31, 2013, the board of directors was comprised of the following three members:

Name and Residence	Principal Business Affiliation
Hyung Kul Kim Tenafly, New Jersey	President Leading Insurance Services, Inc.
Tae Soon Kim Seoul, South Korea	Director Leading Insurance Services, Inc.
Jong Uk Lee Seoul, South Korea	Director Leading Insurance Services, Inc.

In contrast to the filed Annual Statement, a review of the corporate records indicates that Mr. Tae Soon Kim was appointed director at the January 29, 2014 shareholders meeting, replacing Mr. Sung Wook Sull. The examiner recommends that the Branch take better care in reporting accurate information on the jurat page of its filed annual statement.

In 2014, the board of directors was replaced with the following persons: Mr. Jacheul Koo replaced Mr. Hyung Kul Kim, and Mr. Mun Keun Lo replaced Mr. Jong Uk Lee.

As of December 31, 2013, the principal officers of the Branch were as follows:

Name	Title
Hyung Kul Kim	President
Jacheul Koo	Executive Vice President
Young Namgung	Vice President and Secretary
Kevin Leong	Vice President, Claims
Lystra Small Clouden	Vice President
Darius Adams	Treasurer and Controller

In March 2014, Mr. Kim resigned as President and was replaced by Mr. Jacheul Koo. Additionally, in March 2014 Mr. Namgung resigned and was replaced by Mr. Sanghyun Kim as Chief Financial Officer and Secretary. In August 2014, Mr. Adams resigned, and in March 2015, Mr. Leong resigned and was replaced by Mr. Robert Junio.

The Branch requires all directors, officers and key employees of the Manager to sign Conflict of Interest statements upon hiring; however, the Conflict of Interest statements are not updated after hiring. The examiner recommends that all directors, officers and key employees of the Branch's Manager sign a Conflict of Interest statement on an annual basis.

The examiner notes that, in 2014, the Branch received signed Conflict of Interest statements from all directors, officers and key employees.

B. Territory and Plan of Operation

As of December 31, 2013, the Branch was licensed to write business in the District of Columbia and the following 17 states: Arizona, California, Colorado, Georgia, Hawaii, Illinois, Indiana, Maryland, Massachusetts, Michigan, New Jersey, New York, Pennsylvania, South Carolina, Texas, Virginia and Washington.

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:

Paragraph	Line of Business
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
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine
21	Marine protection and indemnity

In addition, the Branch wrote in this State the business of special risk insurance pursuant to Article 63 of the New York Insurance Law.

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 surplus to policyholders in the amount of $2,800,000, and to maintain its trusteed surplus at or above its level of minimum surplus to policyholders.

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

Calendar Year	New York State	Total Premiums	Premiums Written in New York State as a Percentage of Total Premium
2012	$53,376,945	$116,875,500	45.67%
2013	$67,811,130	$163,655,579	41.44%

The Branch is primarily engaged in writing business owners policies ("BOP") and commercial package policies ("CPP") for small business owners. The business is produced through brokers. In 2011, the Branch began writing workers compensation business in New York and New Jersey; however, this line was placed in run-off in April 2014.

C. Reinsurance

Assumed

The Branch did not assume business as of December 31, 2013.

Ceded

The Branch has structured its ceded reinsurance program as follows (all treaties are 100% authorized):

Type of Treaty	**Cession**
Property	
Multi-Line Quota Share	50% Quota Share of $1,000,000 per risk for risks written on or before 4/1/13 50% Quota Share of $12,000,000 per risk for risks written after 4/1/13
Property Facultative Automatic	$28,000,000 excess of $12,000,000 for risks ceded into the automatic facility

Property Excess of Loss	$11,000,000 excess of $1,000,000 each risk, each loss for losses on or after 4/1/13 with respect to risks written prior to 12/1/12
	$10,000,000 excess of $2,000,000 each risk, each loss occurrence for losses on or after 4/1/13 with respect to risks written from 12/1/12 to 3/31/14
Property Catastrophe Excess of Loss	
First Layer	$10,000,000 excess of $2,000,000 each loss occurrence
Second Layer	$18,000,000 excess of $12,000,000 each loss occurrence
Third Layer	$20,000,000 excess of $30,000,000 each loss occurrence
Commercial Umbrella Quota Share	90% quota share on first $1,000,000 plus 100% of limits in excess of $1,000,000 for amounts up to, but not exceeding $5,000,000
Boiler & Machinery Semi-Automatic	100% quota share for all business written not exceeding $15,000,000 single total insurable value
Liability	
Employment Practices Liability Quota Share	70% quota share of each Net Loss, each claim, under each policy
Workers' Compensation Excess of Loss	
First Layer	$9,500,000 excess of $500,000 each loss occurrence
Second Layer	$10,000,000 excess of $10,000,000 each loss occurrence
Multi-Line Quota Share	50% Quota Share; reinsurer's limit of $2,000,000 per occurrence for risks written after December 1, 2012 through March 31, 2014

It is the Branch's policy to obtain the appropriate collateral for its cessions to unauthorized reinsurers. Letters of credit obtained by the Branch to take credit for cessions to unauthorized reinsurers were reviewed for compliance with Department Regulation No. 133. No exceptions were noted.

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. 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 Branch's management Chief Executive Officer and Chief Financial 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.

The examination review found that the Schedule F data reported by the Branch in its 2013 filed Annual Statement did not accurately reflect its reinsurance transactions. Specifically, the Branch overstated its reinsurance recoverable on paid losses and loss adjustment expenses by $3,817,710. Events leading up to this overstatement stem from Superstorm Sandy-related claims that were originally not captured as reinsured losses in the Branch’s claims administration system (“CAS”). Specifically, the CAS did not capture all catastrophe claims due to a design limitation of the system. The Branch became aware that the CAS was not properly capturing all losses, and in the third quarter of 2013, hired an external reinsurance consultant to review, among other items, the catastrophe losses. During the same time period, the CAS underwent a system enhancement to capture all catastrophe losses (the enhancement was subsequently removed in the first quarter of 2014). As a result of the consultant review of Sandy-related claims, the accounting department booked $3,817,710 of reinsured losses in the general ledger, not realizing the CAS was calculating the cessions, as well, due to the enhancement. In the fourth quarter of 2013, the accounting department noticed an increase in the ceded recoverable, but thought the increase was attributable to a different treaty and did not reverse the claims system-generated cession. After the annual statement filing, the reinsurance and accounting departments met internally to discuss the reinsurance process. It was at this point that the Branch realized the overstatement in reinsurance recoverable, and in the second quarter of 2014, reversed the $3,817,710 entry (see Section 4 of this Report for additional information).

The examiner recommends that the Branch ensure effective communication within the organization. Effective communication could have prevented the error in the reporting of reinsurance recoverables. The reinsurance analyst resigned in May 2014. The Controller/Treasurer resigned in August 2014.

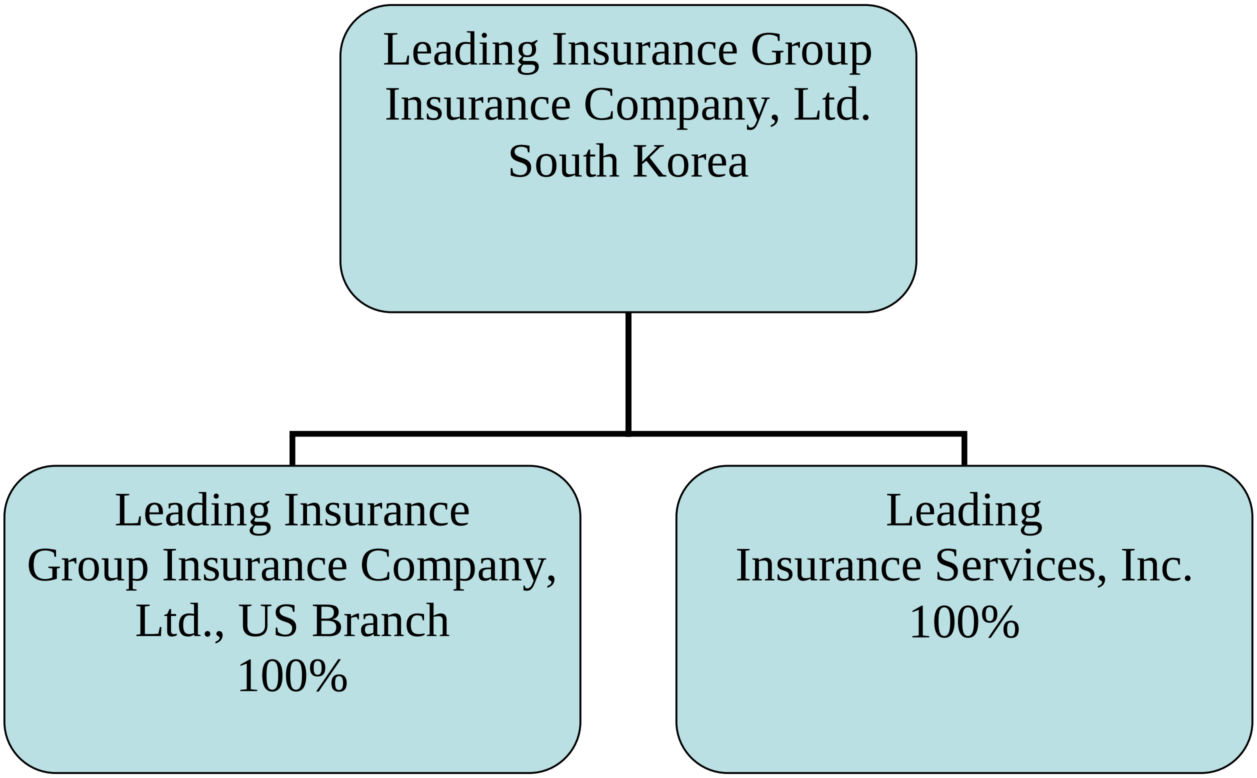
The examiner noted that in 2013, the Branch implemented a new claims administration system, and began the migration of its business to the new system. The expected completion date for the full migration is mid-year 2016.

D. Affiliated Group

The Branch is a member of an Affiliated Group and is the United States Branch of Leading Insurance Group Insurance Company, Ltd., South Korea. Leading Insurance Services, Inc. (the "U.S. Manager"), a New Jersey corporation, is a wholly-owned subsidiary of Leading Insurance Group Insurance Company, Ltd., South Korea.

Pursuant to Section 1502 of the New York Insurance Law, transactions between the Branch and the Home Office are exempt from the filing requirements of Article 15 of the New York Insurance Law.

The following is an abridged chart of the affiliated group at December 31, 2013:



As indicated in Section 2A, LIS was appointed the United States Manager of the Branch in 2005. Pursuant to the management agreement dated July 1, 2005, and amended January 1, 2011, LIS furnishes the following services to the Branch: claims, underwriting, policyholder services, investment, producer management, collection and handling of premiums and other funds, reinsurance, accounting and financial, marketing support and product development and administration, information technology, and legal and governmental relations. The amendment to the management agreement was filed with the Department in January 2011.

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2013, based upon the results of this examination:

*Net premiums written to surplus as regards policyholders	N/A
**Liabilities to liquid assets	175%
*Premiums in course of collection to surplus as regards policyholders	N/A

*This examination has determined that the Branch was insolvent; therefore, these ratios have not been calculated.

**The liabilities to liquid assets ratio of 175% exceeds the benchmark rate of 105% set forth in the Insurance Regulatory Information System of the National Association of Insurance Commissioners. This was a result of the examination increases to losses and loss adjustment expenses, as well as the establishment of a premium deficiency reserve.

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

	Amounts	Ratios
Losses and loss adjustment expenses incurred	$ 228,424,120	135.62%
Other underwriting expenses incurred	86,953,829	51.63
Net underwriting loss	(146, 949,323)	(87.25)
Premiums earned	$168,428,626	100.00%

F. Accounts and Records

Department Regulation No. 118 ("Reg 118")

Part 89.8(a) of Reg 118 states, in part:

> "Every company required to furnish an annual audited financial report shall require the CPA to report, in writing, to the superintendent . . . within five business days of any determination by the CPA that the company has materially misstated its financial condition as reported to the superintendent as of the balance sheet date currently under audit . . . or that the company does not meet the minimum capital or surplus requirement. . . "

In 2014, the Branch changed its external auditor. The examiner reviewed the CPA's engagement letter with the Branch and noted that it did not incorporate the requisite time frame to report to the superintendent a material misstatement in financial condition or the failure to meet the minimum capital or surplus requirement. Instead of five days, the engagement letter provided the CPA firm a 15 day time frame.

The examiner recommends that the Branch ensure that all future engagement letters entered into with its certified public accountants comply with Reg 118.

G. Risk Management, Corporate Governance, and Internal Controls

As a result of the examination procedures performed, several matters were noted which are best classified under the broad category of risk management, corporate governance, and controls. During the examination period, the Branch operated under a deficient internal control structure with significant material weaknesses. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A deficiency in internal controls exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis.

The deficiencies in the control environment manifested themselves in various areas:

- *Underwriting Environment*

LIS recommends production targets on an annual basis. These targets are subject to approval by the Home Office. Over the course of five years, by expanding into new markets, the Branch substantially grew its business, as follows:

Calendar Year	Direct Written Premium
2008	$ 32,200,789
2009	$ 41,770,375
2010	$ 54,828,141
2011	$ 70,435,833
2012	$116,875,500
2013	$163,655,579

In 2011, production targets were increased significantly in an attempt to gain market share. One of the strategies that LIS employed in its efforts to increase market share was to allow brokers to have access to their underwriting system with the ability to offer preferred rates to policyholders and the authority to bind and issue policies. This practice commenced in 2009, and ended on March 10, 2014 (as a result of the Department's order to cease writings). In many instances, the broker did not adhere to the underwriting guidelines, and, in addition, offered discounted rates to insured's who should have not received preferred/highly preferred rating status.

As a consequence of the imprudent writings, the Branch has experienced increasing loss ratios, as reported in its filed annual statements (in thousands):

Calendar Year	Premiums Earned	Net Incurred Loss and LAE	Ratio of Incurred to Premiums Earned
2009	29,966	18,203	60.7%
2010	43,560	27,132	62.3%
2011	54,531	33,221	60.9%
2012	82,352	49,016	59.5%
2013	86,076	65,644	76.3%
2014	70,708	72,219	102.1%

It is noted that the above referenced chart does not include the examination adjustments, made in this Report, to loss and loss adjustment expense reserves. The ratio of net incurred losses and loss adjustment expenses to premiums earned, for the two year period of this Report, is 135.62%.

The Director of Underwriting who presided over the Branch's rapid expansion of business resigned in April 2013.

- *Data Discrepancies*

The Department had significant problems in reconciling the actuarial data, and discovered numerous errors and inconsistencies in the data throughout the examination process. In most instances, when the Branch provided revisions to purportedly address the issues that were brought to its attention by the examination team, the examination team would find additional errors, inconsistencies or omissions. Additionally, several data sources that contained LIG experience did not appear to reconcile with each other and/or follow logical patterns, despite many revisions provided by the Branch. Furthermore, the Branch was not able to adequately address many questions related to the actuarial data that were posed by the examination team in the normal course of review, including providing a rationale for not establishing a premium deficiency reserve as of December 31, 2013.

- *Actuarial*

For the year ending December 31, 2012, the Branch's CPA firm recalled their 2012 Audit Report, relative to concerns regarding the appropriateness of the Branch's booked loss and loss adjustment expense reserves. On June 3, 2014, pursuant to Section 307(4)(b)(1) of the New York Insurance Law, the CPA firm informed the Department of its intent to recall the report. The report was recalled shortly thereafter.

The Branch's Chief Actuary resigned in July 2014. The Branch has since relied on the Director of Finance to coordinate all actuarial functions and communications. They have out-sourced the reserve analysis function to an outside consultant.

The examiner recommends that the Branch establish an internal actuarial department and hire a credentialed Chief Actuary and support staff who are qualified to: oversee the day-to-day operations of the pricing and reserving actuarial functions; take ownership for the integrity of the actuarial data; and effectively facilitate the out-sourced actuarial analyses. Effective actuarial oversight is an integral part of the risk management function and includes: data quality assurance; risk identification and quantification; and communication with other relevant company sectors and consultants.

- *Expenses*

As of December 31, 2013, the Branch had in place an Expense Policy & Procedure manual ("EP&P") that established guidelines regarding reimbursement for expenses incurred in connection with work-related business, and the procedures for reporting and supporting these expenses. The EP&P includes guidance for expenses that include, but is not limited to, travel and transportation, lodging, meals, entertainment, and supplies.

The examiner's review of expenses revealed a general lack of adherence to the expense controls and provisions of the EP&P. Documentation of expenses, business purpose, and lists of attendees at meal and entertainment events were lacking more as a rule than an exception. Several individuals excessively used business credit cards for personal use, and large expenditures for meals and entertainment were not pre-approved in accordance with the EP&P. In addition, other key provisions of the EP&P were violated on a regular basis. Internal controls in place were either by-passed or ignored, deeming them ineffective.

The examiner recommends that the Branch ensure that all employees fully understand all provisions contained in the EP&P, and monitor compliance to the provisions. Further, the examiner recommends that the Branch reimburse employees only appropriate business-related expenses.

The examiner notes that in an effort to address the issues noted above, in 2014, the Branch implemented a new expense monitoring and processing system (the Concur system), which mitigates the risk of inappropriate reimbursement of expenses.

- *Claims Environment*

As part of its financial plan that was designed to eliminate the mandatory control level event, as described in Section 8 of this Report, the Branch hired an external consultant to perform an audit of its claims department. The audit was conducted in December 2014, and was designed to assist the Branch's efforts to evaluate the effectiveness of claims workflow, appropriateness of payments, system capabilities, subrogation and litigation practices, reserving practices and claims staffing.

One of the inadequacies noted by the consultant was the understaffing of the claims department. Specifically, the consultant noted that workloads were more than twice what they should be, at 450 – 500 claims per adjuster. A natural consequence of excessive workloads is the potential for late reserving, increased bad faith exposure, coverage issues, missed settlement opportunities, and increased expenses.

The examiner recommends that the Branch expand its claims department with experienced adjusters.

Additionally, the examination identified a number of weaknesses in corporate governance. It should be noted that no one individual weakness identified is responsible for the multiple problems identified with the Branch; they collectively contributed to the multiple operational problems of the Branch. The identified corporate governance weaknesses include:

- *Board Leadership*

The control environment and the "tone at the top" of an organization are significantly influenced by its board of directors and audit committee. Contributing factors to an effective control environment include: the independence of the board from management; experience and stature of its members; extent of board involvement and scrutiny of activities; and the appropriateness of board actions.

In order to adequately perform the requisite governance, guidance and oversight responsibilities that is required of a board, it is essential to have an active and involved board of directors. Additionally, independent directors are critical in attaining an effective board because the charge of directors is to scrutinize and question management's activities, to present alternative views, and to exercise its fiduciary responsibilities. During the examination period, all board members were affiliated with the organization. As indicated previously, the board of directors that was in place during the examination period was replaced in 2014.

The examiner recommends that LIS expand its board membership to include independent directors to ensure effectiveness in providing proper oversight, guidance and governance.

- *Audit Committee*

  Section 89.2(c) Reg 118 states, in part:

  "Every company required to file an annual audited financial report pursuant to this Part shall designate a group of individuals to constitute its audit committee."

Reg 118 further cites specific requirements of an audit committee, including being directly responsible for the oversight of the work of any CPA for the purpose of preparing or issuing the audited financial report. As regards to the 2013 financial statement, the Branch was not able to file its audited financial report in a timely manner. The Branch requested three extensions for the filing, citing that the CPA firm was not able to complete the audit within the required time due to various issues, and ultimately filed the 2013 Audit Report with a report date of December 26, 2014, six months past the filing due date.

As indicated above, the control environment of an organization is significantly influenced by its board of directors and audit committee. The board that was in place during the examination period oversaw a Branch with numerous internal control deficiencies, which led to material misstatements in its financial condition. These deficiencies were compounded by the lack of an audit committee.

The examiner recommends that the Branch appoint an audit committee with at least one independent member.

- *Internal Audit Department*

The Branch does not have an internal audit department. Internal audit is an integral part of an effective risk management function which includes a collaborative effort of the board of directors, audit committee, senior management, internal audit, and external auditors. Internal audit and the audit committee are mutually supportive. Consideration of the internal auditors' work is essential for an audit committee to gain a complete understanding of an organization's operations. Internal audit identifies the organization's risks (strategic, operational, financial, etc.) and assesses controls put in place by management to mitigate those risks.

The Branch's Senior Vice President of Legal and Corporate Underwriting, whose responsibilities included compliance activities, resigned in April 2013. This position was replaced, in part, in January 2014 with the Manager of Internal Audit and Compliance. The Manager of Internal Audit and Compliance resigned shortly thereafter, in May 2014.

The examiner recommends that the Branch establish and maintain an independent, adequately-resourced, and competently-staffed internal audit function to provide management and the board of directors with ongoing assessments of risk management and internal control processes.

- *Information Technology Steering Committee*

In the first quarter of 2013, the Branch began to utilize the WebWriter Enterprise system ("WWE"). WWE is a customizable end-to-end policy administration system that is owned by Insurance Systems, Inc. ("ISI"), a Canadian company. LIG's migration of business from the Insurity system to the WWE system began with its business owners policies ("BOP policies"). In the third quarter of 2013, LIG recognized data defects regarding reinsurance with the WWE system, and determined it was not able to rely on the data coming from WWE. The Home Office engaged PwC Korea to review systems in order to validate the integrity of reinsurance data transactions, journal postings, accounting procedures, and to support the year-end closing. The review revealed significant issues, including:

1. incorrect debiting and crediting of transactions;
2. incorrect unearned premium recording;
3. ceded written premium and ceded unearned premium errors.

PwC Korea determined that manual adjustments of approximately $5,800,000 were necessary to successfully close year-end 2013. Based on this information, the examination team performed substantive testing of account balances, and took a non-reliance on controls approach to the examination.

One of the significant deficiencies of the Branch's operations, which relates to the weak corporate governance assessment, was that the Branch did not have an Information Technology Steering Committee ("ITSC") in place during the examination period. An ITSC is commonly defined as an administrative body that reviews, monitors and prioritizes major IT projects from a cross-functional perspective. The two key concerns of an ITSC are alignment and ownership. By means of alignment, the committee helps ensure that IT strategy is aligned with the strategic goals of the organization. By means of ownership, the business units represented on the steering committee have ultimate ownership over the larger IT strategic decisions, since those decisions will impact their processes.

The top three activities of an ITSC are: IT project prioritization; approval of IT projects; and IT strategic planning. By failing to have an ITSC in place, the Branch did not have important processes in place that would have prevented or mitigated the data issues documented above.

The examiner recommends that the Branch develop an ITSC. The examiner also recommends that the Branch obtain a Service Organization Control ("SOC") Type II Report for evaluation prior to contracting with third party providers. An SOC Type II Report reports on the design and operating effectiveness of the service organization's non-financial reporting information systems controls, such as processing integrity (system processing is complete, accurate, timely and authorized) and availability (the system is available for operation or use as committed or agreed to).

The examiner noted that an employee was reassigned from the Home Office in 2013 and was promoted in 2014 as the Branch's Chief Information Officer ("CIO"). The CIO is responsible for all IT operations at the Branch, including IT project prioritization, approval, and strategic planning.

The examiner recommends that the Branch strengthen its corporate governance function, which is the foundation to a strong risk management and internal control environment.

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2013 as determined by this examination and as reported by the Branch:

Assets	Examination Net Admitted Assets	Branch Net Admitted Assets	Surplus Increase/ (Decrease)
Bonds	$135,287,829	$135,287,829	0
Cash, cash equivalents and short-term Investments	15,276,976	15,276,976	0
Investment income due and accrued	1,566,863	1,566,863	0
Uncollected premiums and agents' balances in the course of collection	14,403,681	14,403,681	0
Deferred premiums, agents' balances and installments booked but deferred and not yet due	16,004,152	16,004,152	0
Amounts recoverable from reinsurers	3,356,395	7,174,105	$(3,817,710)
Current federal and foreign income tax recoverable and interest thereon	3,109,063	3,109,063	0
Net deferred tax asset	0	527,387	(527,387)
Miscellaneous accounts receivable/payable	200,000	200,000	0
Total assets	$189,204,959	$193,550,056	$(4,345,097)

Liabilities	Examination	Branch	Surplus Increase/ (Decrease)
Losses and loss adjustment expenses	$183,709,488	$114,409,488	$(69,300,000)
Premium deficiency reserve	24,800,000	0	(24,800,000)
Reinsurance payable on paid losses and loss adjustment expenses	3,582	3,582	0
Commissions payable, contingent commissions and other similar charges	1,852,910	1,852,910	0
Other expenses (excluding taxes, licenses and fees)	1,311,621	1,311,621	0
Taxes, licenses and fees (excluding federal and foreign income taxes)	1,350,997	1,350,997	0
Unearned premiums	42,186,624	42,186,624	0
Ceded reinsurance premiums payable (net of ceding commissions)	23,857,529	23,857,529	0
Provision for reinsurance	78,525	78,525	0
Payable to parent, subsidiaries and affiliates	978,370	978,370	0
Liabilities for state policy fees and surcharges	1,942,917	1,942,917	0
Paid losses payable	174,163	174,163	0
Other amounts payable under reinsurance contracts	125	125	0
Total liabilities	$282,246,851	$188,146,851	$(94,100,000)
Surplus and Other Funds			
Statutory deposit with Superintendent of Insurance – State of New York	$2,800,000	$2,800,000	0
Gross paid in and contributed surplus	39,800,000	39,800,000	0
Unassigned funds (surplus)	(135,641,893)	(37,196,795)	(98,445,098)
Surplus as regards policyholders	(93,041,893)	5,403,205	(98,445,098)
Total liabilities, surplus and other funds	$189,204,958	$193,550,056	$ (4,345,098)

Note: This examination has determined that as of December 31, 2013, the Branch was insolvent in the amount of $93,041,893 and it’s required to be maintained surplus of $2,800,000 was impaired in the amount of $95,841,893.

Note: 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

Underwriting Income		
Premiums earned		$168,428,626
Deductions:		
Losses and loss adjustment expenses incurred	$228,424,120	
Other underwriting expenses incurred	86,953,829	
Total underwriting deductions		315,377,949
Net underwriting gain or (loss)		$(146,949,323)
Investment Income		
Net investment income earned	$9,573,013	
Net realized capital gain	167,072	
Net investment gain or (loss)		9,740,085
Other Income		
Net gain or (loss) from agents' or premium balances charged off	$ (632,484)	
Aggregate write-ins for miscellaneous income	907,639	
Total other income		275,155
Net income before federal and foreign income taxes		(136,934,083)
Federal and foreign income taxes incurred		(827,007)
Net income		$(136,107,076)

C. Capital and Surplus

Surplus as regards policyholders decreased $142,735,795 during the two-year examination period January 1, 2012 through December 31, 2013, detailed as follows:

	Gains in Surplus	Losses in Surplus	
Surplus as regards policyholders per report on examination as of December 31, 2011			$ 49,693,902
Net income		$136,107,076	
Net unrealized capital gains or (losses)		126,261	
Change in net deferred income tax	$14,420,317		
Change in non-admitted assets		21,209,997	
Change in provision for reinsurance	287,222	0	
Total gains or losses in surplus	$14,707,539	$157,443,334	
Net increase (decrease) in surplus			$(142,735,795)
Surplus as regards policyholders per report on examination as of December 31, 2013			$ (93,041,893)

D. Trusteed Surplus Statement

The following statement shows the impairment of the Branch, calculated in accordance with Section 1312 of the New York Insurance Law, and as determined by this examination:

Assets

	Examination	Branch	Trusteed Surplus Increase/ (Decrease)
Securities deposited with state insurance departments:	$3,352,258	$3,352,258	
Vested in and held by U.S. Trustee:			
Bonds	129,726,055	129,726,055	
Cash	1,869,968	1,869,968	
Accrued interest on trusteed assets	1,496,960	1,496,960	
Total gross assets	$136,445,241	$136,445,241	$ 0

	Examination	Branch	Trusteed Surplus Increase/ (Decrease)
Liabilities and Trusteed Surplus			
Liabilities	$282,246,851	$188,146,851	$(94,100,000)
Deductions from liabilities:			
Reinsurance recoverable on paid losses	3,985,437	7,803,147	(3,817,710)
Special state deposits	106,832	106,832	
Accrued interest on special state deposits	52,389	52,389	
Admitted agents' balances	30,407,833	30,407,833	
Reinsurance premiums receivable	465,264	465,264	0
Total deductions	$35,017,755	$38,835,465	$(3,817,710)
Total adjusted liabilities (Liabilities less deductions)	$247,229,096	$149,311,386	$(97,917,710)
Total Gross Assets	136,445,241	136,445,241	0
Trusteed surplus/(deficit)	$(110,783,855)	$(12,866,145)	$(97,917,710)

Note: This examination has determined that as of December 31, 2013, the Branch's trusteed surplus was insolvent in the amount of $110,783,855, and it's required to be maintained trusteed surplus of $2,800,000 was impaired in the amount of $113,583,855.

Subsequent to the examination date, the Branch received $140,000,000 in capital contributions from its Home Office.

4. AMOUNTS RECOVERABLE FROM REINSURERS

The examination asset for the captioned item of $3,356,395 is $3,817,710 less than the $7,174,105 reported by the Branch in its 2013 filed Annual Statement. As described the Section 2C of this Report, the Branch erroneously double booked reinsurance recoverables in 2013 resulting in an overstatement of this asset at December 31, 2013.

The examiner notes that the Branch corrected this error in the second quarter of 2014.

5. NET DEFERRED TAX ASSET

The examination non-admitted the entire $527,387 reported by the Branch for the captioned item. The Branch's Risked Based Capital ('RBC'), based on the financials presented in this Report, is below 200%. SSAP 101 does not permit an insurer, with an RBC ratio of less than 200%, to admit any portion of a net deferred tax asset.

6. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of $183,709,488 is $69,300,000 more than the $114,409,488 reported by the Branch in its 2013 filed Annual Statement. 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").

Section 1303 of the New York Insurance Law states, in part:

> "Every insurer shall . . . maintain reserves in an amount estimated in the aggregate to provide for the payment of all losses or claims incurred on or prior to the date of statement, whether reported or unreported, which are unpaid as of such date and for which such insurer may be liable, and also reserves in an amount estimated to provide for the expenses of adjustment or settlement of such losses or claims."

Further, Paragraph 10 of SSAP No. 55 states, in part:

> "The liability for claim reserves and claim liabilities, unpaid losses, and loss/claim adjustment expenses shall be based upon the estimated ultimate cost of settling the claims (including the effects of inflation and other societal and economic factors), using past experience adjusted for current trends, and any other factors that would modify past experience…"

The examiner recommends that the Branch address these reserving inadequacies and increase its carried reserves to an appropriate level, pursuant to the provisions of Section 1303 of the New York Insurance Law and Paragraph 10 of SSAP No. 55.

The examiner notes, by virtue of its one year runoff for accident years 2013 and prior as reported by the Branch in its 2014 Annual Statement with revised Schedule Ps, that the Branch has recognized approximately $44,300,000 of the Department's $69,300,000 projected loss and loss adjustment expense reserve deficiency.

7. PREMIUM DEFICIENCY RESERVE

The Department determined that a premium deficiency reserve ("PDR") of $24,800,000 should be reflected on the Branch's balance sheet as of December 31, 2013. It is noted that the Branch did not book a premium deficiency reserve in its 2013 Annual Statement and did not provide a reasonable rationale for this omission. This determination was based on the Branch's poor underwriting experience and the requirements of Paragraph 17 of SSAP No. 53, which states, in part:

> "When the anticipated losses, loss adjustment expenses, commissions and other acquisition costs, and maintenance costs exceed the recorded unearned premium reserve, and any future installment premiums on existing policies, a premium deficiency reserve shall be recognized by recording an additional liability for the deficiency, with a corresponding charge to operations . . ."

Prospectively, the examiner recommends that the Branch establish a PDR, when necessary, in accordance with the provisions of SSAP No. 53. The examiner notes that the aforementioned $24,800,000 PDR was incorporated into the financial presentation of this Report.

8. SUBSEQUENT EVENTS

The examiner notes the following subsequent events:

a) The Branch received the following capital contributions totaling $140,000,000 from the Home Office:

$45,000,000 in March, 2014;
$20,000,000 in September 2014;
$40,000,000 in December 2014;
$35,000,000 in March 2015.

b) In 2014, LIG Group, a mid-sized South Korean conglomerate, determined that it would sell up to a 21% stake in LIG Insurance Company. The purpose of the sale was to secure cash in order to compensate retail investors for losses incurred from the Group's 2011 financial fraud scandal. On March 25, 2015, the Board of Directors of KB Financial Group, Inc. ("KBFG"), in its desire to expand its non-banking business, approved to proceed with the purchase of a 19.47% interest in LIG Insurance Company for a purchase price of 645 billion South Korean won (US $585 million). South Korea's Financial Services Commission approved the deal in December 2014; however, the transaction was delayed due to price negotiations, because of the emergence of unexpected losses from the Branch. The original purchase price was 685 billion South Korean won. Because this transaction affects a U.S. holding company bank, this transaction is pending regulatory approval from the Federal Reserve Board. Final KBFG Board approval is expected at the June 2015 meeting.

c) As of December 31, 2013, the Branch reported a risk-based capital ratio that indicated a mandatory control level event. Additionally, the Branch's filed statutory trusteed surplus statement as of December 31, 2013 indicated a deficiency of $(12,866,145), and rendered the trusteed surplus impaired in the amount of $(15,666,145). Consequently, on March 7, 2014, the Department ordered the Branch not to write or renew any policies until the impairment is cured. On March 10, 2014, the Branch received a capital contribution of $45 million from the Home

Office, and on April 1, 2014, the Department increased the Branch's limitation of new writings to $2.25 million per month.

A mandatory control level event occurs when the insurer's total adjusted capital is less than its mandatory control level risk-based capital, as defined by Section 1324 of the New York Insurance Law.

The Branch submitted a financial plan to the Department, and eliminated the mandatory control level event via a surplus contribution that was received from the Home Office. As indicated above, the Department issued a cease and desist order in March 2014; this was lifted once the Branch eliminated the mandatory control level event. However, the limitation of the Branch's new business writings to $2.25 million per month is in effect as of this writing.

d) As of December 31, 2014, the Branch reported a risk-based capital ratio which indicated a regulatory action level event (the ratio was an improvement over the 2013 ratio). The Superintendent may limit the premium writings of an insurer under a regulatory action level event.

The Branch has been limited to $2.25 million per month of new business writings (exclusive of renewal business) since March 2014, as noted previously. The Branch has substantially reduced its business writings (inclusive of renewal business) since that time, with direct written premiums reported at $109 million in 2014, and projected direct written premiums at $50 million for 2015.

e) On June 3, 2015, the Branch informed the Department that their consulting firm, Milliman Inc., will revise their 2014 Statement of Actuarial Opinion, Actuarial Opinion Summary and the underlying Actuarial Report to reflect additional information (including material miscoding errors) received subsequent to filing their original 2014 Statement of Actuarial Opinion. Milliman has indicated their original net loss and loss adjustment expense reserve deficiency indication will be adjusted upward significantly.

9. CONCLUSION

This examination has determined that as of December 31, 2013, the Branch's trusteed surplus, as defined in Section 1312 of the New York Insurance Law, was insolvent in the amount of $110,783,855, and it's required to be maintained trusteed surplus of $2,800,000 was impaired in the amount of $113,583,855.

Subsequent to the examination date, the Branch has received $140,000,000 in capital contributions from its Home Office.

10. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

ITEM		PAGE NO.
A.	Reinsurance	
	It recommended that the Branch amend the reinsurance agreements to comply with SSAP No. 62R and make no reference of any other agreement within the reinsurance agreement.	5
	The Branch has complied with this recommendation.	
B.	Accounts and Records	
i.	It is recommended that the Branch comply with Section 312(b) of the New York Insurance Law by submitting the report on examination to the board of directors of its U.S. Manager and having each director sign a statement and retain a copy that such member has received and read the report.	10
	The Branch has complied with this recommendation.	
ii.	It is recommended that all directors, officers and key employees of the Branch's Manager sign a Conflict of Interest statement on an annual basis.	10
	The Branch has not complied with this recommendation.	

11. SUMMARY OF COMMENTS AND RECOMMENDATIONS

ITEM		PAGE NO.
A.	Insolvency	
	This examination has determined that as of December 31, 2013, the Branch's trusteed surplus was insolvent in the amount of $110,783,855, and it's required to be maintained surplus of $2,800,000 was impaired in the amount of $113,583,855.	
	Subsequent to the examination date, the Branch received $140,000,000 in capital contributions from its Home Office.	2, 25, 30
B.	Management	
i.	The examiner recommends that the Branch take better care in reporting accurate information on the jurat page of its filed annual statement.	5
ii.	The examiner recommends that all directors, officers and key employees of the Branch's Manager sign a Conflict of Interest statement on an annual basis.	6
D.	Reinsurance	
	The examiner recommends that the Branch ensure effective communication within the organization.	10
E.	Accounts and Records	
	The examiner recommends that the Branch ensure that all future engagement letters entered into with its certified public accountants comply with Department Regulation No. 118.	13
F.	Risk Management, Corporate Governance, and Internal Controls	
i.	The examiner recommends that the Branch establish an internal actuarial department and hire a credentialed Chief Actuary and support staff.	15
ii.	The examiner recommends that the Branch ensure that all employees fully understand all provisions contained in the EP&P, monitor compliance to the provisions, and reimburse employees only appropriate business-related expenses.	16
iii.	The examiner recommends that the Branch expand its claims department with experienced adjusters.	17

iv. The examiner recommends that LIS expand its board membership to include independent directors to ensure its effectiveness in providing proper oversight, guidance and governance. 17

v. The examiner recommends that the Branch appoint an audit committee with at least one independent member. 18

vi. The examiner recommends that the Branch establish and maintain an internal audit function. 18

vii. The examiner recommends that the Branch establish an Information Technology Steering Committee. 20

viii. The examiner recommends that the Branch obtain SOC Type II Reports for evaluation prior to contracting with third party providers. 20

ix. The examiner recommends that the Branch strengthen its corporate governance function. 20

G. Amounts Recoverable from Reinsurers

It is noted that $3,817,710 in reinsurance recoverables on paid losses were written off as a result of an erroneously double-booked entry. 26

H. Net Deferred Tax Asset

It is noted that $527,387 in net deferred tax assets were written off as a result of the Branch's RBC ratio being below 200% as of the examination date. 26

I. Losses and Loss Adjustment Expenses

The examiner recommends that the Branch address the reserving inadequacies and increase its carried reserves to an appropriate level. 27

J. Premium Deficiency Reserve

i. The examiner recommends that the Branch establish a PDR, when necessary, in accordance with the provisions of SSAP No. 53. 27

ii. The examiner notes that a premium deficiency reserve of $24,800,000 was incorporated into the financial presentation of this Report. 27

Respectfully submitted,

____
Karen Gard, CFE
Associate Insurance Examiner

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

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

____
Karen Gard

Subscribed and sworn to before me

this__________ day of ___________________, 2015.

APPOINTMENT NO. *31178*

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:*

Karen Gard

as a proper person to examine the affairs of the

Leading Insurance Group Ins. Co. Ltd. (U.S. Branch)

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 18th day of December, 2014

BENJAMIN M. LAWSKY
Superintendent of Financial Services

By:

Rolf Kaumann
Deputy Chief Examiner