



COMMONWEALTH OF MASSACHUSETTS
OFFICE OF CONSUMER AFFAIRS AND BUSINESS REGULATION
DIVISION OF INSURANCE

REPORT OF EXAMINATION OF
Coface North America Insurance Company
Newton, Massachusetts
As of December 31, 2021

NAIC GROUP CODE 1279
NAIC COMPANY CODE 31887
EMPLOYER ID NUMBER 20-0527783

COFACE NORTH AMERICA INSURANCE COMPANY

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COMMONWEALTH OF MASSACHUSETTS
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DIVISION OF INSURANCE

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MAURA HEALEY
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May 15, 2023

The Honorable Gary D. Anderson
Commissioner of Insurance
Commonwealth of Massachusetts
Division of Insurance
1000 Washington Street, Suite 810
Boston, Massachusetts 02118-6200

Honorable Commissioner:

Pursuant to your instructions and in accordance with Massachusetts General Laws, Chapter 175, Section 4, an examination has been made of the financial condition and affairs of

COFACE NORTH AMERICA INSURANCE COMPANY

with its statutory home office located at 275 Grove Street, Suite 2-400, Newton, Massachusetts 02466. The examination was conducted remotely. The following report thereon is respectfully submitted.

SCOPE OF EXAMINATION

Coface North America Insurance Company ("Company") was last examined as of December 31, 2016 by the Massachusetts Division of Insurance ("Division"). The current examination was conducted by the Division and covers the five-year period from January 1, 2017 through December 31, 2021, including any material transactions and/or events occurring subsequent to the examination date.

The examination was conducted in accordance with standards and procedures established by the National Association of Insurance Commissioners ("NAIC") Financial Condition (E) Committee and prescribed by the current NAIC *Financial Condition Examiners Handbook*, the examination standards of the Division, and Massachusetts General Laws. The Handbook 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.

All accounts and activities of the Company 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 Company's financial statements.

This examination report includes significant findings of fact, as mentioned in the Massachusetts General Laws, Chapter 175, Section 4, and general information about the insurer and its financial condition. There may be other items identified during the examination that due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the Company.

During the period of this examination, the Company was audited annually by Deloitte & Touche LLP ("Deloitte"), an independent certified public accounting firm. The firm expressed unqualified opinions on the Company's financial statements for the calendar years 2017 through 2021. A review and use of Deloitte's work papers were made to the extent appropriate and effective.

Representatives from the firm Rudmose & Noller Advisors, LLC ("RNA") were retained by the Division to assist in the examination by performing certain examination procedures at the direction of, and under the overall management of the Division's examination staff. The assistance included a review of enterprise risk management, internal controls, accounting records, investment, reinsurance, and other accounts as considered appropriate. Representatives from INS Regulatory Insurance Services, Inc. ("INS") were retained by the Division to assist in the examination by performing procedures over information technology risks and a risk-focused assessment of reserve-related controls and risk mitigation strategies, along with the reasonableness of losses and loss adjustment expense reserves.

SUMMARY OF SIGNIFICANT FINDINGS OF FACT

There were no significant findings identified during the previous examination, and there are no significant findings related to the current examination.

COMPANY HISTORY

General

The Company is organized under the laws of the Commonwealth of Massachusetts. On December 30, 2003 Factory Mutual Insurance Company (“Factory Mutual”) sold 100% of the issued and outstanding capital stock of Arkwright Insurance Company (“Arkwright”) to Coface North America Holding Company (“CNAHC”) for the purchase price of \$7.15 million. All liabilities of Arkwright were assumed by Factory Mutual. Arkwright was then renamed Coface North America Insurance Company and remained domiciled in Massachusetts. As a licensed property and casualty insurer, the Company is subject to the provisions of Massachusetts General Laws Chapter 175 and other Massachusetts insurance laws.

CNAHC is an indirect subsidiary of publicly-traded Coface S.A. (France). After a change in control approved by the Division on February 5, 2021, Coface S.A. is 29.86% owned by Arch Capital Group Ltd. (“Arch Capital”), 69.57% owned by the public, and .57% is owned by employees. Arch Capital acquired its 29.86% stake in Coface S.A. from Natixis S.A., and prior to the change in control, Natixis S.A. owned 41.24% of Coface S.A., which was controlled by BPCE (France), a French bank holding company. On January 5, 2022, Natixis S.A. sold its residual interest in Coface S.A. through a private placement offering to institutional investors.

The Company and Coface S.A. have a significant history in trade credit insurance in Europe and the United States, beginning shortly after World War II, and are global leaders in providing trade credit insurance and receivables management products. As of December 31, 2021, the Company is licensed in the District of Columbia and all states except Hawaii.

Dividends

The Company declared and paid dividends to CNAHC of \$5.8 million during 2018 and \$3.3 million during 2019. The Company declared and paid no dividends in 2017, 2020, and 2021.

MANAGEMENT AND CONTROL

Board of Directors Minutes

The minutes of meetings of the Board of Directors (“Board”), or consent actions in lieu of meetings, and minutes of its Committee meetings for the period under examination were read, and they indicated that all significant actions were taken in accordance with the Company’s bylaws and the Laws of the Commonwealth of Massachusetts. Activities of the Board’s committee were ratified by the Board.

Articles of Incorporation and Bylaws

The articles of incorporation (“Articles”) of the Company have been amended twice since the acquisition of Arkwright on December 30, 2003. The Company changed its name to its present name on the same day as the acquisition, and this was subsequently approved by the Division on January 27, 2004. A second amendment to the Articles authorizing an additional class of business was adopted by the Company on March 27, 2006 and subsequently approved by the Division on April 13, 2006. The bylaws of the Company were also amended on June 16, 2004 to reflect the change of the Company’s name previously authorized by the Company on December 30, 2003, and then subsequently approved by the Division on January 27,

Coface North America Insurance Company

2004. The Articles and the bylaws were read and reviewed.

Board of Directors

According to the bylaws, the Company's business shall be managed by the Board, which may exercise all of the powers of the Company, except as otherwise provided by the Articles, bylaws or statutory requirements. The Board may determine the number of its directors, who shall be elected at the annual meeting of the shareholder, or at a special meeting. Each director shall hold office until the next annual meeting of the stockholder and until a successor shall have been duly elected and qualified, but any director may resign. If the office of a director becomes vacant, the directors may fill any vacancy on the Board between annual meetings. Any vacancy at the time of the annual meeting may be filled by the shareholder. A director must be an officer or eligible to hold such office. As of December 31, 2021, the Company's Board was composed of Company management as follows:

<u>Name of Director</u>	<u>Title</u>
Oscar L. Villalonga	President and Chief Executive Officer
Carolina D. Ventura	Secretary and General Counsel
Alexandre Lacreu	Regional Risk Underwriting Director
Gerardo A. Ronconi	Treasurer and Chief Financial Officer
Paul C. Haigley	Senior Vice President of Commercial Underwriting
Leroy B. Spurrier, III	Chief Commercial Officer
Benoit Urbin	Chief Operating Officer
Jenine D. Spadafino	Regional Director of Human Resources

Committees of the Board of Directors

The bylaws allow that directors may elect from the directors an executive committee, finance committee, audit committee, and other such committees. Thus, the Board appointed an investment committee to monitor the performance of the Company's investments and authorize the purchase and sale of securities. The Board fulfills the functions of an audit committee that are not delegated by Coface S.A.

Officers

According to the Bylaws, the Board shall elect the officers of the Company. Officers of the Company as of December 31, 2021, in addition to those directors above, include the following:

<u>Name of Officer</u>	<u>Title</u>
Zulfikar Bhura	Chief Information Officer
Natalie J. Jorge	Regional Compliance Manager
Alethea R. Stennett	Regional Risk Manager
Gary Scharf	Director of Statutory Reporting and Investments
Joel Ross	Regional Legal Counsel

Subsequent to December 31, 2021, Alethea R. Stennett left the Company, and the position remains vacant.

Affiliated Companies

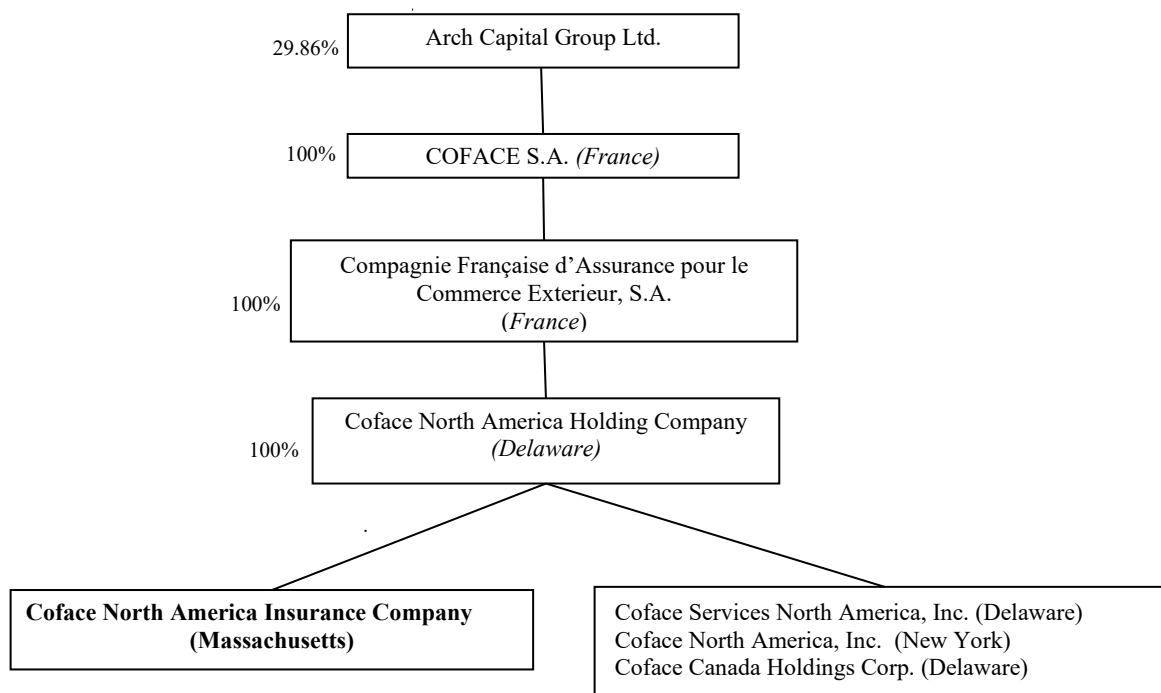
As stated in the Insurance Holding Company System Form B as filed with the Division, the Company is a member of a holding company system and is subject to the registration requirements of Massachusetts

Coface North America Insurance Company

General Laws, Chapter 175, Section 206C and 211 CMR 7.00. The ultimate controlling person is Arch Capital

Organizational Chart

A limited summary of ownership and relationship of the Company and its affiliated companies as of December 31, 2021, is illustrated below:



Transactions and Agreements with Affiliates Excluding Reinsurance

Administrative Services Agreements

The Company shares certain employee costs and other operating costs with Coface North America, Inc. and Coface Services North America, Inc. (“CSNA”), and these reimbursed costs incurred totaled \$3.9 million in 2021. Further, the Company has a supply agreement with CSNA where it receives credit information used for underwriting in exchange for application fees charged to commercial customers, for which the fees totaled \$7.8 million in 2021. Based on a 2021 transfer pricing study by a third party, these charges include a 5% profit margin.

The Company participates in a Coface Global Solutions Services Agreement with Compagnie Française d’Assurance pour le Commerce Extérieur, S.A. in France (“Coface Europe”) as a program leader and issuer of large global insurance policies. The net fees incurred less the fees earned for services under this agreement were \$2.5 million in 2021. Based on the 2021 transfer pricing study, the Company earns a 9% commission based on premium written through the fees charged to its affiliates.

The Company also incurs management fees to Coface Europe for administrative services including those pursuant to a Head Office Management Fees Agreement, which is annually renewable and includes a profit margin of 5.6%, which is also based on the 2021 transfer pricing study. The total fees incurred in 2021 were \$5.7 million.

Tax Sharing Agreement

The Company's Federal income tax return is included in the consolidated Federal income tax return of CNAHC subject to a tax sharing agreement with the Company's current and deferred income taxes recorded on a separate return basis.

All affiliate agreements and changes thereto have been filed with the Division under Form D requirements and have been non-disapproved.

TERRITORY AND PLAN OF OPERATION

The Company is licensed to write business in the District of Columbia and all states except Hawaii, with the highest insurance premiums written in New York, New Jersey, and California. The Company reported \$3.1 million of 2021 direct premium written in Massachusetts. The Company sells trade credit insurance primarily through its distribution network of employee producers.

REINSURANCE

Ceded Reinsurance

The Company has three reinsurance cession treaties with its indirect parent, Coface France, as follows:

- a three-year non-cancellable 50% quota share treaty established in 2019 ceding 50% of premium written for which the Company earned a ceding commission based on the incurred loss ratio, and earned a 15% profit commission,
- a three-year non-cancellable stop-loss treaty for unlimited coverage in excess of the Company's ultimate net loss of 60% of the annual net retained earned premium, and
- a three-year non-cancellable excess of loss treaty for unlimited coverage on any one insured in excess of 10% of Company's surplus.

In addition, a \$90.0 million letter of credit from Societe Generale's New York Branch allows the Company to take credit for these reinsurance cessions in its statutory financial statements. The reinsurance contracts require periodic and timely remittance or settlement of premiums, commissions, losses, and expenses.

There is also a 100% facultative quota share contract on a single-risk policy with a non-affiliated reinsurer ceding \$.7 million of premium, with a \$1.5 million letter of credit provided as security.

Assumed Reinsurance

Effective January 1, 2021, the Company has a stop-loss agreement with the Canadian Branch of Coface France whereby the Company provided coverage for the ultimate net loss in excess of 65%, with a limit of 300% of the annual net retained earned premium, and where the reinsurance premium was 6% of such net retained earned premium or \$1.2 million in 2021. For this assumed reinsurance, 50% is retroceded through the Company's ceded reinsurance program with Coface Europe.

Coface North America Insurance Company

The following table summarizes the effect of the direct, assumed, and ceded reinsurance on premiums written for 2021 (in thousands):

	Premium Written	Unearned Premium
Direct and Assumed	\$ 129,573	\$ 64,523
Ceded – Quota share	65,310	32,089
Ceded – Stop loss	4,960	0
Ceded – Excess of loss	291	0
Ceded – Facultative	690	342
Net	<u>\$ 58,322</u>	<u>\$ 32,092</u>

The Company reports \$5.9 million in reinsurance recoverable from Coface France for the intercompany reinsurance contracts as of December 31, 2021. Ceded reinsurance premiums payable was \$12.9 million as of December 31, 2021.

FINANCIAL STATEMENTS

The following financial exhibits are based on the statutory financial statements prepared by management and filed by the Company with the Division and present the financial condition of the Company for the period ending December 31, 2021. The financial statements are the responsibility of Company management.

Assets, Liabilities, Surplus and Other Funds as of December 31, 2021

Statement of Income for the Year Ended December 31, 2021

Reconciliation of Capital and Surplus for Each Year in the Five-Year Period Ended December 31, 2021

Coface North America Insurance Company

Assets, Liabilities, Surplus and Other Funds as of December 31, 2021

	Per Annual Statement
ASSETS	
Bonds	\$ 103,867,423
Cash, cash equivalents and short-term investments	37,492,451
Subtotals, cash and invested assets	<u>141,359,874</u>
Investment income due and accrued	503,635
Uncollected premiums and agents' balances in the course of collection	22,030,111
Deferred premiums	1,935,191
Amounts recoverable from reinsurers	5,878,883
Net deferred tax asset	4,226,256
Receivables from parent, subsidiaries and affiliates	689,383
Total Assets	<u><u>\$ 176,623,333</u></u>
LIABILITIES	
Losses	\$ 39,840,288
Loss adjustment expenses	2,770,538
Commissions payable	6,431,069
Other expenses	7,118,378
Taxes, licenses and fees	456,499
Current federal and foreign income taxes	1,512,159
Unearned premiums	32,092,165
Advance premium	1,064,942
Ceded reinsurance premiums payable	12,907,730
Remittances and items not allocated	2,760,563
Payable to parent, subsidiaries and affiliates	2,743,449
Aggregate write-ins	390,871
Total Liabilities	<u>110,088,651</u>
CAPITAL AND SURPLUS	
Common capital stock	2,600,000
Gross paid in and contributed surplus	43,485,310
Unassigned funds (surplus)	20,449,372
Surplus	<u>63,934,682</u>
Total Capital and Surplus	<u>66,534,682</u>
Total Liabilities, Capital and Surplus	<u><u>\$ 176,623,333</u></u>

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Statement of Income for the Year Ended December 31, 2021

	Per Annual Statement
Premiums earned	\$ 55,871,735
Deductions:	
Losses incurred	6,441,393
Loss adjustment expenses incurred	2,638,054
Other underwriting expenses incurred	25,549,770
Total underwriting deductions	<u>34,629,217</u>
Net underwriting income	21,242,518
Net investment income earned	958,008
Net realized capital gains	270,621
Net investment gain	<u>1,228,629</u>
Aggregate write-ins for miscellaneous income	537,906
Federal and foreign income taxes incurred	<u>4,786,851</u>
Net income	<u><u>\$ 18,222,202</u></u>

Coface North America Insurance Company

Reconciliation of Capital and Surplus

For Each Year in the Five-Year Period Ended December 31, 2021

	2021	2020	2019	2018	2017
Capital and surplus as of December 31, prior year	\$ 47,685,669	\$ 49,419,217	\$ 48,056,307	\$ 47,068,673	\$ 46,109,758
Net income/(loss)	18,222,202	(115,438)	3,958,426	3,318,462	6,808,418
Change in net unrealized capital gains or (losses) less capital gains tax	149,378	-	-	-	-
Change in net deferred income tax	17,631	461,344	202,444	521,480	(3,483,746)
Change in non-admitted assets	459,802	(2,079,454)	502,040	1,357,655	(775,640)
Change in provision for reinsurance	-	-	-	1,590,117	(1,590,117)
Dividends to stockholders			(3,300,000)	(5,800,080)	-
Change in surplus as regards policyholders for	18,849,013	(1,733,548)	1,362,910	987,634	958,915
Capital and surplus as of December 31, current year	<u>\$ 66,534,682</u>	<u>\$ 47,685,669</u>	<u>\$ 49,419,217</u>	<u>\$ 48,056,307</u>	<u>\$ 47,068,673</u>

ANALYSIS OF CHANGE IN FINANCIAL STATEMENTS RESULTING FROM THE EXAMINATION

There were no changes in the financial statements resulting from the examination.

COMMENTS ON FINANCIAL STATEMENT ITEMS

As a result of the examination, there are no significant issues or adverse findings identified.

The Division engaged INS consulting actuaries to assist in evaluating the Company's reserve-related controls and risk mitigation strategies, and to develop an independent estimate of losses and loss adjustment expense reserves held by the Company for the credit-loss business segment on both a net and gross basis as of December 31, 2021. INS further reviewed the appointed actuary's work and conclusions for the remaining minor lines of business. As part of this engagement, the audit workpapers of the Company's independent auditor, Deloitte, were also reviewed in order to understand its work in assessing the Company's losses and loss adjustment expense reserves.

The INS engagement was conducted in a manner consistent with the Code of Professional Conduct and Qualification Standards of the American Academy of Actuaries and the Standards of Practice adopted by the Actuarial Standards Board.

INS' losses and loss adjustment expense reserve estimates compared to the Company's carried amounts as of December 31, 2021 are in the table below.

Summary of Estimated Losses and Loss Adjustment Expense Reserves (\$000's)

	INS Estimate			Company Carried	Difference		
	Low	Central	High		Low	Central	High
Net	31,264	38,308	44,904	42,611	(11,347)	(4,303)	2,293
Gross	61,362	75,169	88,085	85,298	(23,936)	(10,129)	2,787

Based on its review, INS determined that estimated losses and loss adjustment expense reserves as of December 31, 2021:

- Are computed in accordance with presently accepted actuarial standards, consistently applied and are fairly stated in accordance with sound actuarial principles;
- Meet the requirements of the insurance laws and regulations of the Commonwealth of Massachusetts;
- Make a reasonable provision for losses and loss adjustment expense obligations of the Company under its insurance contracts.

SUBSEQUENT EVENTS

The following are subsequent events occurring after December 31, 2021 and through the date of this report.

- The Company declared an ordinary dividend of \$12.5 million to its shareholder in the second quarter of 2022.
- The Company declared an ordinary dividend of \$16.3 million to its shareholder on March 27, 2023, payable in April 2023.
- The Company amended its Articles and Bylaws on March 27, 2023 for minor technical changes and presented them to the Division for review and approval. The Division's review is underway.

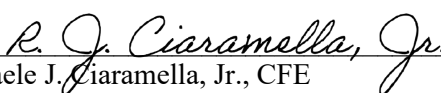
SUMMARY OF RECOMMENDATIONS

There were no recommendations noted by the examination team for improvements in processes, activities, and/or controls to be included in this report.

SIGNATURE PAGE

Acknowledgement is made of the cooperation and courtesies extended by the officers and employees of the Company during the examination.

The assistance rendered by RNA and INS, who participated in this examination is hereby acknowledged.



Raffaele J. Ciaramella, Jr., CFE
Supervising Examiner & Examiner-In-Charge
Commonwealth of Massachusetts
Division of Insurance