

STATE OF MISSOURI



DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

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

RE: Examination Report of Westport Insurance Corporation

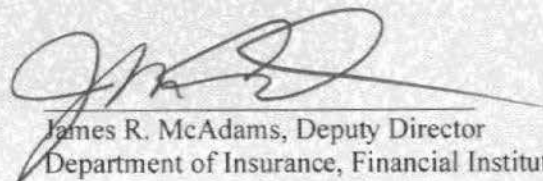
ORDER

After full consideration and review of the report of the financial examination of Westport Insurance Corporation for the period ended December 31, 2009, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, James R. McAdams, Deputy 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, company 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. I further specifically find and conclude that there were no material adverse findings, significant non-compliance issues, or material changes to the financial statements noted during the examination.

Based on such findings and conclusions, I hereby ORDER that the Report of the Financial Examination of Westport Insurance Corporation as of December 31, 2009, be and is hereby ADOPTED as filed.

So ordered, signed and official seal affixed this 6th day of June, 2011.





James R. McAdams, Deputy Director
Department of Insurance, Financial Institutions
and Professional Registration

REPORT OF THE
FINANCIAL EXAMINATION OF
WESTPORT INSURANCE CORPORATION

AS OF
DECEMBER 31, 2009

FILED

MAY 16 2011

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
March 8, 2011

Honorable Joseph Torti, III, Deputy Director and
Superintendent of Banking and Insurance
Rhode Island Department of Business Regulation
Chair, NAIC Financial Condition (E) Committee

Honorable Stephen W. Robertson, Commissioner
Indiana Department of Insurance
Midwestern Zone Secretary

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

Ladies and Gentlemen:

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

Westport Insurance Corporation

hereinafter referred to as such, as Westport, as WIC, or as the Corporation. Its administrative office is located at 5200 Metcalf, Overland Park, KS 66202, telephone number 913-676-5200. The fieldwork for this examination began on January 11, 2010, and concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

We have performed our full scope association financial examination of Westport Insurance Corporation. The last examination was completed as of December 31, 2006 and was conducted by examiners from the State of Missouri representing the Midwestern Zone of the National Association of Insurance Commissioners (NAIC) with no other zone participating. This examination covers the period of January 1, 2007 through December 31, 2009 and was performed concurrently with the examination of the Corporation's subsidiary, First Specialty Insurance Corporation (First Specialty or FSIC). The examination also includes the material transactions and/or events occurring subsequent to the examination date which are noted in this report. The current examination was conducted by examiners from the State of Missouri representing the Midwestern Zone of the NAIC with no other zones participating.

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 and 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 approach. Key activities for Westport included: Claims and Reserving, Investments, Premiums and Underwriting, Related Party Transactions, Reinsurance, and Federal Income Taxes.

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, 2008 through December 31, 2008 and January 1, 2009 through December 31, 2009. Information relied upon included fraud risk analysis, attorney letters, tests of controls, and narrative descriptions of processes and controls.

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, 2009 through the date of this report.

COMPANY 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). The Corporation was originally incorporated as Employers Indemnity Corporation and began business on July 1, 1914 at offices located in Kansas City, Missouri. In 1928, its name was changed to Employers Reinsurance Corporation (ERC). ERC was purchased by Getty Oil Company in 1980 and ERC's headquarters were moved to Overland Park, Kansas. 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, the Corporation was acquired by Swiss Reinsurance Company Ltd (Swiss Re), the current ultimate owner. In 2008, ERC merged with its then subsidiary Pre-Merger Westport Insurance Corporation (PM-WIC) and the merged corporation's name was changed to Westport Insurance Corporation.

Capital Contributions

No capital contributions were received during the current examination period. WIC did make two returns of capital in 2007 (\$750,000,000) and 2008 (\$1,243,913,000) to its parent, Swiss Re Solutions Holding Corporation (SRSHC), which were approved by MO DIFP.

Dividends

During 2008, WIC made two dividend payments approved by MO DIFP to SRSHC totaling \$191,087,000. During 2009, WIC made an additional two MO DIFP approved dividend distributions to SRSHC totaling \$107,946,678.

Mergers and Acquisitions

As a result of the 2006 purchase, several transactions were entered into during the examination period which significantly changed the operational and organizational structure of WIC and its subsidiaries. These are summarized as follows:

- Effective March 29, 2007, Coregis Group Inc. merged into ERC with ERC as the surviving entity. This merger, which included the retirement of ERC's preferred stock, resulted in an overall increase to surplus of \$34.7 million.
- On March 30, 2007, Coregis Insurance Company merged with and into PM-WIC, a subsidiary of ERC, with PM-WIC as the surviving entity.
- Effective December 10, 2007, IRI Management Services, LLC merged into ERC with ERC as the surviving legal entity.
- Effective January 1, 2008, PM-WIC, a wholly-owned subsidiary of ERC, merged with and into ERC, with ERC as the surviving legal entity. Following the execution of the merger transactions, ERC changed its name to Westport Insurance Corporation.
- Since the purchase by Swiss Re, WIC has curtailed foreign operations, and is exiting most of the countries in which it had been operating. Foreign operations transferred or currently being transferred to Swiss Re affiliates include reinsurance activity in Canada and all activity in Korea, Malaysia, Australia, and New Zealand. In contrast, Swiss Re and North America Specialty Insurance Company (NAS) transferred their direct Canadian business to WIC.

CORPORATE RECORDS

A review was made of the Articles of Incorporation and Bylaws for the examination period. During this examination period, the Articles of Incorporation were amended and restated effective January 1, 2008, changing the name of the corporation to Westport Insurance Corporation. The Bylaws were also amended and restated effective May 29, 2008; however, no significant changes were made.

The minutes of the Board of Directors' meetings, committee meetings, and stockholder's meetings were reviewed for proper approval of corporate transactions. The minutes appear to properly reflect and approve 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 that is elected by the shareholder. The Articles of Incorporation specify that the number of directors shall not be less than nine (9) nor more than twenty-five (25). (Mr. Petrilli's below-stated title is his position within WIC and its Board. The titles noted for all other members are those positions held by the employee within Swiss Re's Americas regional operations.)

The Board of Directors elected and serving as of December 31, 2009 was as follows:

<u>Name</u>	<u>Address</u>	<u>Title</u>
Robert J. Petrilli	West Simsbury, CT	Chairman, President and Chief Executive Officer, Westport Insurance Corporation
Craig R. Esses	Stamford, CT	Senior Vice President - Americas Tax Director
Brian E. Evans	Olathe, KS	Senior Vice President - Head Excess & Specialty Casualty
Anthony D. Hill	Shawnee, KS	Managing Director - Head Actuarial Services U.S.
Steven A. Kelner	Mullica Hill, NJ	Managing Director - Head Underwriting, Casualty
James K. Miller	Armonk, NY	Managing Director - Head North American Property
Randy L. Nordquist	Bonner Springs, KS	Managing Director - Executive Claims Manager
Robert M. Solitro	Manchester, NH	Managing Director - Americas DOO & Head North America Specialty Client Markets
William J. Steilen	Overland Park, KS	Managing Director - Chief Financial Officer Property & Casualty (P&C) Americas
Craig C. Zahnd	Overland Park, KS	Managing Director - Head Americas Legal

Although all the members of the Board of Directors as indicated above are employees of Swiss Re entities, indicating a lack of independence in the Corporation's governance, this is not unusual given the ownership structure of WIC as a subsidiary of a major corporation. To ascertain independence and prudent corporate governance standards, the examination reviewed the composition of the Board of Directors of Swiss Re, the ultimate controlling entity of WIC. Swiss Re's current Board of Directors is comprised of nine members, all of whom are independent based on Swiss Re's independence criteria.

Senior 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 stockholder. The Board of Directors may elect other officers as required by law or as needed as determined by the Board. The titles shown below are those stated within the WIC Board minutes, followed by the general area of responsibility. The senior officers elected by the Board of Directors and serving as of December 31, 2009 were as follows:

<u>Name</u>	<u>Address</u>	<u>Title – Area of Responsibility</u>
Robert J. Petrilli	West Simsbury, CT	Chairman, President and Chief Executive Officer, Westport Insurance Corporation
William J. Steilen	Overland Park, KS	Managing Director - Chief Financial Officer P&C Americas
Christian Bieri	Toronto, ON, CN	Managing Director - Head Underwriting, Canada & EC Treaty
Craig C. Zahnd	Overland Park, KS	Managing Director - Head Americas Legal
Gregory A. Steele	Overland Park, KS	Managing Director - Executive Claims Manager
James M. Gevlin	Stuyvesant, NY	Managing Director - Head of Regional Hub Americas
Jean-Jacques Henchoz	Toronto, ON, CN	Managing Director - Head of Canada & English Caribbean
Patrick Mailloux	Armonk, NY	Managing Director - Head Globals & National, and Latin America
Randy L. Nordquist	Bonner Springs, KS	Managing Director - Executive Claims Manager
Thomas J. Luning	Brookfield, CT	Managing Director - Head of Regional & Specialty
Anthony D. Hill	Shawnee, KS	Managing Director - Head Actuarial Services U.S.
Elissa B. Kenny	West Harrison, NY	Senior Vice President & Secretary
Kenneth J. Holferty	Lake Lotawana, MO	Treasurer
Deryck M. Malone	Shawnee, KS	Controller & Assistant Treasurer
Steven W. Book	Lenexa, KS	Senior Vice President - Reserving Actuary
Daniel G. Gibson	Overland Park, KS	Senior Vice President - Head Office Reporting
Charles H. Lubochinski	White Plains, NY	Senior Vice President – U.S. Tax Director

Principal Committees

WIC's Bylaws state that the Board of Directors may elect an Executive Committee of not less than three members. 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 Board, at its discretion, may appoint other committees as necessary. Currently, the Board of Directors has elected an Executive Committee. The committee members as of December 31, 2009 were as follows:

Executive Committee

Robert J. Petrilli
William J. Steilen
Craig C. Zahnd

The various Swiss Re entities within the Americas region joined together and established the Swiss Re Americas Finance & Risk Committee (FRC) to a) approve investment policies, monitor compliance of investment managers, and verify that investments comply with regulatory and

statutory restrictions and b) monitor corporate risks based on Swiss Re's risk selection criteria and risk management principles. FRC is comprised of representatives from Swiss Re legal entities and product lines from the Americas region including but not limited to entities in the United States and Canada. William Steilen is the appointed committee member representing WIC. All actions of the FRC are to be approved by the individual corporations' Boards of Directors. The following members served on the FRC as of December 31, 2009:

Swiss Re Americas Finance & Risk Committee (FRC)

David H. Atkins	Robert Peduto
Walter Bell	William Steilen
David Blumer	Matthias Weber
Tracy Choka	Weldon Wilson
Jean-Jacques Henchoz	Robyn Wyatt
Paul LiCausi	Robin Zubretsky
Pierre L. Ozendo	

Swiss Re America Holding Corporation (SRAHC) has an Audit Committee; the majority of whose members were outside directors as of the examination date. This committee serves all legal entities within SRAHC including WIC. The Audit Committee's stated primary function is to assist the Board of Directors in fulfilling its oversight responsibilities relating to confirming the integrity of SRAHC's financial statements, compliance with laws and regulations, the qualifications of external auditors, and the internal and external auditing processes with the ultimate goal of reinforcing the confidence of all interested parties. The Audit Committee is also charged with monitoring the company's financial reporting process and system of internal controls. The Audit Committee members as of December 31, 2009 were:

Audit Committee

David Atkins
Walter Bell
Mathis Cabiallavetta
John D'Alimonte

The Corporation's ultimate parent, Swiss Re, also established within its corporate Bylaws an Audit Committee comprised of Board members who are not Swiss Re's executives and who are independent and financially literate. Per the Swiss Re Audit Committee directives, at least one member shall have the attributes qualifying such member as an Audit Committee Financial Expert as determined by the Board. In addition, Swiss Re Audit Committee members are prohibited from accepting any consulting, advisory, or other compensatory fee from the Company and are not to serve on the audit committee of more than two other listed companies.

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 was filed by Westport, on behalf of itself and First Specialty for each year of the examination period.

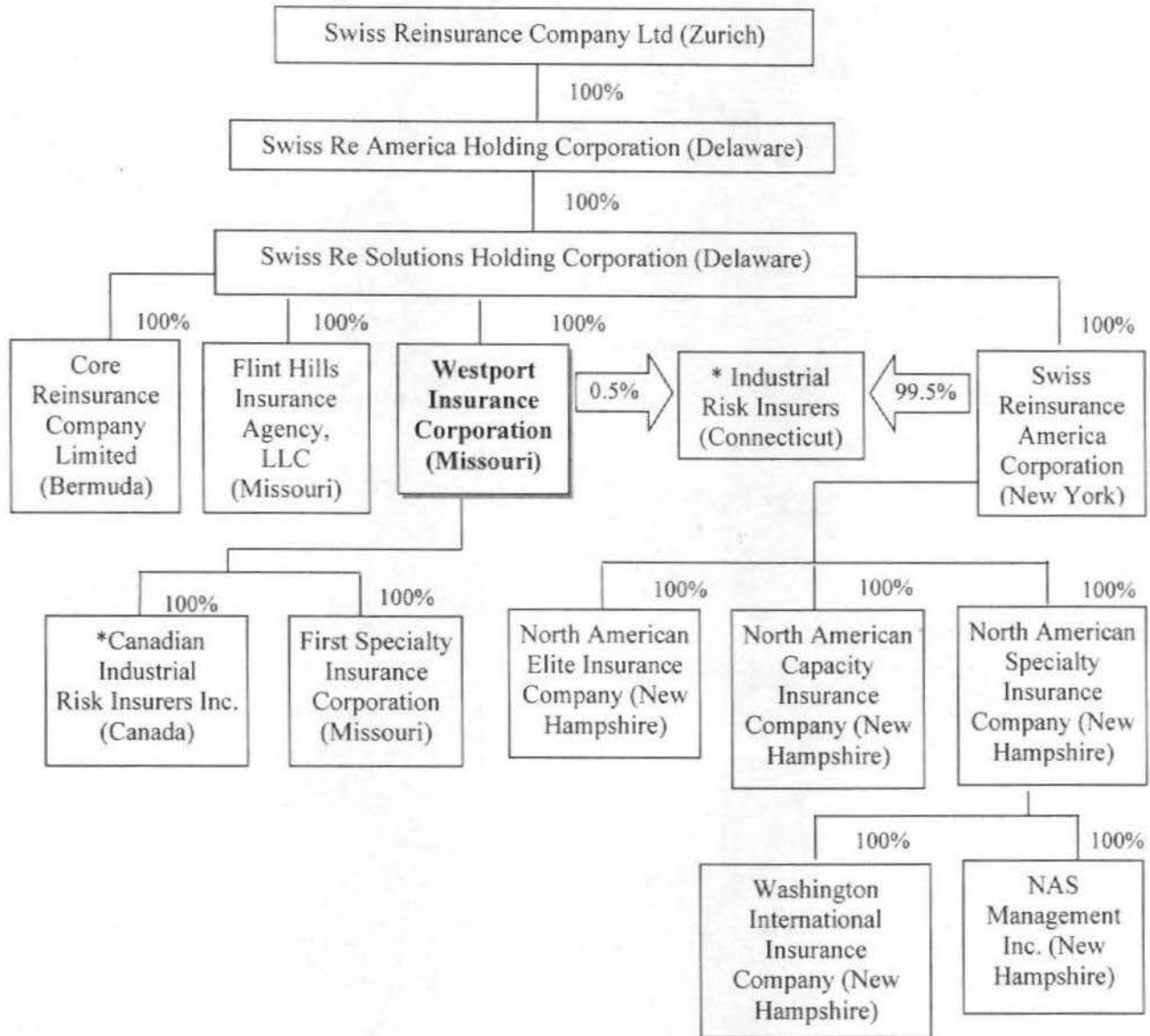
Within the holding company structure, Westport is wholly owned by SRSHC, which in turn is wholly owned by SRAHC. SRAHC is wholly owned by Swiss Re, the ultimate controlling entity within the holding company system. SRSHC is the holding company for Swiss Re's U.S., Canadian, and Latin American domiciled property and casualty insurance entities. SRAHC is the holding company for all Swiss Re U.S. and Latin American business, including insurance, reinsurance, and financial services. Swiss Re is a diversified reinsurer operating on a global scale who offers a wide variety of reinsurance products and financial services solutions to manage capital and risk. Swiss Re is a publicly traded company on the Swiss Exchange under the ticker RUKN and no single shareholder was determined to own 10% or more of its outstanding shares

As of December 31, 2009, Westport owned the following entities:

- First Specialty Insurance Corporation, a wholly owned excess and surplus lines insurer that specializes in commercial lines of wind and earthquake coverage, general liability, property, hospital professional liability, and lawyer's professional liability.
- Industrial Risk Insurers (IRI), a voluntary joint underwriting association in which Westport has a 0.5% direct membership interest. Swiss Reinsurance America Corporation (SRAC) has the remaining 99.5% direct membership interest. IRI writes large property risks usually involving multiple locations.
- Canadian Industrial Risk Insurers Inc. (Canadian IRI), a wholly owned Canadian corporation which writes the same types of policies as IRI, for the Canadian market.

Organizational Chart

The ultimate parent, Swiss Re, 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 Westport and entities that have transactions with Westport are listed. The following organizational chart depicts the ownership of Westport as of December 31, 2009.



* Industrial Risk Insurers and Canadian Industrial Risk Insurers Inc. were dissolved effective January 1, 2011.

Intercompany Transactions

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

- 1. Type:** Service Agreement
Parties: WIC and Swiss Re America Holding Corporation
Effective: June 14, 2006
Terms: SRAHC will provide WIC with certain general management and administrative services, including legal and government relations services, personnel and payroll services, information systems and technology services, tax services, corporate accounting and auditing services, claim advisory services and office administration, property management and supply services and such other services as WIC may request from time to time. WIC shall reimburse SRAHC for the cost incurred in providing the services within the agreement.
- 2. Type:** Service Agreement
Parties: WIC and Industrial Risk Insurers
Effective: March 26, 2001
Terms: WIC agrees to provide equipment, data processing and computer services, and accounting, financial, actuarial, payroll, sales, underwriting, claims and related services. IRI will reimburse WIC for all reasonable and necessary expenses devoted to providing services to IRI. No fees were due or accrued for 2008 or 2009 under this agreement.
- 3. Type:** Service Agreement
Parties: WIC, FSIC, and Flint Hills Insurance Agency, LLC (FHIA)
Effective: January 28, 2009
Terms: WIC shall make available to FSIC and FHIA certain general management and administrative services, the use of assets, legal and government relations services, personnel and payroll services, information systems and technology services, tax services, corporate accounting and auditing services, financial services, actuarial services, risk management services, underwriting services, claim advisory services and related claim services, office administration, property management, vendor expenses and supply services and such other services as may be requested from time to time. FSIC and FHIA shall reimburse WIC for the cost incurred in providing the services within the agreement.

4. **Type:** Services Agreement
Parties: WIC and Swiss Reinsurance America Corporation
Effective: September 16, 2002
Terms: WIC will provide equipment and will provide the following services: data processing, accounting, financial, actuarial, executive, personnel, sales, underwriting, claims, and related services necessary to conduct the business of SRAC. SRAC will reimburse WIC for its actual and/or budgeted expenses incurred in providing the services based upon a proportionate percentage of annual overhead, salary and expenses. No fees were due or accrued for 2008 or 2009 under this agreement.
5. **Type:** Claims Administration Agreement
Parties: WIC and Core Reinsurance Company Limited (Core Re)
Effective: January 1, 2004
Terms: WIC is appointed claims administrator by Core Re and will adjust and administer claims for all business arising under insurance or reinsurance agreements written by Core Re. The services provided by WIC to Core Re under this agreement are done on a cost basis. No fees were due or accrued for 2008 or 2009 under this agreement.
6. **Type:** Services Agreement (Payroll)
Parties: WIC and Swiss Reinsurance Company Ltd
Effective: July 1, 2006
Terms: WIC will manage the leave approval process of its Australian branches. Swiss Re will maintain all payroll records for WIC's Australian branches. Swiss Re will immediately request for reimbursement of the net salary amount from WIC prior to the funds transfer being initiated for the Australian branches payroll. Costs will be based on the payroll administrator's salary plus 30% for payroll related costs plus payroll system licensing fees converted to a monthly amount and apportioned on the number of employees in each payroll. No fees were due or accrued for 2009 under this agreement.
7. **Type:** Investment Advisory Agreement
Parties: WIC, FSIC, and Swiss Re Financial Services Corporation (SRFSC)
Effective: August 22, 2006
Terms: Under the terms of the agreement, SRFSC will provide WIC and FSIC various investment management and investment accounting services in exchange for a fee. Fees shall be computed based on the market value of the securities in each of the companies' portfolios and the annual rate. The annual rate shall range from 11 to 25 basis points depending on the portfolio.

8. **Type:** Securities Lending Agreement
Parties: WIC and Swiss Re Financial Services Corporation
Effective: September 26, 2006
Terms: WIC shall appoint SRFSC 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. For the services provided, SRFSC receives an agent's fee of 20% of the sum of all interest, dividends and other distributions earned from cash collateral investments and securities loan fees paid or payable by the relevant borrowers, net of rebates paid to relevant borrowers and brokerage commissions incurred in making cash collateral investments.
9. **Type:** Service Level Agreement
Parties: WIC (Australian branch) and Swiss Reinsurance Company Ltd
Effective: October 1, 2006
Terms: Under the terms of the agreement, Swiss Re will provide audit services that encompass the examination and evaluation of the adequacy and effectiveness of WIC's Australian branch's financial and risk management framework, including its governance and risk management process. According to the agreement, no fees will be paid or received by either party.
10. **Type:** Collection Service Agreement
Parties: WIC and Pro Insurance Solutions, Ltd. (PISL)
Effective: January 1, 2008
Terms: Under the terms of the agreement, PISL has been retained for the collection of specified reinsurance assets owed to WIC on the Puritan Excess and Surplus Lines account from various reinsurers as listed in the agreement. As compensation for services provided, PISL will receive a percentage of the reinsurance assets collected. Fees will range from 7% to 12% based on amount of reinsurance assets collected and the period of such collection. No fees were due or accrued for 2008 or 2009 under this agreement.
11. **Type:** Service Level Agreement (Australia)
Parties: WIC (Australian branch) and Swiss Re (Australian branch)
Effective: January 1, 2008
Terms: Under the terms of the agreement, Swiss Re's Australian branch will provide WIC's Australian branch services including logistics, IT infrastructure, and support, finance, human resources, legal, actuarial, accounting, claims, and various other services. Services will be provided on a cost reimbursement basis. Appropriate allocation basis shall be selected for each service provided. No fees were due or accrued for 2008 or 2009 under this agreement.

- 12. Type:** Insurance Services Agreement
- Parties:** WIC and Swiss Re International SE (SRI)
- Effective:** March 27, 2008
- Terms:** Under the terms of the agreement, WIC shall make available to SRI services to support the insurance business of SRI. The services provided by WIC to SRI relate to the SRI U.S. underwriting facility program as detailed in the agreement. SRI will reimburse Westport for the cost incurred in providing such services plus a mark-up of 5%. Such cost shall include salaries, specific taxes paid, rent, employee benefit costs, travel, entertainment, equipment, supplies and other related costs. No fees were due or accrued for 2008 or 2009 under this agreement.
- 13. Type:** Canadian Insurance Business Service Agreement
- Parties:** WIC and North American Specialty Insurance Company
- Effective:** April 8, 2008
- Terms:** NAS will provide various insurance related services to WIC to facilitate WIC's expansion of Canadian admitted insurance business. WIC shall pay a service fee of 3% of gross written premiums less return premium written on policies written on WIC's paper utilizing this Service Agreement. No fees were due or accrued for 2008 or 2009 under this agreement.
- 14. Type:** Brokerage Agreement
- Parties:** WIC and Swiss Re Atrium Corporation (Atrium)
- Effective:** July 1, 2008
- Terms:** Atrium will provide various reinsurance brokerage services to WIC including reinsurance marketing, risk analysis, catastrophe exposure modeling, transaction structuring, and actuarial. In exchange for the services provided, WIC will pay Atrium a brokerage fee based on the type of reinsurance contract as denoted in the agreement. No fees were due or accrued for 2008 or 2009 under this agreement.
- 15. Type:** Master Repurchase Agreement
- Parties:** WIC, Swiss Re Financial Services Corporation, and Swiss Re Financial Products Corporation (SRFPC)
- Effective:** October 2, 2008
- Terms:** WIC, through its investment advisor, SRFSC, has entered into a master repurchase agreement with SRFPC, an affiliated dealer in financial instruments that engages in various financial transactions with non-affiliated parties. No direct fees shall be paid to SRFSC. No fees were due or accrued for 2008 or 2009 under this agreement.

- 16. Type:** Master Securities Loan Agreement
- Parties:** WIC, Swiss Re Financial Services Corporation, and Swiss Re Financial Products Corporation
- Effective:** October 2, 2008
- Terms:** WIC, through its investment advisor, SRFSC, proposes to enter into securities lending transactions with SRFPC, an affiliated dealer in financial instruments that engages in various financial transactions with non-affiliated parties. WIC can be either the Borrower or the Lender under this agreement. Borrower agrees to pay lender a loan fee computed daily on each loan to the extent such loan is secured by collateral other than cash, based on the aggregate market value of the loaned securities on the day for which such loan fee is being computed. Lender agrees to pay borrower a fee on collateral consisting of cash, computed daily based on the amount of cash held by lender as collateral. No fees were due or accrued for 2008 or 2009 under this agreement.
- 17. Type:** Admitted Insurance Business Service Agreement
- Parties:** WIC and North American Specialty Insurance Company
- Effective:** August 13, 2007
- Terms:** WIC will provide various insurance related services to NAS to facilitate NAS's expansion of various lines of insurance business. NAS agrees to reimburse WIC for actual reasonable and necessary expenses. The actual reasonable and necessary expenses due from NAS shall be calculated within a range of 5% and 12% of gross written premium less return premium on policies written on NAS paper.
- 18. Type:** Admitted Insurance Business Service Agreement
- Parties:** WIC and North American Elite Insurance (NAE)
- Effective:** August 13, 2007
- Terms:** WIC will provide various insurance related services to NAE to facilitate NAE's expansion of various lines of insurance business. NAE agrees to reimburse WIC for actual reasonable and necessary expenses. The actual reasonable and necessary expenses due from NAE shall be calculated at 10% of gross written premium less return premium on policies written on NAE paper.
- 19. Type:** Excess and Surplus Insurance Business Service Agreement
- Parties:** WIC, FSIC, and North American Capacity Insurance Company (NAC)
- Effective:** August 13, 2007
- Terms:** Under the terms of the agreement, WIC and FSIC will provide various insurance related services to NAC to facilitate NAC's expansion of excess and surplus lines insurance business. NAC agrees to reimburse WIC for actual reasonable and necessary expenses. The actual reasonable and necessary expenses due from

NAC shall be calculated at 7% of gross written premium less return premium on policies written on NAC paper. No fees were due or accrued for 2008 or 2009 under this agreement.

- 20. Type:** Admitted Insurance Business Service Agreement
- Parties:** WIC and North American Specialty Insurance Company
- Effective:** April 8, 2008
- Terms:** Under the terms of the agreement, NAS will provide various insurance related services to WIC to facilitate WIC's expansion of admitted insurance business. The services provided by NAS will be on a cost reimbursement basis. The actual reasonable and necessary expenses due from WIC shall be calculated within a range of 3% and 10% of gross written premium less return premium on policies written on WIC's paper. No fees were due or accrued for 2008 or 2009 under this agreement.
- 21. Type:** ISDA Master and Credit Support Annex Agreements
- Parties:** WIC and Swiss Re Financial Products Corporation
- Effective:** October 19, 2009
- Terms:** Under the terms of the ISDA Master Agreement, SRFPC will enter into derivative transactions with unaffiliated counterparties on behalf of Swiss Reinsurance Company Ltd affiliates, including WIC. The amounts paid to SRFPC for the transactions by WIC will be the amounts charged by external counterparties. SRFPC will not receive any fees. WIC and SRFPC will be responsible for maintaining all records related to the derivative transactions for all Swiss Re entities, including WIC. The Credit Support Annex specifies the types of assets that qualify as acceptable collateral and the custodians. Confirmations will be generated to support each derivative transaction, and derivatives purchased by WIC will be in the WIC's name. Default and payment terms will conform to ISDA requirements. SRFPC has a parental guaranty with Swiss Re whereby Swiss Re absolutely and unconditionally guarantees the prompt payment of all present and future obligations of SRFPC without limitation. No fees were due or accrued for 2008 or 2009 under this agreement.
- 22. Type:** Claims Service Level Agreement
- Parties:** WIC (Australian branch) and Swiss Reinsurance Company Ltd, Swiss Reinsurance America Holding Company, Industrial Risk Insurers, and Swiss Re Services Limited
- Effective:** April 1, 2009
- Terms:** Under the agreement, Swiss Re Services Limited agrees to provide claims services for claims arising from certain policies on behalf of WIC's Australian branch. Services are provided on a cost recovery basis. In the event that claims are allocated under a variable allocation basis, volume will be estimated with a

final true up calculated and settled subsequent to the year-end actual amounts. No fees were due or accrued for 2008 or 2009 under this agreement.

- 23. Type:** Canadian Reinsurance Business Service Agreement
Parties: WIC and Swiss Reinsurance America Corporation
Effective: February 1, 2009
Terms: SRAC will provide to WIC various general and administrative services including but not limited to legal, auditing, financial, actuarial, underwriting, and claims for the purpose of facilitating WIC's Canadian reinsurance business. Service will be provided on a cost basis. No fees were due or accrued for 2008 or 2009 under this agreement.
- 24. Type:** Federal Tax Allocation Agreement
Parties: Swiss Re America Holding Corporation, WIC, and FSIC
Effective: For tax years ending after January 1, 2005
Terms: Under the terms of the agreement, each member of the group shall compute its federal income tax liability on a separate return basis in any manner and subject to such computations as may be permitted under the Code and all Treasury Regulations relevant thereto. The tax charge payable by, or the tax refund payable to, each member of the group under this agreement shall be the amount that each member of the group would have paid or received if it had filed on a separate return basis.
- 25. Type:** Parental Guarantee
Parties: WIC and FSIC
Effective: June 30, 2003
Terms: WIC acts as guarantor and agrees to reimburse FSIC for 100% of the liabilities that an external reinsurer is unable to pay due to insolvency. FSIC shall pay the guarantor a premium of \$10,000 in consideration of the obligation assumed. Other than the premium received no other amounts were paid or accrued for 2008 or 2009 under this agreement.

Subsequent to the examination date a Services Agreement was entered into between Westport and Swiss Reinsurance America Corporation. Under the agreement, effective April 1, 2010, each party shall provide the following services to the other party: data processing, accounting, financial, actuarial, executive, personnel, sales, underwriting, claims and related services necessary to conduct the business of Westport. Services are to be provided on a cost basis.

In addition to the above listed agreements, Westport has reinsurance agreements with affiliates, which are described in the Reinsurance section of this report.

The following table summarizes the fees incurred and revenues and/or recoveries (earned) during the exam period, between Westport and its affiliates, pursuant to the intercompany agreements

noted above. The majority of the agreements summarized above are inactive and did not have any monetary transactions involving Westport during the examination period.

Net Amounts Incurred or (Earned) by WIC

Agreement	2008	2009
Service Agreement between WIC & SRAHC	\$ 71,293,461	\$ 59,890,190
Service Agreement between WIC, FSIC, & FHIA	(12,783,383)	(11,116,767)
Service Agreement between WIC & Swiss Re	-	10,757,223
Investment Advisory Agreement between WIC & SRFSC	10,872,636	7,224,030
Securities Lending Agreement between WIC & SRFSC	2,593,906	2,267,943
Admitted Insurance Business Services Agreement between WIC & NAS	(4,422,374)	(3,183)
Admitted Insurance Business Service Agreement between WIC & NAE	-	(1,734,901)
Totals	\$ 67,554,246	\$ 67,284,535

Note: 2007 was excluded from the above schedule due to the changes in WIC's organizational structure during 2008.

FIDELITY BOND AND OTHER INSURANCE

As of December 31, 2009, Westport Insurance Corporation was covered by two financial institution bonds providing fidelity and crime coverage, purchased by its parent, SRAHC. SRAHC is the named insured together with its subsidiaries. The bonds have an aggregate liability limit of \$75 million, a single loss liability limit of \$50 million, and a deductible of \$2 million. This level of coverage exceeds the suggested minimum amount of fidelity insurance coverage of approximately \$33 million according to the NAIC guidelines.

SRAHC is also a named insured on several other insurance policies. Although WIC is not specifically named as an insured on most of these policies, the terms define coverage as being applicable to all subsidiaries of SRAHC, which would include WIC. These additional insurance policies are as follows: property, commercial general liability, travel accident, workers compensation, fiduciary liability, directors' and officers' liability, kidnap and ransom, and business auto.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

WIC has approximately 225 direct employees. Remaining employees are paid by SRAC or SRAHC with cost reimbursed by WIC under intercompany agreements. The Corporation

transferred the majority of all WIC employees to SRAHC effective January 1, 2011. All employees are offered a 401(k) Plan through the ultimate parent, Swiss Re. Swiss Re matches employee contributions up to 6% of an employee's salary and may also make an additional annual contribution to the employees' 401(k) Plan of 6% base annual salary earned in a plan year provided the employee is actively employed during the last pay period of the plan year. WIC is allocated a portion of contributions to the 401(k) Plan. Plan years are on a calendar year basis.

Swiss Re also offers a savings plan (the Employee Participation Plan (EPP)) whereby employees may allocate up to 10% of their salary to a two-year savings plan that tracks Swiss Re's share price gains. Swiss Re sets a share purchase price annually, and discounts that price by 23% for plan participants. Certain employees are also offered participation in stock appreciation rights, at the discretion of the Chief Executive Officer.

Prior to the acquisition in June 2006 by Swiss Re, WIC employees were covered under the General Electric Pension Plan. Employees' covered under this plan had the option to freeze their pension benefits with GE or rollover the benefits to a similar plan with Swiss Re. WIC employees in Canada employed before the change to the General Electric Pension Plan on October 1, 1999 who were covered by the then ERC Retirement Plan may continue to participate in the ERC Plan, a defined benefit pension plan. The GE pension plan and the ERC Retirement Plan remain the liability of GE, pursuant to the terms of an Employee Matters Agreement which was executed between Swiss Re and GE as part of the purchase of ERC and its subsidiaries.

Other benefits offered WIC employees include healthcare insurance, vision coverage, flexible spending accounts, short-term and long-term disability, life insurance, accidental death and dismemberment coverage, commutation benefit, paid vacation, holiday, sick and personal time and a discretionary bonus plan based upon performance.

TERRITORY AND PLAN OF OPERATIONS

Westport Insurance Corporation is licensed as a property and casualty insurer by the MO DIFP under Chapter 379 RSMo. The Corporation is licensed and writes property and casualty business in all fifty states, the District of Columbia, Guam, Puerto Rico, U.S. Virgin Islands, Canada, and various other alien countries. Westport is primarily a direct commercial insurer with direct written premiums of \$665.4 million and assumed premiums of \$195.8 million as of December 31, 2009.

Westport, along with its subsidiary First Specialty, are now organized in accordance with Swiss Re's organizational structure and are included as part of SRAHC's Property and Casualty Division, specifically, the Insurance & Specialty Division (renamed Corporate Solutions effective October 1, 2010). The Insurance & Specialty Division includes the Client Markets Department, which is responsible for marketing, sales, and account management, and the Products Department, which is responsible for the management of underwriting, contracts, and claims. The organizational structure revolves around business units rather than legal entities.

Underwriting guidelines are issued by the Americas Single Risk Hub and they complement the Swiss Re's group guidelines. In addition, each Business Unit has its own underwriting

guidelines, which further specify underwriting rules for its respective markets and lines of business.

As of December 31, 2009, Westport was primarily a direct underwriter for coverages involving “Professional Liability” and “Medical Expense”. Coverages offered under “Professional Liability” are U.S. P&C Agents Errors and Omissions, Canadian P&C Agents Errors and Omissions, Life Agents Errors and Omissions, and Lawyers Errors and Omissions. The coverages offered as part of the “Medical Expense Group” are HMO Reinsurance and Employers’ Stop Loss Business. During this examination period, workers compensation coverage was marketed until it was discontinued effective September 2009.

GROWTH OF THE COMPANY AND LOSS EXPERIENCE

The trends indicated below were the result of various and significant events happening during the examination period. Effective January 1, 2008, PM-WIC, a wholly owned subsidiary of ERC merged with and into ERC, with ERC as the surviving legal entity. Following the execution of the merger transactions, ERC changed its name to Westport Insurance Corporation and new coverage for reinsurance was written by SRAC. A large number of novations, commutations, and loss portfolio transfers have transpired during the examination period, along with adverse loss development covers with Swiss Re, which have influenced the company's outstanding loss and LAE reserves, earned premiums and net income. In addition, the Corporation entered into a 20% Quota Share retrocession agreement with National Indemnity Company (National Indemnity) effective January 1, 2008 for a five year period for all direct and assumed business after other external reinsurance. This agreement is prior to a non-obligatory quota share reinsurance agreement with SRAC whereby WIC shall cede either 80% or 100% of all business retained after cessions to other parties. Ultimately, WIC's net retention was reduced to approximately 16%.

	<u>2007</u>	<u>2008</u>	<u>2009</u>
Direct Written Premiums	\$ 757,568,353	\$ 670,017,291	\$ 665,387,961
Net Written Premiums	(476,592,600)	139,976,759	104,214,751
Premiums Earned	97,542,069	257,912,562	96,378,160
Net Income (Loss)	28,731,421	365,584,685	56,080,936
Net Loss & LAE Reserves	6,698,303,745	3,089,640,907	2,643,516,513
Net Loss & LAE Incurred	525,951,202	193,767,538	163,340,126
Total Capital & Surplus	3,062,013,310	1,811,272,332	1,961,486,899
Total Admitted Assets	11,411,249,146	8,047,015,368	7,251,700,871
Direct Written Premium to Surplus	24.7%	37.0%	33.9%
Net Written Premium to Surplus	-15.6%	7.7%	5.3%
Net Loss & LAE Reserves to Surplus	218.8%	170.6%	134.8%
Net Loss and LAE Incurred to Premiums Earned	539.2%	75.1%	169.5%

REINSURANCE

General

The business plan for the Corporation has changed significantly since the purchase by Swiss Re. ERC had operated primarily as a reinsurer, assuming business and ceding that portion it did not wish to retain and Pre-Merger Westport was primarily a direct writer. Under Swiss Re, WIC is primarily a direct writer, and cedes reinsurance to Swiss Re affiliates under a group agreement. ERC's assumed and ceded books of business were largely transferred, commuted, novated, or terminated. Some remaining "legacy" policies remain part of WIC's accounts, and are reflected in their reinsurance accounts.

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

<u>Premiums:</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Direct Business	\$ 757,568,353	\$ 670,017,291	\$ 665,387,961
Reinsurance Assumed			
Affiliates	(217,806,727)	1,919,876	418,363
Non-affiliates	143,682,141	165,492,000	195,442,867
Reinsurance Ceded:			
Affiliates	(1,292,262,674)	(399,807,337)	(503,173,404)
Non-affiliates	132,226,307	(297,645,071)	(253,861,036)
Net Written Premiums	<u>\$ (476,592,600)</u>	<u>\$ 139,976,759</u>	<u>\$ 104,214,751</u>

Assumed

During the examination period through 2010, WIC assumes written premiums between \$15 million and \$20 million per year from IRI. WIC also continues to "front" business for Employers Reassurance Corporation (ERAC) under a contract initiated during the ERC era. Under the reinsurance agreement with ERAC, business is assumed from various insurers and ceded 100% to ERAC. For 2009 amounts assumed/ceded under the ERAC reinsurance agreement were approximately \$47 million.

The data above shows significant amounts of assumed reinsurance premiums for each year of the exam, and indicates a \$30 million increase in non-affiliated assumed reinsurance from 2008 to 2009. These amounts are from the ERC "legacy" policies. The "increase" in assumed premiums is due to loss transfers/novations in 2009, which reduced the negative assumed premiums (compared to 2007 and 2008). After adjusting for the transfers and novations, assumed premiums decreased by \$10 million from 2008 to 2009.

Ceded

WIC ceded reinsurance can generally be classified into three segments. The first segment consists of the “legacy” contracts from the GE ownership era, which are generally in runoff with the number of contracts and dollar amounts decreasing annually.

The second segment includes the Loss Portfolio Transfer Reinsurance Agreement with Swiss Re effective October 1, 2008. Swiss Re will reinsure 50% of the ultimate net loss accrued by WIC on losses occurring under its policies, contracts, and binders of insurance or reinsurance issued or renewed prior to December 31, 2006 and classified by WIC as reinsurance and commercial runoff business.

WIC’s third segment consists of reinsurance contracts for new business, which is generally ceded pursuant to the following two reinsurance agreements:

Swiss Re entered into a 20% quota share agreement with National Indemnity, which includes all Swiss Re group entities including WIC. Under the agreement, WIC cedes 20% of gross written premiums, net of any fronting contracts.

WIC also entered into a quota share agreement with SRAC, in which it cedes not less than 10% of written premiums. Cessions under this contract have been 80% of written premiums, net of all other cessions, with the exception of IRI property written premiums which are 100% ceded to SRAC.

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

ACCOUNTS AND RECORDS

Westport’s financially significant business applications are accessed through local Intranet and Wide Area Network connections linked to servers located in Overland Park, Kansas and Zurich, Switzerland. A combination of Microsoft Windows Servers and IBM z Series mainframe servers are utilized by the Corporation. Swiss Re is in the process of relocating all application servers to Zurich, which is expected to be completed by year-end 2011. As of the end of fieldwork, the CRAS System for reinsurance management and the AMS System utilized for policy management were the only two applications administered by the Overland Park IT staff. Additional financially significant applications used by the Corporation include CDS for general ledger and accounting functions, ABC for additional general ledger functions, WPCe for policy and claim management, Pyramid for claims processing, WINS for billing and collections, Commercial Intelysis and Studio (Jupiter) the underwriting system which populates WINS, and iBank for reporting.

Financial statements of the Corporation were audited as of December 31, 2009, by the CPA firm, PricewaterhouseCoopers LLP, of New York, New York. PricewaterhouseCoopers also issued audited statutory financial statements of the Corporation for the years 2007 and 2008.

The 2009 Statement of Actuarial Opinion was issued by Steven Book, FCAS, MAAA, Managing Actuary, an officer of Westport Insurance Corporation. The 2007 and 2008, Statements of Actuarial Opinion were also issued by Steven Book. The actuary was appointed by the Board of Directors to render an opinion.

STATUTORY DEPOSITS

Deposits with the State of Missouri

The funds on deposit with the MO DIFP as of December 31, 2009, as reflected below, were sufficient to meet the capital deposit requirements for the State of Missouri in accordance with RSMo Section 379.098 (Securities to be Deposited by All Companies, Kind and Amount). WIC's required deposit with Missouri is \$1,200,000. The funds on deposit as of December 31, 2009, 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	\$4,681,738	\$4,769,004

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, 2009, 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	\$ 26,039,463	\$ 25,784,165
Arkansas	U.S. Treasury Note	175,000	188,563	192,077
California	U.S. Treasury Note	595,040,000	696,369,795	680,001,952
Delaware	U.S. Treasury Note	25,000	26,766	24,628
Florida	U.S. Treasury Note	400,000	431,000	439,034
Georgia	U.S. Treasury Note	390,000	422,415	419,983
Idaho	U.S. Treasury Note	835,000	901,013	892,037
Maine	U.S. Treasury Note	150,000	161,625	164,638
Massachusetts	U.S. Treasury Note	1,210,000	1,302,143	1,261,411
Montana	U.S. Treasury Note	25,000	27,007	25,309
Nevada	U.S. Treasury Note	225,000	242,438	246,956
New Hampshire	U.S. Treasury Note	3,000,000	3,232,500	3,292,753
New Mexico	U.S. Treasury Note	1,185,000	1,276,296	1,288,523
North Carolina	U.S. Treasury Note	1,140,000	1,228,350	1,251,246
Oregon	U.S. Treasury Note	5,685,000	6,125,588	6,239,767
South Carolina	U.S. Treasury Note	280,000	297,676	267,672
Texas	U.S. Treasury Note	75,000	80,813	82,319
Virginia	U.S. Treasury Note	515,000	559,317	554,423
Guam	U.S. Treasury Note	100,000	107,292	104,682
Puerto Rico	Puerto Rico Corp.	1,025,000	1,070,182	1,089,213
U.S. Virgin Islands	U.S. Treasury Note	525,000	567,137	531,499
Totals		<u>\$ 636,150,000</u>	<u>\$ 740,657,379</u>	<u>\$ 724,154,283</u>

Deposits for Reinsurance Obligations

The Corporation also has funds on deposit to secure certain reinsurance obligations. The funds on deposit at December 31, 2009 were as follows:

<u>Bank</u>	<u>Type of Security</u>	<u>Par Value</u>	<u>Fair Value</u>	<u>Stmt Value</u>
	Bonds and Money			
United National Trust	Market Funds	\$208,117,235	\$207,754,394	\$208,127,454

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of Westport Insurance Corporation for the period ending December 31, 2009. 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>		
	Assets	Non-Admitted Assets	Net Admitted Assets
Bonds	\$4,959,588,054	\$ -	\$4,959,588,054
Common Stocks	75,872,844	-	75,872,844
Mortgage Loans on Real Estate			
First Liens	2,686,444	-	2,686,444
Cash and Short-term Investments	973,410,702	-	973,410,702
Other Invested Assets	442,434,030	-	442,434,030
Receivable for Securities	85,456,200	-	85,456,200
Investment Income Due and Accrued	28,666,951	-	28,666,951
Uncollected Premiums and Agents' Balances in the Course of Collection	105,360,853	10,461,978	94,898,875
Deferred Premiums, Agent Balances, and Installments Booked and Not Yet Due	55,450,736	82,137	55,368,599
Amounts Recoverable from Reinsurers	131,036,009	-	131,036,009
Funds Held by or Deposited with Reinsured Companies	16,310,516	2,540,156	13,770,360
Other Amounts Receivable Under Reinsurance Contracts	3,278,175	-	3,278,175
Net Deferred Tax Asset	253,641,566	7,740,276	245,901,290
Guaranty Funds Receivable or on Deposit	3,080,621	-	3,080,621
Receivable from Parent, Subsidiaries and Affiliates	4,009,400	-	4,009,400
Aggr. Write-Ins for Other than Invested Assets:			
Paid Loss Advance	128,546,594	-	128,546,594
Miscellaneous Receivables	11,295,257	7,599,534	3,695,723
TOTAL ASSETS	\$7,280,124,952	\$ 28,424,081	\$7,251,700,871

Liabilities, Surplus and Other Funds

Losses	\$ 2,299,546,343
Reinsurance Payable on Paid Losses and Loss Adjustment Expenses	27,924,313
Loss Adjustment Expenses	343,970,170
Commissions Payable, Contingent Commissions and Other Similar Charges	26,641,171
Other Expenses (Excluding Taxes, Licenses and Fees)	17,696,861
Taxes, Licenses and Fees (Excluding Federal and Foreign Income Taxes)	7,664,416
Current Federal and Foreign Income Taxes	14,352,605
Unearned Premiums	49,393,124
Dividends Declared and Unpaid - Policyholders	3,067,763
Ceded Reinsurance Premiums Payable (Net of Ceding Commissions)	91,109,778
Funds Held by Company Under Reinsurance Treaties	2,037,081,183
Amounts Withheld or Retained by Company for Account of Others	1,212,809
Remittances and Items Not Allocated	47,594,261
Provision for Reinsurance	30,675,200
Net Adjustments in Assets and Liabilities	
Due to Foreign Exchange Rates	40,174,897
Payable to Parent, Subsidiaries and Affiliates	16,146,325
Aggregate Write-Ins for Liabilities:	
Accrued Return Retrospective Premiums	910,459
Collateral Held in Connection with Securities Lending	202,131,162
Escheatment Payable	627,935
Excess Ceding Commissions	23,223,732
Net Retrospective Premium Payable	6,744,621
Retroactive Reinsurance Reserves Assumed	2,324,844
TOTAL LIABILITIES	\$ 5,290,213,972
Increased Surplus from use of paragraph 10.e of SSAP 10R	150,194,298
Common Capital Stock	6,345,000
Gross Paid In and Contributed Surplus	1,758,394,056
Unassigned Funds (Surplus)	46,553,545
Surplus as Regards Policyholders	\$ 1,961,486,899
TOTAL LIABILITIES AND SURPLUS	\$ 7,251,700,871

Statement of Income

Underwriting Income:	
Premiums Earned	\$ 96,378,160
Deductions:	
Losses Incurred	30,697,123
Loss Adjustment Expenses Incurred	132,643,003
Other Underwriting Expenses Incurred	76,592,116
Excess Ceding Commissions	1,370,856
Net Underwriting Gain or (Loss)	\$ (144,924,938)
Investment Income:	
Net Investment Income Earned	\$ 207,278,328
Net Realized Capital Gains or (Losses)	83,162,687
Net Investment Gain or (Loss)	\$ 290,441,015
Other Income:	
Net Gain or (Loss) from Agents' or Premium Balances Charged Off	\$ (8,918,565)
Finance and Service Charges Not Included in Premiums	346,997
Aggregate Write-ins for Miscellaneous Income:	
Interest on Funds Held and Other Expense, Net	(62,815,092)
Other Income	1,632,369
Sale of Renewal Rights – Cybercomp Business	2,408,273
Total Other Income	\$ (67,346,018)
Net Income Before Dividends to Policyholders and Income Taxes	78,170,059
Dividends to Policyholders	(567,746)
Net Income Before Federal and Foreign Income Taxes	\$ 78,737,805
Federal and Foreign Income Taxes Incurred	22,656,869
NET INCOME	\$ 56,080,936

Capital and Surplus Account

Surplus as Regards Policyholders, December 31, 2008	\$ 1,811,272,332
Net Income	56,080,936
Change in Net Unrealized Capital Gains or (Losses)	(6,710,408)
Change in Net Unrealized Foreign Exchange Capital Gain (Loss)	38,787,411
Change in Net Deferred Income Tax	(58,832,581)
Change in Non-Admitted Assets	73,267,987
Change in Provision for Reinsurance	5,373,600
Dividends to Stockholders	(107,946,678)
Increased Surplus from Paragraph 10.e of SSAP 10R	150,194,298
Examination Change	-
Net Change in Surplus as Regards Policyholders for 2009	\$ 150,214,565
Surplus as Regards Policyholders, December 31, 2009	\$ 1,961,486,897

FINANCIAL STATEMENT CHANGES RESULTING FROM EXAMINATION

None

COMMENTS ON FINANCIAL STATEMENT ITEMS

None

SUMMARY OF RECOMMENDATIONS

None

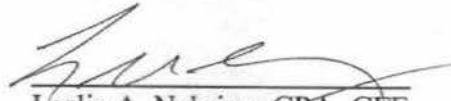
ACKNOWLEDGMENT

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, CPA, CFE, Timothy Carroll, Vicki Denton, CFE, Al Garon, CFE, Larry Kleffner, CFE, Steven Koonse, CFE, Bernie Troop, CFE, and Valerie Hastings examiners for the MO DIFP, participated in this examination. The firm, Expert Actuarial Services, LLC also participated as consulting actuaries.

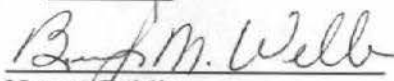
VERIFICATION

State of Missouri)
County of)

I, Leslie A. Nehring, 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.


Leslie A. Nehring, CPA, CFE
Examiner-In-Charge
MO DIFP

Sworn to and subscribed before me this 28th day of February, 2011.

My commission expires: 04/14/2012 
Notary Public

BEVERLY M. WEBB
Notary Public - Notary Seal
STATE OF MISSOURI
County of Clay
My Commission Expires 4/14/2012
Commission # 08464070

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, CFE, CPA

Audit Manager

Missouri Department of Insurance, Financial
Institutions and Professional Registration

Swiss Re



Westport Insurance Corporation
5200 Metcalf
Overland Park, KS 66201
913-676-3162
913-676-6226
www.swissre.com

April 26, 2011

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DEPT OF INSURANCE
FINANCIAL INSTITUTIONS &
PROFESSIONAL REGISTRATION

Mr. Fred Heese
Chief Financial Examiner
Missouri Department of Insurance, Financial
Institutions & Professional Registration
301 West High, Room 630
Jefferson City, MO 65101

Re: Draft Report of Association Financial Examination (as of December 31, 2009)
Westport Insurance Corporation


Dear Mr. Heese,

Westport Insurance Corporation ("WIC") is in receipt of the above-captioned report dated March 8, 2011, and provided to us for review on March 30, 2011. WIC appreciates the opportunity to review the report and provide comments. Accordingly, WIC respectfully requests that this letter be incorporated into or attached to the final financial examination report of the Missouri Department of Insurance, Financial Institutions and Professional Registration ("DIFP").

The General Comments and/or Recommendations section of the draft examination report included no matters requiring correction or comment. As such, we do not believe it is necessary to address this part of the report.

WIC would like to thank DIFP and its onsite examination team for the professionalism and candor that characterized this examination. If you have any comments or questions regarding this letter, please let us know.

Sincerely,


William Steilen
Managing Director and Chief Financial Officer