REPORT ON EXAMINATION

OF THE

AMERICAN PET INSURANCE COMPANY

AS OF

DECEMBER 31, 2011

DATE OF REPORT	JUNE 10, 2013
EXAMINER	CHRISTIANA DUGOPOLSKI

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Andrew M. Cuomo
Governor

Benjamin M. Lawsky
Superintendent

May 3, 2013

Honorable Benjamin M. Lawsky
Superintendent of Financial Services
Albany, New York 12257

Sir:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 30899, dated December 14, 2012, attached hereto, I have made an examination into the condition and affairs of American Pet Insurance Company as of December 31, 2011, and submit the following report thereon.

Wherever the designation "the Company" appears herein without qualification, it should be understood to indicate American Pet Insurance Company.

Wherever the term "Department" appears herein without qualification, it should be understood to mean the New York State Department of Financial Services.

The examination was conducted at the Company's home office located at 907 NW Ballard Way, Seattle, WA 98107.

1. SCOPE OF EXAMINATION

The Department has performed an individual examination of the Company, a multi-state insurer. The previous examination was conducted as of December 31, 2006. This examination covered the five year period from January 1, 2007 through December 31, 2011. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

This examination was conducted in accordance with the National Association of Insurance Commissioners ("NAIC") Financial Condition Examiners Handbook ("Handbook"), which requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company and evaluating system controls and procedures used to mitigate those risks. This examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All financially significant accounts and activities of the Company were considered in accordance with the risk-focused examination process. This examination also included a review and evaluation of the Company's own control environment assessment. The examiners also relied upon audit work performed by the Company's independent public accountants when appropriate.

This examination report includes a summary of significant findings for the following items as called for in the Handbook:

Significant subsequent events
Company history
Corporate records
Management and control
Fidelity bonds and other insurance
Pensions, stock ownership and insurance plans
Territory and plan of operation
Growth of Company
Loss experience
Reinsurance
Accounts and records
Statutory deposits
Financial statements
Summary of recommendations

A review was also made to ascertain what action was taken by the Company with regard to comments and recommendations contained in the prior report on examination.

This report on examination is confined to financial statements and comments on those matters that involve departures from laws, regulations or rules, or that are deemed to require explanation or description.

2. DESCRIPTION OF COMPANY

The company was incorporated under the laws of the state of New York on December 7, 2000 as the Nipponkoa Insurance Company of America to serve as the vehicle for the domestication of the U. S. Branch of the KOA Fire & Marine Insurance Company, Ltd. ("KOA Japan"), pursuant to Article 72 of the New York Insurance Law. The domestication was completed on March 31, 2001 and the Company was licensed on April 1, 2001. On April 1, 2001, the company's parent, Koa Japan, merged with and into the Nippon Fire & Marine Insurance Company Ltd, ("Nippon"), with Nippon as the surviving company. The name of the merged companies and new ultimate parent was then changed to Nipponkoa Insurance Company, Limited, Japan ("Nipponkoa Japan").

In 2003, the Company ceased writing new and renewal business. Effective July 1, 2006, the Company entered into an agreement whereby all of its policy related obligations were transferred to and assumed by the US Branch of Nipponkoa Japan. Additionally, effective July 1, 2006, all of the non-policy related obligations of the Company were transferred to Nipponkoa Management Corporation. Upon consummation of these agreements, the Company became a clean shell insurance company, licensed in 23 states.

On March 8, 2007, in preparation for the sale of the Company to Vetinsurance International Inc., the Company repurchased 3,400 shares of its capital stock from its parent and sole shareholder, Nipponkoa Japan, at a total cost of $28,730,000. At the same time, the par value of the remaining 1,600 shares was revalued from $1,000 to $3,000 per share. Capital paid in is $4,800,000 consisting of 1,600 shares of $3,000 par value per share common stock. Gross paid in and contributed surplus is $5,470,538. Gross paid in and contributed surplus and Common capital stock changed during the examination period, as follows:

Year	Description	Gross paid in and contributed surplus	Common Capital Stock
1/1/2007	Beginning balance	$34,000,538	$ 5,000,000
3/8/2007	Stock redemption	(25,330,000)	(3,400,000)
3/8/2007	Change in par value of stock	(3,200,000)	3,200,000
12/31/2011	Ending balance	$ 5,470,538	$ 4,800,000

On April, 25, 2007, Vetinsurance International, Inc., a Delaware company, purchased the Company for $13,200,000, which represented the Company's surplus plus $3,000,000. On May 29, 2007 the name of the Company was changed to American Pet Insurance Company.

The Company began writing pet health insurance in January 2008 under the brand name Trupanion. American Pet Insurance Company is managed by its affiliate/MGA Vetinsurance Managers, Inc. (d/b/a Trupanion), an Arizona corporation.

A. Management

Pursuant to the Company's charter and by-laws, management of the Company is vested in a board of directors consisting of not less than 13 nor more than 21 members. The board meets 4 times during each calendar year. At December 31, 2011, the board of directors was comprised of the following members:

Name and Residence	Principal Business Affiliation
Peter R. Beaumont New Vernon, NJ	Owner and Managing Partner, Yorkshire Management LLC
Louis P. Chames, Jr. Bonney Lake, WA	Associate Vice President, Regulatory Operations, Vetinsurance Managers, Inc.
Paul E. Dassenko Sharon, CT	Principal/Sole Shareholder, Azure Advisors, Inc.
Barry Johnson Edmonds, WA	Vice President, Finance, Vetinsurance Managers, Inc.
John H. Kramer Vero Beach, FL	Director, American Pet Insurance Company
Daniel G. Levitan Seattle, WA	Co-Founder/Managing Member, Maveron LLC

Name and Residence	Principal Business Affiliation
Murray B. Low Stanford, CT	Director, Lang Entrepreneurship Center, Columbia University
Michael J. Lucciola Chatham, NJ	Chief Executive Officer, QVE.LLC d/b/a Get VEQ.com
Darryl G. A. Rawlings Seattle, WA	Chief Executive Officer, Vetinsurance International, Inc. and American Pet Insurance Company
Howard E. Rubin Seattle, WA	Chief Operating Officer, Vetinsurance Managers, Inc.
Morton E. Spitzer Boca Raton, FL	Retired
James K. Steen Old Greenwich, CT	Retired/ Sole Practitioner, Corporate Consultant, Insurance
Jennifer F. Steindler Southfields, NY	Corporate Vice President & Associate General Counsel, Kenneth Cole Productions, Inc.

A review of the minutes of the board of directors' meetings held during the examination period indicated that the meetings were generally well attended and each board member had an acceptable record of attendance.

As of December 31, 2011, the principal officers of the Company were as follows:

Name	Title
Darryl G. A. Rawlings	Chief Executive Officer
Louis P. Chames Jr.	Secretary
Barry P. Johnson	Treasurer

B. Territory and Plan of Operation

As of December 31, 2011, the Company was licensed to write business in 45 states, the District of Columbia and Puerto Rico.

As of the examination date, the Company was authorized to transact the kinds of insurance as defined in the following numbered paragraphs of Section 1113(a) of the New York Insurance Law:

Paragraph	Line of Business
3	Accident & health
4	Fire
5	Miscellaneous property
6	Water damage
7	Burglary and theft
8	Glass
9	Boiler and machinery
10	Elevator
11	Animal
12	Collision
13	Personal injury liability
14	Property damage liability
15	Workers' compensation and employers' liability
16	Fidelity and surety
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine
21	Marine protection and indemnity

Based on the lines of business for which the Company is licensed and the Company's current capital structure, the Company is required to maintain a minimum surplus to policyholders in the amount of $4,000,000.

The following schedule shows the direct premiums written by the Company both in total and in New York for the period under examination:

Calendar Year	New York State	Total Premiums	Premiums Written in New York State as a percentage of Total Premium
2007	$ 0	$ 0	0.00%
2008	$ 10,447	$ 77,454	13.49%
2009	$ 200,801	$ 1,460,725	13.75%
2010	$1,040,390	$ 7,179,466	14.49%
2011	$2,964,502	$19,637,525	15.10%

The Company only writes accident and health insurance for dogs and cats.

C. Reinsurance

Assumed reinsurance accounted for 12.17% of the Company's gross premiums written in 2011. The Company did not begin assuming business until 2010.

The Company's assumed reinsurance program consists of a fronting arrangement with Omega General Insurance Company ("Omega"), a Canadian insurer, whereby Omega writes pet insurance in

Canada pursuant to an agency agreement with Vetinsurance Brokers Canada Inc. and cedes 100% of this business to the Company pursuant to a stop loss reinsurance agreement.

The Company utilizes reinsurance accounting as defined in Statement of Statutory Accounting Principle ("SSAP") No. 62 for its assumed reinsurance business.

The Company does not cede any reinsurance.

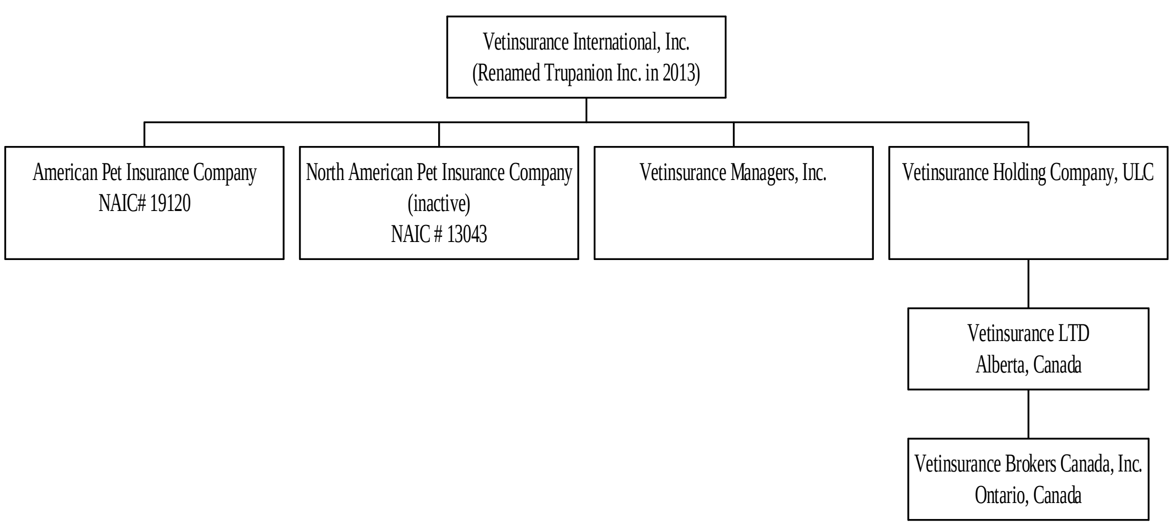
Examination review found that the Schedule F data reported by the Company in its filed annual statement accurately reflected its reinsurance transactions.

D. Holding Company System

The Company is 100% owned by Vetinsurance International, Inc., a Delaware corporation, which is ultimately controlled by private investors with Maveron Equity Partners III, L.P. owning 30.14% of Vetinsurance International, Inc.

A review of the Holding Company Registration Statements filed with this Department indicated that such filings were complete and were filed in a timely manner pursuant to Article 15 of the New York Insurance Law and Department Regulation 52.

The following is a chart of the holding company system at December 31, 2011:



At December 31, 2011, the Company was party to the following agreements with other members of its holding company system:

Administrative Services and Property Agreement

Effective May 16, 2007, and as amended July 15, 2008, the Company and Vetinsurance Managers, Inc. ("Vetinsurance") entered into an Administrative Services and Property Agreement. Pursuant to the terms of the agreement, Vetinsurance will perform various services for the Company including claims payment and adjustment, underwriting, sales and marketing, facility sharing, accounting and finance, insurance coverage and administration. The charge for such services and facilities shall be at cost and shall include all direct and directly allocable expenses reasonably and equitably determined to be attributable to the Company, plus a reasonable charge for direct overhead.

The agreement and all subsequent amendments were filed with the Department pursuant to Section 1505(d) of the New York Insurance Law.

General Agency Agreement

Effective May 16, 2007, and as amended May 25, 2007, January 1, 2010 and May 1, 2011, the Company and Vetinsurance entered into a General Agency Agreement. Pursuant to the terms of the agreement the Company appoints Vetinsurance as its managing general agent for the purpose of producing and handling the policies of the Company. The Company grants authority to Vetinsurance to solicit, accept and receive applications for such classes of coverage that the Company has authority to write, to secure, at its own expense, reasonable underwriting information through reporting agencies or other appropriate sources relating to each risk insured; to issue, renew and countersign policies, certificates, endorsement and binders and to collect and receive premiums thereon. The Company further authorizes Vetinsurance to perform all acts and duties under policies of insurance issued by the Company including, properly sending and/or receiving reports and notices and remitting and/or receiving monies due from or to the Company and adjusting and paying losses or other claims.

The agreement and all subsequent amendments were filed with the Department pursuant to Section 1505(d) of the New York Insurance Law.

Federal Income Tax Allocation Agreement

Effective May 16, 2007 the Company entered into a Tax Allocation Agreement with its immediate parent, Vetinsurance International, Inc., and other members of the holding company system, including Vetinsurance Managers, Inc., and Vetinsurance Brokers, Ltd. Pursuant to the terms of the agreement, for each consolidated return year, the consolidated tax liability of the group shall be allocated among the members who agree to pay an amount equal to the separate tax liability for each member. The separate return tax liability of each member shall not exceed the amount each member would have paid if it had filed on a separate return basis.

The agreement was filed with the Department pursuant to Section 1505(d) of the New York Insurance Law.

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2011, based upon the results of this examination:

Net premiums written to surplus as regards policyholders	219%
Adjusted liabilities to liquid assets	24%
Gross agents' balances (in collection) to policyholder surplus	2%

All of the above ratios fall within the benchmark ranges set forth in the Insurance Regulatory Information System of the National Association of Insurance Commissioners.

The underwriting ratios presented below are on an earned/incurred basis and encompass the five-year period covered by this examination:

	Amounts	Ratios
Losses and loss adjustment expenses incurred	$ 19,767,187	64.12%
Other underwriting expenses incurred	10,731,993	34.81%
Net underwriting gain	327,571	1.06%
Premiums earned	$ 30,826,751	100.00%

F. Accounts and Records

Fidelity Bond Coverage

The Company does not maintain fidelity bond coverage for its directors, officers and key employees in the event of material acts of dishonesty or theft.

It is recommended that the Company obtain a fidelity bond in an amount as required by the guidelines set forth in the NAIC Financial Condition Examiners Handbook.

Conflict of Interest Policy and Statements

During the review of the Company's corporate governance it was noted that the Company does not have a conflict of interest policy which was approved by its board of directors.

It is recommended that the Company adopt a conflict of interest policy, which is approved by its board of directors, and have each member of the board of directors, all officers and all key employees sign a conflict of interest statement annually.

G. Information technology

The Company does not have a formal disaster recovery plan.

It is recommended that the Company adopt a formalized disaster recovery plan and test such plan on a regular basis.

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2011 as determined by this examination and as reported by the Company:

Assets	Assets	Assets Not Admitted	Net Admitted Assets
Bonds	$1,280,049	$0	$1,280,049
Common stocks	3,626,071		3,626,071
Cash, cash equivalents and short-term investments	5,395,917		5,395,917
Investment income due and accrued	28,704		28,704
Uncollected premiums and agents' balances in the course of collection	245,293		245,293
Other amounts receivable under reinsurance contracts	988,940		988,940
Receivables from parent, subsidiaries and affiliates	1,063,698		1,063,698
Prepaid expenses	29,102	29,102	0
Deferred marketing costs	999,613	999,613	0
Total assets	$13,657,387	$1,028,715	$12,628,672

Liabilities, surplus and other funds		
Liabilities		
Losses and loss adjustment expenses		$ 890,000
Other expenses (excluding taxes, licenses and fees)		27,626
Taxes, licenses and fees (excluding federal and foreign income taxes)		255,807
Net deferred tax liability		237,266
Unearned premiums		1,027,666
Total liabilities		$ 2,438,365
Common capital stock	$4,800,000	
Gross paid in and contributed surplus	5,470,538	
Unassigned funds (surplus)	(80,230)	
Surplus as regards policyholders		10,190,308
Total liabilities, surplus and other funds		$12,628,673

Note: The Internal Revenue Service has not audited any of the Company’s consolidated Federal Income Tax returns through tax year 2011. The examiner is unaware of any potential exposure of the Company to any tax assessment and no liability has been established herein relative to such contingency.

B. Statement of Income

Surplus as regards policyholders decreased by $37,608,455 during the 5-year examination period January 1, 2007 through December 31, 2011, detailed as follows:

Underwriting Income		
Premiums earned		$30,826,751
Deductions:		
Losses and loss adjustment expenses incurred	$19,767,187	
Other underwriting expenses incurred	10,731,993	
Total underwriting deductions		30,499,180
Net underwriting gain or (loss)		$ 327,571
Investment Income		
Net investment income earned	$ 1,125,886	
Net realized capital gain	(271,579)	
Net investment gain or (loss)		854,307
Net income before dividends to policyholders and before federal and foreign income taxes		$ 1,181,878
Dividends to policyholders		0
Net income after dividends to policyholders but before federal and foreign income taxes		$ 1,181,878
Federal and foreign income taxes incurred		383,523
Net income		$ 798,355

	Gains in Surplus	Losses in Surplus	
Surplus as regards policyholders per report on examination as of December 31, 2006			$47,798,763
Net income	$ 798,353		
Change in net unrealized foreign exchange capital loss		$ 27,101	
Change in net deferred income tax		311,045	
Change in non-admitted assets		954,936	
Cumulative effect of changes in accounting principles	414,499		
Capital changes (stock redemption)		3,400,000	
Capital changes (change in par value)	3,200,000		
Surplus adjustments (stock redemption)		25,330,000	
Surplus adjustments (change in par value)		3,200,000	
Dividends to stockholders	0	8,798,225	
Total gains and losses	$4,412,852	$42,021,307	
Net increase (decrease) in surplus			(37,608,455)
Surplus as regards policyholders per report on examination as of December 31, 2011			$10,190,308

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of $890,000 is the same as reported by the Company as of December 31, 2011. The examination analysis was conducted in accordance with generally accepted actuarial principles and practices and was based on statistical information contained in the Company's internal records and in its filed annual statements.

5. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination contained two recommendations. However, these comments are not relevant due to the change in ownership.

6. SUMMARY OF COMMENTS AND RECOMMENDATIONS

ITEM		PAGE NO.
A.	Accounts and Records	
	Fidelity Bond It is recommended that the Company obtain a fidelity bond in an amount as required by the guidelines set forth in the NAIC Financial Condition Examiners Handbook.	10
	Conflict of Interest Policy It is recommended that the Company adopt a conflict of interest policy, which is approved by the board of directors, and have each member of the board of directors, all officers and all key employees sign a conflict of interest statement annually.	10
B.	Information Technology	
	Disaster Recovery Plan It is recommended that the Company adopt a formalized disaster recovery plan and test such plan on a regular basis.	10

Respectfully submitted,

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Christiana Dugopolski, CFE, CPA
Examiner-in-Charge

STATE OF NEW YORK)
)ss:
COUNTY OF NEW YORK)

Christiana Dugopolski, being duly sworn, deposes and says that the foregoing report, subscribed by her, is true to the best of her knowledge and belief.

____
Christiana Dugopolski

Subscribed and sworn to before me

this_________ day of __________________, 2013.

APPOINTMENT NO. ***30899***

NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

*I, **BENJAMIN M. LAWSKY**, Superintendent of Financial Services of the State of New York, pursuant to the provisions of the Financial Services Law and the Insurance Law, do hereby appoint:*

Chris Dugopolski

as a proper person to examine the affairs of the

AMERICAN PET INSURANCE COMPANY

and to make a report to me in writing of the condition of said

COMPANY

with such other information as he shall deem requisite.

In Witness Whereof, I have hereunto subscribed by name
and affixed the official Seal of the Department
at the City of New York

this 14th day of December, 2012

BENJAMIN M. LAWSKY
Superintendent of Financial Services

By:

Jean Marie Cho
Deputy Superintendent