

REPORT ON EXAMINATION

OF

ZURICH AMERICAN INSURANCE COMPANY

AS OF

DECEMBER 31, 2016

DATE OF REPORT

JANUARY 25, 2018

EXAMINER

FE ROSALES, CFE

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NEW YORK STATE
DEPARTMENT *of*
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Maria T. Vullo
Superintendent

January 25, 2018

Honorable Maria T. Vullo
Superintendent
New York State Department of Financial Services
New York, New York 10004

Madam:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 31547 dated November 10, 2016 attached hereto, I have made an examination into the condition and affairs of Zurich American Insurance Company as of December 31, 2016, and submit the following report thereon.

Wherever the designations “the Company,” “ZAIC” or “Zurich American” appear herein without qualification, they should be understood to indicate Zurich American Insurance Company.

Wherever the designation “ZAIG” appears herein without qualification, it should be understood to indicate Zurich American Insurance Group, which is comprised of the eleven pool company participants listed in item 2C of this report.

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 1299 Zurich Way, Schaumburg, Illinois 60196.

1. SCOPE OF EXAMINATION

The Department has performed an examination of the Company, a multi-state insurer. The previous examination was conducted as of December 31, 2011. This examination covered the five-year period from January 1, 2012 through December 31, 2016. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

New York was the lead state of the coordinated ZAIG examination. The examination was performed concurrently with the examinations of the following insurers:

<u>Company</u>	<u>State of Domicile</u>
American Guarantee and Liability Insurance Company	New York
American Zurich Insurance Company	Illinois
Colonial American Casualty and Surety Company	Maryland
Empire Fire and Marine Insurance Company	Nebraska
Empire Indemnity Insurance Company	Oklahoma
Fidelity and Deposit Company of Maryland	Maryland
Steadfast Insurance Company	Delaware
Universal Underwriters Insurance Company	Illinois
Universal Underwriters of Texas Insurance Company	Illinois
Zurich American Insurance Company of Illinois	Illinois

Other states participating in this examination were California, Delaware, Illinois, Maryland, Nebraska, and Oklahoma.

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 current and 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 New York Laws, statutory accounting principles, and annual statement instructions.

This examination report includes, but is not limited to, the following:

- Company history
- Management and control
- Territory and plan of operation
- Holding company description
- Reinsurance
- Loss review and analysis
- Financial statement presentation
- Significant subsequent events
- Summary of recommendations

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.

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.

2. DESCRIPTION OF COMPANY

Zurich American Insurance Company was incorporated under the laws of the State of New York on June 3, 1998 and commenced business on December 31, 1998. The Company was organized to provide the vehicle for the domestication under Article 72 of the New York Insurance Law of the United States Branch of Zurich Insurance Company (“Branch”). On December 31, 1998, all of the assets and liabilities of the Branch were transferred to the Company and the Branch ceased to exist. Zurich American is the lead company within Zurich American Insurance Group. The Company is domiciled in New York and its headquarters are located in Schaumburg, Illinois.

ZAIG, through its individual legal entities, has licenses in all fifty states, the District of Columbia, and several United States of America territories. It provides a variety of commercial insurance and risk management products and services to domestic and international companies. The property and casualty insurance companies within ZAIG are managed as one entity with no distinction in operations or strategy by legal entity.

All of the wholly-owned property and casualty insurance companies directly or indirectly participate in the Zurich American Intercompany Pooling Agreement (the “Pool” or “Pooling Agreement”). Under the terms of the Pooling Agreement, all transactions included in the net income or loss resulting from underwriting operations and the related asset and liability accounts, after the effects of third-party reinsurance, are distributed 100% to Zurich American. Each of the companies continues to have a direct liability to the insured as well as be liable for the obligations of the Pool on a joint and several basis.

A. Corporate Governance

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 thirteen nor more than twenty-one members. The board meets four times during each calendar year. At December 31, 2016, the board of directors was comprised of the following seventeen members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Susan Schmidt Bies Landrum, SC	Independent Director Retired
Debra Kay Broek Big Stone City, SD	Independent Director
E. Randall Clouser Princeton, NJ	Head of Marketing, Distribution and Regional Management, Zurich North America
Alan Charles Fairhead ***** Ipswich, Suffolk, UK	Chief Underwriting Officer, Zurich Insurance Group
Eugenio Miguel Fernandez Wilmette, IL	Chief Underwriting Officer, Zurich North America
Wayne Howard Fisher Bonita Springs, FL	Independent Director Retired
Michael Thomas Foley * Inverness, IL	Chairman and Chief Executive Officer, Zurich North America
Craig Jay Fundum *** Inverness, IL	Head of Commercial Markets, Zurich North America

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Dalynn Jean Hoch Huntley, IL	Chief Financial Officer, Zurich North America
Paul Horgan New York, NY	Head of Global Corporate, Zurich North America
Richard Patrick Kearns East Williston, NY	Independent Director Retired
Dennis Francis Kerrigan, Jr. North Barrington, IL	General Counsel, Zurich North America
Nancy Diane Mueller** Kildeer, IL	Chief Operations Officer, Zurich North America
Donald Thor Nicolaisen Aiken, SC	Independent Director Retired
Bryan James Salvatore **** Rye Brook, NY	Head of Specialty Products, Zurich North America
Kathleen Anne Savio Wilmette, IL	Head of Alternative Markets, Zurich North America

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, 2016, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Michael Thomas Foley *	Chief Executive Officer
Nancy Diane Mueller **	President and Chief Operations Officer
Dalynn Jean Hoch	Executive Vice President and Chief Financial Officer
Dennis Francis Kerrigan, Jr.	Executive Vice President and Corporate Secretary
Robert John Burne	Treasurer
Bob David Effinger, Jr.	Executive Vice President and Chief Actuary
Earl Randall Clouser	Executive Vice President
Craig Jay Fundum ***	Executive Vice President
Steven Michael Hatch	Executive Vice President
Paul Horgan	Executive Vice President
Bryan James Salvatore ****	Executive Vice President
Kathleen Anne Savio	Executive Vice President
Eugenio Miguel Fernandez	Executive Vice President

*Michael Foley resigned effective January 1, 2018. Kathleen Savio was appointed to replace Mr. Foley as Chief Executive Officer effective the same date.

**Nancy Mueller, President and Chief Operations Officer, retired effective May 1, 2017. She was replaced by Craig Fundum as President and Mark Knipfer as Chief Operations Officer.

***Craig Fundum retired as Director and President effective December 27, 2017, at which time Mark Knipfer assumed the role of Director and President.

****Bryan Salvatore resigned as Director and Executive Vice President effective May 25, 2017.

*****Alan Fairhead resigned as Director and Executive Vice President effective January 1, 2018.

B. Territory and Plan of Operation

As of December 31, 2016, the Company was licensed to write business in all 50 states, the District of Columbia, Guam, Puerto Rico, U.S. Virgin Islands and the Northern Mariana Islands.

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:

<u>Paragraph</u>	<u>Line of Business</u>
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
17	Credit
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine
21	Marine protection and indemnity
22	Residual value
24	Credit unemployment

26 (A)(B)(C)(D)	Gap
27	Prize indemnification
28	Service contract reimbursement
29	Legal services

In addition, the Company is licensed to transact such workers' compensation insurance as may be incidental to coverage contemplated under Paragraphs 20 and 21 of Section 1113(a) of the New York Insurance Law, including insurances described in the Longshore and Harbor Workers' Compensation Act (Public Law No. 803, 69 Cong. as amended; 33 USC Section 901 et seq. as amended). The Company is also authorized, pursuant to Section 4102(c) of the New York Insurance Law, to reinsure risks of every kind or description and insure property or risks of every kind or description located or resident outside of the United States, its territories and possessions.

Based on the lines of business for which the Company is licensed and the Company's current capital structure, and pursuant to the requirements of Articles 13 and 41 of the New York Insurance Law, the Company is required to maintain a minimum surplus to policyholders in the amount of \$35,000,000.

The following schedule shows the direct and assumed premiums written by the Company for the period under examination:

<u>Calendar Year</u>	<u>Direct Premiums</u>	<u>Assumed Premiums</u>	<u>Total Gross Premiums</u>
2012	\$4,801,761,856	\$5,326,185,757	\$10,127,947,613
2013	\$5,351,181,841	\$5,525,423,408	\$10,876,605,249
2014	\$5,618,429,222	\$5,552,565,983	\$11,170,995,205
2015	\$6,161,913,817	\$5,310,272,556	\$11,472,186,373
2016	\$5,766,853,152	\$5,329,525,200	\$11,096,378,352

In 2016, direct written premiums for the Company were produced by a combination of approximately 8,593 independent and general agencies and 336 insurance brokers which are supported by the Company's network of four regional offices and 63 field offices. In most instances, these agencies and brokers also represent other companies that compete with the Company.

The Company markets a variety of commercial property and casualty insurance products including professional liability and workers' compensation insurance, as well as risk management products and services, primarily through independent insurance agents and brokers, to domestic and international companies in all 50 states.

Assumed reinsurance accounted for 48% of the Company's gross premium written at December 31, 2016. The vast majority of assumptions are related to an internal reinsurance pooling arrangement with ZAIC's subsidiary property and casualty companies, further described below.

During the examination period, the Company's non-pooling agreement assumed reinsurance business has modestly decreased. The Company's assumed reinsurance program consists mainly of property, casualty and multi-line assumed on a quota share, aggregate excess of loss basis, pursuant to the terms of treaty and facultative agreements with both authorized and unauthorized cedants. Additionally, the Company's participation in various mandated pools is reflected in its assumed reinsurance activity.

C. Reinsurance Ceded

Inter-Company Pooling Agreement

Effective January 1, 1999, the Company entered into an amended ZAIC inter-company pooling agreement which includes the Company and ten affiliated insurers. Pursuant to the terms of the agreement, the participants cede 100% of all underwriting assets, liabilities and expenses, as well as underwriting income and losses, net of applicable reinsurance, to Zurich American Insurance Company. There is no retrocession from the ZAIC to any of the pool participants. Subsequent to the January 1, 1999 revised and restated agreement, several amendments each adding or deleting participants in the pool have been made and this agreement was superseded by the Amended Intercompany Pooling Agreement effective January 1, 2012. At December 31, 2016, the following eleven insurers participated in the pool (collectively referred to as "the Pool Companies"):

Zurich American Insurance Company (NY)
American Guarantee and Liability Insurance Company (NY)
 American Zurich Insurance Company (IL)
 Universal Underwriters Insurance Company (IL)
 Universal Underwriters of Texas Insurance Company (IL)
 Zurich American Insurance Company of Illinois (IL)
 Colonial American Casualty and Surety Company (MD)
 Fidelity and Deposit Company of Maryland (MD)
 Steadfast Insurance Company (DE)
 Empire Fire & Marine Insurance Company (NE)
 Empire Indemnity Insurance Company (OK)

Subsequent to the examination date, Rural Community Insurance Company was added as a participating insurer effective January 1, 2018.

Prior to cessions to the pool, the Pool Companies reduce their exposure to losses through facultative and treaty reinsurance. ZAIC then arranges the external reinsurance program covering the entire pool's business through various reinsurance arrangements.

Article V of the pooling agreement provides that ZAIC is liable, for annual statement and other financial statement purposes, for any amount disallowed the companies on account of reinsurance with unauthorized companies and any amount disallowed for non-admitted assets. Accordingly, only ZAIC reports a provision for reinsurance liability at December 31, 2016.

Total premiums assumed by the Company from the affiliated companies participating in the pooling agreement represented 40.2% of the total gross written premium by the Company during 2016.

Reinsurance agreements with affiliates were reviewed for compliance with Article 15 of the New York Insurance Law. It was noted that all affiliated reinsurance agreements were filed with the Department pursuant to the provisions of Section 1505(d)(2) of the New York Insurance Law.

Reinsurance Program

The Company reinsures a portion of the risks it underwrites in an effort to control its net exposure and limit the volatility to incurred losses by product line. The Company utilizes a variety of reinsurance agreements to control exposures to large property casualty losses. The Company utilizes facultative reinsurance for policies with limits exceeding a threshold specific to each product line. The Company also purchases catastrophe reinsurance covering wind, earthquake, hurricane, and property damage.

The following is an overview of the Company's ceded reinsurance program in effect at December 31, 2016:

<u>Type of Treaty</u>	<u>Cession</u>
NA D&O Quota Share:	20% of \$25,000,000
Global Security Privacy and NA: Misc. E&O Quota Share	50% of \$25,000,000

Specialties - Excess Casualty: Umbrella - Quota Share	15% of \$50,000,000
NA Combined Lines Excess of Loss: Excess Casualty Only	
Railroad, Commercial Market Tech & Direct Market Umbrella	\$15,000,000 excess of \$35,000,000 \$25,000,000 excess of \$10,000,000
NA Surety Excess of Loss: 4 layers	\$200,000,000 excess of \$50,000,000
NA Short Term Multi Buyer Quota Share (f/ka NA Excess Trade Credit Quota Share): Per Obligor / Per Policy All Obligors / All Policies	50% of \$100,000,000 50% of \$200,000,000
Specific and Aggregate Medical Stop Loss Quota Share: Multi Limit	50% quota share (various limits)
<u>Commercial Markets</u>	
US Property Per Risk Excess of Loss: Middle Market & HC Share 2 layers	\$100,000,000 excess \$50,000,000
NA Subguard & Professional Liability Excess of Loss-Construction Share: Subguard Only & Professional Liability Subguard Only	\$20,000,000 excess of \$30,000,000 \$12,500,000 excess of \$50,000,000
NA American Contractors Insurance Group (ACIG) GL, AL & Umbrella Quota Share: Construction Core Program	100% of \$5,000,000
U.S. Property Per Risk Excess of Loss: Construction Share: 2 layers	\$100,000,000 excess \$50,000,000
Global Property Per Risk Excess of Loss: MM & HC Share 3 layers	\$165,000,000 excess \$150,000,000
Global Property Per Risk Excess of Loss: Construction Share 3 layers	\$165,000,000 excess \$150,000,000

Programs and Direct Markets

Global Property Per Risk Excess of Loss: Zurich Pool & DM Share 3 layers	\$165,000,000 excess \$150,000,000
US Property Per Risk Excess of Loss: ZP & DM Share 2 layers	\$100,000,000 excess \$50,000,000
NA Deans & Homer Pool Excess of Loss:	F&D Pool Participation – Group I – 12% (Max line: \$3,000,000) Group II – 11.5% Max line \$9,000,000)
Empire – Crop Hail and Named Peril: Stop Loss Excess of Loss	20% excess of 90% Subject Earned Premium
NA Group Captives Raffles Casualty: Excess of Loss	\$500,000 excess \$500,000
Everest Property Ins. Co. (EPIC) Property Excess of Loss: Auto Facultative Per Risk 2 layers	\$35,000,000 excess of \$15,000,000 \$13,000,000 excess of \$2,000,000

Global Corporate in North America

U.S. Property Per Risk Excess of Loss: GC Share 2 layers	\$100,000,000 excess of \$50,000,000
Global Property Per Risk Excess of Loss: GC Share 3 layers	\$165,000,000 excess of \$150,000,000
NA Property Auto Facultative Excess of Loss:	\$250,000,000 excess of \$315,000,000
GCINA Property Variable Quota Share:	50% of \$70,000,000
GCINA Property Quota Share:	30% of \$50,000,000
GCINA U.S. Primary and Domestic Energy Quota Share:	40% of \$5,000,000
Global Strategic Risk Solutions Quota Share: Integrated P&C Mergers & Acquisitions (M&A) Private Equity	50% quota share up to \$100,000,000 50% quota share up to \$25,000,000

Energy and Marine

Global Energy Property Per Risk:

Excess of Loss

3 layers \$120,000,000 excess \$30,000,000

Global Energy Exploration and Production
(E&P) Quota Share

40% of \$250,000,000

Energy E&P and Global Marine Excess of
Loss:

Layer 1 Marine Only \$20,000,000 excess \$20,000,000

Layer 1 Marine and Energy E&P \$30,000,000 excess \$40,000,000

Layer 2 Energy E&P Only \$30,000,000 excess \$70,000,000

Layer 3 Energy E&P Only \$50,000,000 excess \$100,000,000

Energy E&P Sublayer Excess of Loss:

\$25,000,000 excess of \$15,000,000

North America Excess Quota Share

65% of \$25,000,000

For property catastrophe losses, there are multiple treaties placed to address catastrophes. An overview of those treaties is provided below:

Corporate Catastrophe CoversType of TreatyCession

US Property Cat Excess of Loss - All Peril

Ex EQ:

2 layers \$350,000,000 excess of \$850,000,000

US Property Underlying All Perils Cat

Excess of Loss

\$350,000,000 excess of \$500,000,000

Global Property Cat Excess of Loss

\$750,000,000 excess of \$1,200,000,000

Global Multi-Line Terrorism Aggregate:

Excess of Loss – Section A Core

\$300,000,000 excess of \$300,000,000

Excess of Loss – Section B Flex Aggregate

\$100,000,000 excess of \$50,000,000

Property Claims Services Cat Aggregate

Excess of Loss:

2 layers \$850,000,000 excess of \$750,000,000

International and European Property Cat:

Excess of Loss:

\$300,000,000 excess of \$200,000,000

Corporate Internal Catastrophe Covers

For property catastrophe losses, two internal treaties are placed with Zurich Insurance Company Ltd. (Switzerland) (“ZIC”), to address the difference between the retention by product line and the attachment of the corporate property catastrophe covers. An overview of those treaties is provided below:

<u>Type of Treaty</u>	<u>Cession</u>
Global Aggregate Excess of Loss: 2 layers	\$450,000,000 excess of \$1,000,000,000
Property Claim Services Cat Aggregate Excess of Loss: 2 layers	\$850,000,000 excess of \$750,000,000

Whole Account Quota Share

Effective July 1, 2001, the Company entered into a whole account quota share treaty with Zurich Insurance Company, Bermuda Branch (“Bermuda Branch of ZIC”). During 2005 the Company increased its cessions to the Bermuda Branch of ZIC from 23.81% in 2004 to 50% effective January 1, 2005. This increase has remained in effect throughout the period covered during this examination.

ZAIC and affiliates total reinsurance recoverable from ZIC (Swiss and Bermuda portions combined) at December 31, 2016 was 76% or \$11.8 billion compared to the total reinsurance recoverable from all reinsurers of \$15.5 billion. Reinsurance recoverables from ZIC are fully collateralized.

Subsequent to the examination date, Zurich American Insurance Company and Zurich Insurance Company, Bermuda Branch mutually agreed to cancel the Whole Account Quota Share treaty effective January 1, 2018.

Reinsurance agreements with affiliates were reviewed for compliance with Article 15 of the New York Insurance Law. It was noted that all affiliated reinsurance agreements were filed with the Department pursuant to the provisions of Section 1505(d)(2) of the New York Insurance Law.

It is the Company's policy to obtain the appropriate collateral for its cessions to unauthorized reinsurers. The Company's controls relative to obtaining letters of credit and trust accounts to take credit for cessions to unauthorized reinsurers were reviewed and were found to be appropriate and strong.

A sample of significant ceded reinsurance agreements in effect as of the examination date were reviewed and found to contain the required clauses, including an insolvency clause meeting the requirements of Section 1308 of the New York Insurance Law.

Examination review of the Schedule F data reported by the Company in its filed annual statement was found to accurately reflect its reinsurance transactions.

Additionally, management has represented that all material ceded reinsurance agreements transfer both underwriting and timing risk as set forth in SSAP No. 62R. Representations were supported by appropriate risk transfer analyses and an attestation from the Company's Chief Executive Officer pursuant to the NAIC Annual Statement Instructions. Additionally, examination review indicated that the Company was not a party to any finite reinsurance agreements. All ceded reinsurance agreements were accounted for utilizing reinsurance accounting as set forth in SSAP No. 62R.

During the examination period, the Company has effected commutation agreements pertaining to its reinsurance ceded business. The Company has reported in its operations the results of commutations related to these arrangements.

D. Holding Company System

The Company is a wholly-owned subsidiary of Zurich Holding Company of America, Inc. ("ZHCA"), a Delaware holding company, which in turn is 99.18% owned by Zurich Insurance Company Ltd. (Switzerland) ("ZIC"). ZIC is wholly-owned by Zurich Insurance Group Ltd (Switzerland) ("ZIG") (formerly known as Zurich Financial Services, Ltd.).

A review of the Holding Company Registration Statements filed with the 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 an abridged chart of the holding company system at December 31, 2016:

Zurich Insurance Group Ltd FKA Zurich Financial Services Ltd. (Zurich, Switzerland)
 100% Allied Zurich Limited (UK)
 100% Zurich Treasury Services Limited (IRL)
 12.10% Farmers Group, Inc. (NV)
 100% Zurich Insurance Company Ltd (Zurich, Switzerland)
 87.90% Farmers Group Inc. (NV)
 100% Zurich Holding Ireland Limited (IRL)
 100% Zurich Insurance plc
 99.18% Zurich Holding Company of America, Inc. (DE)
 100% Zurich Alternative Asset Management, LLC (DE)
 100% The Zurich Services Corporation (IL)
 100% Zurich Benefit Finance, LLC (DE)
 100% Zurich Agency Services, Inc.
 100% Zurich Global Investment Management Inc.
 100% Zurich CZI Management Holding, Ltd.
 100% Zurich Global Ltd. (BMU)
 100% ZFUS Services, LLC (DE)
 100% ZNA Services, LLC
 100% Farmers Services, LLC
 100% Zurich American Corporation
 100% Zurich American Life Insurance Company (IL)
 100% Zurich American Life Insurance Company of New York (NY)
 100% Hoplite Reinsurance Company of Vermont, Inc. (VT)
 100% Universal Underwriters Service Corporation
100% Zurich American Insurance Company (NY)
 100% Empire Indemnity Insurance Company (OK)
 100% Empire Fire and Marine Insurance Company (NE)
 100% American Guarantee and Liability Insurance Company (NY)
 100% Steadfast Insurance Company (DE)
 100% American Zurich Insurance Company (IL)
 100% Zurich American Insurance Company of Illinois (IL)
 100% Fidelity and Deposit Company of Maryland (MD)
 100% Colonial American Casualty and Surety Company (MD)
 100% Universal Underwriters Insurance Company (IL)
 100% Universal Underwriters of Texas Insurance Company (IL)
 100% Rural Community Insurance Company (MN)
 100% Rural Community Insurance Agency (MN)

In addition to the intercompany pooling arrangement previously discussed in the Reinsurance section of this report, the Company was a party to the following agreements with other members of its holding company system at December 31, 2016:

Amended and Restated Tax Allocation Agreement

Effective 1981, Zurich American Insurance Company became a party to a tax sharing agreement between ZHCA and its subsidiaries. This agreement was amended in January 2006 in order to clarify that the intercompany tax settlements would be paid in cash or eligible investment. The participants of the agreement record their apportioned tax liabilities and estimated tax payments according to the terms of the agreement. In general, allocation is based upon a separate return calculation with no immediate benefit for a taxable loss, which is utilized in the current year consolidated return. Intercompany tax balances are settled within thirty days after any of the following events: the filing of the consolidated Federal income tax return; the payment of an estimated payment; an additional assessment of the consolidated tax liability; a refund of the consolidated tax liability; or any other adjustment to the member's apportioned tax liability in accordance with the terms of the tax sharing agreement. The agreement was filed with the Department pursuant to Section 1505 of the New York Insurance Law.

Intercompany Service Agreement – Centre Group Holdings Limited

Effective January 1, 2004, Zurich American entered into an intercompany service agreement with Centre Group Holdings Limited (“CGHUSL”). Under the terms of the agreement, Zurich American provides CGHUSL certain services such as accounting, payroll, human resources, real estate, payor services, tax, and information technology. The agreement was filed with the Department pursuant to Section 1505 of the New York Insurance Law.

Intercompany Service Agreement - Zurich Alternative Asset Management, LLC

Effective July 1, 2006 Zurich American participates in an intercompany services agreement with Zurich Alternative Asset Management, LLC (“ZAAM”). Under the terms of the agreement Zurich American provides ZAAM administrative services such as accounting, payroll, human resources, real estate, payor services, tax, and information technology. The agreement was filed with the Department pursuant to Section 1505 of the New York Insurance Law.

Intercompany Service Agreement - Zurich Global Investment Advisors

Effective July 1, 2006, Zurich American participates in an intercompany service agreement with Zurich Global Investment Management, Inc. (“ZGIM”), formerly known as Zurich Global Investment Advisors, LLC (“ZGI”). Under the terms of the agreement, Zurich American provides ZGI certain services such as accounting, payroll, human resources, real estate services, payor services, tax, and information technology. The agreement was filed with this Department pursuant to Section 1505 of the New York Insurance Law.

Investment Advisory Agreement – Zurich Global Investment Advisors, LLC & Zurich Investment Services Limited

Effective January 1, 2003, Zurich American and its direct and indirect subsidiaries entered into an investment advisory agreement with Zurich Global Investment Advisors, LLC (n/k/a Zurich Global Investment Management Inc. or “ZGIM”) and Zurich Investment Services Limited (Bermuda) (“ZISL”). Under the terms of the agreement ZGIM provides investment advice and develops investment guidelines for the company’s investment committee. ZISL provides record keeping services for the Companies. Services include investment accounting and reporting such as information on monthly security acquisition and disposition and investment income summaries. On May 7, 2007 the Investment Advisory Agreement was amended to allow ZGIM to sub-contract ZISL as sub-advisor effective January 1, 2007. Amendment No. 2 to this agreement, dated January 1, 2013, removed ZGIM from this agreement because ZGIM and ZAIC had entered into a new investment advisory service agreement (see below). The Department approved this second amendment to the agreement dated June 6, 2013.

Intercompany Service Agreement – The Zurich Services Corporation

Effective February 1, 2007, the Company participates in a two-way intercompany service agreement with The Zurich Services Corporation (“ZSC”). Under the terms of the agreement Zurich American provides ZSC administrative services such as accounting, payroll, human resources, real estate, payor services, tax, information technology, corporate services, claim administrative service, and recovery service. ZSC provides Zurich American certain insurance related services such as managed care services: network access services, medical management services, utilization review, medical director services, medical consulting services, bill review and reprising, risk engineering services, special investigation unit service: fraud reporting, surveillance, training, premium audit services, general claim adjusting services, worker’s compensation hearing representation service and care center services.

On January 1, 2009 the agreement was amended (Amendment No. 1) to add recovery services function. On January 1, 2010 the agreement was amended (Amendment No.2) to delete subsection (k) of the amended Appendix B- Premium Audit Services Review of Payroll and Employee Data to Determine Final Premium and added a new subsection (k) Managed Care Services-Marketing Administrative and Support Services to the services that may be provided by ZSC to Zurich American. On March 31, 2011, the agreement was amended (Amendment No.3) to add subsection (i), Aircraft Pilot Services, to the Second Amended Appendix A, which refers to services that may be provided by Zurich American to ZSC and adds subsection (p), Aircraft Transportation Services, to the Third Amended Appendix B, which refers to services that may be provided by ZSC to Zurich. The agreement was filed with the Department pursuant to Section 1505 of the New York Insurance Law.

Service Agreement – Zurich Alternative Asset Management, LLC

Effective October 5, 2007, Zurich American entered into a service agreement with ZAAM wherein ZAAM provides specialized investment advisory services to Zurich American. Under the terms of the agreement, ZAAM is set up and authorized by Zurich to manage alternative assets of Zurich and its affiliates with superior risk-adjusted investment returns on such alternative assets. The agreement was filed with the Department pursuant to Section 1505 of the New York Insurance Law. This agreement was amended and restated on January 1, 2012 including services to be provided by ZAAM in Schedule 1 and fees for Asset Management services as defined in Schedule 2. The Department approved this amendment on May 4, 2012. No other amendments were made to this agreement during the exam period.

Intercompany Service Agreement – Zurich American Insurance Company (Pool)

Effective January 1, 2008, Zurich American entered into an Intercompany Service Agreement, intended to allow Zurich American to provide administrative and back-office support type services such as financial and accounting services, HR services and IT services for the benefit of the other Zurich Pooled Companies. This Agreement supersedes the Amended and Restated Information Technology Service Agreement between the ZAIG companies and Farmers Group.

Effective January 1, 2010 the agreement was amended (Amendment No.1) to allow Zurich American to provide additional services through one of its affiliates. These services include managed care-related services, risk engineering services, SIU services, general claims adjusting services, workers' compensation hearing representation services, care center services and recovery services. Effective March

31, 2011 the agreement was amended (Amendment No.2) to add subsection (aa), “Aircraft Transportation Services,” to Appendix (A). The agreement was filed with this Department pursuant to Section 1505 of the New York Insurance Law.

Master Service Agreement – ZFUS Services LLC

Effective July 1, 2007, Zurich American entered into a Master Service Agreement and related agreements with ZFUS Services, LLC (“ZFUS”), allowing ZFUS and its subsidiaries to provide administrative and back-office support type services such as financial and accounting services, HR services and IT services to Zurich American for itself and for the benefit of certain U.S.-based affiliates. Effective January 1, 2010, the agreement was amended to add premium audit services to the services that may be provided by ZFUS and its subsidiaries to Zurich American. The agreement was filed with the Department pursuant to Section 1505 of the New York Insurance Law.

Service Agreement – Zurich International (Bermuda) & Zurich Insurance Company

Effective June 30, 2007, Zurich American entered into a Service Agreement with Zurich International (Bermuda) Ltd. (“ZIB”) and ZIC, acting through its Bermuda Branch Office, for the processing of certain reinsurance transactions on behalf of ZIB and ZIC. The agreement was filed with the Department pursuant to Section 1505 of the New York Insurance Law.

Service Agreement – Zurich Global Limited

Effective June 30, 2007, Zurich American entered into a Service Agreement with Zurich Global Limited (“ZGL”) for the processing of certain reinsurance transactions on behalf of ZGL. The agreement was filed with the Department pursuant to Section 1505 of the New York Insurance Law.

Service Agreement – Zurich American Life Insurance Company

Effective January 1, 2011, Zurich American entered into a Service Agreement with Zurich American Life Insurance Company (IL) (“ZALICO”), where Zurich American may provide the following services to ZALICO: accounting services, actuarial services, administration & transaction management services, finance and treasury services, human resources, legal services, claim services, risk management services, work-out services, payor services, senior management services, tax services, management information

services, compliance services, real estate services, and other services. The agreement was filed with the Department pursuant to Section 1505 of the New York Insurance Law.

Service Agreement – Zurich Benefit Finance

Effective January 1, 2011, Zurich American entered into a Service Agreement with Zurich Benefit Finance, LLC (“ZBF”), where Zurich American may provide the following services to ZBF: accounting services, actuarial services, administration & transaction management services, finance and treasury services, human resources, legal services, claim services, risk management services, work-out services, payor services, senior management services, tax services, management information services, compliance services, real estate services, and other services. The agreement was filed with the Department pursuant to Section 1505 of the New York Insurance Law.

Service Agreement – Universal Underwriters Insurance Services (NKA Zurich Agency Services, Inc.)

Effective August 1, 2011, Zurich American entered into a Service Agreement with Universal Underwriters Insurance Services, Inc. (“UUISI”). Effective January 1, 2013, UUISI’s name was changed to Zurich Agency Services, Inc. (“ZAS”) where Zurich American may provide the following services to ZAS: accounting services, payor services, tax services, finance and treasury services, administration & transaction management services, product development and support services, marketing services, sales organization services, underwriting services, policy administration services, policy information services, and other services. The agreement was filed with the Department pursuant to Section 1505 of the New York Insurance Law.

The following agreements were entered into during examination period, 2012 through 2016:

Producer Agreement – Universal Underwriters Insurance Services (n/k/a Zurich Agency Services, Inc.)

Effective January 18, 2012, a Producer Agreement was entered among ZAS, Zurich American and certain of the other ZAIG companies. Pursuant to the Producer Agreement, ZAS, as the producer, may provide insurance producer services to Zurich American and certain of the other ZAIG companies. The agreement was filed with the Department pursuant to Section 1505 of the New York Insurance Law.

Service Agreement – Farmers Group, Inc.

ZAIC entered into Service Agreement with Farmers Group, Inc. (“FGI”), effective May 9, 2012, pursuant to which FGI, as Service Provider, would provide certain continuing education services to ZAIC, as Service Recipient. The agreement was filed with the Department pursuant to Section 1505 of the New York Insurance Law.

Service Agreement – Centre Group Holdings (U.S.) Limited

Effective January 1, 2014, ZAIC entered into a Service Agreement with Centre Group Holdings (U.S.) Limited (“CGHUS”) where CGHUS is to provide certain claims management services to ZAIC in connection with ZAIC’s pre-1986 run-off portfolio comprised mostly of asbestos, pollution and health claims. Amendment No. 1, effective October 1, 2016, added Defense Base Act runoff portfolio policies to the group policies that CGHUS provides claims services to ZAIC. The agreement was filed with the Department pursuant to Section 1505 of the New York Insurance Law.

Service Agreement – ZFUS Services, LLC.

Effective January 1, 2014, ZAIC entered into a Service Agreement between with ZFUS Services, LLC (“ZFUS”), pursuant to which ZAIC provides certain Ariba IT Infrastructure Services to ZFUS. The agreement was filed with the Department pursuant to Section 1505 of the New York Insurance Law.

Service Agreement – Zurich

Effective January 1, 2012, ZAIC entered into a Service Agreement with Zurich Canadian Holdings Limited (“ZCHL”) and Zurich Insurance Company Ltd (“ZIC Canadian Branch”), pursuant to which ZAIC could provide certain services to ZCHL and its affiliates, including ZIC Canadian Branch. Amendment No. 1, effective January 1, 2014, (i) added ZIC Canadian Branch as a party to the Agreement, and (ii) acknowledge the Service Provider’s obligations to provide the Chief Agent of ZIC Canadian Branch with such information and assistance as required by the Chief Agent in order to carry out his duties and responsibilities under applicable Canadian law.

Service Agreement - Zurich Global Investment Management

Effective January 1, 2013, Zurich Global Investment Management and ZAIC entered into a service agreement whereby ZGIM shall provide analytical and investment advisory services to ZAIC. The Department approved this agreement on June 6, 2013.

Service Agreement - Zurich Investment Services Limited

On January 1, 2016, Zurich Investment Services Limited (“ZISL”) and ZAIC entered into a service agreement for investment advisory services. The services provided by ZISL to ZAIC shall be limited to platform services and change management, master and market data, operations & accounting as follows: investment operations administration, investment accounting, investment reporting, platform & change management, and business-related projects. This agreement replaces the above referenced Investment Advisory Agreement between ZAIC, Zurich Global Investment Advisors, LLC & Zurich Investment Services Limited. The Department approved this agreement on June 27, 2016.

Service Agreement - Zurich Insurance Company Limited

Effective January 1, 2015, ZAIC entered into a service agreement with Zurich Insurance Company Ltd (“ZIC”) whereby ZIC will provide services to ZAIC which include, but are not limited to, allocation of total costs of the global insurance programs and brokerage costs related to: Director's and Officer's (D&O) Liability Program; Blended Program (Errors & Omissions, Crime, Fiduciary); Excess Blended Program, if applicable; Global General Liability Program; Global Property Program. The Department approved this agreement on January 30, 2015.

Service Agreement - Zurich Treasury Services Limited

Effective January 1, 2015, Zurich Treasury Services Limited (Ireland) (“ZTS”) and ZAIC, entered into an agreement whereby ZTS shall provide services to ZAIC which include treasury front office, back office, risk and middle office, finance department and business support services in relation to certain derivative transactions entered into on behalf of ZAIC in accordance with ZAIC’s written guidelines, including, without limitation the ZAIC Derivative Use Plan.

Service Agreement - Zurich Insurance Company Limited

Effective May 1, 2016, Zurich Insurance Company Ltd (“ZIC”) and ZAIC entered into a service agreement whereby ZIC shall provide ZAIC with the following services for reinsurance contracts with effective dates of January 1, 2016 and after: assumed reinsurance data housing, direct data housing, ceded reinsurance data housing, ceded reinsurance activity, ceded quota share and excess of loss reinsurance reporting, cash settlement activity, cash allocation activity, cash bordereau activity, and maintenance by ZAIC of reinsurance account balances as part of the billing and collection functions.

Service Agreement - Zurich Insurance plc

Effective January 1, 2014, Zurich Insurance plc, UK, (“ZIP”) and ZAIC entered into a service agreement whereby ZAIC shall provide ZIP with the following reinsurance services: assumed reinsurance data housing, direct data housing, ceded reinsurance data housing, ceded reinsurance activity, ceded quota share and excess of loss reinsurance reporting, cash settlement activity, cash allocation activity, cash bordereau activity, and maintenance of reinsurance account balances as part of the billing and collection functions.

Service Agreement - Zurich Insurance Company Limited

Effective January 1, 2014, Zurich Insurance Company Ltd (Swiss) (“ZIC”) and ZAIC entered into a service agreement whereby ZAIC shall provide ZIC with the following reinsurance services: assumed reinsurance data housing, direct data housing, ceded reinsurance data housing, ceded reinsurance activity, ceded quota share and excess of loss reinsurance reporting, cash settlement activity, cash allocation activity, cash bordereau activity, and maintenance of reinsurance account balances as part of the billing and collection functions.

Service Agreement - Zurich Insurance Company Ltd, organizacna zlozka

Effective January 1, 2014, this service agreement between Zurich Insurance Company Ltd, organizacna zlozka, as service provider and ZAIC, as service receiver are for services rendered limited to General Insurance Predictive Analytics services, which include: predictive modeling related projects upon request by ZAIC, delivering predictive modeling related training upon request of the service receiver, support predictive modeling research & development activities upon request by ZAIC. The Department approved this agreement on December 29, 2014.

ZAIC entered into four service agreements noted below whereby ZAIC provides the following services: accounting, actuarial, administration & transaction management, claims, compliance, finance and treasury services, human resources, legal, management information services, marketing services and sales organization, payor, real estate, risk management, senior management, tax, and technical center - underwriting services.

Service Agreement – UUSC

Effective January 1, 2015, ZAIC provides a broad range of services (see above list of services) to Universal Underwriters Service Corporation. The Department approved this agreement on March 11, 2015.

Service Agreement – Hoplite

Effective January 1, 2016, ZAIC provides a broad range of services (see above list of services) to Hoplite Reinsurance Company of Vermont, Inc., a Vermont domiciled sponsored cell captive company. The Department approved this agreement on December 8, 2015.

Service Agreement – RCIC

Effective March 31, 2016, ZAIC provides a broad range of services (see above list of services) to Rural Community Insurance Company, a Minnesota domiciled insurer, (“RCIC”). RCIC is a one of the nation’s leaders in crop insurance. The Department approved this agreement on February 23, 2016.

Service Agreement – RCIA

Effective March 31, 2016, ZAIC provides a broad range of services (see above list of services) to Rural Community Insurance Agency, Inc. (“RCIA”), a Minnesota domiciled entity. RCIA - doing business as Rural Community Insurance Services, offers crop insurance services to the agriculture community. It provides multi-peril crop insurance products. The Department approved this agreement on February 23, 2016. Subsequent to the examination, RCIA merged into RCIC effective December 31, 2017.

E. Significant Ratios

Except as noted below, the Company's operating ratios, computed as of December 31, 2016, fall within the benchmark ranges set forth in the Insurance Regulatory Information System ("IRIS") of the National Association of Insurance Commissioners ("NAIC").

<u>Operating Ratios</u>	<u>Result</u>
Net premiums written to surplus as regards policyholders	54%
Adjusted liabilities to liquid assets	112%*
Two-year overall operating	87%

The ratio denoted with the * above fell outside of the NAIC IRIS benchmark due to the Company's illiquid investments in affiliated stocks of \$1.9 billion, other invested assets of approximately \$2 billion, and real estate investments of approximately \$1 billion.

Underwriting Ratios

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

	<u>Amounts</u>	<u>Ratio</u>
Losses and loss adjustment expenses incurred	\$17,943,307,081	78.85%
Other underwriting expenses incurred	4,247,434,030	18.66
Net underwriting gain	<u>565,796,080</u>	<u>2.49</u>
Premiums earned	<u>\$22,756,537,191</u>	<u>100.00%</u>

The Company's reported risk based capital score ("RBC") was 411.7% at December 31, 2016. The RBC is a measure of the minimum amount of capital appropriate for a reporting entity to support its overall business operations in consideration of its size and risk profile. An RBC of 200 or below can result in regulatory action.

There were no financial adjustments in this report that impacted the company's RBC score.

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2016 as reported by the Company. Due to rounding the columns may not total.

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$17,161,451,744		\$17,161,451,744
Common stocks (stocks)	3,241,060,263	\$ 10,000	3,241,050,263
Properties held for the production of income	978,552,593		978,552,593
Properties held for sale	47,448,471		47,448,471
Cash, cash equivalents and short-term investments	589,156,540		589,156,540
Derivatives	15,084,953		15,084,953
Other invested assets	1,948,564,541		1,948,564,541
Receivables for securities	119,724,215	255,039	119,469,176
Securities lending reinvested collateral assets	112,477,509		112,477,509
Employee trust for deferred compensation plan	156,985,102		156,985,102
Investment income due and accrued	123,389,309	17,763	123,371,546
Uncollected premiums and agents' balances in the course of collection	2,613,465,664	196,630,566	2,416,835,098
Deferred premiums, agents' balances and installments booked but deferred and not yet due	1,601,200,399	40,344,826	1,560,855,573
Accrued retrospective premiums	271,526,114	17,769,637	253,756,477
Amounts recoverable from reinsurers	623,035,654		623,035,654
Funds held by or deposited with reinsured companies	1,783,310		1,783,310
Net deferred tax asset	969,545,643	22,333,924	947,211,719
Guaranty funds receivable or on deposit	12,720,006		12,720,006
Electronic data processing equipment and software	203,660,831	203,660,831	
Furniture and equipment, including health care delivery assets	62,557,201	62,557,201	
Receivables from parent, subsidiaries and affiliates	111,655,997	1,234,036	110,421,961
Recoverables under high deductible policies	364,019,911	15,627,649	348,392,262
Surcharges and other amounts recoverable	225,669,085	7,233,925	218,435,160
Prepaid benefit expense	130,625,434	130,625,434	
Prepaid expenses	61,384,027	61,384,027	
Leasehold improvements	34,756,570	34,756,570	
Equities and deposits	15,277,181		15,277,181
Reinsurance deposits	547,614		547,614
Overfunded plan asset SSAP 102	<u>(130,191,093)</u>	<u>(130,191,093)</u>	<u>0</u>
Total assets	<u>\$31,667,134,789</u>	<u>\$ 664,250,336</u>	<u>\$31,002,884,453</u>

Liabilities, Surplus and Other FundsLiabilities

Losses and loss adjustment expenses	\$14,267,336,824
Reinsurance payable on paid losses and loss adjustment expenses	534,413,839
Commissions payable, contingent commissions and other similar charges	136,388,581
Other expenses (excluding taxes, licenses and fees)	647,558,518
Taxes, licenses and fees (excluding federal and foreign income taxes)	198,845,103
Current federal and foreign income taxes	89,598,056
Unearned premiums	4,253,376,558
Policyholders (dividends declared and unpaid)	1,359,543
Ceded reinsurance premiums payable (net of ceding commissions)	934,904,370
Funds held by company under reinsurance treaties	215,284,071
Amounts withheld or retained by company for account of others	249,639,851
Remittances and items not allocated	142,307,982
Provision for reinsurance	56,323,818
Payable to parent, subsidiaries and affiliates	264,541,870
Derivatives	371,415
Payable for securities	67,606,654
Payable for securities lending	112,477,509
Amounts held under high deductible policies	946,645,871
Deposit accounting	12,050,701
Retroactive reinsurance reserve – assumed	11,105,643
Escheat reserves	5,679,000
Liability for pension benefit SSAP 102	<u>3,390,061</u>
Total liabilities	\$23,151,205,837

Surplus and Other Funds

Special Surplus from Retroactive Reinsurance	\$ 52,465,000
Common capital stock	5,000,000
Gross paid in and contributed surplus	4,394,131,321
Unassigned funds (surplus)	<u>3,400,082,293</u>
Surplus as regards policyholders	<u>7,851,678,614</u>
Total liabilities, surplus and other funds	<u>\$31,002,884,451</u>

Note: The Internal Revenue Service has completed its audits of the Company's consolidated Federal Income Tax returns through tax year 2014. All material adjustments, if any, made subsequent to the date of examination and arising from said audits, are reflected in the financial statements included in this report. Audits covering tax years 2015 and 2016 are currently in progress. The 2015 audit has been transferred to the Internal Revenue Service Appeals Division for resolution. 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

The net income for the examination period as reported by the Company was \$4,496,478,889 as detailed below:

Underwriting Income

Premiums earned		\$22,756,537,191
Deductions:		
Losses and loss adjustment expenses incurred	\$17,943,307,081	
Other underwriting expenses incurred	<u>4,247,434,030</u>	
Total underwriting deductions		<u>22,190,741,111</u>
Net underwriting gain or (loss)		\$ 565,796,080

Investment Income

Net investment income earned	\$3,373,372,128	
Net realized capital gain	<u>957,426,103</u>	
Net investment gain or (loss)		4,330,798,231

Other Income

Net gain or (loss) from agents' or premium balances charged off	\$(51,374,065)	
Finance and service charges not included in premiums	11,472,313	
Interest on Reinsurance Contracts	4,765,923	
Restructuring Cost	(81,011,105)	
Other miscellaneous expenses	<u>(117,394,510)</u>	
Total other income		<u>(233,541,444)</u>
Net income before dividends to policyholders and before federal and foreign income taxes		\$ 4,663,052,867
Dividends to policyholders		<u>22,837,557</u>
Net income after dividends to policyholders but before federal and foreign income taxes		\$ 4,640,215,310
Federal and foreign income taxes incurred		<u>143,736,421</u>
Net income		\$ <u>4,496,478,889</u>

C. Capital and Surplus

Surplus as regards policyholders increased \$832,899,206 during the 5-year examination period January 1, 2012 through December 31, 2016 as reported by the Company, detailed as follows:

Surplus as regards policyholders as reported by the Company as of December 31, 2011			\$7,018,779,410
	<u>Gains in</u>	<u>Losses in</u>	
	<u>Surplus</u>	<u>Surplus</u>	
Net income	\$4,496,478,889		
Net unrealized capital gains or losses	8,824,109		
Change in net unrealized foreign exchange capital gain or loss		\$ 10,024,052	
Change in net deferred income tax		189,035,623	
Change in nonadmitted assets	772,462,111		
Change in provision for reinsurance	4,174,369		
Change in surplus notes		883,000,000	
Cumulative effect of changes in accounting principles	21,870,467		
Dividends to stockholders		2,910,541,547	
Change in Deferred Income Tax – SSAP10R		340,894,437	
SSAP 102 Overfunded Asset		130,191,093	
Additional Liability for Defined Benefit Plans		10,538,026	
Change in minimum pension liability	<u>0</u>	<u>(3,314,037)</u>	
Total gains and losses	<u>\$5,303,809,945</u>	<u>\$4,470,910,741</u>	
Net increase (decrease) in surplus			<u>832,899,204</u>
Surplus as regards policyholders as reported by the Company as of December 31, 2016			<u>\$7,851,678,614</u>

No adjustments were made to surplus as a result of this examination.

At December 31, 2016, capital paid in was \$5,000,000 consisting of 5,000 shares of common stock at \$1,000 par value per share. Gross paid in and contributed surplus was \$4,394,131,321 which did not change during the examination period.

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of \$14,267,336,824 is the same as reported by the Company as of December 31, 2016. The examination analysis of the loss and loss adjustment expense reserves was conducted in accordance with generally accepted actuarial principles and statutory accounting principles, including the NAIC Accounting Practices & Procedures Manual, Statement of Statutory Accounting Principle No. 55 (“SSAP No. 55”).

6. SUBSEQUENT EVENTS

As noted in the Reinsurance section earlier herein, subsequent to the examination date, Zurich American Insurance Company and the Bermuda Branch of ZIC mutually agreed to cancel the Whole Account Quota Share treaty effective January 1, 2018.

7. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination did not contain any comments or recommendations.

8. SUMMARY OF COMMENTS AND RECOMMENDATIONS

There are no comments or recommendations in this report on examination.

APPOINTMENT NO. 31547

NEW YORK STATE
DEPARTMENT OF FINANCIAL SERVICES

I, Maria T. Vullo, 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:

Fe Rosales

as a proper person to examine the affairs of the

Zurich American Insurance Company

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

COMPANY

with such other information as she 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 10th day of November, 2016

*MARIA T. VULLO
Superintendent of Financial Services*



By:

Joan M. Riddell

Joan Riddell
Deputy Bureau Chief