

REPORT OF EXAMINATION
OF THE
UNITED STATES BRANCH OF THE HYUNDAI
MARINE & FIRE INSURANCE COMPANY, LTD
AS OF
DECEMBER 31, 2016

Filed on April 4, 2018

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Los Angeles, California
February 28, 2018

Honorable Dave Jones
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

UNITED STATES BRANCH OF THE HYUNDAI MARINE & FIRE
INSURANCE COMPANY, LTD

(hereinafter also referred to as the U.S. Branch) at its branch office located at 300 Sylvan Avenue, Englewood Cliffs, New Jersey 07632. The statutory home office of the U.S. Branch is located at 2710 Gateway Oaks Drive, Suite 150N, Sacramento, California 95833.

SCOPE OF EXAMINATION

We have performed our multi-state examination of the U.S. Branch. The previous examination of the U.S. Branch was as of December 31, 2012. This examination covered the period from January 1, 2013 through December 31, 2016.

The examination was conducted in accordance with the National Association of Insurance Commissioners *Financial Condition Examiners Handbook* (Handbook). The Handbook requires the planning and performance of the examination to evaluate the U.S. Branch's financial condition, assess corporate governance, identify current and prospective risks, and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that

could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the U.S. Branch were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination, an adjustment is identified, the impact of such adjustment will be documented separately following the U.S. Branch's financial statements.

This examination report includes findings of fact and general information about the U.S. Branch and its financial condition. There might be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), were not included within the examination report, but separately communicated to other regulators and/or the U.S. Branch.

COMPANY HISTORY

The U.S. Branch is one of two branch offices of Hyundai Marine & Fire Insurance Co., Ltd. (Hyundai). Hyundai is a publicly traded property and casualty insurance company incorporated in 1955 under the laws of the Republic of Korea (South Korea). Using the port of entry in California, the U.S. Branch began its operations in the United States on December 4, 1992. Hyundai's other branch office is located in Japan.

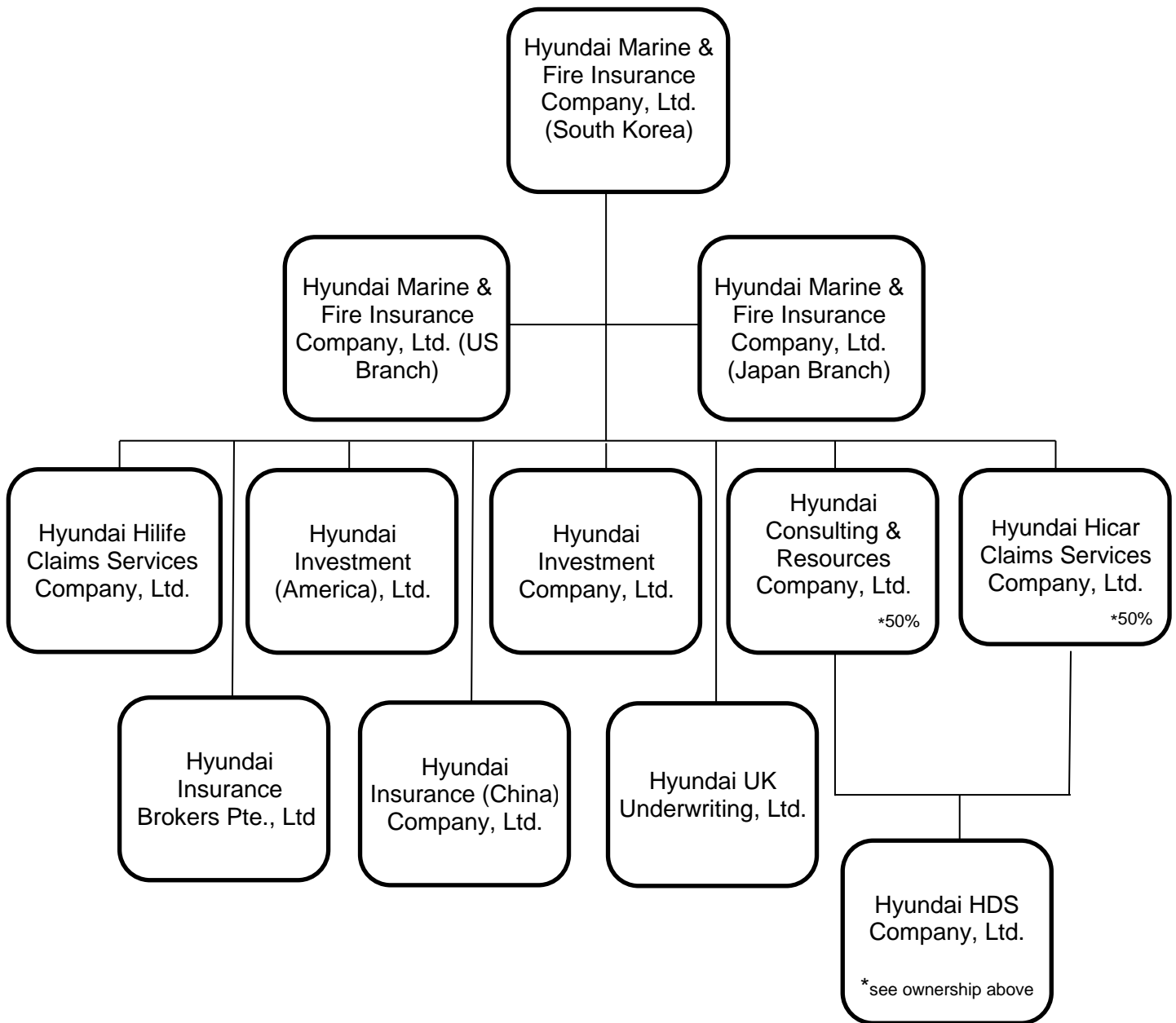
Capitalization

Hyundai is authorized to issue 200,000,000 shares of common stocks with a par value of 500 Korean Wons, or \$0.46 USD. There are 89,400,000 shares issued and outstanding. One shareholder, Mr. Mong Yoon Chung, holds approximately 19,578,600 shares, or 21.90% of the outstanding shares/voting securities, but disclaims any control

over Hyundai. On October 31, 2013, the U.S. Branch received a cash contribution of \$35,000,000 from its parent company, Hyundai.

MANAGEMENT AND CONTROL

The following abridged organizational chart shows Hyundai Marine & Fire Insurance Co., Ltd.'s (Hyundai) two branches and subsidiaries, and depicts the U.S. Branch's relationship within the holding company system (all ownership is 100% unless otherwise noted).



The eight members of the board of directors of Hyundai manage the business and affairs of the U.S. Branch. Following are members of the board and principal officers of Hyundai serving at December 31, 2016:

Directors

<u>Name and Location</u>	<u>Principal Business Affiliation</u>
Mong Yoon Chung South Korea	Chairman of the Board Hyundai Marine & Fire Insurance Company, Ltd.
Cheol Young Lee South Korea	Chief Executive Officer Hyundai Marine & Fire Insurance Company, Ltd.
Chan Jong Park South Korea	Chief Executive Officer Hyundai Marine & Fire Insurance Company, Ltd.
Hi Dong Kim South Korea	Professor Sook Myung University
Byung Doo Choi South Korea	Chief Executive Officer International Outsourcing, Inc.
Yeong Ho Jin South Korea	Advisor Doosan Heavy Industries
Ho-Young Kim ^(a) South Korea	Chief Executive Officer Yedaham, Inc.
Eu-Gen Song ^(b) South Korea	Professor Hanyang University

Principal Officers

<u>Name</u>	<u>Title</u>
Young Hong	President/General Branch Manager
Jin Byun	Secretary and Treasurer/Deputy General Manager

The following changes in management occurred subsequent to the examination date:

- (a) Due to a three-year term limit, Ho-Young Kim was not re-elected effective March 14, 2017.
- (b) Due to a one-year term limit after reappointment, Eu-Gene Song was not reelected and was replaced by Yong Jun Kim effective March 25, 2017.

Management Agreements

Administrative Services Agreement: Effective November 1, 2006, the U.S. Branch entered into an Administrative Services Agreement with Citadel Risk Management, Inc. (CRMI), an unaffiliated company organized and existing under the laws of Connecticut and having principal places of business in Bridgewater and Wayne, New Jersey. Under the terms of this Agreement, CRMI provided the U.S. Branch with management and support services relating to premium processing, reinsurance claims management, compliance, accounting, and financial statement reporting. In return, the U.S. Branch compensated CRMI with monthly service fees that were adjusted periodically based on time studies. In 2013, 2014, and 2015, the U.S. Branch paid CRMI \$258,704, \$261,787, and \$238,446, respectively, for services rendered under the terms of the Agreement. This Agreement was terminated on November 30, 2015.

Administrative Service Agreement: Effective August 5, 2015, the U.S. Branch entered into an Administrative Services Agreement with Paragon Strategic Solutions, Inc., doing business as InPoint Services (InPoint), an unaffiliated company organized and existing under the laws of Minnesota whose principal place of business is in Minneapolis, Minnesota. Under the terms of this Agreement, InPoint provides the U.S. Branch with management and support services relating to premium processing, reinsurance claims

management, compliance, accounting, and financial statement reporting. In return, the U.S. Branch compensates InPoint with monthly service fees that are adjusted periodically based on time studies. In years 2015 and 2016, the U.S. Branch paid InPoint \$171,400 and \$273,588, respectively, for services rendered under the terms of this Agreement. On December 19, 2016, Genpact International, Inc. (Genpact) assumed ownership of the Agreement as per the Assignment Clause, to reflect the substitution of Genpact for InPoint Services.

Agency Agreement: Effective January 1, 2012, the U.S. Branch entered into an Agency Agreement with C&M First Services, Inc. (C&M), an unaffiliated insurance agent licensed in New York. Under the terms of this Agreement, C&M provides insurance agency services including soliciting, selling, and servicing the U.S. Branch's insurance products in the state of New York. In 2013, 2014, 2015, and 2016, the U.S. Branch paid C&M \$867,229, \$1,877,603, \$3,518,663, and \$5,320,068, respectively, for services provided under the terms of the Agreement. Although C&M is the major agent, the U.S. Branch has agency agreements with several other agencies to service their property and casualty insurance products in the states of New York, New Jersey, and California.

Claims Administration Services: Effective January 1, 2012, the U.S. Branch and York Risk Services Group, Inc. (York), an unaffiliated company incorporated under the laws of New York, entered into an Agreement for Claims Administration Services. Pursuant to this Agreement, York provides claim adjustment services on claims arising out of the U.S. Branch's homeowners and dwelling fire policies issued in the states of New York, New Jersey, and California. The U.S. Branch compensates York based on the fee schedule in the Agreement. In 2013, 2014, 2015, and 2016, the U.S. Branch paid York \$76,434, \$177,123, \$445,651, and \$1,221,725, respectively, for the claims adjustment services rendered under this Agreement.

Technology License and Service Agreement: Effective July 1, 2011, the U.S. Branch and Mapletech Technologies, LLC (Mapletech), an unaffiliated company incorporated under the laws of New Jersey, entered into an Agreement for technology and related

services. Pursuant to this agreement, the U.S. Branch has access to the insurance automation system, ASPIRE, which encompasses the computer programs and other technology used to perform insurance policy issuance, accounting and administrative functions. In return, the U.S. Branch compensates Mapletech with monthly licensing fees based on gross written premium. In 2013, 2014, 2015, and 2016, the U.S. Branch paid Mapletech \$72,680, \$142,124, \$255,481, and \$337,146, respectively, for the licensing fees under the terms of this Agreement.

Trust Agreement

California Insurance Code Sections (CICS) 1580 and 1581 require that an alien insurer transacting business in California appoint a trustee, and maintain a deposit with the trustee for security of all the alien insurer's policyholders and creditors in the United States. Pursuant to CICS 1582, the amount of the deposit shall be equal to the minimum amount of paid-in-capital required for the admission of incorporated insurers issuing policies on a reserve basis, and transact the same classes of insurance that the alien insurer is transacting in the United States. Since the U.S. Branch is the United States branch of an alien insurer, Hyundai Marine & Fire Insurance Company, Ltd., the U.S. Branch is required to comply with the aforementioned CICS. As a result, the U.S. Branch appointed Union Bank, N.A. as its trustee. Based on the classes of insurance business the U.S. Branch is authorized to write, the U.S. Branch is required to maintain a minimum deposit of \$1,900,000. The U.S. Branch maintains a deposit of \$3,000,000 with Union Bank, N.A. Therefore, the U.S. Branch is in compliance with the aforementioned CICS.

TERRITORY AND PLAN OF OPERATION

The U.S. Branch currently writes fire, allied lines, homeowners multiple peril, commercial multiple peril, ocean marine, inland marine, workers' compensation, other liability, products liability, private passenger auto liability, commercial auto liability, auto physical damage, and earthquake.

The U.S. Branch provides coverage primarily for the manufacturing and sales operations of Hyundai/Kia Motors companies, and their parts suppliers in the United States. They are currently licensed to write property and casualty insurance business in the states of Alabama, California, Georgia, Illinois, Massachusetts, New Jersey, New York, and Oregon.

The U.S. Branch began to issue homeowners insurance policies in the state of New York in 2012, in New Jersey in 2014, and in California in 2015. The U.S. Branch plans to expand its homeowners business into other states such as Nevada, Washington, and Oregon.

In 2016, the U.S. Branch generated \$30,901,262 of direct premiums written. Of the total direct premiums written, \$24,831,037 (80.4%) was written in New York, \$3,029,337 (9.8%) in California, \$1,969,175 (6.4%) in New Jersey, \$616,843 (2.0%) in Georgia, and \$454,870 (1.4%) in Alabama.

In prior years, assumed reinsurance business had been the U.S. Branch's primary source of business. As of year-end 2016, however, direct premiums written have increased to \$30,901,262 as compared to \$21,251,702 in assumed. While primarily maintaining broker-based commercial accounts for either direct or assumed, the U.S. Branch uses selective general agents to promote direct homeowners' insurance programs.

The U.S. Branch plans to market property and casualty coverages to service the insurance needs of other Korean entities that have either operations or projects in the United States. They also plan to balance out the mix of premiums written between the

commercial and personal lines of business, as well as direct and assumed; and to diversify its business portfolio to grow more organically over the long-term, while maintaining its current policyholder base.

REINSURANCE

Assumed

With respect to commercial insurance, the U.S. Branch's primary method of transacting business is through reinsurance. In 2016, the assumed premiums written accounted for 40.7% or \$21,252,000 of the total gross premiums written.

The table below summarizes the principal assumed reinsurance treaties, coverage, retentions, and limits in effect at December 31, 2016:

Type of Contract/ Line of Business	Ceding Insurers' Name	Reinsured's Retention	U.S. Branch's Limit
Treaty/ Per Risk Excess of Loss/ Property	Mitsui Sumitomo Insurance USA, Inc. (Authorized)	\$1 million net of reinsurance, pursuant to contract terms	\$2 Million (4% of 4th layer \$50 million xs \$50 million)
Treaty/ Quota Share/ Inland Marine	Chartis Property Casualty Company (Authorized)	65%	8.5% of \$30 Million, or \$2.55 Million per risk per occurrence

Ceded

The U.S. Branch cedes its business primarily to Korean Reinsurance Company (Korean Re), an unauthorized alien reinsurer, and Lloyds of London Syndicates. In 2016, the ceded premiums written amounted to \$26,692,000. Of the total ceded premiums written, 85.1% or \$22,720,000 was ceded to Korean Re and 2.8% or \$742,000 was ceded to Lloyds of London Syndicates. The net reinsurance recoverables totaled \$24,687,000. Of the total net reinsurance recoverables, 94.2% or \$23,263,000 was

recoverable from Korean Re. The U.S. Branch secured a letter of credit for \$29,243,000 from Korean Re as collateral for the reinsurance recoverables. Reinsurance recoverables on paid losses accounted for 14.7% of the total policyholder surplus of \$52,340,082.

The U.S. Branch utilizes quota share, excess of loss, and facultative arrangements to protect its policyholders' surplus. The table below summarizes principal ceded reinsurance contracts, coverage, retentions, and limits in effect at December 31, 2016:

Type of Contract/ Line of Business	Reinsurer's Name	US Branch's Retention	Reinsurer's Limit
Treaty/ Excess of Loss/ Property	Swiss Reinsurance Company (Authorized)	Approximately \$1 million, depending on Korean currency exchange rate	Approximately \$50 million, depending on Korean currency exchange rate.
Treaty/ Excess of Loss/ Cargo and Hull	Munich Reinsurance Company (Authorized)	\$1 million	\$50 million
Treaty/ Quota Share/ Commercial and Fire Property	Korean Reinsurance Company (Unauthorized)	1 line (25%) part of 4 lines.	3 lines (75%)
Treaty/ Quota Share/ Ocean Marine/ Dwelling & Homeowners	Korean Reinsurance Company (Unauthorized)	Net of \$3 million ceded limit (Ocean Marine) & 60% of original \$1.2 million (Homeowners) per coverage.	\$3 million (Ocean Marine) and 40% of original \$1.2 Million (Homeowners) per coverage.
Semi-Auto Facultative/ Quota Share/ Casualty	Korean Reinsurance Company (Unauthorized)	50% of written (25% of original)	\$1 million per risk (50% of written: usually \$250 thousand to \$500 thousand)
Facultative/ Quota Share/ Marine Cargo	46.67% Various Lloyd's Syndicates (Authorized) 33.33% Royal & Sun Alliance (Unauthorized) 10% Sompo America Insurance (Authorized)	1.5%	96% of original \$50 million policy limit per any one conveyance and any one location or warehouse.

Facultative/ Quota Share/ Marine Cargo	Korean Reinsurance Company (Unauthorized)	7%	93% of original \$20 million policy limit per any one conveyance and any one location or warehouse.
Facultative/ Quota Share/ Marine Cargo	Korean Reinsurance Company (Unauthorized)	13%	72% of original \$20 million policy limit per any one conveyance and any one location or warehouse.

A review of the U.S. Branch's reinsurance contracts that were in-force at December 31, 2016, revealed that several contracts did not include the insolvency and/or termination clause as required under the California Code of Regulations (CCR), Title 10, Chapter 5, Subchapter 3, Article 3, Sections 2303.13 and 2303.14. It is recommended that the U.S. Branch review all of its current and future reinsurance contracts and ensures that all contracts comply with the aforementioned regulations. This is a repeat finding.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the U.S. Branch with the California Department of Insurance and present the financial condition of the U.S. Branch for the period ending December 31, 2016. The accompanying comments to the amounts reported in the annual statements should be considered an integral part of the financial statements. There were no examination adjustments made to surplus as a result of the examination.

Statement of Financial Condition as of December 31, 2016

Underwriting and Investment Exhibit for the Year Ended December 31, 2016

Reconciliation of Surplus as Regards Policyholders from December 31, 2012 through December 31, 2016

Statement of Financial Condition
as of December 31, 2016

<u>Assets</u>	<u>Ledger and Nonledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 52,796,717	\$	\$ 52,796,717	
Cash and short-term investments	36,746,365		36,746,365	
Investment income due and accrued	358,849		358,949	
Premiums and agents' balances in course of collection	5,975,228	10,807	5,964,421	
Amounts recoverable from reinsurers	2,397,960		2,397,960	
Net deferred tax asset	1,184,269	141,864	1,042,405	
Electronic data processing equipment and software	398,539	398,539	0	
Furniture and equipment	11,194	11,194	0	
Aggregate write-ins for other than invested assets	<u>40,949</u>	<u>18,241</u>	<u>22,708</u>	
 Total assets	 <u>\$ 99,910,170</u>	 <u>\$ 580,645</u>	 <u>\$ 99,329,525</u>	
 <u>Liabilities, Surplus and Other Funds</u>				
Losses and loss adjustment expenses			\$ 20,003,062	(1)
Reinsurance payable on paid loss and loss adjustment expenses			803,960	
Commissions payable, contingent commissions and other similar charges			1,014,904	
Other expenses			700,770	
Taxes, licenses and fees			333,896	
Current federal and foreign income taxes			31,852	
Unearned premiums			12,483,354	
Advance premiums			458,397	
Ceded reinsurance premiums payable			3,921,306	
Funds held by company under reinsurance treaties			7,788,835	
Remittances and items not allocated			(922,741)	
Provision for reinsurance			358,839	
Drafts outstanding			<u>13,009</u>	
 Total liabilities			 46,989,443	
Statutory deposits of alien insurers	\$ 3,000,000			
Gross paid-in and contributed surplus		43,100,000		
Unassigned funds (surplus)		<u>6,240,082</u>		
Surplus as regards policyholders			<u>52,340,082</u>	
 Total liabilities, surplus and other funds			 <u>\$ 99,329,525</u>	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2016

Statement of Income

Underwriting Income

Premiums earned		\$ 24,454,748
Deductions:		
Losses and loss expenses incurred	\$ 15,195,737	
Other underwriting expenses incurred	<u>8,779,850</u>	
Total underwriting deductions		<u>23,975,587</u>
Net underwriting gain		479,161

Investment Income

Net investment income earned	\$ 1,153,717	
Net realized capital gain	<u>46,773</u>	
Net investment gain		1,200,490

Other Income

Net income before dividends to policyholders, after capital gains tax and before federal and foreign income taxes		1,679,651
Federal and foreign income taxes incurred		<u>664,037</u>
Net income		<u>\$ 1,015,614</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2015		\$ 51,492,312
Net income	\$ 1,015,614	
Change in net deferred income tax	78,595	
Change in nonadmitted assets	(166,599)	
Change in provision for reinsurance	<u>(79,839)</u>	
Change in surplus as regards policyholders for the year		<u>847,770</u>
Surplus as regards policyholders, December 31, 2016		<u>\$ 52,340,082</u>

Reconciliation of Surplus as Regards Policyholders
from December 31, 2012 through December 31, 2016

Surplus as regards policyholders, December 31, 2012			\$ 14,469,502
	<u>Gain in Surplus</u>	<u>Loss in Surplus</u>	
Net income	\$ 2,362,186	\$	
Change in net deferred income tax	418,424		
Change in nonadmitted assets		61,339	
Change in provision for reinsurance	151,309		
Capital changes: Paid-in	<u>35,000,000</u>		
Total gains and losses	<u>\$ 37,931,919</u>	<u>\$ 61,339</u>	
Net increase in surplus as regards policyholders			<u>37,870,580</u>
Surplus as regards policyholders, December 31, 2016			<u>\$ 52,340,082</u>

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Losses and Loss Adjustment Expenses

A Senior Casualty Actuary of the California Department of Insurance reviewed the actuarial report, and concurred that the loss reserves of the U.S. Branch are reasonably stated as of December 31, 2016 and have been accepted for purposes of this examination.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Reinsurance – Ceded (Page 9): It is recommended that the U.S. Branch review all of its current and future reinsurance contracts and ensures that all contracts include the insolvency and/or termination clause pursuant to the California Code of Regulations, Title 10, Chapter 5, Subchapter 3, Article 3, Sections 2303.13 and 2303.14. This is a repeat finding.

Previous Report of Examination

Reinsurance – Ceded (Page 10): It was recommended that the U.S. Branch amend its reinsurance contracts to include the insolvency and entire agreement clauses pursuant to the California Code of Regulations, Title 10, Chapter 5, Subchapter 3, Article 3, Section 2303.13. The U.S. Branch amended six contracts to comply with the CCR, Title 10, Chapter 5, Subchapter 3, Article 3, Section 2303.13.

ACKNOWLEDGMENT

Acknowledgment is made of the cooperation and assistance extended by the U.S. Branch's officers and employees during the course of this examination.

Respectfully submitted,

/S/

Sharon Grayson
Examiner-In-Charge
Associate Insurance Examiner
Department of Insurance
State of California

/S/

Edward Aros, CFE
Senior Insurance Examiner, Supervisor
Department of Insurance
State of California