

Report  
of the  
Examination of  
National Farmers Union Property and Casualty Company  
Sun Prairie, Wisconsin  
As of December 31, 2012

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# State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

*Scott Walker, Governor*  
*Theodore K. Nickel, Commissioner*

*Wisconsin.gov*

March 14, 2014

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Honorable Theodore Nickel  
Commissioner of Insurance  
State of Wisconsin  
125 South Webster Street  
Madison, Wisconsin 53703

Commissioner:

In accordance with your instructions, a compliance examination has been made of the affairs and financial condition of:

NATIONAL FARMERS UNION PROPERTY AND CASUALTY COMPANY  
Sun Prairie, Wisconsin

and this report is respectfully submitted.

## I. INTRODUCTION

The previous examination of National Farmers Union Property and Casualty Company (NFU or the company) was conducted in 2008 as of December 31, 2007, by the Colorado Division of Insurance. The current examination covered the intervening period ending December 31, 2012, and included a review of such 2013 transactions as deemed necessary to complete the examination.

The examination was conducted using a risk-focused approach in accordance with the NAIC Financial Condition Examiners Handbook, which sets forth guidance for planning and performing an examination to evaluate the financial condition and identify prospective risks of an insurer. This approach includes the obtaining of information about the company including corporate governance, the identification and assessment of inherent risks within the company, and the evaluation of system controls and procedures used by the company to mitigate those risks. The examination also included an assessment of the principles used and significant

estimates made by management, as well as an evaluation of the overall financial statement presentation and management's compliance with statutory accounting principles, annual statement instructions, and Wisconsin laws and regulations.

The examination of the company was conducted concurrently with the examination of insurers that are part of QBE North America. Representatives of the Pennsylvania Insurance Department acted in the capacity as the lead state for the coordinated exams. Work performed by the Pennsylvania Insurance Department was reviewed and relied on where deemed appropriate.

The examination consisted of a review of all major phases of the company's operations and included the following areas:

- History
- Management and Control
- Corporate Records
- Conflict of Interest
- Fidelity Bonds and Other Insurance
- Employees' Welfare and Pension Plans
- Territory and Plan of Operations
- Affiliated Companies
- Growth of Company
- Reinsurance
- Financial Statements
- Accounts and Records
- Data Processing

Emphasis was placed on the audit of those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination.

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation with respect to the alternative or additional examination steps performed during the course of the examination.

**Independent Actuary's Review**

An independent actuarial firm was engaged under a contract with the Pennsylvania Insurance Department. The actuary reviewed the adequacy of the company's loss and loss adjustment expense reserves. The actuary's results were reported to the examiner-in-charge. As deemed appropriate, reference is made in this report to the actuary's conclusion.

**Investment Review**

The independent examination firm was engaged by the Pennsylvania Insurance Department to perform a review of the company's invested assets portfolio as of December 31, 2012. The results of that review were reported to the examiner-in-charge. As deemed appropriate, reference is made in this report to the findings of the review.

## II. HISTORY AND PLAN OF OPERATION

NFU was originally incorporated in 1945 in Utah and became licensed in Colorado in 1945. NFU was incorporated under the laws of the state of Colorado on December 5, 1984. The company was granted a license on December 16, 1985, and commenced business on December 31, 1986.

On September 30, 2005, QBE Reinsurance Corporation (QBE Re) purchased the company from One Beacon Insurance Group, LLC. Effective October 31, 2008, General Casualty Company of Wisconsin (GC-WI) purchased 100% interest of NFU and its wholly owned subsidiary, United Security Insurance Company (USIC), from QBE Re. GC-WI is a wholly owned subsidiary of QBE Regional Companies (N.A.), Inc. (QBE Regional) with the ultimate parent being Australian-based QBE Insurance Group Limited (QBE Limited). Effective January 1, 2009, NFU transferred ownership of USIC to GC-WI through a dividend transaction. Effective October 1, 2010, NFU redomiciled from Colorado to Wisconsin.

Currently, NFU records paid-up capital of \$4,200,000 consisting of 4,200,000 shares of common stock with a \$1.00 par value each. The company has 5,000,000 shares authorized. All outstanding shares of NFU are owned by GC-WI.

Since 1963, GC-WI has expanded the number of its subsidiaries and effectively heads its own holding company subsystem under QBE Regional, consisting of eight subsidiary insurers. Further information concerning the QBE Limited holding company group is included in the report under the section titled "Affiliated Companies."

All members of QBE Regional, as well as all other insurance companies whose parent is QBE Holdings, Inc., are participants in an intercompany pooling arrangement. This arrangement is further described in this report under the section titled "Reinsurance."

QBE Americas, Inc. is the primary employer for its holding company subsystem, with approximately 2,300 employees nationwide at the time of this examination. Subsidiaries of GC-WI have no employees of their own and rely principally on QBE Americas, Inc., and Unigard Insurance Company (UnigardIns) for the staff essential to run day-to-day operations. QBE Management Services Pty Limited manages the companies' investment operations, subject to the

supervision of each of the companies' respective boards of directors. All operations of the holding company subsystem are conducted with staff provided by QBE Americas, Inc., UnigardIns and QBE Management Services Pty Limited in accordance with business practices and internal controls established by QBE Limited. Written agreements with affiliates are further described in this report under the section titled "Affiliated Companies."

In 2012, the company wrote direct premium in the following states:

North Dakota	\$ 35,077,922	19.3%
Colorado	29,652,655	16.4
Minnesota	24,044,504	13.3
South Dakota	18,913,679	10.4
Kansas	16,909,250	9.3
Montana	14,504,658	8.0
Nebraska	10,233,673	5.7
Wyoming	9,504,320	5.2
All others	<u>22,518,337</u>	<u>12.4</u>
Total	<u>\$181,358,998</u>	<u>100.0%</u>

The company is licensed in all states and the District of Columbia.

The major products marketed by the company include auto physical damage, private passenger auto liability, farmowner's multiple peril, homeowner's multiple peril, and commercial multiple peril primarily in rural communities. The major products are marketed through independent agents. Currently, the company has 13 appointed agents.

The following table is a summary of the net insurance premiums written by the company in 2012. The growth of the company is discussed in the “Financial Data” section of this report.

<b>Line of Business</b>	<b>Direct Premium</b>	<b>Reinsurance Assumed</b>	<b>Reinsurance Ceded</b>	<b>Net Premium</b>
Fire	\$ 1,560,024	\$ 6,852,125	\$ 1,560,019	\$ 6,852,130
Allied lines	1,565,393	28,062,372	1,565,393	28,062,372
Farmowner's multiple peril	36,749,036	76,216	36,749,031	76,221
Homeowner's multiple peril	19,842,044	2,764,541	19,842,039	2,764,546
Commercial multiple peril	16,192,698	12,333,180	16,192,698	12,333,180
Ocean marine		138		138
Inland marine	2,274,799	2,751,303	2,274,796	2,751,306
Medical professional liability – occurrence		8,486		8,486
Medical professional liability – claims made		3		3
Earthquake		212,835		212,835
Group accident and health		3,338,948		3,338,948
Worker's compensation		4,239,756		4,239,756
Other liability – occurrence	5,720,618	310,589	5,720,618	310,589
Other liability – claims made	1,416,048	155,715	1,416,048	155,715
Excess worker's compensation		7,661		7,661
Products liability – occurrence	(953)	13,210	(953)	13,210
Products liability – claims made		16		16
Private passenger auto liability	44,299,716	(61,105)	44,299,716	(61,105)
Commercial auto liability	2,598,543	1,074,578	2,598,543	1,074,578
Auto physical damage	48,953,219	2,820,521	48,953,218	2,820,521
Aircraft (all perils)		374,355		374,355
Fidelity		4,337		4,337
Surety	184,740	(1,884)	184,740	(1,885)
Burglary and theft	3,073	(165,760)	3,073	(165,760)
Boiler and machinery		3,192		3,192
Credit		8,095,685		8,095,685
International		50		50
Warranty				
Reinsurance – non-proportional assumed property		3,071,929		3,071,929
Reinsurance – non-proportional assumed liability		4,164,601		4,164,601
Reinsurance – non-proportional assumed financial lines		20,977		20,977
Write-ins for other lines of business:				
Landlords rent default coverage program		337		337
<b>Total All Lines</b>	<b><u>\$181,358,998</u></b>	<b><u>\$80,528,904</u></b>	<b><u>\$181,358,981</u></b>	<b><u>\$80,528,921</u></b>

### III. MANAGEMENT AND CONTROL

#### Board of Directors

The structure of the board of directors underwent substantial organizational changes during 2012 and 2013 as the company refocused its efforts on profitability. The board of directors consists of 12 members. Directors are elected annually to serve a one-year term. Officers are elected at the board's annual meeting. The board members are also members of other boards of directors in the holding company group of QBE Holdings, Inc. Executive board members do not receive additional compensation for their service as directors. In addition, for services to QBE Holdings, Inc., outside board members receive compensation inclusive of all board and committee appointments. The compensation varies within a range of \$125,000 to \$225,000 based on experience and participation or chairing of various committees.

Currently the board of directors consists of the following persons:

<b>Name and Residence</b>	<b>Principal Occupation</b>	<b>Term Expires</b>
David B. Duclos # New York, New York	Chief Executive Officer, QBE Holdings, Inc.	2015
Susan S. Harnett New York, New York	Chief Operating Officer, QBE Holdings, Inc.	2015
Harvey J. Bazaar North Caldwell, New Jersey	Retired, former Global and Americas Leader for the Capital Markets Group, PricewaterhouseCoopers International Limited	2015
Gregory J. Deal Deephaven, Minnesota	President and Chief Executive Officer, NAU Country Insurance Company	2015
Richard S. Dziadzio # New York, New York	Chief Financial Officer, QBE Holdings, Inc.	2015
George T. Tate # Oyster Bay, New York	Chief Executive Officer-North America, Australia and New Zealand Banking Group Limited	2015
Marc G. Metcalf San Francisco, California	Retired, former President and General Manager, GE Capital	2015
John G. Langione Allentown, New Jersey	Chief Risk Officer, QBE Holdings, Inc.	2015
Jeffrey S. Grange # Summit, New Jersey	Senior Vice President, QBE Holdings, Inc.	2015

<b>Name and Residence</b>	<b>Principal Occupation</b>	<b>Term Expires</b>
John A. Graf ##	Chairman, President and CEO Forethought Financial Group, Inc.	2015
Robert V. James ##	Senior Vice President QBE Holdings, Inc.	2015

# Identifies directors who were appointed during 2013.

## Identifies directors who were appointed during 2014.

### **Officers of the Company**

Executive compensation is allocated to each insurer based on its participant percentage in the intercompany pooling arrangement. The 2012 Compensation, reported below, represents the total gross compensation paid to each individual on behalf of all companies which are part of QBE North America. Executive officers serving at the time of this examination are as follows:

<b>Name</b>	<b>Office</b>	<b>2012 Compensation</b>
John Rumpler *	Chief Executive Officer	\$2,012,212
Susan S. Harnett	Chief Operating Officer	149,831
Domingo A. Cid *	President	386,957
Christopher C. Fish *	Chief Financial Officer	963,454
Nicholas H. Pastor *	Chief Actuary	611,943
Peter T. Maloney	Chief Legal Officer & Assistant Corporate Secretary	787,224
Dean K. Haring *	Chief Claims Officer	620,705
Steven L. Sheinheit *	Chief Strategy & Technology Officer	1,223,685
John G. Langione	Chief Risk Officer	565,882
Jennifer J. Vernon	General Counsel & Corporate Secretary	350,884
Carolyn C. Bartholdson	Chief Human Resources Officer	422,439
Wendall W. Stocker **	Treasurer	414,274
David B. Duclos #	Chief Executive Officer	0
Richard S. Dziadzio #	Chief Financial Officer	0
Andrew J. Doll #	Chief Actuary	0
Paul M. Stachura #	Chief Claims Officer	0
Richard P. Zaloom #	Chief Information Officer	0
Joanna L. Colaneri #	Treasurer	0
Robert V. James ##	President	0

\* Identifies officers who are no longer with the company at the date of the report.

\*\* Identifies officers who are still at the company but no longer in that role.

# Identifies officers who were appointed during 2013 and are current officers in addition to those remaining 2012 officers shown above.

## Identifies officers who were appointed during 2014 and are current officers in addition to those remaining 2012 and 2013 officers shown above.

## Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. Board committees appointed at the holding company level:

### QBE Insurance Group Limited

#### **Risk and Capital Committee**

John Green, Chair  
William M. Becker  
John A. Graf

#### **Audit Committee**

Duncan M. Boyle, Chair  
Isabel F. Hudson  
Margaret Lueng  
William M. Becker

#### **Remuneration Committee**

Isabel F. Hudson, Chair  
Duncan M. Boyle  
John Green  
William M. Becker  
Margaret Lueng

#### **Governance and Nomination Committee**

William M. Becker, Chair  
Duncan M. Boyle  
John A. Graf  
John Green  
Isabel F. Hudson  
Margaret Leung

#### **Investment Committee**

John A. Graf, Chair  
John Green  
William M. Becker

### QBE Holdings, Inc.

#### **Executive Committee**

John D. Neal, Chair  
David B. Duclos  
Susan S. Harnett  
John G. Langione  
Richard S. Dziadzio

#### **ERISA Benefits Committee**

Kevin Sweeney, Chair  
Vincent Dekker  
Immaculada Gonzalez  
Steve Solomon  
Dick Van Edsigna  
Art Lee

#### **Audit Committee**

Harvey Bazaar, Chair  
Marc G. Metcalf  
George T. Tate  
John A. Graf

#### **Remuneration Committee**

John A. Graf, Chair  
Marc G. Metcalf  
George T. Tate  
Harvey J. Bazaar

#### **Investment Committee**

George T. Tate, Chair  
David B. Duclos  
Susan S. Harnett  
John G. Langione  
Richard S. Dziadzio

#### **Risk and Capital Committee**

Marc G. Metcalf, Chair  
David B. Duclos  
Susan S. Harnett  
John G. Langione  
Richard S. Dziadzio

#### **Administrative Committee**

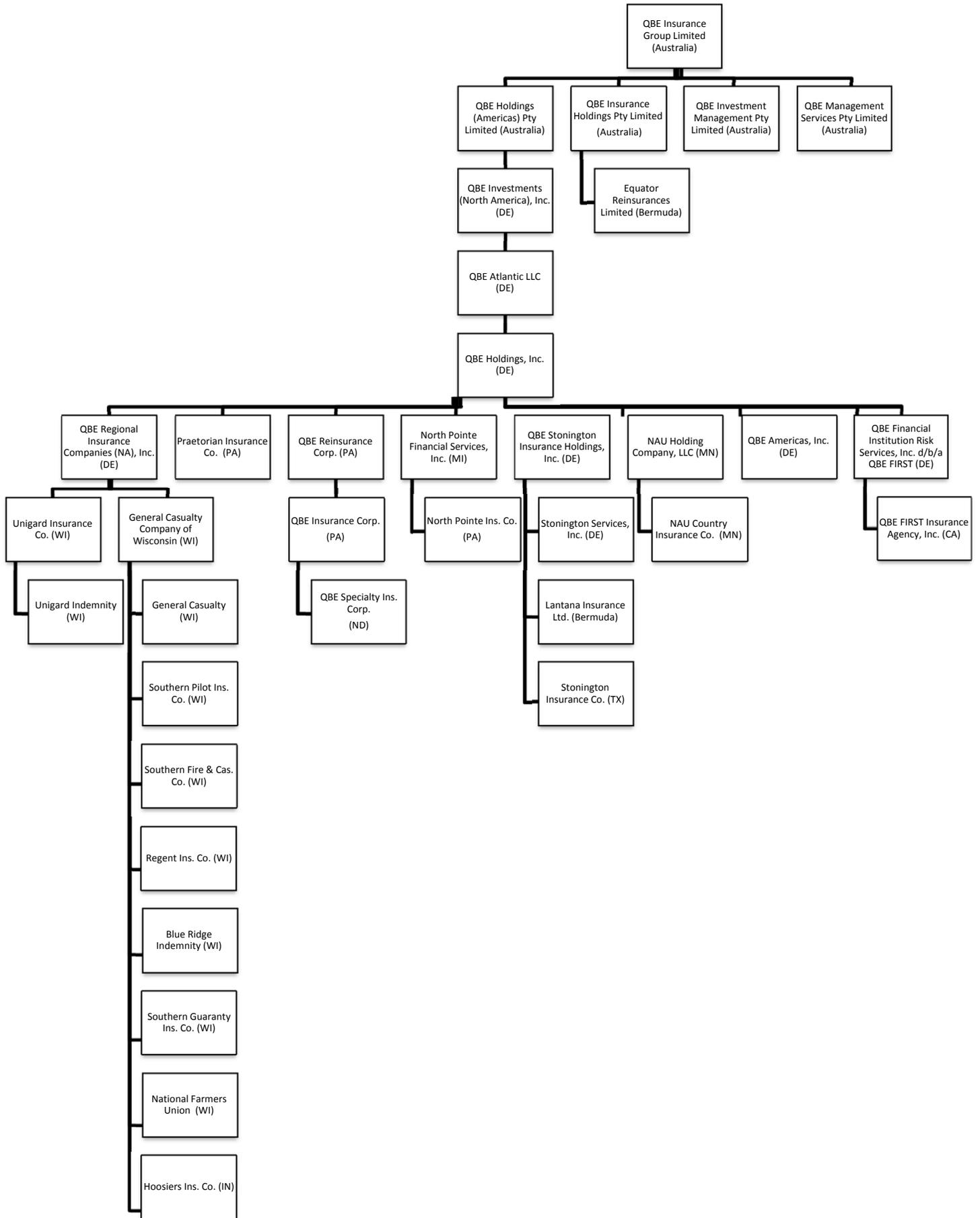
David B. Duclos  
Susan S. Harnett  
John G. Langione  
Richard S. Dziadzio

#### **Underwriting Management Committee**

David B. Duclos, Chair  
John G. Langione  
Jeffrey S. Grange  
Charles Valinotti

#### **IV. AFFILIATED COMPANIES**

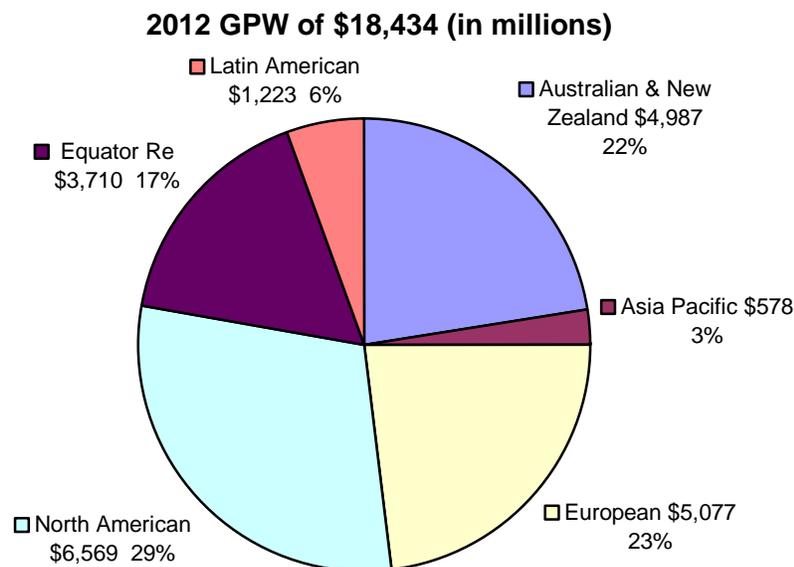
NFU is a member of a holding company system in which the ultimate parent is QBE Insurance Group Limited. QBE Limited is a publicly traded company incorporated under the laws of Australia. The principal businesses of the holding company system are conducted through its property and casualty insurance and reinsurance subsidiaries. QBE Limited had 221 subsidiaries in its holding company system at December 31, 2012. The abbreviated organizational chart below identifies the succession of control directly related to the company as well as other significant affiliates within the group. A brief description of these affiliates follows the organizational chart shown on the following page.



## QBE Insurance Group Limited

QBE Insurance Group Limited was formed in 1886 in Townsville, Australia. Currently, the headquarters of QBE Limited are located in Sydney, Australia. QBE Limited is a publicly held company and is traded on the Australian Stock Exchange. The holding company group has a presence in every key insurance market with operations in over 45 countries.

QBE Limited's organizational chart refers to six insurance segments: Australian & New Zealand, Asia Pacific, European, North American, Latin American and Equator Re. The following chart is a geographical split of QBE Limited's 2012 gross premium written (GPW).



The holding company group also has a segment devoted to investment management of the insurers. The following is a summary of operations of each segment:

### **Australian & New Zealand**

General insurance operations throughout Australia and New Zealand providing all major lines of insurance coverage for personal and commercial risks.

### **Asia Pacific**

General insurance operations in the Asia Pacific region, including 15 countries, providing coverage for personal, commercial and specialty risks, which includes professional and general liability, marine, corporate property and trade credit.

**European**

This segment consists of the Lloyd's of London (Lloyd's) division and QBE Insurance Europe. The Lloyd's division is the largest manager of capacity and the second largest provider of capital, providing general insurance and reinsurance business. QBE Insurance Europe consists of general insurance operations in the UK, Ireland and other countries in mainland Europe. It also includes reinsurance business in Ireland.

**North American**

Conducts general insurance and reinsurance operations in the United States through four specialist business units: Financial Partner Services, property & casualty, crop and reinsurance. Headquarters are located in New York. QBE Limited first established a presence in the Americas in 1991.

**Latin American**

Conducts general insurance in seven countries throughout North, Central and South America focused mainly on commercial classes of business.

**Equator Re**

This company is QBE Limited's captive reinsurer based in Bermuda. Equator Reinsurances Limited provides reinsurance protection to the majority of the operating entities within the holding company group.

**Investments**

This segment provides for management of QBE Limited's investment portfolio. Over 99% of the members of the holding company group's investments are managed in-house.

As of December 31, 2012, the audited financial statements of QBE Limited reported (in U.S. dollars) assets of \$50.7 billion, liabilities of \$39.3 billion, and shareholders' equity of \$11.4 billion. Operations for 2012 produced comprehensive income of \$663 million on revenues of \$15.8 billion.

**QBE Management Services Pty Limited**

QBE Management Services Pty Limited (QBE Management) is an investment management firm incorporated in Australia which manages the assets of the U.S. insurance operations included under the investment segment of QBE Limited's operations. The company became the investment management service provider for the affiliate companies effective December 31, 2012, when it replaced QBE Investment Management Pty Limited. As of December 31, 2012, the financial report of QBE Management provided assets of \$417.2 million, liabilities of \$390.4 million, and shareholders' equity of \$26.8 million. Operations for 2012 produced net income of \$10.3 million on revenues of \$0.9 million.

### **QBE Investment Management Pty Limited**

QBE Investment Management Pty Limited (QBE Investment) is an investment management firm incorporated in Australia which managed the assets of the U.S. insurance operations included under the investment segment of QBE Limited's operations until December 31, 2012. The company was known as Minster Court Asset Management Pty Limited prior to changing to its current name on March 31, 2011. As of December 31, 2012, the financial report of QBE Investment provided assets of \$12.4 million, liabilities of \$8.7 million, and shareholders' equity of \$3.7 million. Operations for 2012 produced net income of \$3.7 million on revenues of \$0.3 million.

### **QBE Holdings (Americas) Pty Limited**

QBE Holdings (Americas) Pty Limited is the vehicle whereby QBE Limited contributes capital to its operations in North and Latin America. As of December 31, 2012, the financial report of QBE Holdings (Americas) Pty Limited provided assets of \$5.5 billion, liabilities of \$69.3 million, and shareholders' equity of \$5.4 billion. Operations for 2012 produced net income of \$679.9 million on revenues of \$682.3 million.

### **QBE Investments (North America), Inc.**

QBE Investments (North America), Inc., is an intermediate holding company for the North American segment. As of December 31, 2012, the financial report of QBE Investments (North America), Inc., provided assets of \$6.5 billion, liabilities of \$2.6 billion, and shareholders' equity of \$3.9 billion. Operations for 2012 produced net income of \$41.9 million on revenues of \$3.6 million.

### **QBE Atlantic LLC**

QBE Atlantic LLC was incorporated in June 2009, and is an intermediate holding company for the North American segment. QBE Atlantic LLC operates in the United Kingdom and is treated as a United Kingdom entity under United Kingdom tax laws. As of December 31, 2012, the financial report of QBE Atlantic LLC provided assets of \$6.5 billion, liabilities of \$2.5 billion, and shareholders' equity of \$4.0 billion. Operations for 2012 produced net income of \$52.9 million on revenues of \$192.8 million.

**QBE Holdings, Inc.**

QBE Holdings, Inc., is an intermediate holding company for the North American segment. As of December 31, 2012, the financial report of QBE Holdings, Inc., provided assets of \$6.6 billion, liabilities of \$310.2 million, and shareholders' equity of \$6.3 billion. Operations for 2012 produced net income of \$189.0 million on revenues of \$185.9 million.

**QBE Americas, Inc.**

QBE Americas, Inc., was incorporated in Delaware on September 11, 2009, to become an insurance services company. QBE Americas, Inc., employs substantially all the Americas employees, owns and maintains business assets, and pays all operating expenses (direct expenses charged and shared expenses will be allocated to appropriate business units). As of December 31, 2012, the audited financial statements of QBE Americas, Inc., reported assets of \$155.6 million, liabilities of \$190.3 million, and shareholders' equity of \$(34.6) million. Operations for 2012 produced a net loss of \$37.3 million on revenues of \$693.3 million. The net loss includes a \$24.5 million actuarial loss on retirement benefit obligations.

**QBE FIRST Insurance Agency, Inc.**

QBE FIRST Insurance Agency, Inc. (QBE FIRST) was incorporated in California to become an insurance agency and services company. QBE FIRST provides these agency and services to members of the QBE North America pool as described further in the agreements below. As of December 31, 2012, the financial report of QBE FIRST provided assets of \$1.7 billion, liabilities of \$779.1 million, and shareholders' equity of \$893.6 million. Operations for 2012 produced a net loss of \$34.9 million on revenues of \$490.6 million.

**QBE Reinsurance Corporation**

QBE Reinsurance Corporation's (QBE Re) principal business is underwriting property and casualty reinsurance business which is primarily obtained through reinsurance intermediaries. As of December 31, 2012, the combined audited financial statements of QBE North America reported QBE Re having assets of \$1.5 billion, liabilities of \$602.4 million, and capital and surplus of \$943.1 million. Operations for 2012 produced a net income of \$5.0 million on premiums of \$365.8 million and net investment income of \$8.7 million.

### **QBE Insurance Corporation**

QBE Insurance Corporation (QBEIC) writes primarily property and casualty lines and group accident and health lines of direct insurance business through program managers. As of December 31, 2012, the combined audited financial statements of QBE North America reported QBEIC having assets of \$2.2 billion, liabilities of \$1.4 billion, and capital and surplus of \$802.4 million. Operations for 2012 produced a net loss of \$24.3 million on premiums of \$833.7 million and net investment income of \$14.2 million.

### **QBE Specialty Insurance Company**

QBE Specialty Insurance Company primarily writes property and casualty insurance business through program managers and is eligible to write excess and surplus lines in all 50 states and the District of Columbia. As of December 31, 2012, the combined audited financial statements of QBE North America reported QBE Specialty Insurance Company having assets of \$750.8 million, liabilities of \$518.2 million, and capital and surplus of \$232.6 million. Operations for 2012 produced a net loss of \$14.0 million on premiums of \$341.2 million and net investment income of \$2.6 million.

### **Equator Reinsurances Limited**

Equator Reinsurances Limited (Equator Re) is a captive reinsurer based in Bermuda providing reinsurance protection to the majority of the operating entities in the holding company group. As of December 31, 2012, the audited financial statements of Equator Re reported (in U.S. dollars) assets of \$8.0 billion, liabilities of \$5.9 billion, and shareholders' equity of \$2.1 billion. Operations for 2012 produced net income of \$298.3 million on premiums of \$3.4 billion and net investment income of \$153.0 million.

### **QBE Regional Companies (N.A.), Inc.**

QBE Regional Companies (N.A.), Inc., is the holding company for GC-WI, UnigardIns and subsidiaries. As of December 31, 2012, the combined audited financial statements of QBE North America reported QBE Regional having assets of \$2.1 billion, liabilities of \$1.5 billion and capital and surplus of \$605.9 million. Operations for 2012 produced net income of \$22.6 million on premiums of \$879.5 million and net investment income of \$58.6 million.

### **General Casualty Company of Wisconsin**

GC-WI provides personal and commercial property and casualty insurance coverages primarily to Midwestern and Northeastern areas of the U.S. As of December 31, 2012, the combined audited financial statements of QBE North America reported GC-WI having assets of \$1.0 billion, liabilities of \$576.8 million, and capital and surplus of \$448.1 million. Operations for 2012 produced net loss of \$0.1 million on premiums of \$337.7 million and net investment income of \$15.3 million.

### **General Casualty Insurance Company**

General Casualty Insurance Company (GCIC) provides personal and commercial property and casualty insurance coverages primarily to Midwestern areas of the U.S. As of December 31, 2012, the combined audited financial statements of QBE North America reported GCIC having assets of \$108.5 million, liabilities of \$80.7 million, and capital and surplus of \$27.8 million. Operations for 2012 produced net loss of \$1.3 million on premiums of \$45.7 million and net investment income of \$0.7 million.

### **Regent Insurance Company**

Regent Insurance Company (Regent) provides personal and commercial property and casualty insurance coverages primarily to Midwestern areas of the U.S. As of December 31, 2012, the combined audited financial statements of QBE North America reported Regent having assets of \$161.6 million, liabilities of \$123.5 million, and capital and surplus of \$38.1 million. Operations for 2012 produced net loss of \$2.1 million on premiums of \$63.3 million and net investment income of \$0.7 million.

### **Hoosier Insurance Company**

Hoosier Insurance Company (Hoosier) provides personal and commercial property and casualty insurance coverages in the state of Indiana. As of December 31, 2012, the combined audited financial statements of QBE North America reported Hoosier having assets of \$83.7 million, liabilities of \$60.0 million, and capital and surplus of \$23.7 million. Operations for 2012 produced net loss of \$1.6 million on premiums of \$38.7 million and net investment income of \$0.1 million.

**Blue Ridge Indemnity Company**

Blue Ridge Indemnity Company (BlueInd) provides personal property and casualty insurance coverages in the state of New York. As of December 31, 2012, the combined audited financial statements of QBE North America reported BlueInd having assets of \$22.4 million, liabilities of \$16.6 million, and capital and surplus of \$5.7 million. Operations for 2012 produced net loss of \$0.1 million on premiums of \$10.6 million and net investment income of \$0.1 million.

**Southern Guaranty Insurance Company**

Southern Guaranty Insurance Company (SGty) provides commercial property and casualty insurance coverages to Southeastern areas of the U.S. As of December 31, 2012, the combined audited financial statements of QBE North America reported SGty having assets of \$132.4 million, liabilities of \$94.5 million, and capital and surplus of \$37.9 million. Operations for 2012 produced net loss of \$1.6 million on premiums of \$59.8 million and net investment income of \$1.0 million.

**Southern Pilot Insurance Company**

Southern Pilot Insurance Company (SPilot) provides personal and commercial property and casualty insurance coverages to Southeastern areas of the U.S. As of December 31, 2012, the combined audited financial statements of QBE North America reported SPilot having assets of \$36.6 million, liabilities of \$25.8 million, and capital and surplus of \$10.8 million. Operations for 2012 produced net income of \$0.2 million on premium earned of \$14.0 million and net investment income of \$0.3 million.

**Southern Fire & Casualty Company**

Southern Fire & Casualty Company (SFire) provides personal and commercial property and casualty insurance coverages to Southeastern areas of the U.S. As of December 31, 2012, the combined audited financial statements of QBE North America reported SFire having assets of \$17.0 million, liabilities of \$11.0 million, and capital and surplus of \$5.9 million. Operations for 2012 produced net income of \$0.1 million on premiums earned of \$7.0 million and net investment income of \$0.1 million.

### **Unigard Insurance Company**

UnigardIns provides personal and commercial property and casualty insurance coverages to Western areas of the U.S. As of December 31, 2012, the combined audited financial statements of QBE North America reported UnigardIns having assets of \$466.2 million, liabilities of \$308.4 million, and capital and surplus of \$157.8 million. Operations for 2012 produced net income of \$33.1 million on premiums of \$179.4 million and net investment income of \$38.9 million. The investment income includes capital gains of \$31.6 million from the sale of real estate held by the company.

### **Unigard Indemnity Company**

Unigard Indemnity Company (UnigardInd) provides personal and commercial property and casualty insurance coverages to Western areas of the U.S. As of December 31, 2012, the combined audited financial statements of QBE North America reported UnigardInd having assets of \$64.0 million, liabilities of \$45.8 million, and capital and surplus of \$18.2 million. Operations for 2012 produced net loss of \$1.1 million on premiums of \$28.1 million and net investment income of \$0.1 million.

### **Praetorian Insurance Company**

Praetorian Insurance Company (Praetorian) concentrates on writing specialty property and casualty coverage not generally emphasized by standard insurance carriers. As of December 31, 2012, the combined audited financial statements of QBE North America reported Praetorian having assets of \$1.1 billion, liabilities of \$793.1 million, and capital and surplus of \$316.3 million. Operations for 2012 produced net loss of \$13.5 million on premiums of \$510.1 million and net investment income of \$8.2 million.

### **North Pointe Insurance Company**

North Pointe Insurance Company (North Pointe) provides commercial property and casualty insurance coverages to Northeastern areas of the U.S. As of December 31, 2012, the combined audited financial statements of QBE North America reported North Pointe having assets of \$83.1 million, liabilities of \$57.2 million, and capital and surplus of \$25.9 million.

Operations for 2012 produced net loss of \$1.3 million on premiums of \$35.2 million and net investment income of \$0.3 million.

### **Stonington Insurance Company**

Stonington Insurance Company (Stonington) provides commercial property and casualty insurance coverages to Southwestern areas of the U.S. As of December 31, 2012, the financial statements of Stonington reported assets of \$76.2 million, liabilities of \$20.2 million, and capital and surplus of \$56.0 million. Operations for 2012 produced net loss of \$5.5 million on premiums of \$0.1 million and net investment income of \$(0.1) million.

### **NAU Country Insurance Company**

NAU Country Insurance Company (NAU) provides property and casualty insurance coverages with specialization in crop insurance. As of December 31, 2012, the combined audited financial statements of QBE North America reported NAU having assets of \$1.5 billion, liabilities of \$1.1 billion, and capital and surplus of \$335.5 million. Operations for 2012 produced net loss of \$23.7 million on premiums of \$552.3 million and net investment income of \$2.3 million.

### **Agreements with Affiliates**

Affiliated reinsurance and trust agreements are discussed in the section of the report titled "Reinsurance."

### **Internal Investment Management Agreement**

Effective June 17, 2010, the company entered into an investment management agreement between Minster Court Asset Management Pty Limited (Minster) and QBE Regional and each of its subsidiaries. As noted previously, on March 31, 2011, Minster changed its name to QBE Investment Management Pty Limited. QBE Investment provides investment management services, including the investment and reinvestment of the company's investment assets. The company provides QBE Investment with investment guidelines, approved by the board of directors, which direct QBE Investment with investment objectives, policies and restrictions. The assets in the investment account are being held in a custodial account. QBE Investment is responsible for providing the company daily investment transactions within two days, monthly reporting within two days of month-end, and quarterly board of director reports two weeks before

a board meeting. The company is to reimburse QBE Investment a quarterly management fee for services rendered as follows:

<b>Market Value of Fund</b>	<b>Fee per Annum</b>
Money market, cash and fixed interest	9.5 basis points
Equities	45.0 basis points
Infrastructure loans and unlisted property trusts	12.5 basis points

The agreement may be terminated by the company giving not less than 5 days' written notice to the investment manager or by the investment manager giving not less than 20 business days' written notice to the company. Effective December 31, 2012, QBE Investment was replaced by QBE Management Services Pty Limited as the investment manager. The company paid QBE Management \$130,000 for these services in 2012.

#### **Intercompany Cost Allocation and Management Services Agreement**

Effective January 1, 2010, the company entered into this service agreement with QBE Americas, Inc., QBE Holdings, Inc. QBE Atlantic LLC, QBE Investments (North America), Inc., Unigard Insurance Company, and QBE Americas, Inc.'s North American affiliates. In accordance with this agreement, QBE Americas, Inc., and UnigardIns provide actuarial, finance, accounting, legal, marketing, human resources, investment advice, internal audit, risk management, reinsurance, underwriting, claims, senior management and staff, information systems, group insurances, and policy services for the actual cost of the services performed. Within 30 days of the end of each month the provider of service is to bill the receiver and settlement is due within 15 days of receipt. The agreement may be terminated with 90 days' written notice.

#### **Services Agreement**

Effective September 17, 2010, Sterling National Insurance Agency, Inc., and QBE Regional and its subsidiaries, GC-WI, UnigardIns, and their respective subsidiaries, entered into this services agreement. Sterling National Insurance Agency, Inc., changed its name to QBE FIRST Insurance Agency, Inc., effective April 1, 2011. The purpose of the agreement is to allow QBE FIRST to provide the QBE Regional companies with specific policy and claims servicing

outlined in Schedule A of the agreement for certain personal lines business. The QBE Regional companies each pay QBE FIRST a service commission of 3% of the net personal lines renewal premium due within 30 days of the receipt of the month-end report. The agreement may be terminated by either party with 90 days' written notice.

### **Agency Agreement**

Effective January 1, 2011, Sterling National Insurance Agency, Inc., and QBE Holdings, Inc., and its subsidiaries, GC-WI, UnigardIns, and their respective subsidiaries, and QBEIC entered into this agency agreement. The purpose of the agreement is to allow QBE FIRST to operate as an agency for the QBE Regional companies in the jurisdictions where QBE FIRST is properly licensed with respect to the personal auto, personal property, and personal umbrella lines of business. The QBE Regional companies each pay QBE FIRST a commission of 10% to 15%, depending on the type of business, and is due within 30 days of the receipt of the month-end report. The agreement may be terminated by mutual written agreement of both parties in accordance with the terms and conditions to which they have agreed.

### **General Agency Crop Insurance Agreement**

Effective October 1, 2012, NFU and NAU entered into this agency agreement. The purpose of the agreement is to allow NAU to supervise and conduct the writing of crop insurance, including multiple peril crop insurance reinsured by the Federal Crop Insurance Corporation, crop hail insurance, and other associated perils named by the general agent (such as livestock protection insurance). NAU is authorized to arrange treaty insurance for subject policies under this agreement. This is accomplished with the Multiple Line Quota Share Reinsurance Agreement between NFU and NAU which is included in the report under the section titled "Reinsurance." Within 30 days after the annual settlement with reinsurers of crop hail insurance, NAU will prepare and forward to the company a summary account for the crop season. For multi-peril and livestock insurance, a report is due not later than April 30 each year or as soon as possible after settlement. Payments are due within 30 days of the receipt of the report. The agreement may be terminated by either party with 90 days' written notice.

## **Tax Sharing Agreement**

Effective January 1, 2008, QBE Investments (N.A.), Inc., and listed subsidiaries including QBE Regional and subsidiaries entered into a tax sharing agreement. The agreement has since been amended to include acquired subsidiaries or to terminate former subsidiaries. In accordance with this agreement, the group allocates tax among its members specifically on the basis of the tax a member would be liable for if it filed a separate federal income tax return. Net operating loss and capital carryovers of the members shall be taken into account only to the extent such items were generated in a consolidated return year to which this agreement or a previous tax sharing agreement applied and the member has not previously been and is not otherwise compensated for the use of such tax benefit items.

Estimated tax payments are to be paid to the parent on a quarterly basis with final settlement within 30 days of the filing of the consolidated return. If any adjustments are necessary, the amount differing from the amount previously determined shall be paid within 10 business days after parent receipt of a refund or at least 5 days before the due date for payment of additional tax liability. This agreement applies to all taxable years beginning with the effective date unless it is amended or terminated in writing by mutual agreement of all parties to the agreement.

## V. REINSURANCE

The company's reinsurance portfolio and strategy is described below. A list of the companies that have a significant amount of reinsurance in force at the time of the examination follows. The contracts contained the proper insolvency provisions.

### **Thirteenth Restatement Reinsurance Agreement**

Effective January 1, 1976, GC-WI, Regent and GCIC entered into an intercompany pooling arrangement whereby the entire net business in force and produced as of that date was ceded to GC-WI and then redistributed between the participants on a pro rata basis. The Thirteenth Restatement Reinsurance Agreement was designed to reaffirm the basic provisions of the 1976 agreement, as previously modified by the first twelve restatements, and to reflect the current organizational makeup of the participants to accomplish a QBE North America pool for insurance companies domiciled in the United States. As it has since 2012, QBE Insurance Corporation remains the lead company and pool manager.

Pool participants have entered into certain quota share agreements in which cessions are made prior to participation in the pooling arrangement. These reinsurance agreements are discussed below, as applicable to the company. Aside these cessions, participants cede 100% of remaining direct premiums, losses, loss adjustment expenses, and underwriting expenses to QBEIC. QBEIC, as the pool reinsurer, assumes on a severally liable basis and cedes to pool participants on a jointly and severally liable pro rata basis as follows effective January 1, 2014:

Company Name	Percentage
QBE Insurance Corporation	26.5%
NAU Country Insurance Company	15.2
Praetorian Insurance Company	14.8
QBE Specialty Insurance Company	10.5
General Casualty Company of Wisconsin	8.9
QBE Reinsurance Corporation	6.7
Unigard Insurance Company	5.0
National Farmers Union Property and Casualty Company	2.4
Stonington Insurance Company	2.2
Regent Insurance Company	1.7
Southern Guaranty Insurance Company	1.3
General Casualty Insurance Company	1.1
Hoosier Insurance Company	1.1
North Pointe Insurance Company	1.0
Unigard Indemnity Company	0.7
Southern Pilot Insurance Company	0.4
Blue Ridge Indemnity Company	0.3
Southern Fire and Casualty Company	0.2

QBEIC administers all aspects of the pooled business, including the placement of additional reinsurance, as approved by participants. Income and expenses related to investment operations and corporate taxes, including federal income taxes, are not included in the pooling.

Monthly accounting of all activity pursuant to the agreement is to be provided within 30 days after the close of each month. Settlements of any balances due shall be completed within 45 days after the close of each quarter. The agreement may be terminated by any participant at the end of any treaty year, with 90 days' written notice by any party.

#### **Multiple Line Quota Share Reinsurance Agreement**

Effective October 1, 2012, NFU and NAU entered into a quota share reinsurance agreement. NAU reinsures 100% of the company's net liability with respect to all crop hail, multiple-peril crop, and livestock protection insurance. NAU is credited with 100% of the company's net premiums written for new business. The company receives a ceding commission of 1.25% net premium written. The company shall prepare an accounting statement of the reinsurer's obligations 50 days prior to the end of each calendar quarter. Settlement of any balances due shall be completed within 30 days after the receipt of accounting activity. The agreement may be terminated by any participant with 90 days' written notice.

### **Automobile Quota Share Reinsurance Agreements**

Effective April 1, 2008, NFU entered quota share agreements with Farmers Union Mutual Insurance Company (Farmers Union). Farmers Union reinsures 10% of NFU's net liability with respect to direct business classified as private passenger auto and farm auto property and liability in the state of North Dakota, subject to certain exclusions. NFU receives a ceding commission of 34% of direct premium written and a profit-sharing commission. The profit-sharing commission is 50% of the net profit calculated as premiums earned less ceding commission, expenses of 10% premium earned, and losses incurred for the contract year. Quarterly reports of ceded unearned premiums and ceded outstanding loss reserves are to be provided within 30 days after the close of each quarter. Settlements of any balances due shall be completed within 30 days of each March 31. The agreement may be terminated with 90 days' written notice by any party.

Effective January 1, 2009, NFU entered quota share agreements with Farmers Union. Farmers Union reinsures 10% of the NFU's net liability with respect to direct business classified as private passenger auto, farm auto, and commercial auto property and liability, in the state of Montana, subject to certain exclusions. All business is produced by Montana Farmers Union Insurance Agency, Inc., on behalf of the company. Farmer Union's liability is limited to \$101,000 any one policy. NFU receives a ceding commission of 35% of direct premium written and a profit-sharing commission. The profit-sharing commission is 50% of the net profit calculated as premiums earned less ceding commission, expenses of 10% premium earned, and losses incurred for the contract year. Quarterly reports of ceded unearned premiums and ceded outstanding loss reserves are to be provided within 60 days after the close of each quarter. Settlements of any balances due shall be completed within 15 days after receipt of the quarterly report. The agreement may be terminated with 90 days' written notice by any party.

### **Equipment Breakdown Quota Share Reinsurance Agreements**

Effective September 30, 2005, and September 1, 2006 (homeowner's), NFU and USIC (cedents) entered into quota share agreements with The Hartford Steam Boiler Inspection and Insurance Company (Hartford Ins). The agreements were amended to terminate USIC

effective January 1, 2009. Hartford Ins reinsures 100% of the cedents' net liability with respect to direct business classified as equipment breakdown liability subject to certain exclusions. Hartford Ins' liability is limited to \$75 million (\$50,000 for homeowner's) for any one accident, any one policy. Hartford Ins is credited with the cedents' proportionate share of net premiums written. The cedents receive a ceding commission of 35% of direct premium written and a profit-sharing commission. The profit-sharing commission is earned when the sum of incurred losses is less than plan losses based on a calendar year. Plan losses are calculated by multiplying the plan loss ratio by premiums earned for the accounting period by the plan loss ratio of 30%. Monthly accounting of activity pursuant to the agreement is to be provided within 45 days after the close of each month. Quarterly reports of ceded unearned premiums and ceded outstanding loss reserves are to be provided within 30 days after the close of each quarter. Settlements of any balances due shall be completed immediately after receipt of monthly accounting reports. The agreement may be terminated with 90 days' written notice by any party.

#### **Equator Re Quota Share Reinsurance Agreement**

Effective January 1, 2012, GC-WI, GCIC, Regent, BlueInd, SGty, SPilot, SFire, UnigardIns, UnigardInd, Hoosier Insurance Company, National Farmers Union Property and Casualty Company (the cedents) entered into a quota share agreement with affiliate, Equator Reinsurances Limited. Equator Re reinsures 40% of the cedents' net liability with respect to all direct and assumed business underwritten except that which is specifically excluded. Should the net combined operating ratio for business classified as "regional" or "middle markets" exceed 100%, the company retains the next 3% of net liability which would otherwise be ceded to Equator Re. Equator Re remains liable for the proportionate share of any amount in excess thereof. Nuclear incident risks for both liability and physical damage are excluded. Equator Re is credited with the cedents' proportionate share of net premiums written for new business. The cedents receive a monthly ceding commission of 40% of net acquisition cost. Quarterly accounting of all activity pursuant to the agreement is to be provided within 60 days after the close of each quarter. Settlements of any balances due shall be completed within 30 days after

the receipt of accounting activity. The agreement may be terminated by any participant with 90 days' written notice.

Pursuant to s. Ins 52.05, Wis. Adm. Code, and the Stipulation and Order issued by the Office of the Commissioner of Insurance on May 17, 2012, GC-WI, GCIC, Regent, BlueInd, SGty, SPilot, SFire, UnigardIns, UnigardInd, Hoosier Insurance Company, and National Farmers Union Property and Casualty Company (the beneficiaries) have entered into three trust agreements with Equator Re and Citibank, N.A. (the Trustee), dated as of March 29, 2012. Equator Re secures payments of amounts due the company under the quota share and loss portfolio reinsurance agreements by transferring assets to the Trustee for deposit into the trust accounts for the sole benefit of the beneficiaries. The amount held in the trust accounts should equal to 102% of Equator Re's obligations attributable to the reinsurance agreement. Equator Re's obligations are defined as the sum of losses and allocated loss expenses paid by the beneficiaries but not recovered from Equator Re; reserves for losses reported and outstanding; reserves for losses incurred but not reported; reserves for allocated loss expenses; and reserves for unearned premium. The agreements may be terminated only after Equator Re or the beneficiaries have given the Trustee a written notice of its intention to terminate the trust accounts. The agreements provide that written notification of termination should be delivered by the Trustee to Equator Re and the beneficiaries at least 45 days, but not more than 60 days, prior to termination of the trust accounts. Equator Re is responsible for reimbursing the Trustee for its expenses under the agreements.

Further discussion pertaining to the quota share reinsurance agreement, and the related trust agreement the company has with Equator Re, may be found in the "Summary of Examination Results" section of the report.

### **Excess of Loss and Catastrophe Reinsurance Portfolio**

The company's ceded reinsurance portfolio for catastrophic and excess of loss coverages is assigned and placed by QBE North America located in New York City, with the company's approval. QBE North America uses the "group aggregate methodology" in development of their ceded reinsurance portfolio. The catastrophic and excess of loss coverages

purchased encompasses all insurance subsidiaries of QBE North America. In determining adequate coverage, various loss scenarios are considered with the intent to protect the participants from a 100/250 year catastrophic event. The “group aggregate methodology” results in more buying power due to the centralization of reinsurance procurement. Exhibit A summarizes the company's ceded reinsurance portfolio for catastrophic and excess of loss coverages.

	Primary Reinsurer	Retention	Coverage	Limits	Terrorism Limit	Reinstatement(s)	Premium	Settlement	Intermediary
<b>Casualty Clash Excess of Loss</b> Coverages for excess liability classified as casualty business with certain exceptions. Effective: 1/1/2013 Terminate: 12/31/2013	Hannover Ruckversicherungs Aktiengesellschaft - 30%	2,500,000	7,500,000 xs 2,500,000  10 year Sunset Clause	7,500,000 one occurrence	n/a	1	1,150,000	Premium within 60 days after termination; Losses within 30 days of billing	Aon Benfield Inc., or affiliate
<b>Property Catastrophe Excess of Loss</b> Coverages for policies classified as property business with certain exceptions. Effective: 1/1/2013 Terminate: 1/1/2014	Equator Re - 100%	150,000,000	50,000,000 xs 150,000,000 Excludes Wind	50,000,000 one occurrence	n/a	1	7,400,000 minimum 9,250,000 deposit premium	Premium within 60 days after termination; Losses within 30 days of billing	None
	Equator Re - 100%	150,000,000	50,000,000 xs 150,000,000	50,000,000 one occurrence	n/a	1	25,000,000 minimum 31,250,000 deposit premium		
	Equator Re - 100%	200,000,000	100,000,000 xs 200,000,000	100,000,000 one occurrence	n/a	0	32,000,000 minimum 40,000,000 deposit premium		
	Equator Re - 100%	100,000,000	50,000,000 xs 100,000,000 2nd Event Wind	50,000,000 one occurrence	n/a	0	10,400,000 minimum 13,000,000 deposit premium		
<b>Property Per Risk Excess of Loss</b> Coverages for policies classified as property business with certain exceptions. Effective: 1/1/2013 Terminate: 1/1/2014	Equator Re - 100%	10,000,000	10,000,000 xs 10,000,000	10,000,000 one occurrence \$40,000,000 aggregate	n/a	3	0.204% of net premium written 5,500,000 minimum 5,500,000 deposit premium	Premium within 60 days after termination; Losses within 30 days of billing	None
	Equator Re - 100%	20,000,000	30,000,000 xs 20,000,000	30,000,000 one occurrence \$120,000,000 aggregate	n/a	3	0.148% of net premium written 4,000,000 minimum 4,000,000 deposit premium		

	Primary Reinsurer	Retention	Coverage	Limits	Terrorism Limit	Reinstatement(s)	Premium	Settlement	Intermediary
<b>Terrorism Catastrophe Excess of Loss</b> Coverages for acts of terrorism for policies classified as property or casualty with certain exceptions. Effective: 1/1/2012 Terminate: 1/1/2014	Lloyd's Syndicate 2003 - 75%	25,000,000	25,000,000 xs 25,000,000	25,000,000 one occurrence  50,000,000 per year aggregate	n/a	1	1,753,125 minimum 2,062,500 deposit premium	Premium within 60 days after termination; Losses within 30 days of billing	Guy Carpenter & Company, LLC
	Lloyd's Syndicate 2003 - 75%	50,000,000	50,000,000 xs 50,000,000	50,000,000 one occurrence  100,000,000 per year aggregate	n/a	1	2,550,000 minimum 3,000,000 deposit premium	Premium within 60 days after termination; Losses within 30 days of billing	Guy Carpenter & Company, LLC
<b>Umbrella Excess of Loss</b> Coverages for excess liability classified as umbrella with certain exceptions. Effective: 1/1/2013 Terminate: 12/31/2013	Transatlantic Reinsurance Company - 25%	2,000,000 each policy  after 5,500,000 annual aggregate	8,000,000 xs 2,000,000	8,000,000 one occurrence  16,000,000 for acts of terrorism during term	n/a	free and unlimited	11.89% of net premium earned 6,772,000 minimum 8,466,000 deposit premium	Premium within 60 days after termination; Losses within 30 days of billing	Aon Benfield Inc., or affiliate
	Lloyd's Syndicate 2987 - 22.5%	10,000,000	15,000,000 xs 10,000,000	15,000,000 one occurrence  30,000,000 for acts of terrorism during term	n/a	1	19.53% of net premium earned 1,000,000 minimum 1,250,000 deposit premium	Premium within 60 days after termination; Losses within 30 days of billing	Aon Benfield Inc., or affiliate

	Primary Reinsurer	Retention	Coverage	Limits	Terrorism Limit	Reinstatement(s)	Premium	Settlement	Intermediary
<b>Workers' Compensation Excess of Loss</b> Coverages for excess liability for policies classified as workers' compensation with certain exceptions. Effective: 1/1/2013 Terminate: 12/31/2013	Lloyd's Syndicate 2003 Catlin Underwriting, Inc. - 30%	5,000,000	5,000,000 xs 5,000,000  10 year Sunset Clause	5,000,000 one occurrence  20,000,000 aggregate	n/a	3	0.603% of net premium earned 2,640,000 minimum 3,300,000 deposit premium	Premium within 60 days after termination; Losses within 30 days of billing	Aon Benfield Inc., or affiliate
<b>Workers' Compensation Catastrophe Excess of Loss</b> Coverages for excess liability for policies classified as workers' compensation with certain exceptions. Effective: 1/1/2013 Terminate: 12/31/2013	Lloyd's Syndicate 2987 - 25% Altera Bermuda Limited - 25%	10,000,000	25,000,000 xs 10,000,000  10 year Sunset Clause	25,000,000 one occurrence  50,000,000 aggregate	n/a	1	0.328% of net premium earned 1,200,000 minimum 1,500,000 deposit premium	Premium within 60 days after termination; Losses within 30 days of billing	Aon Benfield Inc., or affiliate
<b>Worldwide Group Property Per Risk Excess of Loss</b> Coverages for policies classified as property business with certain exceptions. Effective: 1/1/2013 Terminate: 12/31/2013	Munich Re America - 40%	50,000,000	200,000,000 xs 50,000,000	200,000,000	n/a	3	1.0% of gross written premiums 111,018,600 minimum 123,354,000 deposit premium	Premium within 90 days after termination; Losses within 30 days of billing	Guy Carpenter & Company, LLC
<b>Worldwide Group Property Catastrophe Excess of Loss</b> Coverages for policies classified as property business with certain exceptions. Effective: 1/1/2013 Terminate: 12/31/2013	Swiss Re - 35%	200,000,000	1,300,000,000 xs 200,000,000	1,300,000,000	n/a	n/a	12.884% of net premium earned 350,000,000 minimum 350,000,000 deposit premium	Premium within 90 days after termination; Losses within 30 days of billing	Aon Benfield Inc., or affiliate
	Hannover Re Bermuda Ltd - 36.7%	200,000,000	1,300,000,000 xs 200,000,000	1,300,000,000	n/a	n/a	12.84% of net premium earned 465,000,000 minimum 465,000,000 deposit premium		

	Primary Reinsurer	Retention	Coverage	Limits	Terrorism Limit	Reinstatement(s)	Premium	Settlement	Intermediary
<b>Worldwide Group Aggregate Catastrophe Excess of Loss</b> Coverages for policies classified as property business with certain exceptions. Effective: 1/1/2013 Terminate: 12/31/2013	Upsilon Re II Ltd - 4%	800,000,000	200,000,000 XS 800,000,000	200,000,000	n/a	n/a	57,780,000	Premium within 90 days after termination; Losses within 30 days of billing	Aon Benfield Inc., or affiliate
	National Indemnity Company - 75%	800,000,000	400,000,000 XS 800,000,000	400,000,000	n/a	n/a	88,000,000		
	Kane SAC Ltd; IAFM Segregated Account - 4%	1,000,000,000	200,000,000 XS 1,000,000,000	200,000,000	n/a	n/a	30,000,000		
<b>Worldwide Group Aggregate Risk Excess of Loss</b> Coverages for policies classified as property business with certain exceptions. Effective: 1/1/2013 Terminate: 12/31/2013	Munich Re America - 40%	400,000,000	200,000,000 XS 400,000,000	200,000,000	n/a	n/a	0.47% of net premium earned 52,182,900 minimum 57,981,000 deposit premium	Premium within 90 days after termination; Losses within 30 days of billing	Guy Carpenter & Company, LLC
	National Indemnity Company - 40%	400,000,000	200,000,000 XS 400,000,000	200,000,000	n/a	n/a	0.5343% of net premium earned 58,000,000 minimum 65,714,000 deposit premium		

## **VI. FINANCIAL DATA**

The following financial statements reflect the financial condition of the company as reported to the Commissioner of Insurance in the December 31, 2012, annual statement. Also included in this section are schedules that reflect the growth of the company, NAIC Insurance Regulatory Information System (IRIS) ratio results for the period under examination, and the compulsory and security surplus calculation. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Surplus per Examination."

**National Farmers Union Property and Casualty Company**  
**Assets**  
**As of December 31, 2012**

	<b>Assets</b>	<b>Nonadmitted Assets</b>	<b>Net Admitted Assets</b>
Bonds	\$ 35,152,395	\$	\$ 35,152,395
Cash, cash equivalents, and short-term investments	70,608,839		70,608,839
Investment income due and accrued	88,451		88,451
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	10,291,782	883,322	9,408,461
Deferred premiums, agents' balances, and installments booked but deferred and not yet due	17,333,357		17,333,357
Reinsurance:			
Amounts recoverable from reinsurers	16,805,272		16,805,272
Other amounts receivable under reinsurance contracts	(38,813)		(38,813)
Net deferred tax asset	9,561,682	2,735,629	6,826,053
Guaranty funds receivable or on deposit	6,167		6,167
Receivable from parent, subsidiaries, and affiliates	34,595,654		34,595,654
Write-ins for other than invested assets:			
Amounts billed and receivable deductible plans	1,902		1,902
Equities and deposits	82,267	2,592	79,675
Net receivable federally reinsured multi-peril crop insurance	15,052,808		15,052,808
Non-qualified deferred compensation plan	87,446		87,446
Other accounts receivable	310,452	212,990	97,462
Prepaid assets	16,311	16,310	
Miscellaneous assets	129,137		129,137
Net claims receivable	3,106,650		3,106,650
Retroactive reinsurance recoverable	<u>295,993</u>	<u>          </u>	<u>295,993</u>
<b>Total Assets</b>	<b><u>\$213,487,751</u></b>	<b><u>\$3,850,844</u></b>	<b><u>\$209,636,907</u></b>

**National Farmers Union Property and Casualty Company**  
**Liabilities, Surplus, and Other Funds**  
**As of December 31, 2012**

Losses	\$ 65,977,792
Reinsurance payable on paid loss and loss adjustment expenses	367,555
Loss adjustment expenses	12,491,405
Commissions payable, contingent commissions, and other similar charges	3,708,740
Other expenses (excluding taxes, licenses, and fees)	235,418
Taxes, licenses, and fees (excluding federal and foreign income taxes)	647,218
Unearned premiums	32,420,377
Advance premium	101,987
Ceded reinsurance premiums payable (net of ceding commissions)	24,993,423
Funds held by company under reinsurance treaties	788,212
Amounts withheld or retained by company for account of others	244,780
Remittances and items not allocated	1,252,874
Provision for reinsurance	5,000
Drafts outstanding	4,427
Payable to parent, subsidiaries, and affiliates	3,869,726
Write-ins for liabilities:	
Additional minimum pension liability	128,659
Escheat reserve	(13,215)
Other liabilities	11,004
Retroactive reinsurance reserve	<u>(314,488)</u>
 Total liabilities	 146,920,893
 Write-ins for special surplus funds:	
Special surplus from retroactive reinsurance account	\$ 314,488
Common capital stock	4,200,000
Gross paid in and contributed surplus	34,454,297
Unassigned funds (surplus)	<u>23,747,229</u>
 Surplus as regards policyholders	 <u>62,716,014</u>
 Total Liabilities and Surplus	 <u>\$209,636,907</u>

**National Farmers Union Property and Casualty Company**  
**Summary of Operations**  
**For the Year 2012**

<b>Underwriting Income</b>		
Premiums earned		\$94,987,962
Deductions:		
Losses incurred	\$60,988,435	
Loss adjustment expenses incurred	8,843,562	
Other underwriting expenses incurred	<u>28,915,625</u>	
Total underwriting deductions		<u>98,747,622</u>
Net underwriting gain (loss)		(3,759,660)
<b>Investment Income</b>		
Net investment income earned	1,031,514	
Net realized capital gains (losses)	<u>73,398</u>	
Net investment gain (loss)		1,104,912
<b>Other Income</b>		
Net gain (loss) from agents' or premium balances charged off	(142,059)	
Finance and service charges not included in premiums	275,228	
Write-ins for miscellaneous income:		
Other miscellaneous income	230,044	
Renewal rights licensing	(189,000)	
Other liabilities	44,413	
Retroactive reinsurance movement	<u>(29,798)</u>	
Total other income		<u>188,829</u>
Net income (loss) before dividends to policyholders and before federal and foreign income taxes		(2,465,919)
Dividends to policyholders		<u>525,855</u>
Net income (loss) after dividends to policyholders but before federal and foreign income taxes		(2,991,774)
Federal and foreign income taxes incurred		<u>(245,780)</u>
Net Loss		<u>\$ (2,745,994)</u>

**National Farmers Union Property and Casualty Company**  
**Cash Flow**  
**For the Year 2012**

Premiums collected net of reinsurance		\$107,898,596
Net investment income		1,346,939
Miscellaneous income		<u>188,829</u>
Total		109,434,364
Benefit- and loss-related payments	\$101,932,868	
Commissions, expenses paid, and aggregate write-ins for deductions	46,151,498	
Dividends paid to policyholders	525,855	
Federal and foreign income taxes paid (recovered)	<u>(247,396)</u>	
Total deductions		<u>148,362,826</u>
Net cash from operations		(38,928,462)
Proceeds from investments sold, matured, or repaid:		
Bonds	\$204,794,321	
Net gains (losses) on cash, cash equivalents, and short-term investments	<u>34,518</u>	
Total investment proceeds	204,828,839	
Cost of investments acquired (long-term only):		
Bonds	<u>121,622,262</u>	
Net cash from investments		83,206,577
Cash from financing and miscellaneous sources:		
Other cash provided (applied)		<u>(4,997,543)</u>
<b>Reconciliation:</b>		
Net change in cash, cash equivalents, and short-term investments		39,280,572
Cash, cash equivalents, and short-term investments:		
Beginning of year		<u>31,328,267</u>
End of Year		<u>\$ 70,608,839</u>

**National Farmers Union Property and Casualty Company  
Compulsory and Security Surplus Calculation  
December 31, 2012**

Assets		\$209,636,907
Less security surplus of insurance subsidiaries		
Less liabilities		<u>146,920,893</u>
Adjusted surplus		62,716,014
Annual premium:		
Lines other than accident and health	\$80,528,921	
Less policyholder dividends	<u>525,855</u>	
	80,003,066	
Factor	<u>20%</u>	
Compulsory surplus (subject to a minimum of \$2 million)		<u>16,000,613</u>
Compulsory Surplus Excess (or Deficit)		<u>\$ 46,715,401</u>
Adjusted surplus (from above)		\$ 62,716,014
Security surplus: (140% of compulsory surplus, factor reduced 1% for each \$33 million in premium written in excess of \$10 million, with a minimum factor of 110%)		<u>22,080,845</u>
Security Surplus Excess (or Deficit)		<u>\$ 40,635,169</u>

**National Farmers Union Property and Casualty Company**  
**Analysis of Surplus**  
**For the Five-Year Period Ending December 31, 2012**

The following schedule details items affecting surplus during the period under examination as reported by the company in its filed annual statements:

	2012	2011	2010	2009	2008
Surplus, beginning of year	\$64,302,994	\$72,310,366	\$75,641,614	\$95,643,199	\$123,135,085
Net income	(2,745,994)	(7,407,982)	1,763,298	(3,220,170)	4,857,550
Change in net unrealized capital gains/losses			(2,625,443)	5,049,118	(6,417,506)
Change in net deferred income tax	(2,204,317)	649,585	136,026	871,259	597,848
Change in nonadmitted assets	2,683,690	(430,028)	583,920	5,347,227	(5,403,052)
Change in provision for reinsurance	366,000	(367,000)	204,000	(206,000)	
Dividends to stockholders				(28,500,000)	(17,486,915)
Write-ins for gains and (losses) in surplus:					
Change in minimum pension liability	399,766	19,552	2,279,786	656,981	(3,639,811)
Additional admitted deferred tax asset		1,576,640	(169,055)	1,316,363	
Reclassification of additional admitted deferred tax assets to special surplus funds		(1,576,640)	169,055	(1,316,363)	
Pension transfer valuation adjustment	(86,124)	(471,499)	(5,672,835)		
Surplus, End of Year	<u>\$62,716,014</u>	<u>\$64,302,994</u>	<u>\$72,310,366</u>	<u>\$75,641,614</u>	<u>\$ 95,643,199</u>

**National Farmers Union Property and Casualty Company  
Insurance Regulatory Information System  
For the Five-Year Period Ending December 31, 2012**

The company's NAIC Insurance Regulatory Information System (IRIS) results for the period under examination are summarized below. Unusual IRIS results are denoted with asterisks and discussed below the table.

Ratio	2012	2011	2010	2009	2008
#1 Gross Premium to Surplus	418%	429%	417%	457%	173%
#2 Net Premium to Surplus	128	150	178	175	124
#3 Change in Net Premiums Written	-17	-25	-2	11	-26
#4 Surplus Aid to Surplus	1	1	0	0	0
#5 Two-Year Overall Operating Ratio	111*	105*	96	95	89
#6 Investment Yield	0.8*	0.5*	0.7*	2.5*	2.8*
#7 Gross Change in Surplus	-2	-11*	-4	-21*	-22*
#8 Change in Adjusted Surplus	-2	-11*	-4	-21*	-22*
#9 Liabilities to Liquid Assets	122*	100*	79	82	68
#10 Agents' Balances to Surplus	15	12	12	10	13
#11 One-Year Reserve Development to Surplus	10	3	0	3	-1
#12 Two-Year Reserve Development to Surplus	7	0	4	-13	-8
#13 Estimated Current Reserve Deficiency to Surplus	36*	-6	-38	-111	-7

Ratio No. 5 measures the company's profitability over the previous two-year period.

The exceptional results in 2012 and 2011 were due to some unusually severe storms as explained further for ratios Nos. 7 and 8.

Ratio No. 6 has been exceptional from 2009 through 2012. The company's exceptional results during these years were primarily the result of the company's conservative investment portfolio of primarily short-term bonds.

The exceptional ratios Nos. 7 and 8 for 2011, relating to surplus, were primarily the result of a net loss of \$7.4 million from a combination of Hurricane Irene losses in the Northeastern United States and spring and summer storms in the Midwestern United States. The exceptional ratios Nos. 7 and 8 for 2009 are the results of dividends paid of \$28.5 million to its parent, GC-WI, and the \$3.2 million net loss that year. The company obtained regulatory approval from the state of Colorado to pay the dividend. The dividend was used to facilitate acquisitions, partially fund debt service requirements as well as provide a normal dividend to QBE Regional. The exceptional ratios Nos. 7 and 8 for 2008 are the results of total dividends paid of

\$17.5 million, which included dividends of \$6.0 million to QBE Re and a dividend transfer of \$11,486,915 to GC-WI, equal to the company's investment in USIC.

Ratio No. 9 compares the company's liabilities to liquid assets. The exceptional result for 2012 was primarily due to an increase in reinsurance recoverables and an overall decrease in liquid invested assets at year-end. The exceptional result for 2011 was primarily due to an increase in affiliated receivables and an overall decrease in liquid assets at year-end.

Ratio No. 12 compares the current reserve deficiency to policyholders' surplus. An exceptional value was observed for the test; however, this resulted primarily from the intercompany pooling arrangement, which significantly impacted the ratio of earned premium to loss reserves in 2012 the current year and had a distorting impact in the test. Both One-Year and Two-Year Reserve Development tests had values in excess of 5%. The largest contributor to these figures was shown as the third-party administrator claims handling in the program business division.

#### **Growth of National Farmers Union Property and Casualty Company**

Year	Admitted Assets	Liabilities	Surplus as Regards Policyholders	Net Income
2012	\$209,637	\$146,921	\$62,716	\$(2,746)
2011	239,236	174,933	64,303	(7,408)
2010	265,212	192,902	72,310	1,763
2009	282,632	206,990	75,642	(3,220)
2008	239,465	143,822	95,643	4,858

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss and LAE Ratio	Expense Ratio	Combined Ratio
2012	\$261,888	\$ 80,529	\$ 94,988	73.5%	35.7%	109.2%
2011	276,007	96,763	107,747	74.3	38.8	113.1
2010	301,521	128,979	126,815	66.4	31.2	97.6
2009	346,057	132,253	122,582	65.1	32.2	97.3
2008	165,876	118,820	135,284	65.2	34.5	99.7

Effective January 1, 2008, the company entered into a quota share agreement under which the company ceded 25% of business to affiliate, Equator Reinsurances Limited. Effective January 1, 2012, this was replaced by a new quota share agreement with Equator Reinsurances

Limited where the company cedes 40% of all business. Gross and net premiums fluctuated during the five-year period due primarily to changes in the company's participation in the pooling agreement which were 12.0%, 12.6%, 10.5%, and 2.7% in 2009, 2010, 2011, and 2012, respectively. Gross and net premiums in 2011 and 2012 were also reduced from a combination of lower overall gross premiums due to a soft market and competitive pressure.

The company had net losses from 2011 through 2012 due to a combination of a soft market, growing competition, and increased large event storm activity. The company's low investment yield was not sufficient to offset increased losses during these years which resulted in decreased profits. The company had a net income in 2010, due to both an underwriting gain and the highest investment gains of the five-year period. Surplus decreased each year over the five-year examination period primarily due to a combination of net losses and dividends paid.

### Reconciliation of Surplus per Examination

The following schedule is a reconciliation of surplus as regards policyholders between that reported by the company and as determined by this examination:

Surplus December 31, 2013, per annual statement			\$62,716,014
	<b>Increase</b>	<b>Decrease</b>	
Increase in aggregate losses and LAE	<u>\$6,373,000</u>	<u>\$</u>	<u>(6,373,000)</u>
Surplus December 31, 2013, Per Examination			<u>\$56,343,014</u>

## **VII. SUMMARY OF EXAMINATION RESULTS**

### **Compliance with Prior Examination Report Recommendations**

This is the first examination report of the company by the state of Wisconsin upon domiciling in the state of Wisconsin on October 1, 2010.

## **Summary of Current Examination Results**

This section contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the company's operations is contained in the examination work papers.

## **Biographical Information and Jurat Page Reporting**

Section Ins 6.52 (4), Wis. Adm. Code, defines "officer" as the president, one or more vice presidents, secretary, treasurer, chief actuary, general counsel, comptroller and any person, however described, who enjoys in fact the executive authority of any such officers. The company did not file biographical affidavits for certain board-appointed officers who would meet the definition. The following is a listing of these individuals:

- Carolyn C. Bartholdson, Chief Human Resources Officer
- Susan S. Harnett, Chief Operating Officer
- John G. Langione, Chief Risk Officer
- Christopher D. Davies, Director

Section Ins 6.52 (5), Wis. Adm. Code, requires that the company file a biographical report on any new director or officer within 15 days of appointment or election. Furthermore, the National Association of Insurance Commissioners (NAIC) Annual Statement Instructions - Property and Casualty requires the company to identify officers, directors and any other positions in primary policy-making or managerial roles. The individuals noted above were listed as new officers or directors on the jurat page; however, there was no timely filed biographical affidavit for any of the individuals. It is recommended that the company file biographical affidavits on all officers who have executive decision-making authority in accordance with s. Ins 6.52 (5), Wis. Adm. Code.

## **Equator Re Reinsurance Agreements and Trust**

NFU and USIC (the beneficiaries) entered into a trust agreement with Equator Re and Brown Brothers Harriman Trust Company, N.A. (BBH) dated as of January 1, 2008. Effective September 29, 2009, the beneficiaries entered into a Resignation, Appointment and Acceptance, and Amendment Agreement to change the Trustee from BBH to Citibank, N.A. Effective September 30, 2010, the beneficiaries entered into a Reinsurance Trust Agreement to remove USIC from the trust. Equator Re secured payments of amounts due under the quota share and loss portfolio reinsurance agreements by transferring assets to this trustee for deposit into a trust

account for the sole benefit of the beneficiaries. However, neither the reinsurance agreements nor the trust agreement documented, in the event that recoveries were to be made from the trust, how such recoveries would be allocated among the participants.

The reinsurance trust agreements between the QBE North America companies and Equator Re were reviewed and a provision was noted in Section 4(c) which was amended as of January 1, 2011. This provision stated "...Trustee, shall pay to each company listed as a Beneficiary in the Agreement such Beneficiary's pro rata share of the Assets in the Account based on the allocation accorded to each such Beneficiary in the Intercompany Allocation Contract in effect at the time of the transfer and as communicated to the Trustee by the Beneficiary." The trust agreement with Equator Re and Citibank, N.A., dated as of March 29, 2012, contains the same provision. However, the Intercompany Allocation Contract was cancelled effective January 1, 2013, as it was viewed as redundant with the 2013 QBE North America Pooling Agreement.

It is recommended that the company amend its reinsurance trust agreement to include how recoveries are to be allocated among participants in the event that the reinsurer is unable to fulfill its responsibilities.

### **Reserve Development and Documentation**

The consulting actuary reviewed the company's appointed actuary's report for compliance with Actuarial Standard of Practice No. 41, as Actuarial Standard of Practice No. 9 was repealed effective May 1, 2011. The latter was referenced in the prior examination report of other QBE Regional affiliates, which stated "Documentation should be sufficient for another actuary practicing in the same field to evaluate the work. The documentation should describe clearly the sources of data, material assumptions, and methods." The NAIC Annual Statement Instructions - Property and Casualty include the requirement that the actuarial report comply with Actuarial Standard of Practice No. 41.

The consulting actuary noted some of the necessary details in support of the calculations of ultimate liabilities were not disclosed in the exhibits. Additionally, the accompanying narrative to the exhibits was not very helpful to the reader in understanding the

actuarial analysis. Upon request, the company provided the necessary details and additional narrative to understand the actuarial procedures; however, because the narrative and exhibits in the appointed actuary's report generally did not contain sufficient documentation for another actuary practicing in the same field to evaluate the work, the consulting actuary determined that the company was not in compliance with the prior examination. It is recommended that the company include sufficient documentation in its actuarial report including clear descriptions of sources of data, material assumptions, and methods in accordance with Actuarial Standard of Practice No. 41.

The consulting actuary's reserving report showed the pool's December 31, 2012, reserves were 8.1% deficient compared to the consulting actuary's estimated net reserves. An adjustment to surplus was made for each Wisconsin pool member to bring reserves to the level recommended by the consulting actuary as the difference was material. This adjustment is reflected in the section of this report captioned "Reconciliation of Surplus per Examination."

## VIII. CONCLUSION

The company was incorporated under Illinois laws on December 14, 1972, as a property and casualty insurer. The company redomiciled from Illinois to Wisconsin on December 31, 2007. The company has been a wholly owned subsidiary of GC-WI since its inception. Effective December 22, 2006, Credit Suisse Group finalized the sale of Winterthur Swiss Insurance Company (former upstream parent of the company) to AXA. Effective May 31, 2007, AXA finalized the sale of Winterthur U.S. Holdings, Inc., (former subsidiary of Winterthur Swiss Insurance Company) and its consolidated subsidiaries to QBE Holdings, Inc., a subsidiary of Australian-based QBE Insurance Group Limited. Winterthur U.S. Holdings, Inc., was renamed QBE Regional Companies (N.A.), Inc.

The company markets commercial and personal lines of insurance, primarily conducting business in North Dakota, Colorado, Minnesota, South Dakota, Kansas, Montana, Nebraska, and Wyoming. QBE Insurance Corporation, NAU Country Insurance Company, Praetorian Insurance Company, QBE Specialty Insurance Company, General Casualty Company of Wisconsin, QBE Reinsurance Corporation, Unigard Insurance Company, National Farmers Union Property and Casualty Company, Stonington Insurance Company, Regent Insurance Company, Southern Guaranty Insurance Company, General Casualty Insurance Company, Hoosier Insurance Company, North Pointe Insurance Company, Unigard Indemnity Company, Southern Pilot Insurance Company, Blue Ridge Indemnity Company, and Southern Fire & Casualty Company are participants in an intercompany pooling arrangement of which National Farmers Union Property and Casualty Company assumes 2.4% of pooled business.

The examination resulted in three recommendations related to filing biographical information on all directors and officers and reporting them on the jurat page, reinsurance and trust agreements with an affiliate (Equator Re), and reserve development and documentation.

The company had net losses from 2011 through 2012 due to a combination of a soft market, growing competition, and increased large event storm activity. Investment yield was not sufficient to offset increased losses during these years which resulted in decreased profits.

Surplus decreased each year over the five-year examination period primarily due to a combination of net losses and dividends paid.

There was an adjustment to surplus as part of the examination to bring loss and loss adjustment expense reserves up to the level recommended by the consulting actuary in their reserving report. For this reason, the amount of surplus reported by the company as of December 31, 2012, \$62,716,014, is adjusted to \$56,343,014.

## IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 46 - Biographical Information and Jurat Page Reporting—It is recommended that the company file biographical affidavits on all officers who have executive decision-making authority in accordance with s. Ins 6.52 (5), Wis. Adm. Code.
2. Page 47 - Equator Re Reinsurance Agreements and Trust—It is recommended that the company amend its reinsurance trust agreement to include how recoveries are to be allocated among participants in the event that the reinsurer is unable to fulfill its responsibilities.
3. Page 48 - Reserve Development and Documentation—It is recommended that the company include sufficient documentation in its actuarial report including clear descriptions of sources of data, material assumptions, and methods in accordance with Actuarial Standard of Practice No. 41.

## X. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company are acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

<b>Name</b>	<b>Title</b>
Jerry DeArmond, CFE	Insurance Financial Examiner, Advanced
Tom Houston, CPA, CFE	Insurance Financial Examiner, Advanced
James Lindell	Insurance Financial Examiner
Dan Schroeder	Insurance Financial Examiner

Respectfully submitted,

Karl K. Albert, CFE  
Examiner-in-Charge

## **XI. APPENDIX—SUBSEQUENT EVENT**

As noted earlier, an independent actuarial firm was engaged under a contract with the Pennsylvania Insurance Department to review the adequacy of the company's loss and loss adjustment expense reserves. Loss and LAE reserves were developed through December 31, 2013, based on the adverse development recorded for the prior accident years in their 2012 analysis. The actuary confirmed that the company booked an additional \$273.3 million in loss and LAE reserves for the 2012 and prior accident years. The company's share of these reserves post pooling is \$7.4 million.