REPORT ON EXAMINATION

OF THE

FAIR AMERICAN INSURANCE and REINSURANCE COMPANY

AS OF

DECEMBER 31, 2014

DATE OF REPORT	MAY 13, 2016
EXAMINER	SELREY N. DAVD

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May 13, 2016

Honorable Maria T. Vullo
Superintendent
New York State Department of Financial Services
Albany, New York 12257

Madam:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 31252 dated November 14, 2014, attached hereto, I have made an examination into the condition and affairs of Fair American Insurance and Reinsurance Company as of December 31, 2014, and submit the following report thereon.

Wherever the designation "the Company" or "FAIRCO" appears herein without qualification, it should be understood to indicate Fair American Insurance and Reinsurance Company.

Wherever the designation "TRC" appears herein without qualification, it should be understood to indicate Transatlantic Reinsurance 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 One Liberty Plaza, 165 Broadway, New York, NY 10006.

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, 2009. This examination covered the five year period from January 1, 2010 through December 31, 2014. This examination was conducted concurrently with an examination of the Company's parent, Transatlantic Reinsurance Company. 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. 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, 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 September 30, 1985 as SAI Industrial Assurance Company ("SAI") as a result of the domestication of the United States Branch of the SAI-Societa Assicuratrice Industrials S.P.A of Torino, Italy ("SAI-Italy") to a New York corporation. The Branch was entered in the United States in 1977 through New York and the home office was established in 1921 under the laws of Italy. It became licensed on September 30, 1985.

Effective December 12, 1985, American International Group ("AIG") purchased 100% of SAI's 1,000 shares of $500 par value per share common stock from SAI-Italy to become the new sole shareholder of the Company. The Company's name was changed to Putnam Reinsurance Company on April 29, 1986.

On February 24, 1986, the Company's authorized capital was increased from $500,000 to $2,500,000, consisting of an additional 4,000 shares of $500 par value per share common stock. On June 30, 1986, the additional 4,000 shares of the Company's common stock were issued to AIG for consideration of $2,000,000. On the same date, AIG contributed all 5,000 shares of the Company's common stock, plus cash, to PREINCO Holdings, Inc. ("PREINCO") in exchange for a 20.01% interest in PREINCO. PREINCO was organized in the State of Delaware on June 10, 1986, to become the new holding company and sole shareholder of the Company.

Effective April 18, 1990, the name of PREINCO Holdings, Inc. was changed to Transatlantic Holdings, Inc. ("THI"). THI became a public company in June, 1990.

In 1995, THI transferred ownership of the Company to its wholly-owned subsidiary Transatlantic Reinsurance Company ("TRC").

As of December 31, 2008, AIG was the majority stockholder of THI, with an ownership of approximately 59%. In June 2009 AIG reduced its ownership in THI, through a secondary offering, to approximately 13.9% of the company's outstanding common shares. In March 2010, AIG reduced its beneficial ownership through another secondary public offering. Immediately following the March 2010 secondary public offering, AIG beneficially owned approximately 1.1% (excluding shares held by certain mutual funds that are advised or managed by subsidiaries of AIG).

In January 2012, the name was changed to its present form, Fair American Insurance and Reinsurance Company. In March 2012, Alleghany Corporation ("Alleghany") and THI completed a merger and the Company became an indirect wholly-owned subsidiary of Alleghany Corporation.

On September 7, 2010, following authorization from its Board of Directors, and approval of the Department pursuant to Section 1206 of the New York Insurance Law, the Company increased its authorized, issued and outstanding shares to 10,000 from 5,000, increasing Common capital stock by $2,500,000 and decreasing Gross paid in and contributed surplus by $2,500,000.Capital paid in is $5,000,000 consisting of 10,000 shares of $500 par value per share common stock. Gross paid in and contributed surplus is $88,227,719. Gross paid in and contributed surplus decreased by $2,500,000 during the examination period, as follows:

Year	Description	Amount
January 1, 2010	Beginning gross paid in and contributed surplus	$90,727,719
2010	Common capital stock contribution	(2,500,000)
December 31, 2014	Ending gross paid in and contributed surplus	$88,227,719

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 thirteen nor more than twenty one members. The board met four times during each calendar year. As of December 31, 2014, the board of directors was comprised of the following six members:

Name and Residence	Principal Business Affiliation
Kenneth Apfel New York, NY	Executive Vice President and Chief Actuary, Transatlantic Holdings, Inc.

Name and Residence	Principal Business Affiliation
Kenneth Brandt Alamo, CA	President, North America, Transatlantic Reinsurance Company
Michael Sapnar New York, NY	President and Chief Executive Officer, Transatlantic Holdings, Inc.
Gary Schwartz Demarest, NJ	Executive Vice President and General Counsel, Transatlantic Holdings, Inc.
Steven Skalicky Larchmont, NY	Executive Vice President and Chief Financial Officer, Transatlantic Holdings, Inc.
Javier Vijil Miami, FL	President and Chief Underwriting Officer, Latin American & Caribbean Division, Transatlantic Holdings, Inc.

Section 1201(a)(5)(B)(v) of the New York Insurance Law states in part:

> "…Except as provided in section six thousand four hundred two of this chapter the number shall not be less than seven…"

In addition, Section V of the Company's charter that was in effect during the period under examination states, in part:

> "The corporate powers of this Company shall be exercised by a Board of Directors consisting of not less than thirteen (13) members nor more than twenty-one (21) members as shall from time to time be determined by the By-laws of the Company…"

A review of the composition of the board of directors during the examination period indicated that beginning with the May 26, 2011 meeting, the board consisted of less than thirteen members. The Company only had six directors as of December 31, 2014.

Subsequent to the examination date, the Company elected a seventh director on April 7, 2015. It amended and restated its charter as of July 27, 2015 to reflect a minimum number of directors of seven and a maximum number of directors of fifteen. Such amended and restated charter was approved by the Department on September 15, 2015, and placed on file with the County Clerk's office on September 25, 2015.

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, 2014, the principal officers of the Company were as follows:

Name	Title
Michael C. Sapnar	President
Amy M. Cinquegrana	Secretary
Mathew D. Mahoney	Senior Vice President

B. Territory and Plan of Operation

As of December 31, 2014, the Company was licensed to write business in all 50 states and the District of Columbia.

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
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	Gap
27	Prize indemnification
28	Service Contract reimbursement
29	Legal services

The Company is also authorized 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 Longshoremen's and Harbor Workers' Compensation Act (Public Law No. 803, 69th Congress as amended; 33 USC Section 901 et seq. as amended).

The Company is also authorized by Section 4102(c) of the New York Insurance Law to (i) reinsure risks of every kind or description and (ii) insure property or risks of every kind of description located or resident outside of the United States, its territories and possessions.

Additionally, the Company is licensed to conduct the business of special risk insurance pursuant to Article 63 of the New York Insurance Law.

Based on the lines of business for which the Company is licensed, the current capital structure and pursuant to the requirements of Articles 13, 41 and 63 of the New York Insurance Law, the Company is required to maintain a minimum surplus to policyholders in the amount of $35,000,000.

Prior to 2013, all of the Company’s premiums were assumed under a quota share agreement with its parent Transatlantic Reinsurance Company. This agreement was terminated and commuted on October 1, 2012. This commutation was neutral to the Company's surplus position. Beginning in 2013, the Company became a direct writer of Medical Professional Liability both occurrence and claims-made. The Company's only program is a Psychiatrists’ Medical Malpractice program administered by the Company’s affiliate, Professional Risk Management Systems, Inc. (“PRMS”). The following schedule shows the direct premiums written by the Company in New York and in total for the years 2013 and 2014:

Calendar Year	New York State	Total Premiums	New York State as a Percentage of Total
2013	$ 7,650,909	$ 35,889,681	21.32%
2014	7,415,155	36,724,155	20.19%

C. Reinsurance

The Company has one Quota Share Reinsurance Agreement that obligates it to cede a 90% share of its insurance and reinsurance contracts to its parent, TRC.

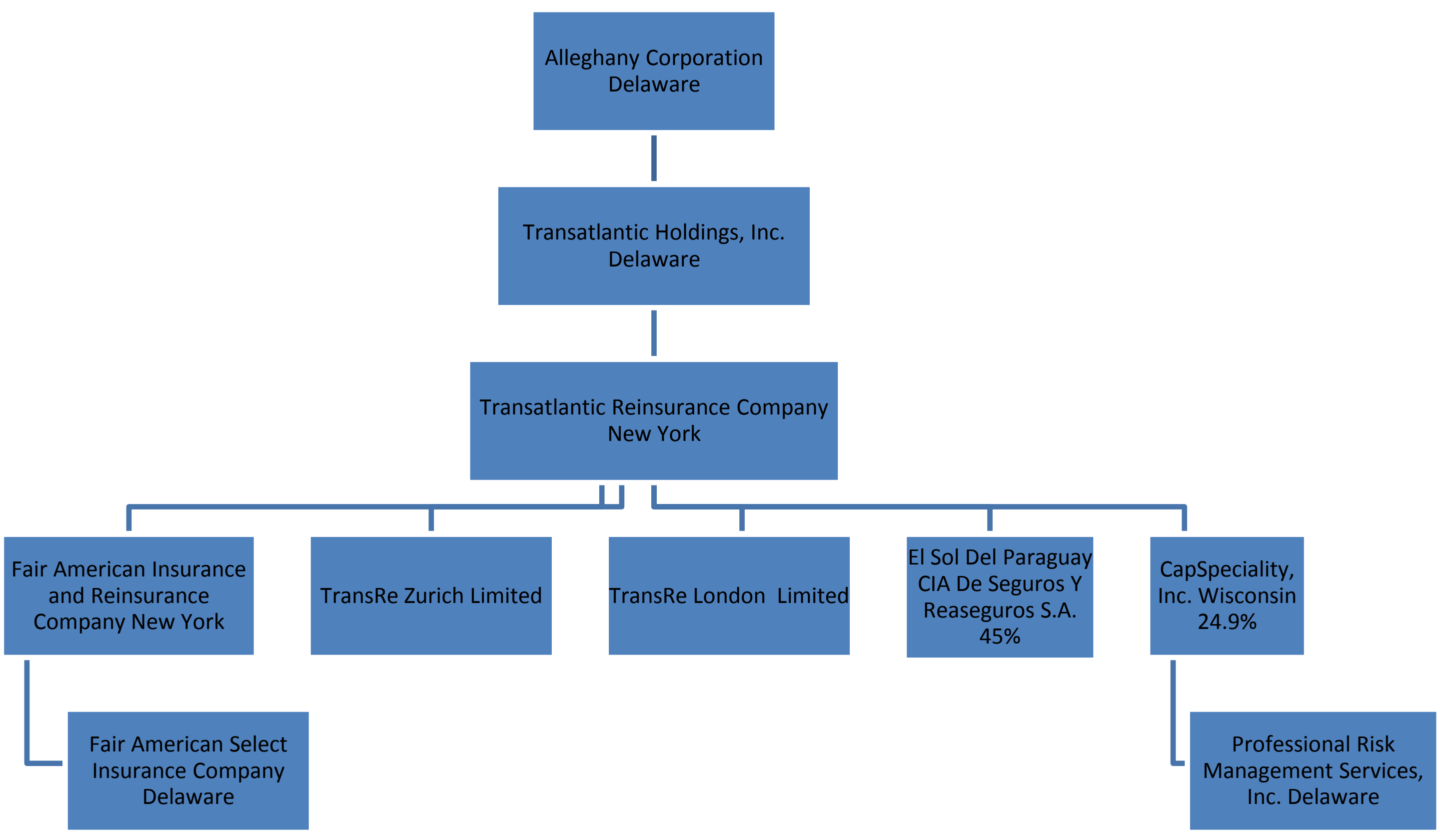
The reinsurance agreement with its affiliate was reviewed for compliance with Article 15 of the New York Insurance Law. It was noted that the affiliated reinsurance agreement was filed with the Department pursuant to the provisions of Section 1505(d)(2) of the New York Insurance Law.

D. Holding Company System

The Company is a member of the Alleghany Group and is a wholly-owned subsidiary of TRC, a New York corporation, which is ultimately controlled by Alleghany Corporation.

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 an abridged chart of the holding company system as of December 31, 2014:



On October 1, 2012, the Company acquired 100% of the common stock of Fair American Select Insurance Company ("FASIC") for $1,000,000; during 2013, the Company contributed an additional $45,000,000 in gross paid-in and contributed surplus to FASIC. FASIC is a Delaware domestic surplus line insurer that is eligible or approved to write surplus lines in all 50 states and the District of Columbia. FASIC did not write any premiums during 2013, but did write premiums of $3,665,782 during 2014.

Subsequent to this examination, on November 5, 2015, the Company entered into a stock purchase agreement with TRC pursuant to which the Company sold 100% of the share capital of FASIC to TRC. FASIC became a direct, wholly owned subsidiary of TRC.

As of December 31, 2014, the Company was party to the following agreements with other members of its holding company system:

1. Managing General Agent Agreement

Effective January 1, 2013, the Company entered into a managing general agent agreement with its affiliate, Professional Risk Management Service, Inc. ("PRMS"). Pursuant to the agreement, the Company appointed PRMS as the Company's exclusive agent and producer of insurance policies comprising the Covered Business. This agreement was filed with the Department pursuant to Section 1505 of the New York Insurance Law.

2. Claims Service Agreement

Effective March 14, 2013, the Company entered into a claims service agreement with its affiliate, PRMS. Pursuant to the agreement, PRMS agrees to provide claim service for the Company and its policyholders under psychiatrists and neurologists professional liability insurance programs. This agreement was filed with the Department pursuant to Section 1505 of the New York Insurance Law.

3. Management Agreement

Effective July 1, 2013, the Company entered into a management agreement with its parent company, TRC. Pursuant to the agreement, TRC will provide FAIRCO with all the necessary administrative, production, marketing, underwriting, claims, investment, reinsurance, and accounting functions with respect to its business operations. This agreement was filed with the Department pursuant to Section 1608 of the New York Insurance Law.

4. Service Agreement

Effective October 2, 2013, the Company entered into a service agreement with its wholly-owned subsidiary, Fair American Select Insurance Company ("FASIC"). Pursuant to the agreement, the FAIRCO provides insurance facilities, claims adjustment and investigations, underwriting and processing service, customer service functions, printing, mailing, file and record keeping of all policies and endorsements, accounting and investment service, actuarial services and any other administrative services as requested by FASIC. This agreement was not filed with the Department pursuant to Section 1608 of the New York Insurance Law.

It is recommended that the Company submit such agreement to the Department pursuant to the provisions of Section 1608 of the New York Insurance Law.

5. Tax Sharing Agreement

Effective April 29, 2014, the Company became a party to a consolidated federal income tax sharing agreement with its parent, Alleghany Corporation ("Alleghany") and affiliates. Parties to this agreement are the Company, Alleghany, THI, TRC and FASIC. The tax allocation agreement provides that in any year the parties file consolidated federal income tax returns, a computation shall be made on or before the date provided by law for the payment of any federal income tax or estimate of the amount of income taxes or estimated tax refund to which each party would have to make or to which such party would be entitled if it filed at that time a return declaration or refund claim as a separate corporation and had not at the time been a member of the consolidated group. This agreement was filed with this Department pursuant to Section 1505 of the New York Insurance Law.

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2014, based upon the results of this examination:

Net premiums written to surplus as regards policyholders	2%
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	7%
Premiums in course of collection to surplus as regards policyholders	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	$343,951,866	73.75%
Other underwriting expenses incurred	147,451,407	31.61
Net underwriting loss	(25,013,428)	(5.36)
Premiums earned	$466,389,845	100.00%

F. Accounts and Records

(i) Adjustments to Surplus

In April 2015, during the audit of its statutory filings by Ernst and Young ("E&Y"), an adjustment to surplus was discovered. The adjustment stemmed from the allocation and settlement of inter-company tax balances between FAIRCO and TRC, where the offsetting adjustment was applied. As a result of the adjustment, surplus should have been restated to $234,550,666, with an adjustment of $5,182,821 flowing through Aggregate write-ins for other than special surplus funds (representing the correction of an inter-company tax balance adjustment) and $3,323,461 flowing through Unassigned funds (surplus) (representing a non-admitted asset on over 90 day balances relating to the settlement of inter-company tax balances). As such, Current federal and foreign income tax recoverable was reduced to $134,728 from $8,641,010.

The adjustment was not included in the financials presented in this report as it was not deemed to be material.

(ii) Schedule Y Reporting

The examiner's review of the 2014 Annual Statement Schedule Y noted that the Company did not complete its own transactions on Part 2, Column 13 "Reinsurance Recoverable/(payable) on Losses and/or Reserve Credit Taken/(Liability)" in accordance with the NAIC's annual statement instructions. As a result, the Company failed to accurately present Schedule F, columns 9 through 13 data in Schedule Y, Part 2 Column. The Company reported $(19,302,000) and should have reported $(45,856,000).

It is recommended that the Company exercise greater care and complete Schedule Y in accordance with the NAIC's annual statement instructions. A similar recommendation was made in the prior report on examination.

(iii) New York Annual Statement Supplement

In response to Interrogatory Schedule 2 of the 2014 Annual Statement Supplement, FAIRCO stated that it was not subject to Article 16 of the NYIL, so did not complete the required Controlled Person Worksheet. It is noted that the answer to both questions should have been yes, but as of December, 31 2014 the Company did not have any investments in controlled persons.

It is recommended that the Company exercise greater care and complete the Annual Statement Supplement in accordance with the Annual Statement Supplement Instructions.

3. FINANCIAL STATEMENTS

A Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2014 as reported by the Company:

Assets	Assets	Assets Not Admitted	Net Admitted Assets
Bonds	$188,947,302	$0	$188,947,302
Common stocks (stocks)	46,886,989	0	46,886,989
Cash, cash equivalents and short-term investments	4,989,431	0	4,989,431
Receivables for securities	29,749	0	29,749
Investment income due and accrued	2,151,848	0	2,151,848
Uncollected premiums and agents' balances in the course of collection	4,395,002	0	4,395,002
Amounts recoverable from reinsurers	662,083	0	662,083
Current federal and foreign income tax recoverable and interest thereon	8,641,010	0	8,641,010
Receivables from parent, subsidiaries and affiliates	95,677	0	95,677
Other miscellaneous receivables	120,922	0	120,922
Totals	$256,920,013	$0	$256,920,013

Liabilities, surplus and other funds

Liabilities

Losses and Loss Adjustment Expenses		$ 3,241,435
Other expenses (excluding taxes, licenses and fees)		392,895
Taxes, licenses and fees (excluding federal and foreign income taxes)		1,042,391
Net deferred tax liability		3,169,983
Unearned premiums		1,804,856
Ceded reinsurance premiums payable (net of ceding commissions)		3,583,501
Other miscellaneous receivables		628,004
Total liabilities		13,863,065
Common capital stock	$ 5,000,000	
Intercompany adjustment	6,398,858	
Gross paid in and contributed surplus	88,227,719	
Unassigned funds (surplus)	$143,430,371	
Surplus as regards policyholders		243,056,948
Totals		$256,920,013

Note: The Internal Revenue Service has completed its audits of the Company's consolidated Federal Income Tax returns through tax year 2005. 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 2008 through 2014 are currently under examination. 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 was $97,061,462 as detailed below:

Underwriting Income		
Premiums earned		$466,389,845
Deductions:		
Losses and loss adjustment expenses incurred	$343,951,866	
Other underwriting expenses incurred	147,451,407	
Total underwriting deductions		491,403,273
Net underwriting gain or (loss)		(25,013,428)
Investment Income		
Net investment income earned	$83,594,017	
Net realized capital gain	15,290,695	
Net investment gain or (loss)		98,884,712
Other Income		
Net gain or (loss) from agents' or premium balances charged off	$263,973	
Miscellaneous income	123,804	
Total other income		387,777
Net income before federal and foreign income taxes		74,259,061
Federal and foreign income taxes incurred		(22,802,401)
Net Income		$ 97,061,462

C. Capital and Surplus Account

Surplus as regards policyholders increased $39,549,458 during the five-year examination period January 1, 2010 through December 31, 2014, detailed as follows:

	Gains in Surplus	Losses in Surplus	
Surplus as regards policyholders per report on examination as of December 31, 2009			$203,507,490
Net income	$ 97,061,462		
Net transfers (to) from protected cell accounts			
Net unrealized capital gains or (losses)	886,993		
Change in net deferred income tax		$26,749,662	
Change in nonadmitted assets	11,921,797		
Capital changes paid in	2,500,000		
Surplus adjustments paid in		2,500,000	
Dividends to stockholders		49,970,000	
Gains and losses in surplus	6,398,868	0	
Total gains / losses	$118,769,120	$79,219,662	
Net increase (decrease) in surplus			39,549,458
Surplus as regards policyholders per report on examination as of December 31, 2014			$243,056,948

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of $3,241,435 is the same as reported by the Company as of December 31, 2014. 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").

5. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination contained four recommendations as follows (page numbers refer to the prior report):

ITEM		PAGE NO.
A.	Holding Company System	
i	It is recommended that the company amend its tax allocation agreement to include all entities incorporated in its consolidated federal income tax return and file such amended agreement with the Department pursuant to Circular Letter No. 33 (1979) and Article 15 of the Insurance Law.	9
	The Company has complied with this recommendation.	
B.	Accounts and Records	
i.	It is recommended that the Company exercise greater care and complete all interrogatories in accordance with the NAIC Annual Statement Instructions.	10
	The Company has complied with this recommendation.	
ii.	It is recommended that such unapplied cash, which cannot be properly classified at year-end, should be reported as a separate suspense account item on the balance sheet, until such time that it can be properly classified.	11
	The Company has complied with this recommendation.	
iii.	It is recommended that the Company exercise care and complete Schedule T in accordance with the NAIC Annual Statement Instructions.	11
	The Company has complied with this recommendation.	

6. SUMMARY OF COMMENTS AND RECOMMENDATIONS

ITEM			PAGE NO.
A.		Holding Company System	
		It is recommended that the Company submit such agreement to the Department pursuant to the provisions of Section 1608 of the New York Insurance Law.	10
B.		Accounts and Records	
	i.	It is recommended that the Company exercise greater care and complete Schedule Y in accordance with the NAIC's annual statement instructions. A similar recommendation was made in the prior report on examination.	12
	ii.	It is recommended that the Company exercise greater care and complete the Annual Statement Supplement in accordance with the Annual Statement Supplement Instructions.	12

Respectfully submitted,

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Selrey N. David, CIE
Associate Insurance Examiner

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

Selrey N. David, being duly sworn, deposes and says that the foregoing report, subscribed by him, is true to the best of his knowledge and belief.

____
Selrey N. David

Subscribed and sworn to before me

this__________ day of ____________________, 2016.

APPOINTMENT NO. 31252

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:*

S'elrey David

as a proper person to examine the affairs of the

Fair America Insurance and Reinsurance 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 November, 2014

BENJAMIN M. LAWSKY
Superintendent of Financial Services

By:

Rolf Kaumann
Deputy Chief Examiner