

REPORT ON EXAMINATION

OF THE

SOMPO JAPAN FIRE & MARINE INSURANCE COMPANY OF AMERICA

AS OF

DECEMBER 31, 2007

DATE OF REPORT

FEBRUARY 17, 2009

EXAMINER

JAINARINE TILAKDHARRY

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

February 6, 2009

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

Sir:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 22796 dated July 22, 2008 attached hereto, I have made an examination into the condition and affairs of Sompo Japan Fire & Marine Insurance Company of America as of December 31, 2007, and submit the following report thereon.

Wherever the designations "the Company" or "Sompo" or "SJFM" appear herein without qualification, it should be understood to indicate Sompo Japan Fire & Marine Insurance Company of America.

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

The examination was conducted at the Company's home offices located at Two World Financial Center New York, New York 10281.

1. SCOPE OF EXAMINATION

The Department has performed an association examination of Sompo Japan Fire & Marine Insurance Company of America. The previous examination was conducted as of December 31, 2002. This examination covered the five-year period from January 1, 2003 through December 31, 2007. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

This examination was conducted in accordance with the NAIC Financial Condition Examiners 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. An 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 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 and evaluation based upon the Company's Sarbanes Oxley documentation and testing. 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 Financial Condition Examiners Handbook of the NAIC:

- Significant subsequent events
- Company history
- Corporate records
- Management and control
- Fidelity bonds and other insurance
- Pensions, stock ownership and insurance plans
- 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 to ascertain what action was 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, which involve departures from laws, regulations or rules, or which are deemed to require explanation or description.

2. DESCRIPTION OF COMPANY

The Nissan Fire & Marine Insurance Company, Ltd., was established in 1911 under the laws of Japan. On October 1, 1980, the United States Branch was licensed under the laws of the State of New York. Effective July 1, 2002, a merger was consummated in Japan between the Yasuda Fire & Marine Insurance Company, Ltd. and the Nissan Fire & Marine Insurance Company, Ltd. The name of the surviving entity is Sompo Japan Insurance, Inc. In anticipation of this merger, the United States Branch of the Nissan Fire & Marine Insurance Company, Ltd. entered into a domestication agreement and an instrument of transfer and assumption with Sompo Japan Fire & Marine Insurance Company of America. As a result of the merger, the new ultimate parent of the Company is Sompo Japan Insurance, Inc.

At December 31, 2007, capital paid in was \$5,000,000 consisting of 5,000 shares of common stock at \$1,000 par value per share. Gross paid in and contributed surplus was \$55,967,997. Gross paid in and contributed surplus increased by \$38,500,000 during the examination period, as follows:

<u>Year</u>	<u>Description</u>		<u>Amount</u>
2003	Beginning gross paid in and contributed surplus		\$17,467,997
2006	Surplus contribution	\$38,500,000	<u>38,500,000</u>
2007	Ending gross paid in and contributed surplus		<u>\$55,967,997</u>

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 twenty-one members. The board met four times during each calendar year. At December 31, 2007, the board of directors was comprised of the following thirteen members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Riri Aeba Harrison, NY	Senior Vice President, Sompo Japan Insurance Company of America
Paul Brocklebank Weddington, NC	Chief Underwriting Officer, SJA Insurance Agency, LLC
John Calotta New York, NY	Senior Vice President, Sompo Japan Insurance Company of America
Hideo Haraguchi Scarsdale, NY	President, Sompo Japan Insurance Company of America
Kazuo Ideshita New York, NY	Senior Vice President and Treasurer, Sompo Japan Insurance Company of America
Ichiro Kamimura Marina Del Rey, CA	Vice President, Sompo Japan Insurance Company of America
Eiichi Kitagawa New York, NY	Senior Vice President Sompo Japan Insurance Company of America
John J. McElroy Randolph, NJ	Senior Vice President, Sompo Japan Insurance Company of America
David Nichols Wilton, CT	Chief Executive Officer, Interboro Insurance Company
H. Michael O'Brien Ridgefield, CT	Partner, Wilson, Elser, Moskowitz, Edelman & Dicker, LLP
Phillip Tumbarello Cortland Manor, NY	Partner, Wilson, Elser, Moskowitz, Edelman & Dicker, LLP
Munenaga Ueda Scarsdale, NY	Manager, General Management, Sompo Japan Insurance Company of America
Thomas Yodice Paramus, NJ	Vice President, Sompo Japan Insurance Company of America

A review of the minutes of the board of directors' meetings held during the examination period indicated that the meetings were generally well attended.

As of December 31, 2007, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Hideo Haraguchi	President
Munenaga Ueda	Secretary
Kazuo Ideshita	Treasurer

B. Territory and Plan of Operation

As of December 31, 2007, the Company was licensed to write business in seventeen states including the District of Columbia.

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
11	Animal
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 on the lines of business for which the Company is licensed and its 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 \$2,200,000.

The company had been running-off a small book of business from 2002 through 2006. Beginning in 2007, SJFM implemented a new business plan to write workers' compensation business in California. This product was distributed through an established network of licensed and appointed retail producers. All underwriting on behalf of SJFM had been delegated to an affiliated agency, SJA Insurance Agency, LLC.

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>Premiums Written in New York State as a Percentage of United States Premiums Written</u>
2003	\$10,841	\$ 20,511	52.9%
2004			
2005			
2006			
2007		\$134,754	

C. Reinsurance

The Company did not assume any business during 2007. Prior to January 1, 2004, SJFM assumed reinsurance under a quota share agreement with Royal/Sun Alliance (“Royal/Sun”). Under the terms of the agreement, the Company assumed 0.1% of Royal /Sun’s total net business. Effective December 31, 2003, this agreement was terminated.

The company has a workers’ compensation reinsurance agreement that cedes up to \$15,000,000 in excess of \$5,000,000. The examiners reviewed this ceded reinsurance agreement in effect as of the examination date and found that it contains the required clauses, including an insolvency clause, meeting the requirements of Section 1308 of the New York Insurance Law.

The examiners’ 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

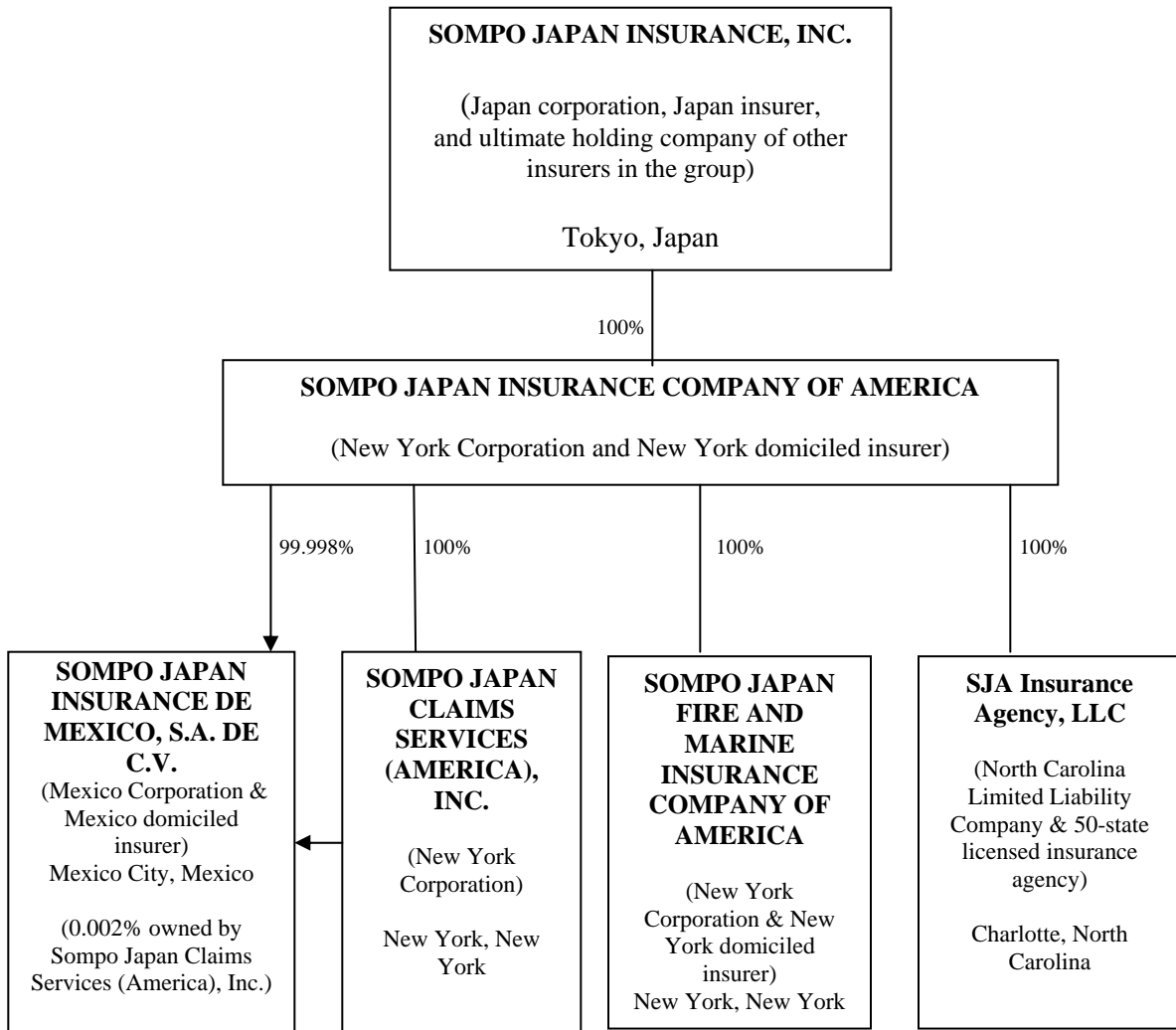
as set forth in the NAIC Accounting Practices and Procedures Manual, Statements and Statutory Accounting Principles (“SSAP”) No. 62. These representations were supported through risk transfer analyses and an attestation from the Company's chief executive officer pursuant to the NAIC Annual Statement Instructions. Additionally, the 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 paragraphs 25 and 26 of SSAP No. 62.

D. Holding Company System

The Company is 100% owned by Sompo Japan Insurance Company of America, a New York domiciled company, which is ultimately controlled by Sompo Japan Insurance, Inc., a Japanese company.

A review of the holding company registration statements filed with this Department indicated that such filings were complete and were filed in a timely manner pursuant to Article 15 of the New York Insurance Law and Department Regulation 52.

The following is a chart of the holding company system at December 31, 2007:



At December 31, 2007, the Company was party to the following agreements with other members of its holding company system:

Tax Allocation Agreement

Effective July 1, 2003, the Company became a party to a tax allocation agreement, pursuant to which, the Company files a consolidated federal income tax return with its parent, Sompo Japan Insurance Company of America, and Sompo Japan Claims Services, Inc. The agreement was originally effective September 7, 1989 and was submitted to the Department and non-disapproved pursuant to the provisions of Section 1505(d) of the New York Insurance Law and Circular Letter

No. 33 (1979). However, it is noted that the amendment adding the Company to the agreement was not submitted to the Department.

Although this amendment meets the requirements of Circular Letter No. 33 (1979), it is recommended that the Company notify the Department within 30 days of entering into a tax allocation agreement, pursuant to the provisions of Circular Letter No. 33 (1979).

Service Agreement

On October 1, 2006, the Company entered into an administrative service agreement with Sompo Japan Insurance Company of America (“SJA”), whereby the parent would provide certain overhead and administrative services to the Company for a fee. The Department advised the Company that it did not object to this Agreement by letter dated September 9, 2006.

Agency Agreement

On January 1, 2004, Sompo Japan Insurance Company of America entered into an agency service agreement with SJA Insurance Agency, LLC (“SJAA”), whereby SJAA would provide underwriting services on behalf of SJA. This agreement was amended on October 1, 2006, whereby SJAA would also perform underwriting services to Sompo Japan Fire and Marine Insurance Company. This agreement was non-disapproved by the Department on September 9, 2006.

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2007, based upon the results of this examination:

Net premiums written to surplus as regards policyholders	.002 to 1
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	1.70%
Premiums in course of collection to surplus as regards policyholders	0.01%

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 incurred	\$384,699	15.87%
Loss adjustment expenses incurred	659,525	27.21
Other underwriting expenses incurred	2,808,694	115.89
Net underwriting loss	<u>(1,429,268)</u>	<u>(58.97)</u>
Premiums earned	<u>\$2,423,650</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, 2007 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	\$58,722,158		\$58,722,158
Cash, cash equivalents and short-term investments	5,713,704		5,713,704
Investment income due and accrued	896,086		896,086
Balances in course of collection	87,680		87,680
Funds held by or deposited with reinsured companies	<u>408</u>	<u>0</u>	<u>408</u>
Total assets	<u>\$65,420,036</u>	<u>\$ 0</u>	<u>\$65,420,036</u>

Liabilities, Surplus and Other Funds

Liabilities

Losses		\$129,253
Loss adjustment expenses		12,388
Other expenses (excluding taxes, licenses and fees)		32,000
Taxes, licenses and fees (excluding federal and foreign income taxes)		4,727
Current federal & foreign income taxes		800,417
Unearned premiums		82,640
Ceded reinsurance premiums payable (net of ceding commissions)		6,366
Payable to parent, subsidiaries and affiliates		<u>43,806</u>
Total liabilities		\$1,111,597

Surplus and Other Funds

Common capital stock	\$5,000,000	
Gross paid in and contributed surplus	55,967,997	
Unassigned funds (surplus)	<u>3,340,442</u>	
Surplus as regards policyholders		<u>64,308,439</u>
Total liabilities, surplus and other funds		<u>\$65,420,036</u>

NOTE: The Internal Revenue Service has not completed its audits of the Company's consolidated Federal Income Tax returns through tax year 2002. The Internal Revenue Service has not yet begun to audit tax returns covering tax years 2003 through 2007. 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. Underwriting and Investment Exhibit

Surplus as regards policyholders increased \$41,993,829 during the five-year examination period January 1, 2003 through December 31, 2007, detailed as follows:

Underwriting Income

Premiums earned		\$ 2,423,650
Deductions:		
Losses incurred	\$ 384,699	
Loss adjustment expense incurred	659,525	
Other underwriting expense incurred	<u>2,808,694</u>	
Total underwriting deductions		<u>3,852,918</u>
Net underwriting gain or (loss)		\$(1,429,268)

Investment Income

Net investment income earned	<u>\$ 6,167,768</u>	
Net investment gain or (loss)		<u>6,167,768</u>
Net income after dividends to policyholders but before federal and foreign income taxes		\$ 4,738,500
Federal and foreign income taxes incurred		<u>1,366,032</u>
Net income		<u>\$ 3,372,468</u>

C. Capital and Surplus Account

Surplus as regards policyholders per report on examination as of December 31, 2002			\$22,314,610
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net Income	\$ 3,372,468		
Surplus adjustments paid in	38,500,000		
Change in Non Admitted Assets	1,361		
Change in provision for reinsurance	<u>120,000</u>	<u>0</u>	
Total gains and losses	<u>\$41,993,829</u>	<u>\$ 0</u>	
Net increase in surplus as regards policyholders			<u>41,993,829</u>
Surplus as regards policyholders per report on examination as of December 31, 2007			<u>\$64,308,439</u>

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of \$141,641 is the same as reported by the Company as of December 31, 2007. The examination analysis was conducted in accordance with generally accepted actuarial principles and practices and was based on statistical information contained in the Companies internal records and in its filed annual statements.

5. MARKET CONDUCT ACTIVITIES

In the course of this examination, a review was made of the manner in which the Company conducts its business and fulfills its contractual obligations to policyholders and claimants. The review was general in nature and is not to be construed to encompass the more precise scope of a market conduct investigation, which is the responsibility of the Market Conduct Unit of the Property Bureau of this Department.

The general review was directed at practices of the Company in the following areas:

- A. Sales and advertising
- B. Underwriting
- C. Rating
- D. Claims and complaint handling

No problem areas were encountered.

6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

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

<u>ITEM</u>	<u>PAGE NO.</u>
<p>A. <u>Reinsurance</u></p> <p>It was recommended that the Company ensure that all reinsurance agreements are finalized and signed within nine months of inception. Agreements not finalized and signed within nine months should be accounted for as retroactive reinsurance.</p> <p>The Company has complied with this recommendation.</p>	<p>7</p>

7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>	<u>PAGE NO.</u>
<p>A. It is recommended that the Company notify the Department within 30 days of entering into a tax allocation agreement, pursuant to the provisions of Circular Letter No. 33 (1979).</p>	<p>9</p>

Appointment No. 22796

STATE OF NEW YORK
INSURANCE DEPARTMENT

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

Jainarine Tilakdharry

as proper person to examine into the affairs of the

SOMPO JAPAN FIRE & MARINE INSURANCE COMPANY OF AMERICA

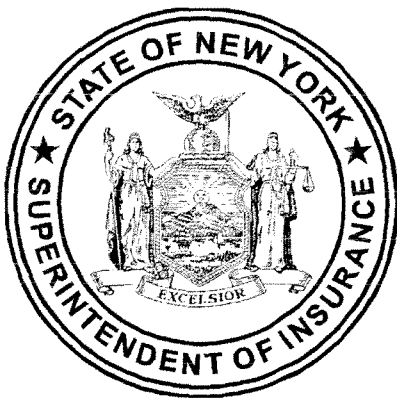
and to make a report to me in writing of the condition of the said

Company

with such other information as he shall deem requisite.

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

this 22nd day of July, 2008



A handwritten signature in cursive script that reads "Eric R. Dinallo".

ERIC R. DINALLO
Superintendent of Insurance