



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

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

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

**ORDER**

After full consideration and review of the report of the financial examination of First Specialty 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 First Specialty Insurance Corporation as of December 31, 2013 be and is hereby ADOPTED as filed and for First Specialty 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 29<sup>th</sup> day of May, 2015.



A blue ink signature of John M. Huff, written over a horizontal line.

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

**REPORT OF THE  
FINANCIAL EXAMINATION OF  
FIRST SPECIALTY 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**

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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

**First Specialty Insurance Corporation**

hereinafter referred to as such, as FSIC, 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 First Specialty 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 immediate parent, Westport Insurance Corporation (WIC). 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**

The Corporation operates as a stock property and casualty insurer in Missouri under the insurance laws of Chapter 379 RSMo (Insurance Other Than Life). FSIC was incorporated on November 13, 1989 and commenced operations on November 21, 1989. The Corporation has been a wholly owned subsidiary of WIC since its inception.

In 2006, General Electric Company (GE) sold GE Insurance Solutions Corporation (GEIS) and its subsidiaries, including FSIC and WIC, to Swiss Reinsurance Company Ltd (SRZ). Subsequently, GEIS was re-named Swiss Re Solutions Holding Corporation (SRSB) and served as the immediate parent of WIC and its subsidiaries.

In 2011, SRSB transferred its ownership of WIC and all of its subsidiaries to Swiss Re America Holding Corporation (SRAH) which subsequently transferred its ownership to SR Corporate Solutions America Holding Corporation (SRCSAH). SRCSAH currently serves as the immediate parent of WIC and the indirect parent of all WIC's subsidiaries, including FSIC.

**Dividends**

FSIC paid dividends of \$7.5 million in 2010, \$7.3 million in 2011, and \$0 in 2012 and 2013 to its immediate parent, WIC.

**Capital Contributions**

FSIC received no capital contributions during the examination period.

**Mergers and Acquisitions**

FSIC 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. Neither the Articles of Incorporation nor the Bylaws were amended 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 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:

<b><u>Director</u></b>	<b><u>Business Affiliation</u></b>
Robert M. Solitro	Head of Business Operations North America, Corp. 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, Swiss Re, 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, 2013 were as follows:

<b><u>Officer</u></b>	<b><u>Position with FSIC</u></b>
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 and Risk 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 committee members as of December 31, 2013 were as follows:

<b><u>Executive Committee</u></b>	<b><u>Risk Committee</u></b>
Robert M. Solitro (Chair)	Robert A. Giambo (Chair)
Seth H. Meyer	Seth H. Meyer
Gregory A. Steele	Robert M. Solitro

As noted in the previous examination report, the Board of Directors serves as its audit committee. Three of the Board members are not a part of Corporate management and do not have a business relationship with the Corporation and are therefore considered independent. In addition to the Corporation-level committees outlined above, FSIC 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.

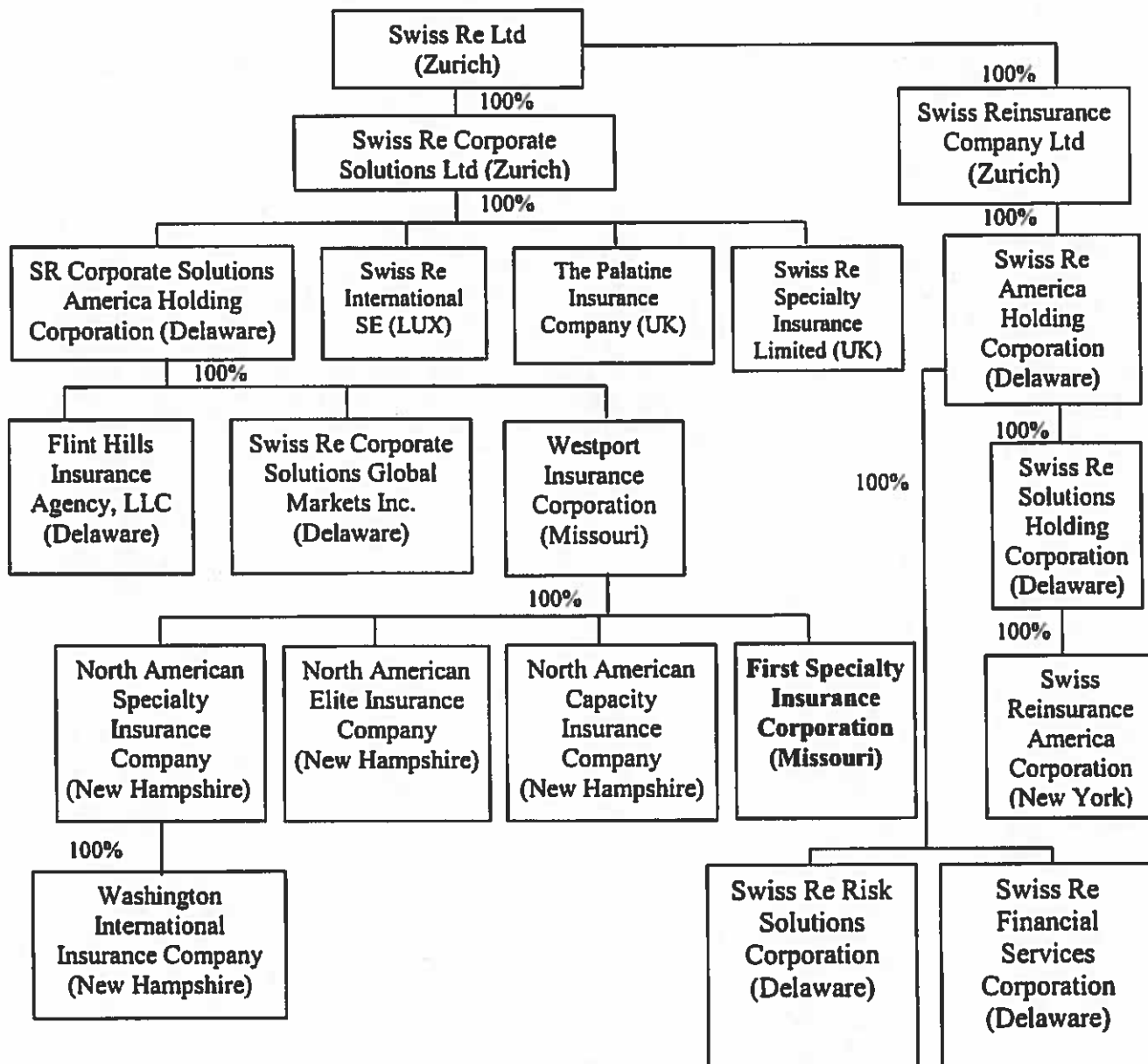
**Holding Company, Subsidiaries and Affiliates**

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

Within the holding company structure, FSIC is a wholly owned subsidiary of WIC. 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 (SRL), 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. FSIC and WIC are part of SRL's global Corporate Solutions Division which provides risk solutions to corporate customers globally. WIC and its subsidiaries, including FSIC, form the core of the Corporate Solutions operations in the United States and Canada.

**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 FSIC, are subsidiaries of FSIC’s indirect parent, SRCS, or have significant transactions with FSIC or its direct parent 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:** FSIC, Flint Hills Insurance Agency LLC (Flint), and WIC  
**Effective:** January 28, 2009  
**Terms:** WIC provides FSIC and Flint with general management and administrative services such as legal, personnel, information systems, accounting, finance, risk management, actuarial, underwriting, claims, and other services. FSIC and Flint reimburse WIC for the cost incurred in providing the services.
  
2. **Type:** Services Agreement  
**Parties:** FSIC and SRAH  
**Effective:** December 1, 2010  
**Terms:** SRAH provides FSIC with general management and administrative services such as legal, personnel, information systems, accounting, finance, risk management, actuarial, underwriting, claims, and other services. FSIC reimburses SRAH for the cost incurred in providing the services.
  
3. **Type:** Services Agreement  
**Parties:** FSIC and SRCSAH  
**Effective:** January 1, 2012  
**Terms:** SRCSAH provides FSIC with general management and administrative services such as legal, personnel, information systems, accounting, finance, risk management, actuarial, underwriting, claims, and other services. FSIC reimburses SRCSAH for the cost incurred in providing the services.
  
4. **Type:** Operating Agreement  
**Parties:** FSIC and Flint  
**Effective:** January 1, 1998  
**Terms:** Flint, as underwriter for FSIC, is given the authority to solicit and bind contracts of insurance, collect and receive premiums, cancel and non-renew policies, and various other underwriting functions. FSIC pays Flint a monthly service fee equal to monthly operating expenses incurred in rendering services or producing business for FSIC.
  
5. **Type:** Investment Advisory Agreement  
**Parties:** FSIC, WIC, and Swiss Re Financial Services Corporation (SRFSC)  
**Effective:** August 22, 2006  
**Terms:** SRFSC provides FSIC and WIC with various investment management and investment accounting services. FSIC and WIC 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:** FSIC, WIC, and SRL  
**Effective:** January 1, 2012  
**Terms:** FSIC and WIC 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 FSIC and WIC a royalty fee of 0.75% of annual total net (after retrocession) earned premiums.
  
7. **Type:** Parental Guarantee  
**Parties:** FSIC and WIC  
**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 FSIC  
**Effective:** January 1, 2012  
**Terms:** FSIC 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, FSIC has reinsurance agreements with WIC and other affiliates through which FSIC cedes the majority of its business as described in the Reinsurance section of this report.

### **FIDELITY BOND AND OTHER INSURANCE**

FSIC 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.

FSIC 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**

FSIC does not have any direct employees. All personnel supporting the operations of FSIC are employed by affiliates such as WIC and SRAH and participate in various benefits plans offered by certain affiliates of FSIC. The costs associated with these employees, including the costs associated with the employees' participation in the benefit plans, are charged to and paid by FSIC under intercompany agreements.

Among the employee benefit plans offered through FSIC's ultimate parent, SRL, and other FSIC affiliates, subject to meeting certain eligibility criteria, are: 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.

Other employee benefits offered 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**

FSIC is licensed as a property and casualty insurer by the MO DIFP under Chapter 379 RSMo (Insurance Other Than Life). FSIC is not licensed in any other states; however, the Corporation writes business on a non-admitted basis in the other forty-nine states and the District of Columbia on an excess and surplus lines basis. FSIC is a direct insurer only with no assumed business. The Corporation had 2013 direct written premiums of \$217 million. FSIC 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.

FSIC is subject to the Swiss Re Group underwriting guidelines. Major FSIC business segments in terms of underwriting characteristics include the following: (1) Excess & Surplus (E&S) Property, (2) Lawyers Errors & Omissions (E&O), (3) Agents E&O, and (4) E&S Casualty.

## 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 Capital & Surplus	\$73,111,823	\$65,914,581	\$63,533,999	\$63,877,057
Total Admitted Assets	\$161,006,692	\$163,007,821	\$190,668,845	\$177,419,345
Direct Written Premiums	\$76,273,491	\$96,350,507	\$166,207,674	\$216,924,540
Direct Written Premium to Capital & Surplus	104.3%	146.2%	261.6%	339.6%
Net Written Premiums	\$12,169,333	\$15,642,579	\$27,446,592	\$5,115,251
Net Written Premium to Direct Written Premium	15.95%	16.24%	16.51%	2.36%
Net Loss & LAE Incurred to Premiums Earned	(11.75)%	105.80%	87.03%	124.56%
Net Income (Loss)	\$6,237,967	(\$2,994,614)	(\$1,502,596)	\$433,859

FSIC's capital and surplus was stable from 2011 through 2013 with the \$7.2 million decrease from 2010 to 2011 due to \$7.3 million in stockholder dividends paid in 2011. FSIC's total admitted assets also remained relatively stable during the exam period with a small spike in 2012. Consistent with SRL's plans for FSIC, direct premium written increased significantly during each year of the exam period but remained conservative as a percentage of FSIC's capital and surplus. In 2010, 2011, and 2012, net written premium increased in dollar terms but stayed constant as a percentage of direct written premium. In 2013, net written premium decreased in both dollar terms and as a percentage of direct written premium due to FSIC ceding a larger percentage to its parent. FSIC's net loss and loss adjustment expenses (LAE) incurred as a percentage of net premiums earned has been erratic during the exam period but FSIC's net income (loss) has not been significant for any of the years 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:

	2010	2011	2012	2013
Direct Written Business	\$ 76,273,491	\$ 96,350,507	\$ 166,207,674	\$ 216,924,540
Reinsurance Assumed	N/A	N/A	N/A	N/A
Reinsurance Ceded:				
Affiliates	(48,823,152)	(61,663,732)	(105,495,944)	(205,411,738)
Non-Affiliates	(15,281,006)	(19,044,196)	(33,265,138)	(6,397,551)
<b>Net Written Premium</b>	<b>\$ 12,169,333</b>	<b>\$ 15,642,579</b>	<b>\$ 27,446,592</b>	<b>\$ 5,115,251</b>

**Assumed**

FSIC did not assume any business during the examination period.

**Ceded**

Since FSIC's 2006 acquisition by SRL, the majority of its reinsurance agreements have been with affiliates. Agreements have been quota share treaties wherein FSIC cedes either 80% or 100% of its risk (net of inuring) depending on the line of business. FSIC had a quota share with WIC covering the 2003-2006 years wherein the Company ceded 80% to 100% of its business depending on the line of business. In addition, FSIC has an unlimited Adverse Development Cover covering 2002 and prior accident years with WIC. Effective January 1, 2013, FSIC cedes 100% of its business to WIC net of inuring reinsurance.

FSIC has one material external 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, FSIC cedes 20% of its applicable business during those underwriting years to NIC.

There are numerous legacy reinsurance contracts as well still being ceded on behalf of FSIC.

FSIC 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, 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, and PERLS. Advanced Claims was purchased from Computer Sciences Corporation. The remaining reserving and claims management applications were developed internally. Reinsurance is managed through TIGER and CRAS, 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.

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

The actuarial opinion regarding FSIC'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 FSIC.

**STATUTORY DEPOSITS**

**Deposits with the State of Missouri**

The funds on deposit with the MO DIFP 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	\$2,600,000	\$2,691,910	\$2,647,590

**Deposits with Other States, Territories, and Countries**

The Corporation also has funds on deposit with various other states. 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>
Massachusetts	U.S. Treasury Note	\$ 700,000	\$ 724,745	\$ 712,813
New Jersey	U.S. Treasury Note	200,000	207,070	203,661
New Mexico	U.S. Treasury Note	125,000	129,419	127,288
New York	U.S. Treasury Note	2,750,000	2,847,213	2,800,335
South Carolina	U.S. Treasury Note	<u>150,000</u>	<u>157,434</u>	<u>159,624</u>
Totals		<u>\$ 3,925,000</u>	<u>\$ 4,065,881</u>	<u>\$ 4,003,721</u>

**FINANCIAL STATEMENTS**

The following financial statements, with supporting exhibits, present the financial condition of First Specialty 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.



	<u>Assets</u>		
	<u>Assets</u>	<u>Non-Admitted Assets</u>	<u>Net Admitted Assets</u>
Bonds	\$ 99,285,779	\$ -	\$ 99,285,779
Cash and Short-term Investments	34,062,118	-	34,062,118
Investment Income Due and Accrued	799,579	-	799,579
Uncollected Premium and Agents' Balances In the Course of Collection	2,159,830	1,775,433	384,397
Amounts Recoverable from Reinsurers	16,599,896	-	16,599,896
Current Federal and Foreign Income Tax Recoverable and Interest Thereon	1,341,557		1,341,557
Net Deferred Tax Asset	5,182,972	1,242,734	3,940,238
Aggregate Write-Ins for Other Than Invested Assets:			
Paid Loss Advance	21,005,780	-	21,005,780
<b>Total Assets</b>	<b>\$ 180,437,511</b>	<b>\$ 3,018,167</b>	<b>\$ 177,419,344</b>

**Liabilities, Surplus and Other Funds**

Losses	\$ 41,355,299
Loss Adjustment Expenses	18,047,156
Commissions Payable, Contingent Commissions and Other Similar Charges	6,257
Other Expenses (Excluding Taxes, Licenses and Fees)	47,551
Taxes, Licenses and Fees (Excluding Federal and Foreign Income Tax)	77,541
Unearned Premiums	779,087
Ceded Reinsurance Premiums Payable (Net of Ceding Commissions)	30,997,183
Funds Held by Company Under Reinsurance Treaties	10,657
Remittances and Items Not Allocated	7,482,757
Provision for Reinsurance	6,000
Payable to Parent, Subsidiaries and Affiliates	3,698,536
Aggregate Write-Ins for Liabilities:	
Excess Ceding Commissions	11,034,264
<b>Total Liabilities</b>	<b>113,542,288</b>
Common Capital Stock	5,000,000
Gross Paid In and Contributed Surplus	41,000,000
Unassigned Funds (Surplus)	17,877,057
Surplus as Regards Policyholders	63,877,057
<b>Total Liabilities and Surplus</b>	<b>\$ 177,419,345</b>

**Statement of Income**

<b>Underwriting Income</b>	
Premiums Earned	\$15,710,098
<b>Deductions</b>	
Losses Incurred	11,644,486
Loss Adjustment Expenses Incurred	7,923,830
Other Underwriting Expenses Incurred	(1,470,025)
Excess Ceding Commissions	811,192
<b>Net Underwriting Gain or (Loss)</b>	<u>(3,199,385)</u>
<b>Investment Income:</b>	
Net Investment Income Earned	1,495,956
Net Realized Capital Gains or (Losses)	805,448
<b>Net Investment Gain or (Loss)</b>	<u>2,301,404</u>
<b>Other Income</b>	
Net Gain or (Loss) from Agents' or Premium Balances Charged Off	(200,245)
Aggregate Write-Ins for Miscellaneous Income:	
Miscellaneous Income	4,204
<b>Total Other Income</b>	<u>(196,041)</u>
Net Income Before Dividends to Policyholders and Income Taxes	(1,094,022)
Dividends to Policyholders	-
<b>Net Income Before Federal and Foreign Income Taxes</b>	<u>(1,094,022)</u>
Federal and Foreign Income Taxes Incurred	(1,527,881)
<b>Net Income</b>	<u>\$ 433,859</u>

**Capital and Surplus Account**

Surplus as Regards Policyholders, December 31, 2012	\$ 63,533,999
Net Income	433,859
Change in Net Unrealized Capital Gains or (Losses)	(60,466)
Change in Net Deferred Income Tax	(1,706,746)
Change in Nonadmitted Assets	1,553,411
Change in Provision for Reinsurance	123,000
<b>Net Change in Surplus as Regards Policyholders for 2013</b>	<u>343,058</u>
<b>Surplus as Regards Policyholders, December 31, 2013</b>	<u>\$ 63,877,057</u>

**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 First Specialty 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 First Specialty 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

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

Sworn to and subscribed before me this 8<sup>th</sup> day of April, 2015.

My commission expires: 01/07/2018 Tamary 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