



**DEPARTMENT OF INSURANCE, FINANCIAL
INSTITUTIONS AND PROFESSIONAL REGISTRATION**

P.O. Box 690, Jefferson City, Mo. 65102-0690

RE: Examination Report of Westport Insurance Corporation for the period ended December 31, 2013

ORDER

After full consideration and review of the report of the financial examination of Westport Insurance Corporation for the period ended December 31, 2013, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, John M. Huff, Director, Missouri Department of Insurance, Financial Institutions and Professional Registration pursuant to section 374.205.3(3)(a), RSMo., adopt such examination report. After my consideration and review of such report, workpapers, and written submissions or rebuttals, I hereby incorporate by reference and deem the following parts of such report to be my findings and conclusions to accompany this order pursuant to section 374.205.3(4), RSMo: summary of significant findings, subsequent events, corporate history, corporate records, management and control, fidelity bond and other insurance, pension, stock ownership and insurance plans, territory and plan of operations, growth of the company and loss experience, reinsurance, accounts and records, statutory deposits, financial statements, financial statement changes resulting from examination, and comments on financial statement items.

Based on such findings and conclusions, I hereby ORDER, that the report of the Financial Examination of Westport Insurance Corporation as of December 31, 2013 be and is hereby ADOPTED as filed and for Westport Insurance Corporation to take the following action or actions, which I consider necessary to cure any violation of law, regulation or prior order of the Director revealed by such report: (1) implement, and verify compliance with each item, if any, mentioned in the Comments on Financial Statement Items and/or Summary of Recommendations section of such report; (2) account for its financial condition and affairs in a manner consistent with the Director's findings and conclusions.

So ordered, signed and official seal affixed this 29th day of May, 2015.




John M. Huff, Director
Department of Insurance, Financial Institutions
and Professional Registration

**REPORT OF THE
FINANCIAL EXAMINATION OF
WESTPORT INSURANCE CORPORATION**

**AS OF
DECEMBER 31, 2013**

FILED

JUN 8 2015

**DIRECTOR OF INSURANCE,
FINANCIAL INSTITUTIONS &
PROFESSIONAL REGISTRATION**



**STATE OF MISSOURI
DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND
PROFESSIONAL REGISTRATION
JEFFERSON CITY, MISSOURI**

TABLE OF CONTENTS

SCOPE OF EXAMINATION	1
PERIOD COVERED	1
PROCEDURES	1
RELIANCE UPON OTHERS	2
SUMMARY OF SIGNIFICANT FINDINGS	2
SUBSEQUENT EVENTS	2
CORPORATE HISTORY	2
GENERAL	2
DIVIDENDS	3
CAPITAL CONTRIBUTIONS	3
MERGERS AND ACQUISITIONS	3
CORPORATE RECORDS	3
MANAGEMENT AND CONTROL	4
BOARD OF DIRECTORS	4
MANAGEMENT TEAM/OFFICERS	4
PRINCIPAL COMMITTEES	5
HOLDING COMPANY, SUBSIDIARIES AND AFFILIATES	5
ORGANIZATIONAL CHART	7
INTERCOMPANY TRANSACTIONS	8
FIDELITY BOND AND OTHER INSURANCE	10
PENSION, STOCK OWNERSHIP AND INSURANCE PLANS	10
TERRITORY AND PLAN OF OPERATIONS	11
GROWTH OF THE COMPANY AND LOSS EXPERIENCE	11

REINSURANCE.....12

GENERAL.....12

ASSUMED.....12

CEDED.....12

ACCOUNTS AND RECORDS.....13

STATUTORY DEPOSITS.....14

DEPOSITS WITH THE STATE OF MISSOURI.....14

DEPOSITS WITH OTHER STATES, TERRITORIES, AND COUNTRIES.....14

FINANCIAL STATEMENTS.....15

ASSETS.....16

LIABILITIES, SURPLUS AND OTHER FUNDS.....17

STATEMENT OF INCOME.....18

CAPITAL AND SURPLUS ACCOUNT.....19

FINANCIAL STATEMENT CHANGES RESULTING FROM EXAMINATION.....20

COMMENTS ON FINANCIAL STATEMENT ITEMS.....20

SUMMARY OF RECOMMENDATIONS.....20

ACKNOWLEDGMENT.....21

VERIFICATION.....21

SUPERVISION.....21

Overland Park, KS
April 14, 2015

Honorable John M. Huff, Director
Missouri Department of Insurance, Financial
Institutions and Professional Registration
301 West High Street, Room 530
Jefferson City, Missouri 65102

Director Huff:

In accordance with your financial examination warrant, a full scope financial examination has been made of the records, affairs and financial condition of

Westport Insurance Corporation

hereinafter referred to as such, as WIC, or as the Corporation. Its administrative office is located at 5200 Metcalf, Overland Park, Kansas 66202, telephone number 913-676-5200. The fieldwork for this examination began on March 3, 2014 and concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

We have performed a multi-state examination of Westport Insurance Corporation. The last examination was completed as of December 31, 2009. This examination covers the period of January 1, 2010 through December 31, 2013 and was performed concurrently with the examination of the Corporation's subsidiary, First Specialty Insurance Corporation (FSIC). This examination also includes material transactions and/or events occurring subsequent to the examination date which are noted in this report.

Procedures

We conducted our examination in accordance with the NAIC Financial Condition Examiners Handbook (Handbook) except where practices, procedures, and applicable regulations of the Missouri Department of Insurance, Financial Institutions and Professional Registration (MO DIFP) and statutes of the State of Missouri prevailed. The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Corporation by obtaining information about the Corporation including corporate governance, inherent risks within the Corporation, and system controls and procedures used to mitigate those risks. This examination also included assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation,

management's compliance with Statutory Accounting Principles and annual statement instructions. All accounts and activities of the Corporation were considered in accordance with the risk-focused examination process.

Reliance Upon Others

The examination relied heavily upon information provided by the Corporation and its management. Where the examiners have deemed appropriate, this information has been tested or verified with external sources. The examiners also relied upon information supplied by the Corporation's independent auditor, PricewaterhouseCoopers, LLP of New York, New York, for its audits covering the periods from January 1, 2012 through December 31, 2012 and January 1, 2013 through December 31, 2013. Information relied upon included fraud risk analysis, attorney letters, narrative descriptions of processes, and control and substantive testing.

SUMMARY OF SIGNIFICANT FINDINGS

There were no material adverse findings, significant non-compliance issues, or material changes to the financial statements noted during the examination.

SUBSEQUENT EVENTS

There were no significant subsequent events noted from December 31, 2013 through the date of this report.

CORPORATE HISTORY

General

WIC operates as a stock property and casualty insurer in Missouri under the insurance laws of Chapter 379 RSMo (Insurance Other Than Life). WIC was originally incorporated as Employers Indemnity Corporation and began business on July 1, 1914. In 1928, its name was changed to Employers Reinsurance Corporation (ERC). ERC was purchased by Getty Oil Company in 1980. In 1984, Getty Oil Company was acquired by Texaco, Inc. and later that year ERC was acquired from Texaco, Inc. by the General Electric Company (GE). In 2006, GE sold GE Insurance Solutions Corporation (GEIS) and its subsidiaries, including ERC, WIC and FSIC, to Swiss Reinsurance Company Ltd (SRZ). Subsequently, GEIS was re-named Swiss Re Solutions Holding Corporation (SRSH). In 2008, ERC merged with its then-subsiary Westport Insurance Corporation and the merged corporation's name was changed to Westport Insurance Corporation.

In 2011, SRZ and its subsidiaries restructured with the creation of a new Swiss-based, publicly traded parent holding company, Swiss Re Ltd. (SRL) The restructuring resulted in the transfer of ownership of WIC from SRSH to Swiss Re America Holding Corporation (SRAH). SRAH

subsequently transferred ownership of WIC to SR Corporate Solutions America Holding Corporation (SRCSAH). As part of the restructuring transactions, WIC acquired direct ownership of North American Capacity Insurance Company (NAC), North American Elite Insurance Company (NAE), and North American Specialty Insurance Company (NAS) and indirect ownership of Washington International Insurance Company (WIIC), a subsidiary of NAS.

Dividends

WIC paid dividends of \$300 million in 2010 to its then immediate parent, SRSH. WIC paid dividends of \$375 million in 2011, \$400 million in 2012, and \$175 million in 2013 to its immediate parent, SRCSAH. As noted in the section below, a portion of the 2010, 2011, and 2012 dividends were a return of capital.

Capital Contributions

In 2010, \$180,913,712 of the \$300 million dividend WIC paid to its then parent, SRSH, was a return of capital. In 2011, WIC received a capital contribution of \$419,089,306 through the ownership transfer to WIC of NAC, NAE, and NAS. In 2011, \$294,781,911 of the \$375 million dividend WIC paid to its parent, SRCSAH, was a return of capital. These two transactions resulted in a net capital contribution to WIC of \$124,307,395. In 2012, \$89,526,854 of the \$400 million dividend WIC paid to its parent, SRCSAH, was a return of capital.

Mergers and Acquisitions

WIC was not a party to any mergers during the examination period. As described above in the General section of Corporate History, in 2011 the holding company group revised its organizational structure and, as part of the restructuring transactions, the ownership of additional subsidiaries was transferred to WIC.

CORPORATE RECORDS

A review was made of the Articles of Incorporation and Bylaws. There was one amendment to the Articles of Incorporation during the examination period. This amendment eliminated the preferred stock shares and was effective November 30, 2010. There were no amendments to the Bylaws during the period under examination.

The minutes of the Board of Directors' meetings, committee meetings, and stockholder's meetings were reviewed for proper approval of corporate transactions. The Board of Directors generally meets twice a year, in May and November. Should business arise between meetings, it is conducted either via a special board meeting or by unanimous written consent. In general, the minutes appear to properly reflect and document approval of the Corporation's major transactions and events for the period under examination.

MANAGEMENT AND CONTROL

Board of Directors

The management of the Corporation is vested in a Board of Directors who are appointed by the stockholder. The Articles of Incorporation specify that the number of directors shall not be less than nine (9) and not more than twenty-five (25). The Board of Directors elected and serving as of December 31, 2013 was as follows:

<u>Director</u>	<u>Business Affiliation</u>
Robert M. Solitro	Head of Business Operations North America, Corporate Solutions, WIC
David L. Jahnke	Retired CPA, KPMG
Philip K. Ryan	Retired CFO, Power Corporation and Credit Suisse Group
John S. D'Alimonte	Retired Attorney, Willkie, Farr, and Gallagher, LLP
Seth H. Meyer	Chief Financial Officer, Corporate Solutions, WIC
Gregory A. Steele	Head of Claims North America, WIC
Robert A. Giambo	Head of Actuarial and Reserving P&C, SRAH
Brian S. Rosenblum	Chief Financial Officer, Swiss Re Asset Management, SRAH
Serge P. Troeber	Chief Underwriting Officer, Corporate Solutions, SRL

Management Team/Officers

The Bylaws state that the Board of Directors shall elect a Chairman of the Board, a President, and a Secretary, at the first regular meeting of the Board of Directors following the annual meeting of the stockholders. The Board of Directors may elect other officers as required by law or as needed as determined by the Board. The officers elected to the Management Team by the Board of Directors and serving as of December 31, 2013 were as follows:

<u>Officer</u>	<u>Position with WIC</u>
Robert J. Petrilli	Chief Executive Officer
Robert M. Solitro	President
Elissa B. Kenny	Secretary
Deryck M. Malone	Controller & Treasurer
Anthony D. Hill	Managing Director, Head of Actuarial Services
Annette M. Kurtzweil	Senior Vice President, Chief Risk Officer, Head of Risk and Governance, Corporate Solutions
Mark A. Tschiegg	Senior Vice President, Corporate Solutions Business Services Americas
David G. Newkirk	Managing Director, General Counsel, Corporate Solutions
Steven W. Book	Senior Vice President, Appointed Actuary
Joellen L. Hornig	Senior Vice President, Head of Human Resources Business Partner
Brian F. Fahey	Senior Vice President, Finance
James D. George	Senior Vice President, Head of Casualty Claims, North America
Michael P. Long	Vice President, Asset Management

Principal Committees

The Corporation's Bylaws state that the Board of Directors may elect an Executive Committee of not less than three members. The Board, at its discretion, may appoint other committees as necessary. Currently, the Board of Directors has elected an Executive Committee, a Risk Committee, and an Audit Committee. During the intervals between the meetings of the Board of Directors, the Executive Committee shall possess and may exercise all the powers of the Board of Directors in the management and affairs of the Corporation. The Risk Committee assists the Board in fulfilling its oversight responsibilities as they relate to the Corporation's risk tolerance and capital adequacy, risk concentration, and key risk issues and exposures. The central task of the Audit Committee is to assist the Board in fulfilling oversight responsibilities as they relate to the integrity of the financial statements, internal controls, compliance with legal and regulatory requirements, the qualification and independence of external auditors, and the performance of the internal audit department. Of the four members of the Audit Committee, three of them are not a part of Corporate management and do not have a business relationship with the Corporation and are therefore considered to be independent. The committee members as of December 31, 2013 were as follows:

Executive Committee

Robert M. Solitro (Chair)
Seth H. Meyer
Gregory A. Steele

Risk Committee

Robert A. Giambo (Chair)
Seth H. Meyer
Robert M. Solitro

Audit Committee

David L. Jahnke (Chair)
John S. D'Alimonte
Philip K. Ryan
Robert M. Solitro

In addition to the Corporation-level committees outlined above, WIC also relies on information and strategic guidance provided by numerous boards and committees at a direct or indirect parent level including, but not limited to, the following committees: compensation, investment, and finance and risk.

Holding Company, Subsidiaries and Affiliates

WIC is a member of an Insurance Holding Company System as defined by Section 382.010, RSMo (Definitions). An Insurance Holding Company System Registration Statement (Form B) was filed by WIC on behalf of itself and its Missouri domiciled subsidiary, FSIC, for each year of the examination period.

Within the holding company structure, WIC is wholly owned by SR Corporate Solutions America Holding Corporation, which in turn is wholly owned by Swiss Re Corporate Solutions Ltd (SRCS). SRCS is wholly owned by Swiss Re Ltd, the ultimate controlling person within the holding company system. SRL is a diversified global reinsurer, offering a wide variety of reinsurance products and financial services solutions to manage capital and risk. SRL is a publicly traded company on the SIX Swiss Exchange under the symbol SREN. No single shareholder was determined to own 10% or more of SRL's outstanding shares. The Corporation is part of SRL's global Corporate Solutions Division which provides risk solutions to corporate customers globally. The Corporation and its subsidiaries form the core of the Corporate

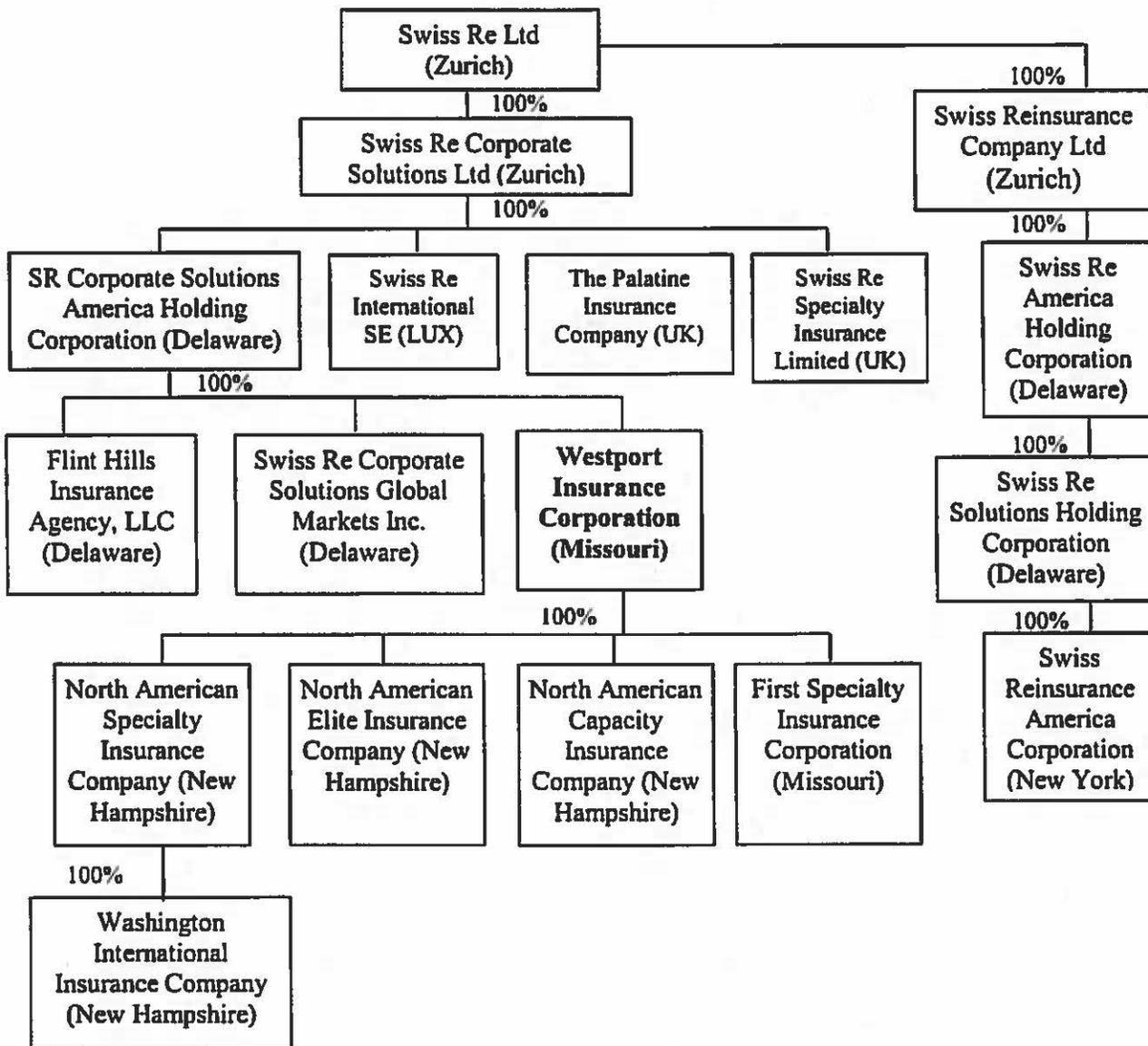
Solutions operations in the United States and Canada. WIC is predominantly a primary insurance writer providing insurance solutions to a diverse group of corporate customers, writing property and casualty lines of business in the United States and Canada. WIC also writes healthcare reinsurance and property reinsurance for a select group of insurers, primarily as facultative reinsurance.

As of December 31, 2013, WIC directly or indirectly wholly owned the following entities:

- First Specialty Insurance Corporation, a Missouri domiciled insurer, operates on a non-admitted basis as a specialty line insurance writer with emphasis on commercial property and liability business lines;
- North American Capacity Insurance Company is an excess and surplus lines insurer domiciled in New Hampshire writing multiple lines of property and casualty insurance through agents and brokers for commercial clients. NAC is authorized in 50 states, 2 U.S. territories, and the District of Columbia;
- North American Elite Insurance Company is a New Hampshire domiciled insurer writing multiple lines of property and casualty insurance through agents and brokers for commercial clients. NAE is licensed in 50 states and the District of Columbia and is also approved to transact business in the New York Free Trade Zone;
- North American Specialty Insurance Company is domiciled in New Hampshire and has licenses to write insurance in all 50 states, the District of Columbia and Puerto Rico and is also approved to transact business in the New York Free Trade Zone. NAS is engaged primarily in the business of writing multiple lines of property and casualty insurance through independent agents and brokers;
- Washington International Insurance Company, a wholly owned subsidiary of NAS, is a niche writer of specialty surety contract and commercial surety bonds through a diverse group of agents. WIIC is domiciled in New Hampshire and has licenses to write in all 50 states, the District of Columbia and Puerto Rico. The Company is also approved to transact business in the New York Free Trade Zone.

Organizational Chart

The ultimate parent, SRL, has a number of subsidiaries, both insurance and non-insurance, which are too numerous to list in this report. Therefore, only entities which have direct and indirect ownership of WIC, are subsidiaries of WIC’s indirect parent, SRCS, or have significant transactions with WIC are included in the following organizational chart as of December 31, 2013.



Intercompany Transactions

The Corporation is a party to the significant intercompany agreements outlined below.

1. **Type:** Services Agreement
Parties: WIC (Recipient) with SRAH, SRCSAH, and SRZ, Canadian branch (Providers)
Effective: December 1, 2010 for agreement with SRAH
January 1, 2012 for agreements with SRCSAH and SRZ
Terms: WIC has separate but similar agreements with SRAH, SRCSAH, and SRZ whereby SRAH, SRCSAH, and SRZ provide WIC with general management and administrative services such as legal, personnel, information systems, accounting, finance, risk management, actuarial, underwriting, claims, and other services. WIC reimburses the Providers for the cost incurred in providing the services. For services provided across international borders under the SRAH and SRZ agreements, a 7.5% markup is charged.

2. **Type:** Services Agreement
Parties: WIC and Swiss Brokers Mexico, Intermediario de Reaseguro, S.A. de C.V. (SBM)
Effective: July 25, 2012
Terms: SBM provides WIC and WIC, Canadian branch with accounting and claims operation services. WIC reimburses SBM for the cost incurred in providing the services plus a 7.5% markup.

3. **Type:** Services Agreement
Parties: WIC and Swiss Reinsurance America Corporation (SRAC)
Effective: April 1, 2010
Terms: Each party agrees to provide the other with general management and administrative services such as legal, personnel, information systems, accounting, finance, risk management, actuarial, underwriting, claims, and other services. The receiving party reimburses the providing party for the cost incurred in providing the services.

4. **Type:** Services Agreement
Parties: WIC (Provider) with NAS, FSIC and Flint Hills Insurance Agency LLC (Flint), SRCSAH, Swiss Re International, SE (SRI), NAE, Swiss Re Risk Solutions Corporation (SRRS), NAC, WIIC, and SRAH (Recipients)
Effective: January 28, 2009 for agreement with FSIC and Flint
January 1, 2013 for agreements with all others (NAS, SRCSAH, SRI, NAE, SRRS, NAC, WIIC, and SRAH)
Terms: WIC has separate but similar agreements with each of the Recipients whereby WIC provides the Recipients with general management and administrative services such as legal, personnel, information systems, accounting, finance, risk management, actuarial, underwriting, claims, and other services. The Recipients reimburse WIC for the cost incurred in providing the services. For services

provided across international borders under the SRI agreement, a 7.5% markup is charged.

5. **Type:** Investment Advisory Agreement
Parties: WIC, FSIC, and Swiss Re Financial Services Corporation (SRFSC)
Effective: August 22, 2006
Terms: SRFSC provides WIC and FSIC with various investment management and investment accounting services. WIC and FSIC pay SRFSC a fee based on the market value of the securities in each of the company's portfolios times an annual rate ranging from 11 to 25 basis points, depending on the portfolio.

6. **Type:** Branding Agreement
Parties: WIC, FSIC, and SRL
Effective: January 1, 2012
Terms: WIC and FSIC are granted the non-exclusive, non-transferable, and non-sub-licensable right to use all registered and unregistered trademarks and other rights, including goodwill, in and to the Swiss Re brand worldwide. SRL charges WIC and FSIC a royalty fee of 0.75% of annual total net (after retrocession) earned premiums.

7. **Type:** Parental Guarantee
Parties: WIC and FSIC
Effective: June 30, 2003
Terms: WIC acts as guarantor and agrees to reimburse FSIC for any uncollectible external reinsurance. FSIC paid WIC a premium in 2003 of \$10,000 in consideration of the obligation assumed.

8. **Type:** Tax Allocation Agreement
Parties: SRCSAH and its subsidiaries including WIC
Effective: January 1, 2012
Terms: WIC agrees to join in the filing of the consolidated federal income tax returns filed by SRCSAH. Each insurance subsidiary computes its federal income tax liability on a separate return basis but in no event are payments made by an insurance subsidiary to exceed its tax liability on a separate return basis for the year. SRCSAH reimburses the subsidiary for the subsidiary's loss or credit used in the consolidated return to reduce the consolidated tax liability.

In addition to the above listed agreements, WIC has reinsurance agreements with various affiliates through which WIC assumes and cedes business as described in the Reinsurance section of this report.

FIDELITY BOND AND OTHER INSURANCE

WIC is covered by a fidelity bond and an excess of loss fidelity bond in the name of its affiliate, SRAH. These bonds provide coverage for all affiliated U.S. entities. The fidelity bond has an aggregate liability limit of \$50 million and a single loss limit of liability of \$25 million with a \$1 million deductible. The excess of loss fidelity bond provides an additional \$25 million in single loss liability coverage. This level of coverage is in compliance with the suggested minimum amount of fidelity insurance according to NAIC guidelines.

WIC is also covered by other insurance policies in the name of SRAH which provide coverage for all affiliated U.S. entities. The additional insurance coverages include the following: general liability, business automobile, workers compensation, kidnap and ransom, travel accident, fiduciary liability, employment practices liability, professional liability, and directors' and officers' liability.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

In 2011 and 2012, WIC employed a small number of individuals directly but received the majority of its services through services agreements with affiliates, primarily SRAH and SRCSAH. Effective January 1, 2013, employees of SRAH whose primary role had been to support the Swiss Re Corporate Solutions division were transferred to WIC. As of December 31, 2013, WIC had 789 direct employees, 752 U.S.-based and 37 Canadian-based.

All employees supporting the operations of WIC participate in various employee benefit plans offered through WIC's ultimate parent, Swiss Re, Ltd. and other WIC affiliates, subject to meeting certain eligibility criteria. These benefit plans include: a defined contribution 401(k) Plan with limited employer-matching; a defined benefit pension plan discontinued effective December 31, 2009 with a pension transition contribution available through 2014; an employee stock option and restricted share plan under which certain employees receive warrants, stock options and/or restricted shares of SRL; a savings plan whereby employees may purchase phantom shares of SRL stock at a discount; a stock purchase plan allowing eligible employees to purchase SRL stock on a monthly basis with a percentage employer-match on the shares purchased; and certain post-retirement benefits.

WIC provides pension and other post-retirement benefits to eligible employees in Canada upon retirement through plans sponsored by SRZ, Canadian Branch. Pension benefits are provided to eligible participants on a defined benefit basis, a defined contribution basis, or a combination of the two.

Other employee benefits offered to all eligible employees supporting the operations of WIC include medical and vision coverage, flexible spending accounts, short-term disability and long-term disability coverage, life insurance and accidental death and dismemberment coverage, paid vacation, holiday, and personal time, and a discretionary bonus plan based upon performance.

TERRITORY AND PLAN OF OPERATIONS

WIC is licensed as a property and casualty insurer by the Missouri Department of Insurance, Financial Institutions, and Profession Registration under Chapter 379 RSMo (Insurance Other Than Life). WIC is licensed and writes property and casualty business in all 50 states, the District of Columbia, Guam, Puerto Rico, U.S. Virgin Islands, and Canada and is also approved to transact business in the New York Free Trade Zone. WIC is primarily a direct commercial insurer with 2013 direct written premiums of \$798 million. In 2013, WIC also assumed premiums of \$479 million from subsidiaries and \$218 million from non-affiliates. WIC is part of the Corporate Solutions Division of Swiss Re Ltd. which includes direct P&C insurance and facultative reinsurance of captive and global corporate customers.

WIC is subject to the Swiss Re Ltd. Group underwriting guidelines. WIC's major business segments in terms of underwriting characteristics include the following: (1) North American Property, (2) Accident & Health, (3) Lawyers Errors & Omissions (E&O), and (4) Agents E&O. North American Property includes excess, quota share, Excess & Surplus, Single Carrier, and primary business. Accident & Health includes Employer Stop Loss, HMO Reinsurance, and Provider. Lawyers E&O includes small law firms of 1 to 19 attorneys and mid-market law firms of 20 to 50 attorneys. Agents E&O include professional liability insurance for property and casualty/life agencies.

GROWTH OF THE COMPANY AND LOSS EXPERIENCE

The table below documents the Corporation's growth and loss experience for the most recent four years, which includes the current examination period.

Financial Data	2010	2011	2012	2013
Total Admitted Assets	\$5,784,689,464	\$5,349,594,590	\$5,331,348,237	\$5,454,118,515
Total Capital & Surplus	\$1,676,120,033	\$1,940,946,976	\$1,726,506,207	\$1,769,403,971
Direct Written Premiums	\$516,429,030	\$572,242,866	\$702,735,189	\$797,926,373
Gross Written Premiums	\$713,966,685	\$780,628,876	\$1,309,155,901	\$1,494,532,430
Net Written Premiums	\$93,497,728	\$99,589,940	\$535,123,287	\$580,133,000
Direct Written Premium to Capital & Surplus	30.8 %	29.5 %	40.7 %	45.1 %
Gross Written Premium to Capital & Surplus	42.6 %	40.2 %	75.8 %	84.5 %
Net Written Premium to Capital & Surplus	5.6 %	5.1 %	31.0 %	32.8 %
Net Loss & LAE Incurred to Premiums Earned	118.7 %	112.0 %	64.9 %	62.2 %
Underwriting Gain to Premiums Earned	(45.4)%	(21.6)%	(10.3)%	2.9 %
Net Income (Loss)	\$95,524,276	\$135,257,876	\$107,952,370	\$167,845,936

WIC's total admitted assets were relatively stable during the exam period. WIC's capital and surplus increased in 2011 primarily due to the ownership transfer to WIC of NAC, NAE, and NAS. WIC's capital and surplus decreased in 2012 and 2013 as dividends, including return of capital, paid to its parent exceeded its net income; however, WIC's overall capital and surplus levels remained above those set in 2010. Consistent with Swiss Re Ltd. Group's plans for WIC, direct, gross, and net premium written increased significantly during each year of the exam period but remained conservative as a percentage of WIC's capital and surplus. The majority of the increase in direct business was due to the decision to shift new and renewal U.S. property business that had previously been written by other affiliates to WIC and the majority of the increase in gross premium from 2011 to 2012 was business WIC assumed from its subsidiaries. Net losses and loss adjustment expenses, underwriting income, and net income have all trended positively during the period under examination.

REINSURANCE

General

The Corporation's premium activity on a direct, assumed, and ceded written basis for the period under examination is detailed below:

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Direct Written Business	\$516,429,030	\$572,242,866	\$702,735,189	\$797,926,373
Reinsurance Assumed:				
Affiliates	584,798	671,372	385,771,043	478,528,121
Non-Affiliates	196,952,857	207,714,638	220,649,669	218,077,936
Reinsurance Ceded:				
Affiliates	(454,394,137)	(503,144,230)	(558,507,186)	(828,914,180)
Non-Affiliates	<u>(166,074,820)</u>	<u>(177,894,706)</u>	<u>(215,525,428)</u>	<u>(85,485,250)</u>
Net Written Premium	<u>\$ 93,497,728</u>	<u>\$ 99,589,940</u>	<u>\$ 535,123,287</u>	<u>\$ 580,133,000</u>

Assumed

The majority of WIC's current assumed business is from affiliates. Effective January 1, 2012, as a result of the SRL corporate restructuring, WIC's subsidiaries (NAS, NAE, NAC, WIIC, and FSIC) began ceding either 80% or 100%, net of inuring, of their primary business to WIC.

WIC's assumed business from non-affiliates is primarily due to three scenarios: 1) legacy reinsurance, 2) facultative reinsurance of captives and globals, and 3) HMO reinsurance, where the cedent is a licensed HMO.

Ceded

Since WIC's 2006 acquisition by Swiss Re, the majority of its reinsurance agreements have been treaties with affiliates. Since January 1, 2012, the primary affiliate to whom WIC has ceded business has been Swiss Re Corporate Solutions Ltd.

Effective January 1, 2012, WIC ceded 45% (Canadian Branch) to 50% of its business including assumed business from affiliates, net of the NIC quota share agreement described in the following paragraph, to SRCS. All U.S. Reinsurance Division business written by the Corporation, as well as high risk policies subject to U.S. Treasury restrictions are ceded 100% to SRAC. In addition to the quota share reinsurance described, WIC had both a catastrophe cover and a stop loss cover with SRCS for 2012 and 2013. WIC also has two Adverse Development covers (ADC) with SRZ. The first ADC agreement provided \$1,500 million in coverage for adverse reserve development on accident years 2006 and prior and was fully exhausted at December 31, 2011. The second ADC agreement provides \$750 million in coverage for adverse development on accident years 2007 and prior and, as of December 31, 2013, WIC had ceded losses of \$307 million on the second ADC.

WIC has one material non-affiliate agreement that was active during the period under examination. SRL globally entered into a 20% quota share treaty arrangement in 2008 with National Indemnity Corporation (NIC), a Berkshire Hathaway company. This was a 5 year arrangement lasting from 2008 through 2012. Under this agreement, WIC cedes 20% of its applicable business during those underwriting years to NIC.

WIC also has non-affiliate facultative covers on large property risks and various legacy agreements.

WIC is contingently liable for all reinsurance losses ceded to others. This contingent liability would become an actual liability in the event that an assuming reinsurer fails to perform its obligations under the reinsurance agreement.

ACCOUNTS AND RECORDS

Policy management utilizes a number of applications, including POINT IN J, WINS, Commercial Intelisys, Studio, WPC, AMS, TRAC, and PER. POINT IN J was purchased from Computer Sciences Corporation. The remaining policy management applications were developed internally. Reserving and claims management utilize the following applications: Advanced Claims, WINS, WPC, TRAC, and PERLS. Advanced Claims was purchased from Computer Sciences Corporation. The remaining claims management applications were developed internally. Reinsurance is managed through TIGER, CRAS, and TRAC, all of which were internally developed applications. Oracle is an externally produced application that is utilized for financial reporting. Investment and fund management utilizes Hi-Port, which was purchased from DST Global Solutions.

WIC's financial statements for all years in the examination period were audited by the Certified Public Accounting firm, PricewaterhouseCoopers LLP.

The actuarial opinion regarding WIC's loss reserves, actuarial liabilities, and related items for all years in the examination period was issued by Steven Book, FCAS, MAAA, Appointed Actuary, an officer of WIC.

STATUTORY DEPOSITS

Deposits with the State of Missouri

The funds on deposit with the State of Missouri as of December 31, 2013, as reflected below, were sufficient to meet the capital deposit requirements for the State of Missouri in accordance with Section 379.098, RSMo (Securities to be Deposited by All Companies, Kind and Amount). The funds on deposit as of December 31, 2013, were as follows:

<u>Type of Security</u>	<u>Par Value</u>	<u>Fair Value</u>	<u>Statement Value</u>
U.S. Treasury Note	\$4,345,000	\$5,547,001	\$5,350,596

Deposits with Other States, Territories, and Countries

The Corporation also has funds on deposit with various other states, and the territories of Guam, Puerto Rico, and the United States Virgin Islands. The funds on deposit as of December 31, 2013 were as follows:

<u>State</u>	<u>Type of Security</u>	<u>Par Value</u>	<u>Fair Value</u>	<u>Statement Value</u>
Arizona	U.S. Treasury Note	\$ 24,145,000	\$ 30,824,475	\$ 29,733,060
Arkansas	U.S. Treasury Note	175,000	175,044	173,101
California	U.S. Treasury Notes and Municipal Bonds	698,070,000	696,168,969	722,224,525
Delaware	U.S. Treasury Note	25,000	26,602	24,882
Florida	U.S. Treasury Note	400,000	400,100	395,660
Georgia	U.S. Treasury Note	390,000	390,098	385,769
Idaho	U.S. Treasury Note	275,000	351,076	338,645
Maine	U.S. Treasury Note	150,000	155,303	152,387
Massachusetts	U.S. Treasury Note	1,210,000	1,210,303	1,196,873
Montana	U.S. Treasury Note	25,000	27,880	25,666
Nevada	U.S. Treasury Note	300,000	382,992	369,431
New Hampshire	U.S. Treasury Note	3,000,000	3,829,920	3,694,313
New Mexico	U.S. Treasury Note	1,185,000	1,235,977	1,201,945
North Carolina	U.S. Treasury Note	1,140,000	1,140,285	1,127,632
Oregon	U.S. Treasury Note	5,685,000	5,686,421	5,623,322
South Carolina	U.S. Treasury Note	280,000	357,459	344,803
Texas	U.S. Treasury Note	75,000	77,651	76,194
Virginia	U.S. Treasury Note	515,000	657,470	634,190
Guam	U.S. Treasury Note	100,000	115,600	112,368
Puerto Rico	Municipal Bonds	1,025,000	923,433	1,045,332
U.S. Virgin Islands	U.S. Treasury Note	525,000	670,236	646,505
Totals		<u>\$ 738,695,000</u>	<u>\$ 744,807,294</u>	<u>\$ 769,526,603</u>

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of Westport Insurance Corporation for the period ending December 31, 2013. Any examination adjustments to the amounts reported in the financial statements and/or comments regarding such are made in the “Comments on Financial Statement Items.” The failure of any column of numbers to add to its respective total is due to rounding or truncation.

There may have been additional differences found in the course of this examination, which are not shown in the “Comments on Financial Statement Items.” These differences were determined to be immaterial concerning their effect on the financial statements and therefore were only communicated to the Corporation and noted in the workpapers for each individual activity.

Assets

	<u>Assets</u>	<u>Nonadmitted Assets</u>	<u>Net Admitted Assets</u>
Bonds	\$3,256,224,094	\$ -	\$3,256,224,094
Common Stocks	1,293,948,417	-	1,293,948,417
Cash and Short-term Investments	181,036,259	-	181,036,259
Other Invested Assets	134,477,374	-	134,477,374
Receivable for Securities	19,536,250	-	19,536,250
Investment Income Due and Accrued	19,546,519	-	19,546,519
Uncollected Premiums and Agents' Balances in the Course of Collection	151,786,384	6,459,721	145,326,663
Deferred Premiums, Agent Balances, and Installments Booked and Not Yet Due	36,480,449	31,377	36,449,072
Amounts Recoverable from Reinsurers	153,990,718	-	153,990,718
Funds Held by or Deposited with Reinsured Companies	9,129,752	1,179,177	7,950,575
Other Amounts Receivable Under Reinsurance Contracts	244,598	-	244,598
Net Deferred Tax Asset	93,514,098	-	93,514,098
Guaranty Funds Receivable or on Deposit	1,101,966	-	1,101,966
Receivables from parent, Subsidiaries and Affiliates	10,252,095	760,222	9,491,873
Aggr. Write-Ins for Other than Invested Assets	101,786,455	506,416	101,280,039
TOTAL ASSETS	<u>\$5,463,055,428</u>	<u>\$8,936,913</u>	<u>\$5,454,118,515</u>

Liabilities, Surplus and Other Funds

Losses	\$ 1,343,206,344
Reinsurance Payable on Paid Losses and Loss Adjustment Expenses	39,033,649
Loss Adjustment Expenses	320,380,678
Commissions Payable, Contingent Commissions and Other Similar Charges	11,235,877
Other Expenses (Excluding Taxes, Licenses and Fees)	40,833,132
Taxes, Licenses and Fees (Excluding Federal and Foreign Income Taxes)	5,250,377
Current Federal and Foreign Income Taxes	3,363,310
Unearned Premiums	220,791,779
Advance Premium	590,237
Ceded Reinsurance Premiums Payable (Net of Ceding Commissions)	120,076,235
Funds Held by Company Under Reinsurance Treaties	1,456,943,883
Amounts Withheld or Retained by Company for Account of Others	1,044,472
Remittances and Items Not Allocated	30,093,031
Provision for Reinsurance	16,047,800
Net Adjustments in Assets and Liabilities	
Due to Foreign Exchange Rates	7,560,696
Payable to Parent, Subsidiaries and Affiliates	22,335,811
Payable for Securities	26,276,661
Aggregate Write-Ins for Liabilities:	
Escheatment Payable	893,766
Excess Ceding Commissions	18,748,949
Summary of Remaining Write-ins	7,856
TOTAL LIABILITIES	3,684,714,543
Common Capital Stock	6,345,000
Gross Paid In and Contributed Surplus	1,612,260,885
Unassigned Funds (Surplus)	150,798,086
Surplus as Regards Policyholders	1,769,403,971
TOTAL LIABILITIES AND SURPLUS	\$ 5,454,118,514

Statement of Income

Underwriting Income:	
Premiums Earned	\$ 542,834,317
Deductions:	
Losses Incurred	273,896,638
Loss Adjustment Expenses Incurred	63,852,616
Other Underwriting Expenses Incurred	186,232,141
Excess Ceding Commissions	3,326,247
Net Underwriting Gain or (Loss)	15,526,675
Investment Income:	
Net Investment Income Earned	88,367,993
Net Realized Capital Gains or (Losses)	92,500,051
Net Investment Gain or (Loss)	180,868,044
Other Income:	
Net Gain or (Loss) from Agents' or Premium Balances Charged Off	(3,480,624)
Finance and Service Charges Not Included in Premiums	661,347
Aggregate Write-ins for Miscellaneous Income:	
Asbestos Settlement Investment Experience Account	622,179
Interest on Funds Held and Other Expense, Net	(19,375,408)
Other Income	(868,484)
Total Other Income	(22,440,990)
Net Income Before Dividends to Policyholders and Income Taxes	173,953,729
Dividends to Policyholders	-
Net Income Before Federal and Foreign Income Taxes	173,953,729
Federal and Foreign Income Taxes Incurred	6,107,793
NET INCOME	\$ 167,845,936

Capital and Surplus Account

Surplus as Regards Policyholders, December 31, 2012	\$1,726,506,207
Net Income	167,845,936
Change in Net Unrealized Capital Gains or (Losses)	91,534,501
Change in Net Unrealized Foreign Exchange Capital Gain (Loss)	(9,142,370)
Change in Net Deferred Income Tax	(50,318,157)
Change in Non-Admitted Assets	(2,551,601)
Change in Provision for Reinsurance	6,662,200
Dividends to Stockholders	(175,000,000)
Aggregate Write-ns for Gains and Losses in Surplus	13,867,255
Net Change in Surplus as Regards Policyholders for 2013	42,897,764
Surplus as Regards Policyholders, December 31, 2013	\$1,769,403,971

FINANCIAL STATEMENT CHANGES RESULTING FROM EXAMINATION

None.

COMMENTS ON FINANCIAL STATEMENT ITEMS

None.

SUMMARY OF RECOMMENDATIONS

None.

ACKNOWLEDGMENT

The assistance and cooperation extended by the officers and the employees of Westport Insurance Corporation during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Karen Baldree, CFE, Kim Dobbs, AES, CFE, Steven Koonse, CFE, Scott Rennick, CFE, Laura Church, AFE, Sara McNeely, AFE, and Emily Pennington, examiners for the MO DIFP, participated in this examination. The firm, Lewis and Ellis, Inc. also participated as consulting actuaries.

VERIFICATION

State of Missouri)
County of)

I, Vicki L. Denton, CFE, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of Westport Insurance Corporation, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.

Vicki L. Denton
Vicki L. Denton, CFE
Examiner-In-Charge
MO DIFP

TAMMY MORALES
My Commission Expires
January 7, 2018
Clay County
Commission #14451086

Sworn to and subscribed before me this 8th day of April, 2015.

My commission expires: 01/07/2015 *Tammy Morales*
Notary Public



SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed, except where practices, procedures and applicable regulations of the MO DIFP and statutes of the State of Missouri prevailed.

Mark A. Nance
Mark A. Nance, CFE, CPA
Audit Manager
MO DIFP