



**REPORT ON EXAMINATION
OF
TNUS INSURANCE COMPANY**

AS OF DECEMBER 31, 2020

**EXAMINER:
DATE OF REPORT:**

**KEVIN MCNAMEE
MAY 3, 2022**

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KATHY HOCHUL
Governor



ADRIENNE A. HARRIS
Superintendent

May 3, 2022

Honorable Adrienne A. Harris
Superintendent
New York State Department of Financial Services
Albany, New York 12257

Madam:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 32252 dated May 13, 2021, attached hereto, I have made an examination into the condition and affairs of TNUS Insurance Company as of December 31, 2020, and submit the following report thereon.

Wherever the designation "the Company" or "TNUS" appears herein without qualification, it should be understood to indicate TNUS Insurance Company.

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

Due to the COVID-19 pandemic, the examination was conducted remotely.

1. SCOPE OF EXAMINATION

The Department has performed an examination of TNUS Insurance Company, a multi-state insurer. The previous examination was conducted as of December 31, 2015. This examination covered the five-year period from January 1, 2016, through December 31, 2020. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

The examination was conducted in conjunction with the Commonwealth of Pennsylvania, which was the lead state of the Tokio Marine Holdings Group. The examination was performed concurrently with the examinations of the following insurers:

| <u>Company</u> | <u>Domicile</u> |
|--|-----------------|
| Philadelphia Indemnity Insurance Company (“PIIC”) | Pennsylvania |
| TM Specialty Insurance Company (“TMS”) | Arizona |
| Tokio Marine America Insurance Company (“TMAIC”) | New York |
| Tokio Marine Specialty Insurance Company (“TMSIC”) | Delaware |
| Trans Pacific Insurance Company (“TPI”) | New York |

Other states participating in this examination were Arizona and Delaware.

This examination was conducted in accordance with the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners Handbook, which requires that we plan and perform the examination to evaluate the financial condition and identify current and 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 New York laws, statutory accounting principles, and annual statement instructions.

This examination report includes, but is not limited to, the following:

- Company history
- Management and control
- Territory and plan of operation
- Reinsurance
- Holding company description
- Financial statement presentation
- Loss review and analysis
- Significant subsequent events
- Summary of recommendations

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

TNUS Insurance Company commenced business on September 4, 1975, as the United States Branch of the Nichido Fire & Marine Insurance Company, Limited of Tokyo, Japan (“Nichido”). In October 2004, Nichido merged with the Tokio Marine and Fire Insurance Company, Limited of Tokyo, Japan, and the surviving entity was named Tokio Marine & Nichido Fire Insurance Co., Ltd. of Tokyo, Japan (“TMNF-Japan”). On February 11, 2004, TNUS Insurance Company was formed as the vehicle for the domestication of Nichido, and the domestication was finalized on July 1, 2004. Tokio Marine Management, Inc. (“TMM”), a U.S. affiliate, has managed TNUS since the domestication.

On November 30, 2012, TMNF contributed the shares of the Company to Tokio Marine North America, Inc. (“TMNA”). Effective December 31, 2015, TMNA contributed the common stock of the Company, TPI, TMS, and TMM to TMAIC, a wholly owned subsidiary of TMNA.

A. Corporate Governance

Pursuant to the Company’s charter and by-laws, management of the Company is vested in a board of directors consisting of not less than seven nor more than 13 members. Corporate governance is performed at two levels. At a group level, TMM conducts quarterly and annual meetings where the affairs of the Company are discussed. The majority of discussions regarding the Company are held at this level. Corporate governance is performed at the individual entity level. However, most of the board meetings are conducted by unanimous written consent. As noted in the by-laws, there is no requirement for the board of directors to physically meet.

At December 31, 2020, the board of directors was comprised of the following seven members:

| <u>Name and Residence</u> | <u>Principal Business Affiliation</u> |
|------------------------------|---|
| David Brooks Altadena, CA | Senior Vice President, Tokio Marine Management, Inc. |
| Ann Ginn Summit, NJ | Executive Vice President and Chief Underwriting Officer, Tokio Marine Management, Inc. |

| <u>Name and Residence</u> | <u>Principal Business Affiliation</u> |
|-------------------------------------|---|
| B. Steven Goldstein New York, NY | Executive Vice President and General Counsel, Tokio Marine Management, Inc. |
| David Gottschall Tarrytown, NY | Senior Vice President and Chief Quality Officer, Tokio Marine Management, Inc. |
| Yasuhiro Miyoshi Purchase, NY | Senior Vice President, Tokio Marine Management, Inc. |
| Daisuke Ugaeri New York, NY | Senior Vice President, Tokio Marine Management, Inc. |
| Kiyoshi Wada New York, NY | President and Chief Executive Officer, Tokio Marine Management, Inc. |

As of December 31, 2020, the principal officers of the Company were as follows:

| <u>Name</u> | <u>Title</u> |
|---------------------------|-------------------------|
| Kiyoshi Wada | President |
| Karen A. Gilmer-Pauciello | Chief Financial Officer |
| Edward F. Sayago | Secretary |
| Michael W. Kelly | Treasurer |
| Matthew DiNapoli | Senior Vice President |

B. Territory and Plan of Operation

As of December 31, 2020, the Company was licensed to write business in the District of Columbia and all states except Maine. The Company is licensed as a reinsurer in Wyoming. As of the examination date, the Company was authorized to transact the kinds of insurance as defined in the following numbered paragraphs of Section 1113(a) of the New York Insurance Law

| <u>Paragraph</u> | <u>Line of Business</u> |
|------------------|-------------------------|
| 3 | Accident & health |
| 4 | Fire |
| 5 | Miscellaneous property |
| 6 | Water damage |
| 7 | Burglary and theft |
| 8 | Glass |
| 9 | Boiler and machinery |
| 10 | Elevator |
| 12 | Collision |

| <u>Paragraph</u> | <u>Line of Business</u> |
|------------------|--|
| 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 |

The Company is also authorized to transact such workers' compensation insurance under paragraphs 20 and 21 of Section 1113(a), including insurance described in the longshoremen's and Harbor Workers' Compensation Act (Public Law No. 803, 69th Congress, as amended; 33 USC Section 901 et. seq, as amended). The Company is also licensed to conduct the business of special risk insurance pursuant to Article 63 of the New York Insurance Law.

Based upon the line of business for which the Company is licensed, and the Company's current capital structure, and pursuant to the requirements of Articles 13, 41, and 63 of the New York Insurance Law, the Company is required to maintain a minimum surplus to policyholders in the amount of \$4,300,000. However, pursuant to Section 6302(c)(1) of the New York Insurance Law, to be licensed to write special risks, the Company is required to maintain surplus as regards policyholders of at least 250% of its authorized control level risk-based capital; therefore, the Company was required to maintain a minimum surplus to policyholders in the amount of \$627,258 as of December 31, 2020.

The Company primarily writes workers' compensation and commercial property products at preferred rates. Prior to December 31, 2009, assumed reinsurance accounted for 100% of the Company's gross written premiums. Effective in 2010, the Company began writing direct business. The following schedule shows the direct and assumed premiums written by the Company for the period under examination:

| <u>Calendar Year</u> | <u>Direct Premiums</u> | <u>Assumed Premiums</u> | <u>Total Gross Premiums</u> |
|----------------------|------------------------|-------------------------|-----------------------------|
| 2016 | \$19,980,207 | \$ 7,316 | \$19,987,523 |
| 2017 | \$15,378,015 | \$229,737 | \$15,607,752 |
| 2018 | \$12,974,029 | \$156,591 | \$13,130,620 |
| 2019 | \$12,596,194 | \$ 48,627 | \$12,644,821 |
| 2020 | \$ 9,555,162 | \$ 95,132 | \$ 9,650,294 |

The Company's predominant territory market share of business in terms of direct premium written of business is in California \$4,203,147 (43.99%), New York \$956,970 (10.02%), Georgia \$568,480 (5.95%) and Alabama \$483,923 (5.06%). The Company markets its business through a network of appointed independent agents and national brokers totaling 412 producers. The Company's assumed reinsurance program consists of participation in a mandated pool and is reflected in its assumed reinsurance activity.

C. Reinsurance Ceded

The Company has structured its ceded reinsurance program as follows:

| <u>Type of Contract</u> | <u>Cession</u> |
|--|--|
| <p><u>*Property Per Risk Excess of Loss</u> 3 layers</p> | <p>\$95,000,000 excess of \$5,000,000 in respect of each loss and each risk; subject to an ultimate net loss of \$10,000,000 each and every loss occurrence and an annual ultimate net loss of \$5,000,000 in regards to acts of terrorism for the first layer, ultimate net loss of \$15,000,000 each and every loss occurrence and an annual ultimate net loss of \$15,000,000 in regards to acts of terrorism for the second layer and an ultimate net loss of \$15,000,000 each and every loss occurrence and an annual ultimate net loss of \$75,000,000 in regards to acts of terrorism for the third layer.</p> |
| <p><u>Casualty Excess of Loss</u> 4 layers 1st layer 83.5% placed 2nd layer 86% placed 3rd layer 82% placed 4th layer 80% placed</p> | <p>\$27,000,000 excess of \$3,000,000 subject to an ultimate net loss of \$10,000,000 for all loss occurrences for the first layer, \$21,000,000 for all loss occurrences for the second layer. \$18,000,000 for all loss occurrences for the third layer and \$18,000,000 for all loss occurrences for the fourth layer.</p> |
| <p><u>*Catastrophe Excess of Loss</u> 2 layers 1st layer 65.00% placed 2nd layer 45.00% placed</p> | <p>\$115,000,000 excess of \$15,000,000 each and every loss occurrence subject to a liability limit of \$25,000,000 each loss occurrence and \$25,000,000 annual aggregate ultimate net loss in regards to acts of terrorism for the first layer and a liability limit of \$90,000,000 each loss occurrence and \$90,000,000 annual aggregate ultimate net loss in regards to acts of terrorism for the second layer.</p> |

| | |
|---|---|
| <u>Workers' Compensation Aggregate Stop Loss Excess of Loss</u> | Aggregate limit of 22% of Net Earned Premium for business covered attachment point is 63% of Net. Earned Premium. |
| <u>Umbrella and Excess Liability Cessions Excess of Loss</u> | \$10,000,000 excess of \$15,000,000 in respect of each loss occurrence. |

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

The Company participates in a quota share agreement with TMAIC, whereby the Company agrees to cede, and TMAIC agrees to assume, 100% of the Company's premiums written and losses and loss adjustment expenses incurred, net of all other reinsurance.

All significant ceded reinsurance agreements in effect as of the examination date were reviewed and found to contain the required clauses, including an insolvency clause meeting the requirements of Section 1308 of the New York Insurance Law.

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

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

D. Holding Company System

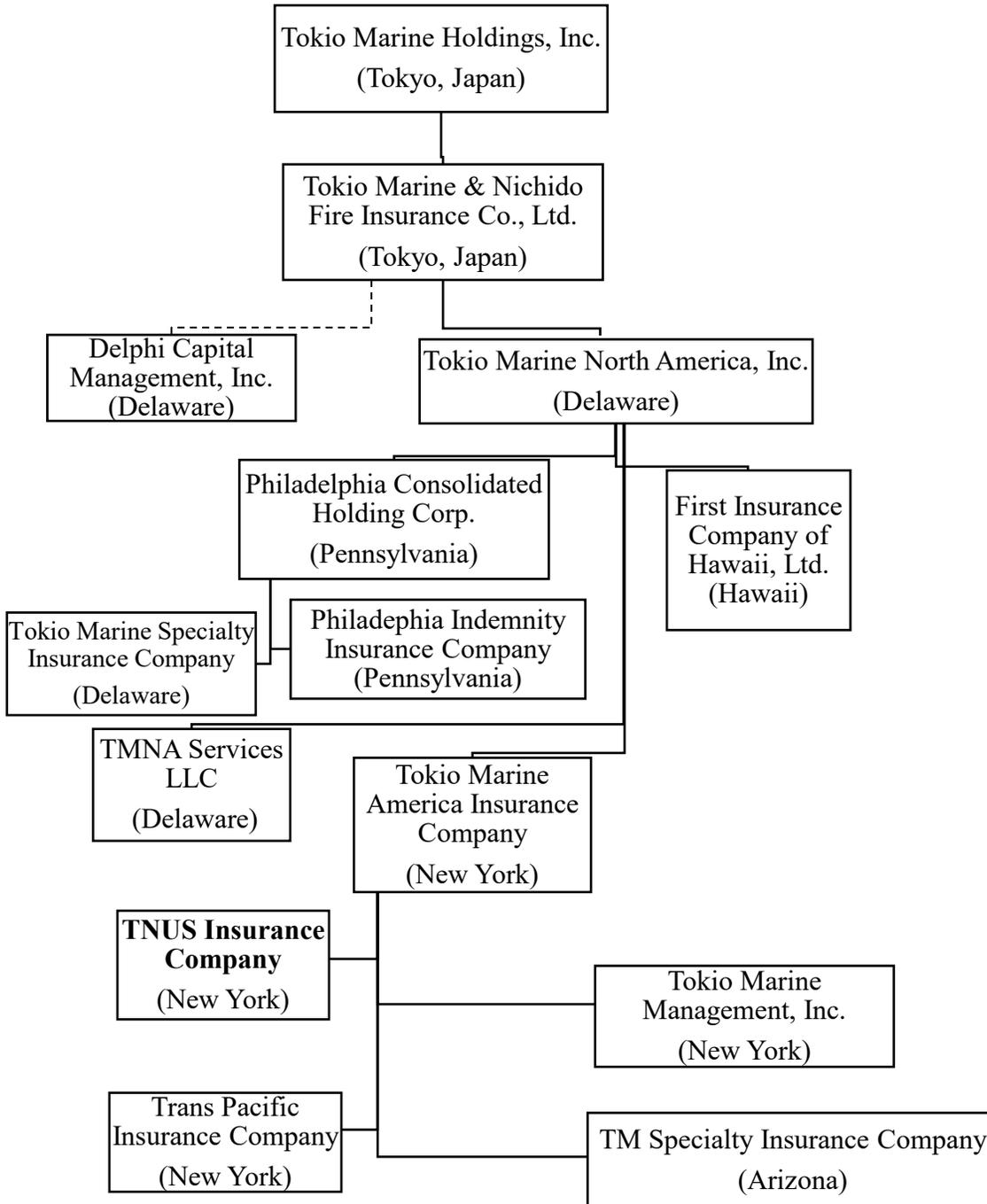
The Company is a member of the Tokio Marine Holdings Group. The Company is a wholly owned subsidiary of TMAIC, an insurance company domiciled in New York. Tokio Marine Holdings, Inc., an

insurance holding company organized under the Companies Act of Japan and publicly traded on the Tokyo Stock Exchange and the Osaka Securities Exchange, is the ultimate parent company.

The Company cedes 100% of net premiums, losses, and loss adjustment expenses to TMAIC. Together with its subsidiaries, the Company provides traditional commercial coverage in North America for the Tokio Marine Holdings Group, as well as providing some personal lines of coverage.

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

The following is an abridged chart of the holding company system at December 31, 2020:



As of December 31, 2020, the Company was party to the following agreements with other members of its holding company system:

Services Agreement

Effective February 26, 2013, the Company entered into a service agreement with TMNA Services LLC (“TMNAS”) and TMM, whereby TMNAS provides certain services such as accounting and finance, human resources, legal, investment, actuarial, enterprise risk management, and information technology to the Company. Pursuant to the terms of the agreement, services are to be provided at cost; allocations shall be on an equitable basis in accordance with Department Regulation 30. Reimbursements shall be payable by the Company and TMM within 15 days of receipt of the monthly invoice from TMNAS. The Company incurred fees of \$671,896 in 2020 for services provided under this agreement. This agreement was amended effective April 7, 2014.

Management Agreement

Effective January 1, 2012, the Company entered into an amended and restated management agreement with TMM, whereby TMM provides certain management services at cost to the Company, such as claims, underwriting, policyholder services, producer management, collection and handling of premiums and other funds, reinsurance, marketing support, product development and administration, and facilities. All expenses are to be allocated in accordance with Department Regulation 30 and to be reimbursed on a monthly basis. The Company incurred fees of \$1,405,594 in 2020 for services provided under this agreement. This agreement was amended effective April 7, 2014.

Tax Allocation Agreement

Effective with the tax year ending December 31, 2012, the Company entered into an intercompany tax allocation agreement, which was subsequently amended on numerous occasions. The terms of the agreement name TMNA as the parent of the group companies. The parties to the agreement agree that TMNA shall file a consolidated federal income tax return on behalf of the group companies. The group companies are TMNA’s subsidiaries, including TMAIC, TMM, TPI, TMS, and TNUS.

All agreements were filed with and non-disapproved by the Department pursuant to Section 1505 of the New York Insurance Law.

E. Significant Ratios

The Company’s adjusted liabilities to liquid assets ratio of 4%, computed as of December 31, 2020, falls within the benchmark range set forth in the Insurance Regulatory Information System of the NAIC.

All other ratios are not presented because they are not meaningful due to the 100% quota share agreement with TMAIC.

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2020, as reported by the Company:

| <u>Assets</u> | <u>Assets</u> | <u>Nonadmitted Assets</u> | Net Admitted <u>Assets</u> |
|---|---------------------|-------------------------------|-------------------------------|
| Bonds | \$52,889,888 | \$ 0 | \$52,889,888 |
| Cash, cash equivalents and short-term investments | 8,092,096 | 0 | 8,092,096 |
| Receivables for securities | 300,000 | 0 | 300,000 |
| Investment income due and accrued | 363,257 | 0 | 363,257 |
| Uncollected premiums and agents' balances in the course of collection | 906,737 | 363,548 | 543,189 |
| Deferred premiums, agents' balances, and installments booked but deferred and not yet due | 1,569,643 | 228,671 | 1,340,972 |
| Accrued retrospective premiums | 1,240,235 | 124,023 | 1,116,212 |
| Amounts recoverable from reinsurers | 699,132 | 0 | 699,132 |
| Net deferred tax asset | 146,071 | 0 | 146,071 |
| Receivables from parent, subsidiaries, and affiliates | 276,772 | 0 | 276,772 |
| Commission recoverable reserves | 62,504 | 0 | 62,504 |
| Equity and deposits in pools and associations | 8,430 | 0 | 8,430 |
| Prepaid expenses | <u>43,325</u> | <u>43,325</u> | <u>0</u> |
| Total assets | <u>\$66,598,089</u> | <u>\$759,567</u> | <u>\$65,838,522</u> |

Liabilities, Surplus, and Other FundsLiabilities

| | |
|---|----------------|
| Losses and loss adjustment expenses | \$ 320,301 |
| Other expenses (excluding taxes, licenses, and fees) | 42,473 |
| Taxes, licenses and fees (excluding federal and foreign income taxes) | 99,136 |
| Current federal and foreign income taxes | 136,404 |
| Ceded reinsurance premiums payable (net of ceding commissions) | 752,786 |
| Funds held by company under reinsurance treaties | 410,002 |
| Provision for reinsurance | 148,000 |
| Drafts outstanding | 64,785 |
| Payable to parent, subsidiaries, and affiliates | 201,079 |
| Miscellaneous other liability - retro premium | 1,240,235 |
| Unclaimed property payable | 288 |
| Accrued return premium | <u>664,031</u> |
| Total liabilities | \$ 4,079,519 |

Surplus and Other Funds

| | |
|---|---------------------|
| Common capital stock | \$ 5,000,000 |
| Gross paid in and contributed surplus | 4,900,000 |
| Unassigned funds (surplus) | <u>51,859,003</u> |
| Surplus as regards policyholders | <u>61,759,003</u> |
| Total liabilities, surplus, and other funds | <u>\$65,838,522</u> |

Note: The Internal Revenue Service has not audited tax returns covering tax years 2019 and through 2020. Audits covering tax year 2018 is currently under examination. The examiner is unaware of any potential exposure of the Company to any tax assessment and no liability has been established herein relative to such contingency.

B. Statement of Income

The net income for the examination period as reported by the Company was \$6,564,745, as detailed below:

Underwriting Income

| | | | |
|--|--------------|----|------------------|
| Premiums earned | | \$ | 0 |
| Deductions: | | | |
| Losses and loss adjustment expenses incurred | \$ (550,086) | | |
| Other underwriting expenses incurred | <u>302</u> | | |
| Total underwriting deductions | | | <u>(549,784)</u> |
| Net underwriting gain | | \$ | 549,784 |

Investment Income

| | | | |
|-------------------------------|---------------|--|-----------|
| Net investment income earned | \$7,493,521 | | |
| Net realized capital gains | <u>91,237</u> | | |
| Net investment gain or (loss) | | | 7,584,758 |

Other Income

| | | | |
|---|-----------------|------------------|--------------------|
| Net gain or (loss) from agents' or premium balances charged off | \$ (2,806) | | |
| Miscellaneous expense | <u>(29,277)</u> | | |
| Total other income | | | <u>(32,083)</u> |
| Net income after dividends to policyholders but before federal and foreign income taxes | | \$8,102,459 | |
| Federal and foreign income taxes incurred | | <u>1,537,714</u> | |
| Net income | | | <u>\$6,564,745</u> |

C. Capital and Surplus

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

Surplus as regards policyholders increased \$6,501,781 during the five-year examination period January 1, 2016, through December 31, 2020, as reported by the Company, detailed as follows:

| | | | |
|---|-------------------------|--------------------------|---------------------|
| Surplus as regards policyholders as reported by the Company as of December 31, 2015 | | | \$55,257,222 |
| | <u>Gains in Surplus</u> | <u>Losses in Surplus</u> | |
| Net income | \$6,564,745 | | |
| Net unrealized capital gains or (losses) | | \$ 99 | |
| Change in net deferred income tax | | 144,184 | |
| Change in nonadmitted assets | 94,294 | | |
| Change in provision for reinsurance | | 130,625 | |
| Adjustment to beginning surplus | <u>117,650</u> | <u>0</u> | |
| Total increases and decreases | \$6,776,689 | \$274,908 | |
| Net increase in surplus | | | <u>6,501,781</u> |
| Surplus as regards policyholders as reported by the Company as of December 31, 2020 | | | <u>\$61,759,003</u> |

No adjustments were made to surplus as a result of this examination.

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of \$320,301 is the same as reported by the Company as of December 31, 2020. As noted in section 2C of this report, the Company cedes 100% of its premiums, losses, and loss adjustment expenses to its parent, TMAIC, net of all other reinsurance. It is noted that TMAIC was examined concurrently with the Company and there were no changes to TMAIC's balance sheet or income statement. The examination analysis of the loss and loss adjustment expense reserves was conducted in accordance with actuarial standards of practice and statutory accounting principles, including SSAP No. 55.

5. SUBSEQUENT EVENTS

On March 11, 2020, the World Health Organization declared an outbreak of a novel coronavirus ("COVID-19") pandemic. The COVID-19 pandemic has continued to develop, with significant uncertainty remaining regarding the full effect of COVID-19 on the U.S. and global insurance and reinsurance industry. At the time of releasing this report, the examination's review noted that there has not been a significant impact to the Company. The Department has been in communication with the Company regarding the impact of COVID-19 on its operations and financial position. The Department continues to monitor the impact of the pandemic on the Company and will take necessary action if a solvency concern arises.

6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination contained no comments or recommendations.

7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

This report on examination contains no comments or recommendations.

Respectfully submitted,

_____/S/_____
Kevin McNamee
Associate Insurance Examiner

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

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

_____/S/_____
Kevin McNamee

Subscribed and sworn to before me

this _____ day of _____, 2022.

APPOINTMENT NO. 32252

NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

I, Linda A. Lacewell, Superintendent of Financial Services of the State of New York, pursuant to the provisions of the Financial Services Law and the Insurance Law, do hereby appoint:

Kevin McNamee

as a proper person to examine the affairs of the

TNUS Insurance Company

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

COMPANY

with such other information as he shall deem requisite.

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

this 13th day of May, 2021

*LINDA A. LACEWELL
Superintendent of Financial Services*

By:

Joan Riddell

*Joan Riddell
Deputy Bureau Chief*

