

STATE OF MISSOURI



DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

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

ORDER

After full consideration and review of the report of the financial examination of Westport Insurance Corporation for the period ended December 31, 2016, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, Chlora Lindley-Myers, Director of the 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, territory and plan of operations, reinsurance, financial statements, financial statement changes resulting from examination, comments on financial statement items, and summary of recommendations.

Based on such findings and conclusions, I hereby ORDER that the report of the financial examination of Westport Insurance Corporation as of December 31, 2016 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) 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 01st day of June, 2018.



A handwritten signature in blue ink that reads "Chlora Lindley-Myers".

Chlora Lindley-Myers, Director
Department of Insurance, Financial Institutions
and Professional Registration

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

**AS OF
DECEMBER 31, 2016**

FILED
JUN 11 2018
DIRECTOR OF INSURANCE,
FINANCIAL INSTITUTIONS &
PROFESSIONAL REGISTRATION



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

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Overland Park, Kansas
March 29, 2018

Honorable Chlora Lindley-Myers, Director
Missouri Department of Insurance, Financial
Institutions and Professional Registration
301 West High Street, Room 530
Jefferson City, Missouri 65102

Director Lindley-Myers:

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 May 1, 2017 and concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

The Missouri Department of Insurance, Financial Institutions and Professional Registration (DIFP) has performed a multi-state examination of Westport Insurance Corporation. The last examination covered the period January 1, 2010 through December 31, 2013 and was also completed by examiners from the DIFP. This examination covers the period of January 1, 2014 through December 31, 2016.

This examination also includes material transactions and/or events occurring subsequent to the examination date which are noted in this report.

This examination was part of a coordinated examination of the U.S. domiciled insurers and reinsurers that are part of the Swiss Re Ltd. (SRL) holding company system (Swiss Re or Group). In addition to WIC, Swiss Re includes 12 insurers and reinsurers domiciled in the states of Missouri, New Hampshire, New York, Texas and Vermont. All of the states that have domestics within Swiss Re participated in the coordinated examination. Missouri acted as the overall lead state for the coordinated examination.

Procedures

We conducted our examination in accordance with the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook (Handbook) except where practices, procedures and applicable regulations of the DIFP and statutes of the State of Missouri prevailed. The Handbook requires the planning and performance of the examination to evaluate the Corporation's financial condition, assess corporate governance, identify current and prospective risks of the Corporation 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 Corporation were considered in accordance with the risk-focused examination approach. 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 Corporation's financial statements.

The examination report includes significant findings of fact and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature, are not communicated within the examination report but separately communicated to other regulators and/or the Corporation.

Reliance Upon Others

The examination relied upon information supplied by the Corporation's independent auditor, PricewaterhouseCoopers, LLP of New York, New York, for its audit covering the period from January 1, 2016 through December 31, 2016. Information relied upon included, but was not limited to, narrative descriptions of information technology processes and controls, internal control and substantive testing relating to claim and premium activities, and fraud risk analysis.

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

In November 2017, as part of ongoing efforts to improve corporate governance, Swiss Re restructured the Board of Directors and committees of the Board of Directors for its U.S. "Level 1" reinsurers/insurers to have common membership. As a result of this restructuring, several of the directors of WIC resigned and were replaced by directors in common with the other Swiss Re U.S. Level 1 entities. The changes in directors and committee memberships are documented in the Management and Control section of this report.

In the first quarter of 2018, WIC restructured its Intra-Group Retrocession (IGR) program with its affiliate, Swiss Re Corporate Solutions Ltd. (SRCS) to partially offset certain financial impacts of U.S. Tax Reform which was passed in late 2017 and became effective with tax year 2018. The restructuring and changes to the IGR agreements are documented in greater detail in the Reinsurance section 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 WIC, 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. 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 to its direct parent, SRCSAH during the examination period as follows:

<u>Year Paid</u>	<u>Amount Paid</u>
2014	\$250,000,000
2015	175,000,000
2016	75,000,000

As noted in the following paragraph, portions of each of the above dividends paid were considered a return of capital.

Capital Contributions

In 2014, \$80,356,150 of the \$250 million dividend WIC paid was a return of capital. In 2015, \$58,787,188 of the \$175 million dividend WIC paid was a return of capital. In 2016, \$33,967,041 of the \$75 million dividend WIC paid was a return of capital.

Mergers and Acquisitions

WIC was not a party to any mergers or acquisitions during the examination period.

CORPORATE RECORDS

A review was made of the Articles of Incorporation and Bylaws. There were no amendments to either the Articles of Incorporation or the Bylaws during the examination period.

The minutes of the Board of Directors' meetings, committee meetings, and stockholder meetings were reviewed for proper approval of corporate transactions. The Board of Directors generally met 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 (Board) who are appointed by the shareholder. 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, 2016 was as follows:

<u>Name</u>	<u>Address</u>	<u>Business Affiliation</u>
Robert M. Solitro ¹	Manchester, New Hampshire	Head of Business Operations North America for Corporate Solutions, WIC
David L. Jahnke	Minneapolis, Minnesota	Retired CPA, KPMG, LLC.
Philip K. Ryan	New York, New York	Member Board of Directors, SRL
William J. Toppeta	New York, New York	Senior Advisor, Promontory Financial Group, LLC
Seth H. Meyer ¹	Windsor, Connecticut	Chief Financial Officer, Corporate Solutions, WIC
Gregory A. Steele ¹	Overland Park, Kansas	Head of Claims North America for Corporate Solutions, WIC

Robert A. Giambo ¹	Cos Cob, Connecticut	Head of Actuarial and Reserving P&C, Swiss Reinsurance America Corporation
Pierangelo Franzoni ¹	Zolikon, Switzerland	Managing Director Asset Allocation, Swiss Reinsurance Company Ltd.
Serge P. Troeber ¹	Meilen, Switzerland	Chief Underwriting Officer, Swiss Re Corporate Solutions, Ltd.

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, 2016 were as follows:

<u>Name</u>	<u>Title</u>
Robert M. Solitro	President
Ivan J. Gonzalez	Chief Executive Officer
Elissa B. Kenny	Secretary
Deryck M. Malone	Controller, Treasurer
Anthony D. Hill	Managing Director
Annette M. Kurtzweil	Senior Vice President, Chief Risk Officer
Mark A. Tschiegg	Senior Vice President
Steven W. Book	Senior Vice President, Appointed Actuary
Melinda K. Garrrett	Senior Vice President
Brian F. Fahey	Senior Vice President
James D. George	Senior Vice President
Michael P. Long	Senior Vice President
Sharon M. O'Sullivan	Senior Vice President, Chief Financial Officer

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

¹ Effective November 1, 2017, these directors submitted their resignations and new directors were elected so that the Board would be comprised of the same members as other Swiss Re U.S. Level 1 reinsurers/insurers. The new directors elected were: Melissa A. Babbage, Carlos E. Represas, John E. Smith, David A. Cole, Carol A. Petren, George E. Rubenson, Karen L. Gavan, Patrick Raaflaub, and Thomas P. Wellauer.

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 Corporation 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, 2016 were as follows:

Executive Committee²

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

Risk Committee²

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

Audit Committee²

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

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

Westport Insurance Corporation 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, First Specialty Insurance Corporation, 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 is wholly owned by SRL the ultimate controlling entity 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 its outstanding shares. The SRL holding company system is segregated into three distinct business units that correspond to Swiss Re's core activities and are managed by three direct subsidiaries of SRL:

- Reinsurance – focuses on reinsurance activities.
- Corporate Solutions – focuses on direct corporate property & casualty insurance.
- Life Capital – focuses on management of closed and open life and health insurance books of business.

² Effective November 7, 2017, the members of the Board committees were realigned to be comprised of the same members as other Swiss Re U.S. Level 1 reinsurers/insurers. The members appointed to the Audit Committee were: David Jahnke, Karen Gavan, George Rubenson and William Toppeta. The members appointed to the Risk Committee were: Patrick Raaflaub, Melissa Babbage, David Cole, Carol Petren, Carlos Represas, Philip Ryan and Thomas Wellauer. The members appointed to the Executive Committee were: Philip Ryan, David Jahnke and John E. Smith.

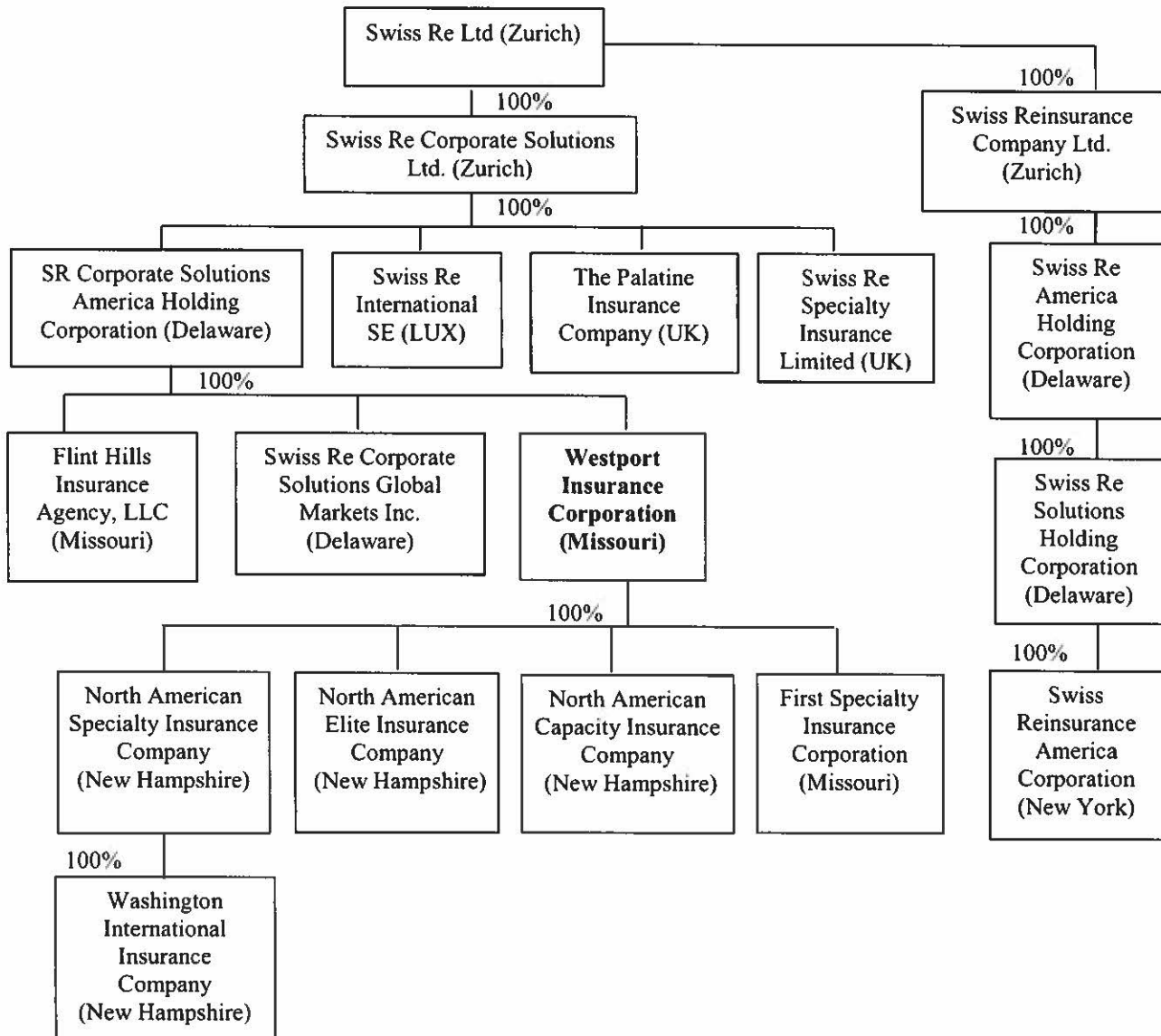
WIC is part of SRL's Corporate Solutions business unit which provides risk solutions to corporate customers globally. WIC and its subsidiaries form the core of the Corporate Solutions operations in the United States and Canada.

As of December 31, 2016, WIC directly or indirectly wholly owned the following entities:

- First Specialty Insurance Corporation (FSIC) is a Missouri domestic surplus lines insurer which 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 a New Hampshire domestic surplus lines insurer, which operates on a non-admitted basis as a specialty line insurance writer with emphasis on commercial property and liability business.
- North American Elite Insurance Company is a New Hampshire domiciled property and casualty insurer, licensed in 50 states and the District of Columbia. NAE 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 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 North American Specialty Insurance Company, 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. WIIC 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 that have direct and indirect ownership of WIC and entities that are within the Corporate Solutions Legal Entities group or have significant transactions with WIC or its subsidiaries are listed. The following organizational chart depicts the ownership of WIC as of December 31, 2016.



Intercompany Transactions

As of December 31, 2016, Westport Insurance Corporation had material intercompany agreements as outlined below.

1. Type: Services Agreement
 Parties: WIC and Swiss Re America Holding Corporation
 Effective: December 1, 2010 and as amended January 1, 2013
 Terms: SRAH provides 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 SRAH for the cost incurred in providing the services. For services provided across international borders, a 7.5% markup is charged. Prior to amendment, both international and U.S. reimbursements were at cost.

2. Type: Services Agreement
Parties: WIC and SR Corporate Solutions America Holding Corporation
Effective: January 1, 2012
Terms: SRCSAH provides 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 SRCSAH for the cost incurred in providing the services.

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 SRAH (fka Swiss Re Financial Services Corporation (SRFSC) upon merger into SRAH effective December 31, 2015, SRFSC fka Swiss Re Asset Management (Americas), Inc. upon merger into SRFSC effective December 31, 2007)
Effective: August 22, 2006
Terms: SRAH provides WIC and FSIC with various investment management and investment accounting services. WIC and FSIC pay SRAH 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 Swiss Re Ltd
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.

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.

9. Type: ISDA Master and Credit Support Annex Agreements
Parties: WIC and Swiss Re Financial Products Corporation (SRFPC)
Effective: October 19, 2009
Terms: SRFPC will enter into derivative transactions with unaffiliated counterparties on behalf of SRL affiliates including WIC. WIC reimburses SRFPC for any amounts charged by external counterparties. SRFPC will not charge or receive any additional fees. SRFPC has a parental guaranty with SRL whereby SRL absolutely and unconditionally guarantees the prompt payment of all present and future obligations of SRFPC, without limitation.

10. Type: Collateralized Securities Lending Agreement
Parties: WIC and Swiss Reinsurance Company Ltd
Effective: April 1, 2013
Terms: WIC appointed SRZ as its agent to lend securities from its custodial safekeeping account from time to time to borrowers in accordance with the terms of the Master Security Loan Agreement. WIC pays SRZ an agent's fee of 20% of the net fee income derived from lending securities to market participants.

11. Type: Brokerage Service Agreement
Parties: WIC and Swiss Brokers Mexico, Intermediario de Reaseguro, S.A. de C.V. (SBM)
Effective: January 1, 2014
Terms: On WIC's behalf, SBM acts as the reinsurance intermediary through its offices in Mexico for non-U.S. business underwritten by insurers or reinsurers domiciled or licensed in Latin America. Services provided include marketing, identifying potential cedents, engaging in preliminary negotiations, monitoring and reporting claims development, and performing risk assessment activities. WIC pays SBM a fee of 11% of associated premium written.
12. Type: Services Agreement, as amended
Parties: WIC and Swiss Re Corporate Solutions Global Markets Inc. (SRCSGM)
Effective: April 1, 2014
Terms: WIC provides SRCSGM with general management and administrative services such as legal, personnel, information systems, accounting, finance, risk management, actuarial, underwriting, claims, and other services. SRCSGM reimburses WIC for the cost incurred in providing the services. Effective April 1, 2015, services to be provided by WIC were added, including office administration, property management, and supplies, information systems, and audit services.
13. Type: Services Agreement
Parties: WIC and Swiss Re Corporate Solutions Ltd
Effective: January 1, 2015
Terms: WIC will provide general management and administrative services on behalf of SRCS to include, but are not limited to, legal, risk management, underwriting and marketing, claims advisory, and financial and accounting services. SRCS will reimburse WIC for the cost of services provided plus a 7.5% mark-up.
14. Type: Services Agreement
Parties: WIC and IHC Risk Solutions, LLC (Risk Solutions)
Effective: March 31, 2016
Terms: WIC agrees to provide general management and administrative services on behalf of Risk Solutions. Risk Solutions will reimburse WIC for the cost of services provided.
15. Type: Capital Maintenance Agreement
Parties: WIC and NAE
Effective: December 1, 2016
Terms: WIC agrees to contribute capital in an amount sufficient for NAE to maintain its target RBC ratio, which is currently 300% as established by the Board of Directors of NAE. Capital contributions will be made by WIC no later than five days prior to the date on which the statutory financial statements for the quarter-end or the statutory annual statement for year-end are required to be filed with the State of New Hampshire. The Agreement will remain in force for five years.

In addition to the above listed agreements, WIC maintains several agreements with de minimus or no activity. WIC also has reinsurance agreements with FSIC and other affiliates, which are described in the Reinsurance section of this report.

TERRITORY AND PLAN OF OPERATIONS

WIC is licensed as a property and casualty insurer by the Missouri Department of Insurance, Financial Institutions, and Professional 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 2016 direct written premiums of \$719.8 million. In 2016, WIC also assumed premiums of \$718.2 million from subsidiaries and \$346.6 million from non-affiliates. WIC is part of the Corporate Solutions business unit of Swiss Re Ltd which includes direct property and casualty insurance and facultative reinsurance of captive and global corporate customers.

WIC is subject to Swiss Re 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 Excess. 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.

REINSURANCE

General

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

	<u>2014</u>	<u>2015</u>	<u>2016</u>
Direct Written Business	\$ 696,571,511	\$ 687,723,927	\$ 719,859,326
Reinsurance Assumed:			
Affiliates	611,771,679	700,298,472	718,174,275
Non-Affiliates	273,875,462	280,677,323	345,571,910
Reinsurance Ceded:			
Affiliates	(1,396,618,536)	(1,327,793,092)	(1,428,906,490)
Non-Affiliates	(49,715,345)	(59,336,108)	(67,577,740)
Net Written Premium	<u>\$ 135,884,771</u>	<u>\$ 281,570,522</u>	<u>\$ 287,121,281</u>

Assumed

The majority of WIC's current assumed business is from affiliates as a result of corporate restructuring. Effective January 1, 2012, WIC's subsidiaries (NAS, NAE, NAC, WIIC, and FSIC) began ceding either 80% or 100%, net of inuring, of their primary business to WIC. Effective January 1, 2013, the percentages ceded by the subsidiaries increased to 100%, with the exception of surety. Effective January 1, 2015, surety was also ceded at 100%.

WIC's assumed business from non-affiliates primarily consist of legacy reinsurance, facultative reinsurance, HMO reinsurance, and voluntary pool.

Ceded

Similarly, due to corporate restructuring the majority of reinsurance agreements have been with affiliates under an IGR program. Since January 1, 2012, the primary affiliate to whom WIC has ceded business has been Swiss Re Corporate Solutions Ltd. In addition, WIC also makes changes to existing agreements on an annual basis. Below are agreements in place as of December 31, 2016.

Effective January 1, 2014, WIC amended an existing 50% Multi-Line Non-Obligatory Quota Share agreement and began ceding 80% of its ultimate net liability for all policies in force, including assumed business from affiliates, and all new and renewal policies issued (excluding Canadian business) on a loss occurring basis to SRCS. Multiple Peril Crop Insurance is an exception to this rate; it is ceded at 100% net of external reinsurance to SRCS. The U.S. Reinsurance Division business continued to be ceded at 100% to SRAC. In 2016, high risk policies subject to U.S. Treasury restrictions, which historically ceded 100% to SRAC, was reduced to 75% with the remaining 25% reinsured with SRCS.

In addition, WIC also has had Catastrophe Excess of Loss (CAT) and Aggregate Stop Loss reinsurance agreements with SRCS. For 2016, CAT covered 90% of \$235 million in excess of \$5 million and included coverage for terrorism. The 2016 Aggregate Stop Loss provided protection 40 points above the plan loss ratio after a 5-point retention.

WIC has two Adverse Development covers with SRZ effective July 1, 2006 and October 1, 2008, respectively. The first agreement provided \$1.5 billion in coverage for net adverse development on accident years 2006 and prior and was fully exhausted at December 31, 2011. The second agreement indemnifies \$750 million of net adverse development on accident years 2007 and prior. As of December 31, 2016, WIC has ceded \$317 million of losses under this arrangement. In addition, WIC has a loss portfolio transfer agreement with SRZ effective October 1, 2008. The agreement reinsures 50% of ultimate net loss from underwriting years 2007 and prior on reinsurance and runoff commercial business.

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

WIC's Canada Branch maintains a separate reinsurance program, which consists of Quota Share, Catastrophe, Excess of Loss, and Stop Loss. Coverages are also provided by SRCS or SRZ Canada Branch.

During the first quarter of 2018, significant changes were made to the IGR program to partially offset certain financial impacts of recently passed U.S. Tax Reform on WIC. Effective December 31, 2017, the Multiple Line Non-Obligatory Q/S Agreement between WIC and SRCS was terminated on a cut-off basis. Coverages under the CAT and Aggregate Stop Loss reinsurance agreements with SRCS were increased to reflect the termination.

Effective January 1, 2018, the CAT coverage was increased to 100% of \$1.175 billion excess \$50 million with an aggregate loss limit of \$3.525 billion. Effective January 1, 2018, the Aggregate Stop Loss protection was increase to 100 points above plan with a 5-point retention.

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.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Corporation with the DIFP and present the financial condition of the Corporation for the period ending December 31, 2016. The accompanying comments on financial statements reflect any examination adjustments to the amounts reported in the annual statement and should be considered an integral part of the financial statements. 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.

	<u>Assets</u>	Nonadmitted	Net Admitted
	Assets	Assets	Assets
Bonds	\$3,008,564,590	-	\$3,008,564,590
Common Stocks	771,803,262	\$ 102,564	771,700,698
Cash and Short-term Investments	79,307,923	-	79,307,923
Other Invested Assets	26,222,654	-	26,222,654
Receivable for Securities	6,042,065	-	6,042,065
Investment Income Due and Accrued	24,126,611	-	24,126,611
Uncollected Premiums and Agents' Balances in the Course of Collection	272,774,024	14,738,196	258,035,828
Deferred Premiums, Agent Balances, and Installments Booked and Not Yet Due	154,855,714	381,091	154,474,623
Amounts Recoverable from Reinsurers	197,967,804	-	197,967,804
Funds Held by or Deposited with Reinsured Companies	9,018,497	1,440,876	7,577,621
Current Federal and Foreign Income Tax Recoverable	21,457,888	-	21,457,888
Reinsured Companies	32,018,054	-	32,018,054
Net Deferred Tax Asset	32,018,054	-	32,018,054
Guaranty Funds Receivable or on Deposit	623,787	-	623,787
Receivables from parent, Subsidiaries and Affiliates	31,136,948	-	31,136,948
Aggr. Write-Ins for Other than Invested Assets	110,845,452	-	110,845,452
TOTAL ASSETS	\$4,746,765,272	\$16,662,727	\$4,730,102,545

Liabilities, Surplus and Other Funds

Losses	\$ 894,090,639
Reinsurance Payable on Paid Losses and Loss Adjustment Expenses	117,865,836
Loss Adjustment Expenses	252,967,820
Commissions Payable, Contingent Commissions and Other Similar Charges	4,398,870
Other Expenses (Excluding Taxes, Licenses and Fees)	65,947,357
Taxes, Licenses and Fees (Excluding Federal and Foreign Income Taxes)	3,976,402
Current Federal and Foreign Income Taxes	1,769,000
Unearned Premiums	131,255,768
Ceded Reinsurance Premiums Payable (Net of Ceding Commissions)	268,461,490
Funds Held by Company Under Reinsurance Treaties	1,198,383,213
Amounts Withheld or Retained by Company for Account of Others	1,260,104
Remittances and Items Not Allocated	124,630,765
Provision for Reinsurance	14,004,600
Net Adjustments in Assets and Liabilities	
Due to Foreign Exchange Rates	21,918,560
Payable to Parent, Subsidiaries and Affiliates	36,894,001
Payable for Securities	6,362,919
Aggregate Write-Ins for Liabilities:	
Escheatment Payable	161,201
Excess Ceding Commissions	26,006,520
Summary of Remaining Write-ins	1,186,200
TOTAL LIABILITIES	3,171,541,265
Common Capital Stock	6,345,000
Gross Paid In and Contributed Surplus	1,439,150,496
Unassigned Funds (Surplus)	113,065,784
Surplus as Regards Policyholders	1,558,561,280
TOTAL LIABILITIES AND SURPLUS	\$ 4,730,102,545

Statement of Income**Underwriting Income:**

Premiums Earned	\$ 280,390,506
Deductions:	
Losses Incurred	157,920,669
Loss Adjustment Expenses Incurred	66,655,700
Other Underwriting Expenses Incurred	100,062,237
Aggregate write-ins for underwriting deductions	2,125,093
Net Underwriting Gain or (Loss)	(46,373,193)

Investment Income:

Net Investment Income Earned	174,658,655
Net Realized Capital Gains or (Losses)	46,994,632
Net Investment Gain or (Loss)	221,653,287

Other Income:

Net Gain or (Loss) from Agents' or Premium Balances Charged Off	(451,790)
Finance and Service Charges Not Included in Premiums	60,098
Aggregate Write-ins for Miscellaneous Income:	
Deposit Accounting Contracts	10,663,687
Interest on Funds Held and Other Expense, Net	(15,286,478)
Other Income	(825,532)
Total Other Income	(5,840,015)

Net Income Before Dividends to Policyholders and Income Taxes	169,440,079
Dividends to Policyholders	-
Net Income Before Federal and Foreign Income Taxes	169,440,079
Federal and Foreign Income Taxes Incurred	(20,305,231)
NET INCOME	\$ 189,745,310

Capital and Surplus Account

Surplus as Regards Policyholders, December 31, 2015	\$1,505,289,885
Net Income	189,745,310
Change in Net Unrealized Capital Gains or (Losses)	(63,613,517)
Change in Net Unrealized Foreign Exchange Capital Gain (Loss)	2,165,192
Change in Net Deferred Income Tax	1,399,447
Change in Non-Admitted Assets	(1,328,237)
Change in Provision for Reinsurance	(96,800)
Surplus Adjustments Paid In	(33,967,041)
Dividends to Stockholders	(41,032,959)
Net Change in Surplus as Regards Policyholders for 2016	53,271,395
Surplus as Regards Policyholders, December 31, 2016	\$1,558,561,280

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, Marc Peterson, CFE, Kim Dobbs, AES, CFE, Steven Koonse, CFE, Brad Brunton, CPA, Karen Baldree, CPA, CFE, James Le, CPA, CFE, CPCU, ARe and Alicia Galm, examiners for the DIFP, participated in this examination. The firm Merlino & Associates, Inc. also participated as consulting actuaries.

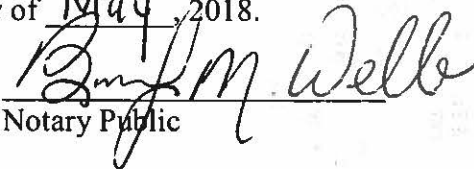
VERIFICATION

State of Missouri)
County of Jackson)

I, Mark A. Nance, CPA, 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.


Mark A. Nance, CPA, CFE
Senior Examiner-In-Charge
Missouri Department of Insurance, Financial
Institutions and Professional Registration

Sworn to and subscribed before me this 2nd day of May, 2018.

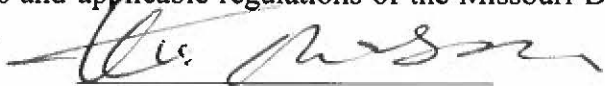
My commission expires: 04-14-2020

Notary Public



BEVERLY M. WEBB
My Commission Expires
April 14, 2020
Clay County
Commission #12484070

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 Missouri DIFP and statutes of the State of Missouri prevailed.


Levi Nwasoria, CPA, CFE
Audit Manager
Missouri Department of Insurance, Financial
Institutions and Professional Registration