

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

***REPORT OF EXAMINATION OF THE***  
**COFACE NORTH AMERICA INSURANCE COMPANY**

**Princeton, New Jersey**

**As of December 31, 2016**

**NAIC COMPANY CODE 31887**  
**EMPLOYER ID NUMBER 20-0527783**

## COFACE NORTH AMERICA INSURANCE COMPANY

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**COMMONWEALTH OF MASSACHUSETTS**  
**Office of Consumer Affairs and Business Regulation**  
**DIVISION OF INSURANCE**

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**GARY D. ANDERSON**  
COMMISSIONER OF INSURANCE

May 23, 2018

The Honorable Gary D. Anderson  
Commissioner of Insurance  
Commonwealth of Massachusetts  
Division of Insurance  
1000 Washington Street, Suite 810  
Boston, MA 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**

at its home office located at 650 College Road East, Suite 2005, Princeton, New Jersey 08540-6779. The following report thereon is respectfully submitted.

## **SCOPE OF EXAMINATION**

Coface North America Insurance Company ("Company" or "Coface") was last examined as of December 31, 2011 by the Massachusetts Division of Insurance ("Division"). The current examination was also conducted by the Division and covers the five-year period from January 1, 2012 through December 31, 2016, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination

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 with 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.

The Company is audited annually by Deloitte & Touche LLP, an independent certified public accounting firm. The firm expressed unqualified opinions on the Company's financial statements for the calendar years 2012 through 2016. A review and use of the certified public accountants' work papers was made to the extent deemed appropriate and effective. Representatives from the firm of Rudmose & Noller Advisors, LLC ("RNA LLC") were retained by the Division to assist in the examination by performing certain examination procedures at the direction and under the overall management of the Division's examination staff. In addition, an independent actuarial consulting firm, Lewis & Ellis, Inc. ("LE Inc.") was retained by the Division to evaluate the adequacy of the Company's loss and loss adjustment expense reserves as of December 31, 2016.

## **SUMMARY OF SIGNIFICANT FINDINGS OF FACT**

There were no significant recommendations noted by the examination team for improvements in process, activities and/or controls that should be noted in this report. The previous report of examination noted the Company did not file a required Form D for an intercompany cost allocation agreement that had been in place since 2008. In addition, the intercompany charges were not supported by a written agreement. The Company implemented new controls, internal audit monitoring, and reporting to the Division to address the Comments and Recommendations from the prior 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 \$7,150,000. 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 Law Chapter 175 and other Massachusetts insurance laws.

Prior to acquiring Arkwright, CNAHC owned and operated a managing general underwriter that fronted business for CNA/Continental Insurance Company. Beginning in 2004, CNA/Continental Insurance Company no longer wished to be the risk bearing entity for the fronted business, so the book of business was transferred to Coface as it became licensed in more U.S. jurisdictions. As of December 31, 2016, the Company is licensed in the District of Columbia and all states except Hawaii.

CNAHC is an indirect subsidiary of Coface S.A. (France), which is publicly traded with 41.24% owned by Natixis (France), which is 71.47% owned by BPCE (France), a large French bank holding company. The Company's affiliates have a significant history in trade credit insurance in France and Europe, beginning shortly after World War II, and are global leaders in providing receivables management products. Today, the Company and its affiliates are one of the world's largest trade credit insurers.

### **Dividends**

The Company paid dividends to its stockholder of \$18,460,000 during 2015, \$10,504,000 during 2014, and \$14,560,000 during 2013. The Company had no dividends payable as of December 31, 2016.

## MANAGEMENT AND CONTROL

### Board of Directors Minutes

The minutes of meetings of the Board of Directors, 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 actions were taken in accordance with the Company's bylaws and the Laws of the Commonwealth of Massachusetts. Activities of the Committees were ratified by the Board of Directors.

### Articles of Organization 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, 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 a Board of Directors ("Board") which may exercise all of the powers of the Company, except as otherwise provided by the Articles of Incorporation, by law, or the bylaws. The Board may determine the number of directors on the Board. The directors shall be elected at the annual meeting of shareholders, or the special meeting in lieu of the annual meeting. Each director shall hold office until the next annual meeting of the stockholders 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 determined by the shareholders. A director must be an officer or eligible to hold such office pursuant to any rules of eligibility and tenure adopted by the Board.

As of December 31, 2016, the Company's Board was composed of five management persons as follows:

<u>Name of Director</u>	<u>Title</u>
Fredrik Murer	President and Chief Executive Officer
Kerstin Braun	Executive Vice President
Kenneth Moyle	Executive Vice President
Daniel Shultis	Treasurer
Friedrich von Krusenstiern	Secretary and General Counsel

## Coface North America Insurance Company

During 2017, Edson Teramae, Chief Financial Officer replaced Daniel Shultis. Gina Gruhn, Senior Vice President replaced Kerstin Braun. In addition, Stephen Atallah, Senior Executive Vice President, was added to the Board of Directors, making the number of directors six.

### Committees of the Board of Directors

The bylaws allow that the directors may elect from their number an executive committee, a finance committee, an audit committee and such other committees as they may determine. In accord therewith the Board appointed an investment committee to monitor the performance of the Company's investments and authorize the purchase and/or sale of securities. The Board fulfills the functions of an audit committee that are delegated by the Company's ultimate parent, BPCE.

### Officers

According to the Company's bylaws, the Board shall elect the officers of the Company. Officers of the Company at December 31, 2016, in addition to those directors above include Zulf Bhura, Vice President, Information Systems.

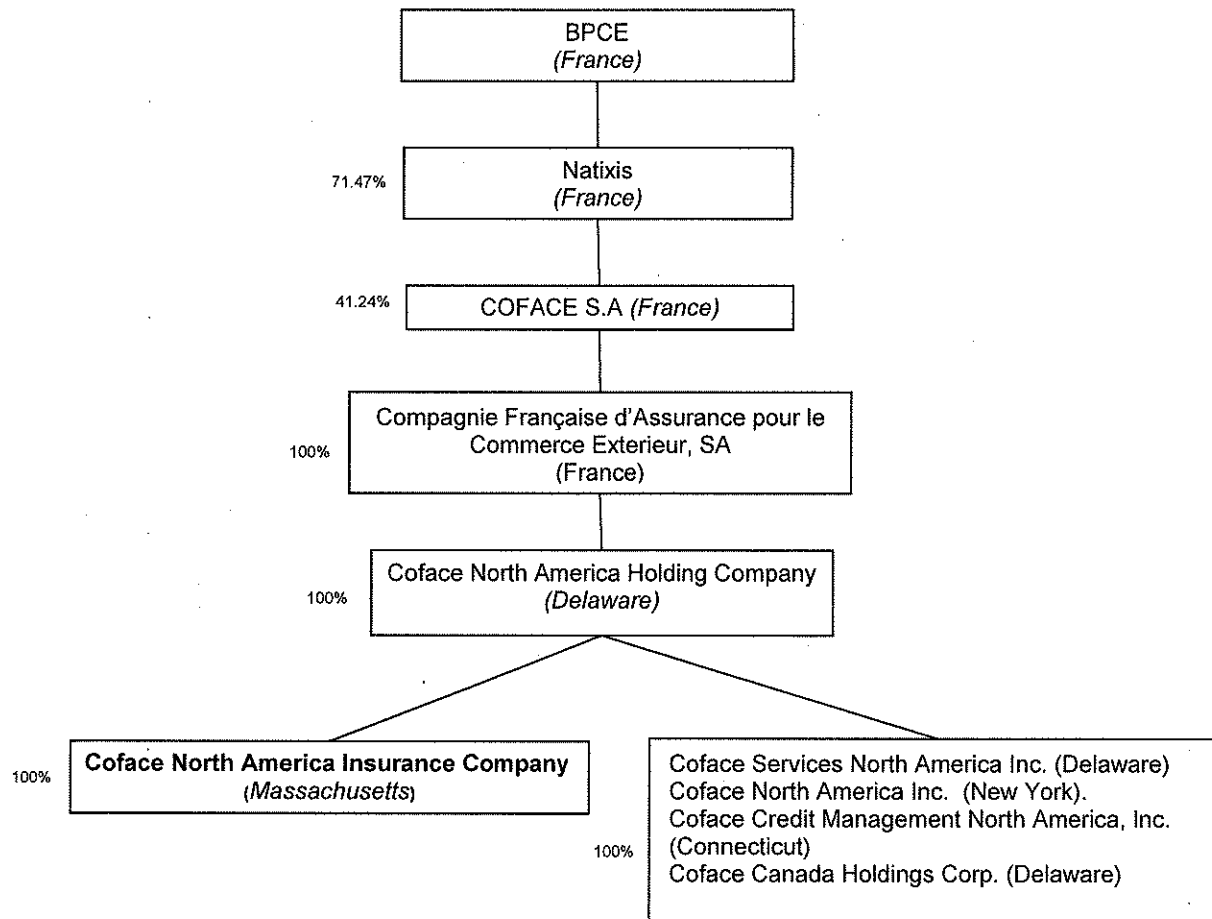
### Affiliated Companies

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 General Laws, Chapter 175, Section 206C and 211 CMR 7.00. BPCE is the "ultimate controlling person" for the Company.

## Coface North America Insurance Company

### Organizational Chart

At December 31, 2016, Coface North America Insurance Company and its direct and indirect shareholders\* were members of the following abbreviated organizational structure:



\* Ownership of 10% or more

### 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"). Further, the Company has a supply agreement with CSNA where it receives credit information services used for underwriting policies in exchange for the application fees being charged to the policyholders.



## Coface North America Insurance Company

The Company pays Compagnie Française d'Assurance pour le Commerce Extérieur, S.A. in France ("Coface Europe") and other affiliated entities group management and staff costs associated with reimbursement of expatriate employees and pays Coface Europe head office expenses pursuant to a Head Office Management Fees Agreement, which is annually renewable and includes a profit margin of 5.6%.

### *Tax Sharing Agreement*

The Company's Federal income tax return is included in the consolidated Federal income tax return of Coface North America Holding Company subject to a tax sharing agreement.

## **TERRITORY AND PLAN OF OPERATION**

The Company is licensed to write business in the District of Columbia and all states except Hawaii, with the largest numbers of insurance risks written in California, New Jersey, and New York. The Company reported \$2.4 million of 2016 direct premium written in Massachusetts. The Company sells trade credit policies through its network of captive agents, who are managed by five regional managing agents. Each agency employs insurance agents, who exclusively sell Coface services and other services offered by affiliated companies.

## **REINSURANCE**

### Ceded Reinsurance

The Company's trade credit policies are exclusively ceded to Coface Europe through three reinsurance agreements. In 2016, the Company entered into a non-cancellable three-year quota share reinsurance agreement with Coface Europe with a cession of 50% of premium written for which the Company receives a 25% fixed ceding commission and a profit commission up to 27%. Prior to 2016, The Company had a quota share reinsurance agreement with Coface Europe with a cession of 50% of premium written and a sliding scale ceding commission that included a 50% provisional ceding commission. The Company also has a facultative reinsurance agreement with Coface Europe with a 4.1% ceding commission for certain large risks. Further, the Company is party to a non-cancellable three-year stop-loss and an excess-of-loss reinsurance agreement with Coface Europe. The excess of loss agreement covers the Company against any losses per policy over 10% of the Company's capital and surplus without limitation. A \$70 million letter of credit provided by Natixis allows the Company to take credit for this reinsurance in its statutory financial statements.

## Coface North America Insurance Company

The following table summarizes the effect of the ceded reinsurance on premiums written for 2016:

	Premium Written	Unearned Premium
Direct and Assumed	\$ 110,260,000	\$ 50,802,000
Ceded – Quota share	55,790,000	25,401,000
Ceded – Stop loss	1,400,000	0
Ceded – Excess of loss	78,000	0
Net	<u>\$ 52,992,000</u>	<u>\$ 25,401,000</u>

### Assumed Reinsurance

The Company has assumed political risk insurance through several quota share reinsurance agreements with Multilateral Investment Guarantee Agency, which is a member of the World Bank Group. The contracts have policy periods of five to ten years and are part of larger syndicated reinsurance arrangements. All assumed reinsurance is retroceded either 50% (through existing quota share) or 100% (through specific facultative) to Coface Europe.

**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, 2016. The financial statements are the responsibility of Company management.

Statement of Assets, Liabilities, Surplus and Other Funds as of December 31, 2016

Statement of Income for the Year Ended December 31, 2016

Reconciliation of Capital and Surplus for Each Year in the Five-Year Period Ended December 31, 2016

Coface North America Insurance Company

Statement of Assets, Liabilities, Surplus and Other Funds  
As of December 31, 2016

	Per Annual Statement
<b>ASSETS</b>	
Bonds	\$ 90,631,582
Cash, cash equivalents and short-term investments	28,505,625
Subtotals, cash and invested assets	<u>119,137,207</u>
Investment income due and accrued	409,512
Uncollected premiums and agents' balances	22,039,303
Deferred premiums	2,975,966
Amounts recoverable from reinsurers	11,403,145
Net deferred tax asset	6,551,097
Receivables from parent, subsidiaries and affiliates	<u>245,519</u>
Total Assets	<u>\$ 162,761,749</u>

Coface North America Insurance Company

Statement of Assets, Liabilities, Surplus and Other Funds (Continued)  
As of December 31, 2016

	Per Annual Statement
<b>LIABILITIES</b>	
Losses	\$ 44,347,354
Reinsurance payable on paid losses and LAE	1,670,422
Loss adjustment expenses	2,672,183
Commissions payable	20,603,149
Other expenses	2,296,390
Taxes, licenses and fees	1,064,363
Current federal income taxes payable	2,218,275
Unearned premiums	25,400,906
Ceded reinsurance premiums payable	6,244,194
Remittances and items not allocated	2,434,691
Payable to parent, subsidiaries and affiliates	7,642,639
Aggregate write-ins	57,425
Total Liabilities	<u>116,651,991</u>
Common capital stock	2,600,000
Gross paid in and contributed surplus	43,485,310
Unassigned funds (surplus)	24,448
Surplus as regards policyholders	<u>46,109,758</u>
Total Liabilities, Surplus and Other Funds	<u><u>\$ 162,761,749</u></u>

Coface North America Insurance Company

Statement of Income for the Year Ended December 31, 2016

	Per Annual Statement
Net Premiums Earned	\$ 50,666,291
Deductions:	
Net Losses Incurred	23,153,774
Net Loss adjustment expenses incurred	3,526,956
Net Other underwriting expenses incurred	34,084,266
Total net underwriting deductions	60,764,996
Net underwriting gain/(loss)	(10,098,705)
Net investment income earned	1,023,037
Net realized capital gains or (losses) less capital gains	-
Net investment gain/(loss)	1,023,037
Aggregate write-ins for miscellaneous income	789,242
Net income after dividends to policyholders, after capital gains tax and before other federal and foreign income taxes	(8,286,426)
Federal and foreign income taxes incurred	(312,778)
Net income/(loss)	\$ (7,973,648)

# Coface North America Insurance Company

## Reconciliation of Capital and Surplus For Each Year in the Five-Year Period Ended December 31, 2016

	2016	2015	2014	2013	2012
Surplus as regards policyholders, December 31, prior year	\$ 56,745,129	\$ 71,944,446	\$ 65,020,305	\$ 69,658,031	\$ 49,305,023
Net income/(loss)	(7,973,648)	5,807,266	18,565,358	10,506,510	19,336,403
Change in net deferred income tax	2,797,737	(2,285,758)	1,405,928	488,164	1,116,353
Change in non-admitted assets	338,540	1,021,039	(2,336,265)	(1,072,400)	(99,748)
Surplus Paid In	(5,798,000)	-	-	-	-
Dividends to stockholders	-	(18,460,000)	(10,504,000)	(14,560,000)	-
Aggregate write-ins for gains and losses in surplus	-	(1,281,864)	(206,880)	-	-
Change in surplus as regards policyholders for the year	<u>(10,635,371)</u>	<u>(15,199,317)</u>	<u>6,924,141</u>	<u>(4,637,726)</u>	<u>20,353,008</u>
Surplus as regards policyholders, December 31, current year	<u>\$ 46,109,758</u>	<u>\$ 56,745,129</u>	<u>\$ 71,944,446</u>	<u>\$ 65,020,305</u>	<u>\$ 69,658,031</u>

**ANALYSIS OF CHANGE IN FINANCIAL STATEMENTS RESULTING FROM THE EXAMINATION**

There have been no changes made to the financial statements as a result of the examination.

**COMMENTS ON FINANCIAL STATEMENT ITEMS**

As a result of the examination, no significant issues with non-compliance, adverse findings, or material changes to the financial statements were identified.

The Division engaged the consulting actuaries from LE Inc. to review the reasonableness of the losses and loss adjustment expense reserves ("Reserves") of the Company as of December 31, 2016, the review 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.

LE Inc.'s actuarial review utilized year-end paid and incurred loss data developed through December 31, 2016. The table below summarizes a comparison of LE Inc.'s range of reasonable net estimates for the Reserves to the Company's net carried reserves as of December 31, 2016:

**Summary of Indicated Reserves (\$000's)**

	LE Inc. Estimate			Company Carried	Difference		
	Low	Central	High		Low	Central	High
Net	41,377	45,974	50,572	47,019	5,642	1,045	(3,553)
Gross	82,509	91,676	100,844	94,523	12,014	2,847	(6,321)

The Company's total net carried reserves are above LE Inc.'s central estimate and below their high point. Therefore, LE Inc. concludes the Company's reserves are a reasonable estimate of their ultimate liability.

**SUBSEQUENT EVENTS**

No subsequent events or transactions that occurred after the December 31, 2016 examination date were noted that would have had a material effect on the Company's Financial Statements.

**SUMMARY OF RECOMMENDATIONS**

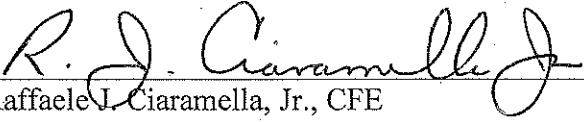
There were no significant recommendations noted by the examination team for improvements in process, activities and/or controls that should be noted in this report.



**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 LLC and LE Inc. who participated in this examination hereby is acknowledged.

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