

REPORT ON EXAMINATION

OF THE

WESTCHESTER FIRE INSURANCE COMPANY

AS OF

DECEMBER 31, 2007

DATE OF REPORT

MAY 29, 2009

EXAMINER

CATHIE A. STEWART, CFE

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STATE OF NEW YORK
INSURANCE DEPARTMENT
25 BEAVER STREET
NEW YORK, NEW YORK 10004

May 29, 2009

Honorable Eric R. Dinallo
Superintendent of Insurance
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 22660 dated July 16, 2007 attached hereto, I have made an examination into the condition and affairs of Westchester Fire Insurance Company as of December 31, 2007, and submit the following report thereon.

Wherever the designations "the Company" and "WFIC" appear herein without qualification, they should be understood to indicate Westchester Fire Insurance Company.

Wherever the term "Department" appears herein without qualification, it should be understood to mean the New York Insurance Department.

The examination was conducted at the Company's administrative office located at 436 Walnut Street, Philadelphia, PA 19106.

1. SCOPE OF EXAMINATION

The Department has performed an association examination of Westchester Fire Insurance Company. The previous examination was conducted as of December 31, 2002. This examination covered the five year period from January 1, 2003 through December 31, 2007. 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, 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 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 and evaluation based upon the Company’s Sarbanes Oxley (“SOX”) documentation and testing. Additionally, the Company’s enterprise risk management process was considered when evaluating other than financial reporting risk. The examiners also relied upon audit work performed by the Company’s independent certified public accountants (“CPA”) when appropriate.

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

- 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, which involve departures from laws, regulations or rules, or which are deemed to require explanation or description. In accordance with the NAIC Financial Condition Examiners Handbook the examination also included a review of other than financial reporting risk.

2. DESCRIPTION OF COMPANY

The Company was incorporated under the laws of the State of New York as the Westchester County Mutual Insurance Company on March 14, 1837. It was reorganized as a joint stock company, under the name of Westchester Fire Insurance Company, effective January, 1870 and was reincorporated as a stock corporation on June 21, 1920. The Company absorbed by merger with the Delaware Insurance Company in 1928, United States Merchants & Shippers Insurance Company in 1932, the Richmond Insurance Company of New York on December 17, 1948, Allemania Fire Insurance Company of Pennsylvania in 1951, and the Southern Fire Insurance Company of North Carolina in 1956.

At December 31, 2007, the capital paid in was \$4,503,671 consisting of 928,592 shares of common stock at \$4.85 par value per share. Gross paid in and contributed surplus was \$182,133,304. Gross paid in and contributed surplus increased by \$53,799,804 during the examination period, as follows:

<u>Year</u>	<u>Description</u>	<u>Amount</u>
2003	Beginning gross paid in and contributed surplus	\$128,333,500
2004	Surplus contribution	\$765,100
2005	Surplus contribution	31,839,789
2006	Surplus contribution	18,772,270
2007	Surplus contribution	<u>2,422,645</u>
	Total surplus contributions	<u>53,799,804</u>
2007	Ending gross paid in and contributed surplus	<u>\$182,133,304</u>

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-five members. The Company's approved by-laws require one meeting per year. At December 31, 2007, the board of directors was comprised of the following fifteen members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
John Michael Berger Alpharetta, GA	Executive Vice President, Westchester Fire Insurance Company
Dennis Albert Crosby, Jr. Suwanee, GA	President, Westchester Fire Insurance Company
William Nicholas Curcio Garden City, NY	Executive Vice President, ACE American Insurance Company
Brian Edward Dowd Newtown, PA	Chairman of the Board, ACE Group Holdings
James Malcolm English Newtown, PA	Executive Vice President, Westchester Fire Insurance Company
William Paul Garrigan Milton, GA	Executive Vice President, Westchester Fire Insurance Company
Bruce Lloyd Kessler Philadelphia, PA	Executive Vice President & Chief Underwriting Officer, ACE American Insurance Company
Michael Benjamin Kessler Atlanta, GA	Board Member, Actuary, ACE American Insurance Company
Louis David Levinson Manhasset, NY	Executive Vice President, Westchester Fire Insurance Company
David James Lupica Alpharetta, GA	Executive Vice President, Westchester Fire Insurance Company
John Joseph Lupica Newtown, PA	Executive Vice President, ACE American Insurance Company
Francis William McDonnell Marlton, NJ	Senior Vice President, Chief Financial Officer & Treasurer, ACE American Insurance Company
Kathleen Kane Morrison Alpharetta, GA	Senior Vice President, General Counsel and Assistant Secretary, Westchester Fire Insurance Company

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Paul Gerard O'Connell Milltown, NJ	Senior Vice President and Chief Actuary, ACE American Insurance Company
Adam Michael Schnell New York, NY	Board Member, Vice President Casualty, Westchester Fire Insurance Company

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 has an acceptable record of attendance.

As of December 31, 2007, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Dennis Albert Crosby Jr.	President
George Dennis Mulligan	Secretary
Francis William McDonnell	Treasurer

B. Territory and Plan of Operation

As of December 31, 2007, the Company was licensed to write business in all fifty states of the United States and the District of Columbia, Guam, Puerto Rico and the U.S. Virgin 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

<u>Paragraph</u>	<u>Line of Business</u>
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
26	Gap
28	Service contract reimbursement
29	Legal services insurance

The Company is also authorized to write such workers' compensation insurance as may be incident to coverages 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, 69 Cong. as amended; 33 USC Section 901 et seq. as amended), and as authorized by Section 4102(c) of the New York Insurance Law, insurance of every kind or description outside of the United States, reinsurance of every kind or description.

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

<u>Calendar Year</u>	<u>New York State</u>	<u>Total Premiums</u>	<u>Premiums Written in New York State as a Percentage of Total Premium</u>
2003	\$65,690,406	\$499,550,754	13.15%
2004	\$71,889,012	\$426,711,419	16.85%
2005	\$47,411,582	\$406,759,981	11.66%
2006	\$57,816,426	\$451,724,387	12.80%
2007	\$45,660,699	\$438,057,646	10.42%

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 Company is part of one of the largest global insurance organizations in the world that provides a diversified range of insurance and reinsurance products and services to customers in more than 140 countries and jurisdictions and ranks among the largest commercial lines insurance organizations in the United States. See Section G – Risk Management and Internal Controls for work

performed on corporate governance and other than financial reporting risk, which require review of the holding company to properly assess the risk to the Company. The Company utilizes the services of independent retail and wholesale producers to distribute its products.

C. Reinsurance

Assumed reinsurance accounted for 36% of the Company's gross premium written at December 31, 2007. During the period covered by this examination, the Company's assumed reinsurance business has fluctuated since the last examination. The Company's assumed reinsurance program consists almost exclusively of reinsurance business assumed under a 90% quota share from an affiliate, Westchester Surplus Lines Insurance Company ("WSLIC"), a surplus lines insurer domiciled in Georgia. The Company utilizes reinsurance accounting as defined in the NAIC Accounting Practices and Procedures Manual, Statements of Statutory Accounting Principles ("SSAP") No. 62 for all of its assumed reinsurance business.

The company has structured its ceded reinsurance program to limit its maximum exposure on any one risk as follows:

Property business is protected with excess of loss reinsurance that reduces net limits to \$3 million per risk. There are also several natural catastrophe reinsurance protections in place as of December 31, 2007, as follows:

<u>Type of Treaty</u>	<u>Cession and Limits</u>
Non-U.S. Wind	50% of \$100 million excess of \$200 million; \$200 million excess of \$300 million 57% of \$175 million excess of \$500 million
Multi-year Peril-Specific Indemnity	\$200 million excess of \$570 million (supported by catastrophe bonds)
Earthquake (California, Pacific Northwest and Central U.S.)	25% of \$200 million excess of \$570 million
Earthquake (California, Pacific Northwest and Central U.S.) and US Hurricane	66% of \$150 million excess of \$770 million

On the casualty lines, quota share reinsurance is placed for primary general liability business. Treaty excess of loss and quota share reinsurance is purchased to maintain maximum net limits of \$3.1 million per policy for umbrella and \$4 million per policy for high excess business with

attachments of \$25 million or higher. Professional risk quota share reinsurance is purchased to maintain maximum net limits per policy of \$6 million in most cases.

These property and casualty lines were predominately placed with authorized, unaffiliated reinsurers.

It is noted that the Company is a party to various ceded reinsurance agreements that include affiliates of the Company as reinsureds. The Company and its affiliates do not participate in an intercompany pooling agreement; therefore, they are required to have an approved internal allocation agreement in order to determine how to allocate the coverage to each company. The Company submitted an internal allocation agreement; however, it was disapproved. It is recommended that the Company submit to the Department for non-disapproval, an acceptable internal allocation agreement for ceded reinsurance agreements that include affiliates as reinsureds, pursuant to the provisions of Section 1505(d) of the New York Insurance Law.

The reinsurance marketplace experiences continual shifts in risk appetite, as well as fluctuations in pricing, coverage, and terms/conditions. These market activities, coupled with corporate strategies such as mergers and acquisitions, re-domestications and the like are challenging for the Company to compare its current reinsurance programs with the program in effect at the time of the last examination.

Loss Portfolio Transfer/Retroactive Reinsurance

As of December 31, 2007, the Company was a party to the following retroactive reinsurance agreements:

Ridge Reinsurance Limited

Effective December 31, 1992, the Company and its affiliates, entered into a ceded retroactive reinsurance agreement with Ridge Reinsurance Limited, a non-affiliated special-purpose Bermuda reinsurer, whereby the reinsurer agreed to assume 85% of the Company's ultimate loss and allocated loss adjustment expenses in excess of \$755,073,000 retention and relating to accident years 1992 and prior. The agreement transferred initial reserves in the amount of \$117,300,000, for which the Company's former parent (Xerox Financial Services) paid an initial consideration of \$51,000,000. A special surplus account was established in the amount of \$117,300,000, representing the Company's

initial gain resulting from the transaction at inception. The agreement provides that the reinsurer will pay the ultimate up to a maximum aggregate amount of 85% of \$150,000,000.

Effective January 1, 1999, this loss agreement was novated to National Indemnity Company (“NICO”), an authorized non-affiliated reinsurer, in an agreement between Xerox Financial Services, the Company and its affiliates, Ridge Reinsurance Limited and NICO for \$95,025,000. It is noted that NICO entered into an underlying agreement with ACE Bermuda, whereby ACE Bermuda provided a guaranteed rate of return to NICO on the novation, thereby negating any transfer of risk to NICO. Correspondence relative to the novation agreement indicated that NICO would only agree to enter into the agreement if it was guaranteed a profit on the transaction. Since the transaction ultimately involved an affiliate of the Company, it should have been submitted to the Department for non-disapproval pursuant to the provisions of Section 1505(d) of the New York Insurance Department.

In 2008, the coverage under this agreement had been exhausted. At that time, the Company requested permission from the Department to novate the NICO agreement and have the remaining funds transferred to ACE Bermuda. The novation request was disapproved as not being fair and equitable to the Company by letter dated December 22, 2008. The Department suggested that since the coverage was exhausted on an incurred basis, the agreement should be canceled and the remaining funds be transferred to the Company; this has not been done.

It is recommended that the Company submit all agreements that involve affiliates of the Company pursuant to the provisions of Section 1505(d) of the New York Insurance Law.

As of the examination date, there is a contra-liability and special surplus fund in the amount of \$68,624,000 related to this agreement. The agreement was accounted for by the Company pursuant to the provisions of Department Regulation 108 and paragraphs 28 through 34 of SSAP 62.

National Indemnity Company (“NICO”)

Effective January 2, 1998, the Company and its affiliates entered into a ceded retroactive reinsurance agreement with NICO (“NICO Agreement”) whereby the reinsurer agreed to assume 75% of the Company’s ultimate loss and allocated loss adjustment expenses in excess of \$721,000,000 retention and relating to accident years 1996 and prior. The agreement transferred initial reserves in the amount of \$150,000,000, for which the Company paid an initial consideration

of \$150,000,000 and a former owner of the Company (Talegen Holdings, Inc.) paid \$134,000,000 for a total of \$284,000,000. There was no initial gain on this contract at inception. The agreement provides that the NICO will pay a maximum aggregate amount of 75% of \$1,000,000,000 of ultimate net losses in excess of the Company's retention. As of the examination date, there is a contra-liability in the amount of \$236,411,000 and a special surplus fund in the amount of \$103,404,000 related to this agreement. There is approximately \$488,100,000 of coverage remaining for adverse development based on the outstanding reserves. The agreement was accounted for by the Company pursuant to the provisions of Department Regulation 108 and paragraphs 28 through 34 of SSAP 62.

ACE Bermuda Insurance Ltd

Effective July 1, 1999 and incepting January 1, 1997, the Company and its affiliates entered into a ceded retroactive reinsurance agreement with an unauthorized affiliated reinsurer, ACE Bermuda Insurance, Ltd. whereby the reinsurer agreed to assume the remaining 25% of the Company's ultimate loss and allocated loss adjustment expense retained by the Company under the NICO Agreement. The agreement transferred initial reserves in the amount of \$43,000,000, for which the Company paid an initial consideration of \$43,000,000. There was no initial gain on this contract. The agreement provides that the reinsurer will pay the ultimate up to a maximum aggregate amount of 25% of \$200,000,000. As of the examination date, there is a contra-liability in the amount of \$42,459,000 and a special surplus fund of \$6,747,000 related to this agreement. Coverage under this agreement has been exhausted. The agreement was accounted for by the Company pursuant to the provisions of Department Regulation 108 and paragraphs 28 through 34 of SSAP 62.

Unauthorized Reinsurance

During the review of the Company's 2007 filed annual statements, the examiners tested the accuracy of the reporting for authorized/unauthorized reinsurers. The result of this testing indicates that the Company failed to follow the NAIC Annual Statement Instructions by not properly segregating the authorized from the unauthorized reinsurers. It was found that the Company had reported a number of reinsurers as authorized, when in fact, they were not. The total amount of these discrepancies was not material to the examination and, therefore, the report shows no change to the "Provision for reinsurance" for this discrepancy.

It is recommended that the Company report reinsurance transactions in its filed annual statement properly and in accordance with the NAIC Annual Statement Instructions. A similar comment was made on the prior report on examination.

The Company included a letter of credit in the amount of \$148,000 as an offset to reinsurance recoverable balances due from an unauthorized reinsurer in Schedule F, Part 5 of its 2007 annual filed statement. Upon review, it was noted that the named beneficiary on this letter of credit was the Company's affiliate, Westchester Surplus Lines Insurance Company. Part 79.1 (b) of Department Regulation 133 defines a beneficiary as follows:

“Beneficiary means the insurer in favor of which the letter of credit or its confirmation is established and shall include any successor by operation of law of any named beneficiary including, without limitation, any liquidator, rehabilitator, receiver or conservator.”

Another letter of credit was reported on Schedule F, Part 5 of the Company's 2007 filed annual statement in the amount of \$12,792,000; however, upon review the Company could provide only one letter of credit with a balance of \$6,395,973.

Neither of these errors had an effect on the Company's reported surplus as regards policyholders, however, it is recommended that the Company report letters of credit on its Schedule F, Part 5 only when the Company is the named beneficiary on the letter of credit and only at the available amount of the letter of credit as of the annual statement date. It is noted that a similar comment was made on the prior report on examination.

A sample of 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. 62. 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. 62.

During the period covered by this examination, the Company commuted various reinsurance agreements where it was a ceding reinsurer. These commutations resulted in a loss to the Company's surplus position.

Reinsurance Intermediaries

The Company was unable to provide the examiners with reinsurance intermediaries' authorization letters to test for compliance with Department's Regulation 98 which states the following:

- “a) (1) Where the reinsurance intermediary acts in procuring reinsurance for a licensed ceding insurer or accepting reinsurance for a licensed assuming insurer, such intermediary shall have written evidence from such insurer of authority to procure or accept specified types of reinsurance, and the scope of such authority.
- (2) The written evidence shall be executed by a responsible officer of the insurer granting the authority and shall include:
- (i) the name of insurer(s);
 - (ii) the kinds of insurance;
 - (iii) the type of reinsurance or retrocessions;
 - (iv) the limits of coverage; and
 - (v) the effective date and expiration date of the authority.”

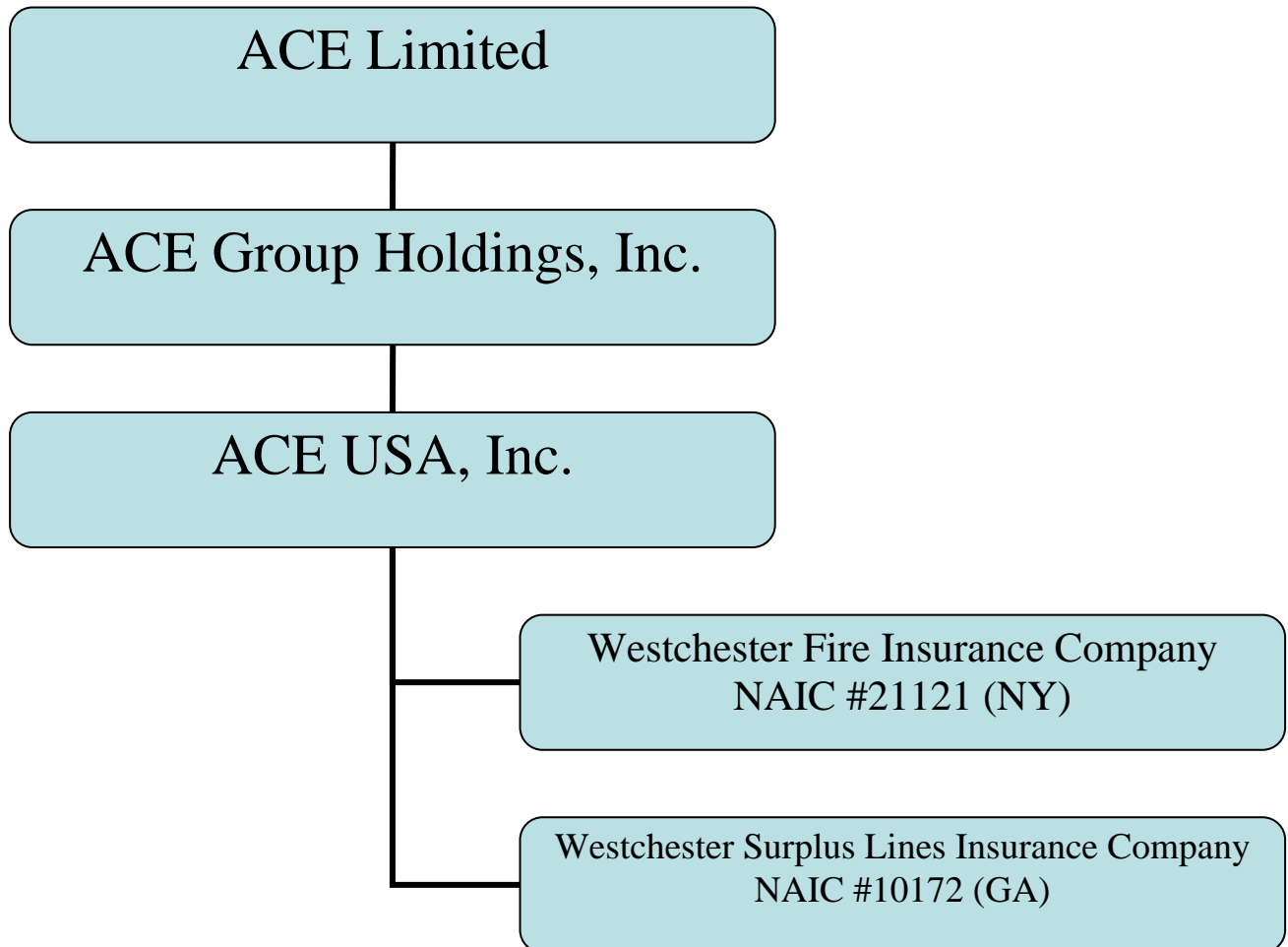
It is recommended that the Company enter into authorization letters with appointed intermediaries that comply with Department Regulation 98. A similar comment was made on the prior report on examination.

D. Holding Company System

The Company is a member of the ACE Limited Group (“ACE”). The Company is a wholly-owned subsidiary of ACE USA, Inc., a Delaware corporation, which is ultimately controlled by ACE, Ltd., a Bermuda holding company. It is noted that subsequent to the examination date, on July 18, 2008, ACE, Ltd. redomesticated to Zurich, Switzerland.

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 abbreviated chart of the holding company system at December 31, 2007:



At December 31, 2007, the Company was party to forty-one agreements with other members of its holding company system, comprised of 34 reinsurance agreements, six service agreements, and one tax allocation agreement (See Appendix A).

Of these, twenty-one agreements were submitted to the Department for either prior approval pursuant to Section 1505(c) or non-disapproval pursuant to Section 1505(d) of the New York Insurance Law. The remaining twenty were not submitted.

Section 1505(d) provides that reinsurance treaties or agreements:

“Between a domestic controlled insurer and any person in its holding company system may not be entered into unless the insurer has notified the superintendent in writing of its intention to enter into any such transaction at least thirty days prior thereto, or such shorter period as he may permit, and he has not disapproved it within such period.”

Reinsurance agreements were sampled to determine compliance with New York Insurance Law. The majority of these agreements were between certain ACE affiliates and unaffiliated reinsurers and were not submitted to the Department. Therefore, the Company is not in compliance with Section 1505(d) of the New York Insurance Law.

It is recommended that the Company file all inter-company agreements pursuant to the requirements of Section 1505(c) and (d) of the New York Insurance Law. A similar comment was made on the prior report on examination.

A listing of the significant non-reinsurance inter-company agreements in effect as of the examination date is as follows:

- Administrative agreement whereby Westchester Specialty Insurance Services, Inc. agreed to develop, market, and administer various vehicle service contracts for WFIC.
- Administrative services agreement for ACE American Insurance Company to provide accounting, data processing, tax and auditing, functional support, policyholder services, collection, payroll, commission payment, underwriting, claims administration, reinsurance recovery, public relations and promotional services to the Company.
- Service agreement with Century Indemnity Company, where Century Indemnity Company will provide claims adjusting services from asbestos exposure and environmental liabilities.

- Correspondent agreement between WFIC and Westchester Specialty Insurance Services, Inc. to provide underwriting, management and agent services for WFIC.
- Underwriting facility manager-company agreement with ACE Tempest USA, Inc. whereby WFIC provides surety reinsurance projects primarily, though not exclusively, through brokers to ACE Tempest.
- Administrative services agreement for WFIC to provide certain underwriting claims handling and administrative services to Westchester Surplus Lines Insurance Company.
- Tax allocation agreement by and among ACE US Holdings, Inc., ACE USA, Inc. (“ACE Tempest”), WFIC, Westchester Surplus Lines Insurance Company and Westchester Specialty Insurance Services Inc.

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2007, based upon the results of this examination:

Net premiums written to surplus as regards policyholders	64%
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	78%
Premiums in course of collection to surplus as regards policyholders	12%

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:

	<u>Amounts</u>	<u>Ratios</u>
Losses and loss adjustment expenses incurred	\$2,001,835,061	66.31%
Other underwriting expenses incurred	514,646,910	17.05
Net underwriting loss	<u>502,304,026</u>	<u>16.64</u>
Premiums earned	<u>\$3,018,785,997</u>	<u>100.00%</u>

F. Accounts and Records

A review of the Company's accounts, records and annual statement reporting revealed the following:

1. Contract with PricewaterhouseCoopers LLP

A review of the Company's 2007 contract with its independent certified public accountant ("CPA") revealed that the contract does not comply with the requirements specified in Section 89.2 of Department Regulation 118 and with Section 243.2 of Department Regulation 152. Section 89.2 of Department Regulation 118 states, in part, that:

“. . . Such contract must specify that:

- (a) on or before May 31st, the CPA shall provide an audited financial statement of such insurer and of any subsidiary required by section 307(b)(1) of the Insurance Law together with an opinion on the financial statements of such insurer and any such subsidiary for the prior calendar year and an evaluation of the insurer's and any such subsidiary's accounting procedures and internal control systems as are necessary to the furnishing of the opinion;
- (b) any determination by the CPA that the insurer has materially misstated its financial condition as reported to the superintendent or that the insurer does not meet minimum capital or surplus to policyholder requirements set forth in the Insurance Law shall be given by the CPA, in writing, to the superintendent within 15 calendar days following such determination; and
- (c) The workpapers and any communications between the CPA and the insurer relating to the audit of the insurer shall be made available for review by the superintendent at the offices of the insurer, at the Insurance Department or at any other reasonable place designated by the superintendent. The CPA must retain for review such workpapers and communications in accordance with the provisions of Part 243 of this Title (Regulation 152). More specifically, such workpapers and communications must be retained by the CPA for the period specified in sections 243.2(b)(7) and (c) of this Title .”.

It is recommended that the Company ensure that all future contracts entered into with its independent certified public accountants comply with Department Regulation 118. A similar comment was made on the prior report on examination.

2. Annual Statement Preparation

During this examination, the following errors in reporting certain items in the filed 2007 Annual Statement have been identified:

- i. In Schedule E – Part 1 – Cash, the Company incorrectly identified the bank holding its cash deposit of \$120,728,000 as State Street Bank. The bank should have been identified as Wachovia Bank N.A.
- ii. In the General Interrogatories, the Company listed as investment managers, Columbia Management and Blackrock Financial Management, Inc. The correct advisors were Banc One and Wellington.
- iii. In Schedule F – Part 5, the Company incorrectly reported a letter of credit with a stated value of \$12,792,000 instead of a confirmed value of \$6,395,973 with regard to Aspen Insurance Ltd.

It is recommended that the Company exhibit greater care in the preparation of its filed Annual Statement and complete said statement in compliance with the NAIC Annual Statement Instructions. A similar comment was made on the prior report on examination.

3. Evaluation of Controls in Information Systems (“IS”)

The IS portion of the examination was performed in accordance with the NAIC Financial Condition Examiners Handbook. The review of the IS controls included IS management and organizational controls, application and operating system software change controls, system and program development controls, overall systems documentation, logical and physical security controls, contingency planning; local and wide area networks, and mainframe controls.

The Information Technology (“IT”) examination team reviewed the Exhibit C questionnaire and prepared a “Risk Universe” to review for adequate coverage of the Company’s IT key controls for general and application level controls. This key tool allowed the examiners to determine gaps in potential coverage. The IT examination team performed a “desk review” of the work of various parties’ IT workpapers (i.e., the Company’s SOX testing of IT controls, Internal Audit IT testing coverage, and the work of the external auditors, PwC) to assess quality of work and thoroughness of testing. The result of this extensive desk review resulted in the IT examination team concluding that adequate testing/coverage has been performed by these three key groups. This desk review, plus the review of the NAIC Handbook Exhibit C documents, constituted the bulk of the work performed by the examiners related to IT risks and controls. The examiners utilized the control objectives for

information and related technology (“COBIT”) framework as a measure of the Company’s understanding of the IT environment and the effectiveness of its process for identifying and mitigating IT related risks.

The IT examination team concluded that the residual risk associated with the IT general controls and IT general application controls is moderate. The examination team believes the Company has mitigated its IT residual risk through appropriate testing and analysis performed as related to its compliance with SOX guidelines despite not being a regulatory requirement.

As a result of the procedures performed, the IT examination team obtained reasonable assurance that IT general controls and general application controls were functioning as management intended and that an effective system of controls is in place and conducive to the accuracy and reliability of financial information processed and maintained by the Company.

G. Risk Management and Internal Controls

Exhibit M of the NAIC Financial Condition Examiners Handbook was utilized as guidance for assessing corporate governance. Overall, it was determined that the Company’s corporate governance structure is adequate. The Company’s corporate governance framework sets an appropriate “tone at the top”, supports a proactive approach to operational risk management, and contributes to an effective system of internal control. It was found the board of directors and key executives encourage integrity and ethical behavior throughout the Company and senior management promotes a corporate culture that acknowledges, understands, and maintains an effective control environment.

The Company has adopted the enterprise risk management (“ERM”) framework for proactively addressing and mitigating risks, including prospective business risks. The Company’s corporate governance was found to be effective, contributing to its entity level (or monitoring level) controls, including prospective risks. The Company deals proactively with its areas of risk and is knowledgeable about mitigation strategies. The Company’s overall risk management process is well-defined and takes the initiative to identifying, tracking, and monitoring current significant and emerging risk factors. The Company has assigned its forty-three key enterprise risks to the board of directors level for monitoring which we believe is a best practice. Thirty-nine of the forty-three risks identified by the Company have been assigned to the finance committee or audit committee of the

ACE Limited board of directors. Our discussion with management and testing of the prospective risks confirmed a robust risk identification and strong risk mitigation process.

The Company established the internal audit department (“IAD”) function to serve the audit committee of the board of directors (“the audit committee”), which is comprised entirely of external voting directors. IAD also assists all levels of management by reviewing and testing financial and operational controls and processes established by management to ensure compliance with laws, regulations, and company policy. The scope of the internal audit program is coordinated with the Company’s independent accountants to ensure adequate coverage and maximum efficiency. Each year, a comprehensive risk-based joint audit plan is prepared and presented to the audit committee and to senior management.

3. FINANCIAL STATEMENTS

A Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2007 as determined by this examination and as reported by the Company:

<u>Assets</u>	<u>Assets</u>	<u>Examination</u> Assets Not <u>Admitted</u>	Net Admitted <u>Assets</u>
Bonds	\$1,894,333,225	\$ 0	\$1,894,333,225
Preferred stocks	11,175,994	0	11,175,994
Common stocks	151,503,162	0	151,503,162
Cash, cash equivalents and short-term investments	165,180,716	0	165,180,716
Other invested assets	9,588,025	0	9,588,025
Receivable for securities	1,494,755	0	1,494,755
Securities on loan	95,194,882	0	95,194,882
Investment income due and accrued	17,354,565	0	17,354,565
Uncollected premiums and agents' balances in the course of collection	103,284,877	6,043,035	97,241,842
Deferred premiums, agents' balances and installments booked but deferred and not yet due	1,222,339	0	1,222,339
Amounts recoverable from reinsurers	44,471,796	0	44,471,796
Funds held by or deposited with reinsured companies	3,416,497	0	3,416,497
Net deferred tax asset	64,813,931	30,690,754	34,123,177
Furniture and equipment, including health care delivery assets	1,927	1,927	0
Receivables from parent, subsidiaries and affiliates	16,793,415	952,741	15,840,674
All other miscellaneous assets	<u>985,831</u>	<u>237,593</u>	<u>748,238</u>
Total assets	<u>\$2,580,815,937</u>	<u>\$37,926,050</u>	<u>\$2,542,889,887</u>

Liabilities, Surplus and Other FundsLiabilities

Losses		\$1,030,787,882
Reinsurance payable on paid losses and loss adjustment expenses		36,113,388
Loss adjustment expenses		257,818,168
Commissions payable, contingent commissions and other similar charges		12,002,066
Other expenses (excluding taxes, licenses and fees)		9,583
Taxes, licenses and fees (excluding federal and foreign income taxes)		7,568,545
Current federal and foreign income taxes		34,650,869
Unearned premiums		332,333,628
Ceded reinsurance premiums payable (net of ceding commissions)		43,924,057
Amounts withheld or retained by company for account of others		153,802,089
Remittances and items not allocated		(74,820)
Provision for reinsurance		48,239,144
Drafts outstanding		(5,266,983)
Payable to parent, subsidiaries and affiliates		20,971,879
Payable for securities		15,201,551
Retroactive reinsurance		(347,493,500)
Collateral securities on loan		95,194,882
Accrued post retirement benefit obligations		2,816,644
All other miscellaneous liabilities		<u>1,358,295</u>
Total liabilities		\$1,739,957,367

Surplus and other funds

Retroactive reinsurance	\$178,774,500	
Common capital stock	\$4,503,671	
Gross paid in and contributed surplus	182,133,304	
Unassigned funds (surplus)	<u>437,521,045</u>	
Surplus as regards policyholders		<u>802,932,520</u>
Total liabilities, surplus and other funds		<u>\$2,542,889,887</u>

NOTE: The Internal Revenue Service has completed its audits of the Company's consolidated Federal Income Tax returns through tax year 2004. 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 2005 through 2007 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. Underwriting and Investment Exhibit

Surplus as regards policyholders increased \$736,955,022 during the five-year examination period January 1, 2003 through December 31, 2007, detailed as follows:

Underwriting Income

Premiums earned		\$3,018,785,997
Deductions:		
Losses incurred	\$1,628,475,791	
Loss adjustment expenses incurred	373,359,270	
Other underwriting expenses incurred	<u>514,646,910</u>	
Total underwriting deductions		<u>2,516,481,971</u>
Net underwriting gain or (loss)		\$ 502,304,026

Investment Income

Net investment income earned	\$ 387,440,463	
Net realized capital gain	<u>3,149,027</u>	
Net investment gain or (loss)		390,589,490

Other Income

Net gain or (loss) from agents' or premium balances charged off	\$ (571,386)	
Aggregate write-ins for miscellaneous income	<u>38,604,411</u>	
Total other income		<u>38,033,025</u>
Net income after dividends to policyholders but before federal and foreign income taxes		\$ 930,926,541
Federal and foreign income taxes incurred		<u>259,672,700</u>
Net income		<u>\$ 671,253,841</u>

C. Capital and Surplus Account

Surplus as regards policyholders per report on examination as of December 31, 2002			\$65,977,498
	<u>Gains in</u> <u>Surplus</u>	<u>Losses in</u> <u>Surplus</u>	
Net income	\$671,253,841		
Net unrealized capital gains or (losses)	24,379,766		
Change in net unrealized foreign exchange capital gain (loss)	2,729		
Change in net deferred income tax	19,083,294		
Change in nonadmitted assets	53,222,874		
Change in provision for reinsurance	34,934,569		
Surplus adjustments paid in	53,799,804		
Dividends to stockholders		\$134,714,151	
Aggregate write-ins for gains and losses in surplus	<u>14,992,296</u>	<u>0</u>	
Total gains and losses	<u>\$871,669,173</u>	<u>\$134,714,151</u>	
Net increase (decrease) in surplus			<u>736,955,022</u>
Surplus as regards policyholders per report on examination as of December 31, 2007			<u>\$802,932,520</u>

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of \$1,288,606,050 is the same as reported by the Company as of December 31, 2007. 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.

The Department's review of the actuarial workpapers underlying the 2007 statement of actuarial opinion finds that the Company is not in compliance with the NAIC Annual Statement Instructions which prescribe that exhibits in the actuarial report include a clear roadmap connecting the underlying raw data to the top-level summary exhibits.

It is recommended that the Company comply with the NAIC Annual Statement Instructions and ensure that the workpapers underlying the statement of actuarial opinion are clear and map the underlying raw data to the top-level summary exhibits. A similar comment was made on the prior report on examination.

During this examination, the Company did not comply with SSAP No. 55, Paragraph 5, Subparagraph c.

SSAP No. 55 describes, in part, how loss adjustments are to be classified into two categories and provides a list of how expense items are allocated into these two categories. The review of the methodology employed by the Company indicates that the allocation is not in compliance with SSAP No. 55, Paragraph 5, Subparagraph c, which states, in part:

“Loss adjustment expenses can be classified into two broad categories: Defense and Cost Containment (“DCC”) and Adjusting and Other (“AO”). . . .”

It is recommended that the Company allocate its loss adjustment expenses in compliance with SSAP No. 55, Paragraph 5, Subparagraph c. A similar comment was made on the prior report on examination.

5. **SUMMARY OF COMMENTS AND RECOMMENDATIONS**

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Reinsurance</u>	
i. It is recommended that the Company submit to the Department for non-disapproval, an acceptable internal allocation agreement for ceded reinsurance agreements that include affiliates as reinsureds, pursuant to the provisions of Section 1505(d) of the New York Insurance Law.	8
ii. It is recommended that the Company submit all agreements that involve affiliates of the Company pursuant to the provisions of Section 1505(d) of the New York Insurance Law.	9
iii. It is recommended that the Company report reinsurance transactions in its filed annual statement properly and in accordance with the NAIC Annual Statement Instructions.	11
iv. It is recommended that the Company report letters of credit on its Schedule F, Part 5 only when the Company is the named beneficiary on the letter of credit and only at the available amount of the letters of credit as of the annual statement date.	11
v. It is recommended that the Company enter into authorization letters with appointed intermediaries that comply with Department Regulation 98.	12
B. <u>Holding Company System</u>	
i. It is recommended that the Company file all inter-company agreements pursuant to the requirements of Section 1505(c) and (d) of the New York Insurance Law.	14
C. <u>Accounts and Records</u>	
i. It is recommended that the Company ensure that all future contracts entered into with its independent certified public accountants comply with Department Regulation 118.	16
ii. It is recommended that the Company exhibit greater care in the preparation of its filed Annual Statement and complete said statement in compliance with the NAIC Annual Statement Instructions.	17

ITEMPAGE NO.

- D. Losses and Loss Adjustment Expenses
- i. It is recommended that the Company comply with the NAIC Annual Statement Instructions and ensure that the workpapers underlying the statement of actuarial opinion are clear and map the underlying raw data to the top-level summary exhibits. 23
 - ii. It is recommended that the Company allocate its loss adjustment expenses in compliance with SSAP No. 55, paragraph 5, subparagraph c. 24

APPENDIX A

A) Agreements Filed For Which Non-disapproval Letters or Some Equivalent Have Been Reviewed

1. An administrative agreement was entered into by and between Westchester Specialty Insurance Services, Inc. (“WSIS”) and WFIC. Effective March 1, 1999, WSIS agreed to develop, market, and administer various vehicle service contract programs for WFIC. Effective November 15, 2007, the Agreement was amended to revise the due dates for amounts paid under the agreement.
2. WFIC entered into an underwriting facility manager-company agreement with its affiliate, ACE Tempest USA, Inc. (‘ATR’), effective December 5, 2001. WFIC provides surety reinsurance projects primarily, though not exclusively, through brokers. Effective September 18, 2008, the agreement was amended to reduce and clarify underwriting authorities, as well as reflect ATR’s status as an LLC.
3. ACE American Insurance Company, a Pennsylvania affiliate (“ACE American”), and WFIC entered into an administrative services agreement effective February 21, 2002 and as amended August, 1, 2007, whereby ACE American agreed to make available to WFIC, upon request, such services and facilities as WFIC may determine necessary to conduct its insurance business. The facilities shall include, without limitation, data processing equipment, payroll processing equipment, business property (whether owned or leased), and communications equipment. The services shall include, without limitation, accounting, data processing, tax and auditing, functional support, policyholder services, collection, payroll, commission payment, underwriting, claims administration, reinsurance recovery, public relations, and promotional services.
4. Effective January 1, 1993, an administrative services agreement was entered into by WFIC and Westchester Surplus Lines Insurance Company. Under the agreement WFIC provides certain underwriting, claims handling and administrative services to WSLIC. Effective February 29, 2008, the Agreement was amended to provide for specified due dates for payments of amounts owed under the Agreement.
5. Effective October 1, 2001, a service agreement was entered into by and between Century Indemnity Company, an affiliate, WFIC and Westchester Surplus Lines Insurance Company in which Century Indemnity Company performs certain claims adjusting services for claims arising from asbestos exposure and environmental liabilities. Effective November 15, 2007, the agreement was amended to update Schedule II, “Schedule of Address for Notices to Parties.” Industrial Underwriters Insurance Company (TX) terminated its participation when sold effective September 2, 2005.
6. Correspondent agreement between Westchester Fire Insurance Company and Westchester Specialty Insurance Services, Inc. (“WSIS”), effective January 1, 1995. Westchester Specialty Insurance Services agrees to provide its services as underwriter, manager and agent to Westchester Fire Insurance Company subject to specific terms and conditions. In 2004, \$0 was paid for these services. Notice was sent to the Department that this agreement was terminated effective February 15, 2008.

7. On May 1, 2007, a termination and adoption agreement and amendment was executed amending the tax allocation agreement. The amendment changed the first “whereas” clause to “WHEREAS the entities listed in Exhibits A and B are parties to the Agreement” and changed ACE Group Holdings’ name (formerly known as “ACE Prime Holdings Inc.”). It also terminated the participation of listed entities that were no longer parties to the agreement as such companies were sold, dissolved or merged out of existence.

8. Quota share reinsurance contract between Westchester Surplus Lines Insurance Company, Westchester Specialty Insurance Services, Inc. and Westchester Fire Insurance Company, effective January 1, 1995 and amended November 1, 2007. Westchester Fire assumes by quota share reinsurance 90% of Westchester Surplus Lines’ “Net Liability” under the “policies” in force on or after January 1, 1995 but not those risks in the State of New York.

9. Medical professional quota share reinsurance contract by and between ACE Tempest Reinsurance Ltd. (“Reinsurer”) and Westchester Fire Insurance Company effective October 1, 2005. This Agreement covers business classified as medical risk business, as outlined in Article 3 of the agreement. For Section A, Reinsurer is liable for up to a 51.20% of a maximum limit of \$25,000,000. For Section B, Reinsurer is liable for up to 58.00% of a maximum limit of \$10,000,000.

10. Professional risk quota share reinsurance contract by and between ACE Tempest Reinsurance Ltd. (“Reinsurer”) and Westchester Fire Insurance Company effective October 1, 2005. This agreement covers business classified as directors and officers liability, errors and omissions liability and professional liability as set out in Article 3 of the Agreement. For Section A, Reinsurer is liable for up to a 60.00% of a maximum limit of \$25,000,000. For Section B, Reinsurer is liable for up to a 64.00% limit of \$20,000,000.

11. Wholesale directors and officers and errors and omissions quota share reinsurance contract by and between ACE Tempest Reinsurance Ltd. and Westchester Fire Insurance Company effective October 1, 2005. This Agreement covers business classified as wholesale produced directors and officers and errors and omissions insurance, as set out in Article 3. For Sections A and B, Reinsurer is liable for up to a 48.00% quota share.

12. A quota share retrocession agreement was entered into by and between ACE Tempest Reinsurance Ltd. (“Retrocessionnaire”) and Westchester Fire Insurance Company (“Reinsurer”) effective June 15, 2003. The Reinsurer will cede to the Retrocessionnaire, the Retrocessionnaire will effect, an 80% quota share participation of each loss, allocated loss adjustment expense and declaratory judgment expense of each and every reinsurance contract in respect to all surety and related liability reinsurance business produced and bound by the Reinsurer pursuant to the underwriting facilities manager-company agreement between Reinsurer and ACE Tempest Re USA, LLC.

13. Aviation voluntary settlements and medical expenses quota share reinsurance contract between ACE American Insurance Company, ACE Property and Casualty Insurance Company, Westchester Fire Insurance Company and Westchester Surplus Lines Insurance Company, for themselves and on behalf of each member of the ACE INA Group of Companies, and certain underwriting members of Lloyd’s (includes No. 2488), effective May 1, 2003.

14. Aviation voluntary settlements and medical expenses quota share reinsurance contract between ACE American Insurance Company, ACE Property and Casualty Insurance Company, Westchester Fire Insurance Company and Westchester Surplus Lines Insurance Company, for themselves and on behalf of each member of the ACE INA Group of Companies, and certain underwriting members of Lloyd's (includes No. 2488), effective May 1, 2004.
15. Aviation voluntary settlements quota share reinsurance contract between ACE American Insurance Company, ACE Property and Casualty Insurance Company, Westchester Fire Insurance Company and Westchester Surplus Lines Insurance Company, for themselves and on behalf of each member of the ACE INA Group of Companies, and certain underwriting members of Lloyd's (includes No. 2488), effective May 1, 2005.
16. Aviation voluntary settlements a quota share reinsurance contract between ACE American Insurance Company, ACE Property and Casualty Insurance Company, Westchester Fire Insurance Company and Westchester Surplus Lines Insurance Company, for themselves and on behalf of each member of the ACE INA Group of Companies, and ACE Overseas General, effective May 1, 2006.
17. Aviation voluntary settlements a quota share reinsurance contract between ACE American Insurance Company, ACE Property and Casualty Insurance Company, Westchester Fire Insurance Company and Westchester Surplus Lines Insurance Company, for themselves and on behalf of each member of the ACE INA Group of Companies, and ACE European Group Ltd., effective May 1, 2007.
18. Liability risk excess reinsurance contract between ACE American Insurance Company, ACE Property and Casualty Insurance Company, Westchester Fire Insurance Company and Westchester Surplus Lines Insurance Company, for themselves and on behalf of each member of the ACE INA Group of Companies, and certain underwriting members of Lloyd's (includes No. 2488), effective May 1, 2004.
19. Liability risk excess reinsurance contract between ACE American Insurance Company, ACE Property and Casualty Insurance Company, Westchester Fire Insurance Company and Westchester Surplus Lines Insurance Company, for themselves and on behalf of each member of the ACE INA Group of Companies, and certain underwriting members of Lloyd's (includes No. 2488), effective May 1, 2005.
20. Liability risk excess reinsurance contract between ACE American Insurance Company, ACE Property and Casualty Insurance Company, Westchester Fire Insurance Company and Westchester Surplus Lines Insurance Company, for themselves and on behalf of each member of the ACE INA Group of Companies, and certain underwriting members of Lloyd's (includes No. 2488), effective May 1, 2006.
21. Liability risk excess reinsurance contract between ACE American Insurance Company, ACE Property and Casualty Insurance Company, Westchester Fire Insurance Company and Westchester Surplus Lines Insurance Company, for themselves and on behalf of each member of the ACE INA Group of Companies, and certain underwriting members of Lloyd's (includes No. 2488), effective May 1, 2007.

B) Agreements That Have Not Been Filed

1. Reinsurance agreement between Westchester Fire Insurance Company and Industrial Underwriters Insurance Company ("IUICo") (Texas). Includes service agreement language in paragraph 4, effective January 1, 1993. Westchester Fire reinsured and assumed one hundred per cent (100%) of the gross liability of the Reinsured under all business written by the Reinsured on and after January 1, 1993. This agreement includes the administrative services agreements between Westchester Fire Insurance Company ("WFIC") and Westchester Surplus Lines Insurance Company ("WSLIC") (formerly Industrial Underwriters Insurance Company (Hawaii)), effective January 1, 1993. WFIC performs certain underwriting and administrative services for and on behalf of WSLIC. This was filed as part of the Talegen Holdings, Inc. (formerly Crum & Forster) (now "Westchester") restructuring plan. Industrial Underwriters Insurance Company (TX) terminated its participation when sold effective September 2, 2005.

2. Reinsurance agreement between Westchester Fire Insurance Company and Industrial Underwriters Insurance Company effective January 1, 1993. Includes service agreement language in paragraph 4, effective January 1, 1993. Westchester Fire reinsured and assumed 100% of the gross liability of the reinsured under all business written by the reinsured on and after January 1, 1993. This agreement was terminated on September 2, 2005, when Industrial Underwriters Insurance Company was sold to a third party.

3. Excess of loss reinsurance agreement between Westchester Fire Insurance Company and ACE Bermuda Insurance Ltd, effective January 1, 2003. ACE Bermuda is to provide coverage for the Company's Municipal Property Program.

4. Reinsurance agreement between Westchester Fire Insurance Company and ACE Capital Re Overseas Ltd. (ACE Capital), effective January 1, 2001. ACE Capital will assume facultative reinsurance from Westchester Fire for lines of business for which Westchester Fire is licensed. This agreement was commuted on April 28, 2004 as ACE Capital and its parent were parties to an initial public offering.

5. First through third property per risk excess of loss reinsurance agreement, between WFIC, ACE Property and Casualty Insurance Company ("ACE P&C"), WSLIC and ACE American for themselves and on behalf of each member of the ACE INA Group of Companies. The Reinsurers provided 100% excess of loss for all business underwritten by Westchester Specialty Division and classified by the Company as Property including the incoming portfolio of Pennsylvania School District Program, effective January 1, 2003.

6. Liability risk excess reinsurance contract between ACE American Insurance Company, ACE Property and Casualty Insurance Company, Westchester Fire Insurance Company and Westchester Surplus Lines Insurance Company, for themselves and on behalf of each member of the ACE INA Group of Companies, and Certain Underwriting Members of Lloyd's (includes No. 2488), effective May 1, 2003.

7. Environmental quota share contract between Westchester Fire Insurance Company and various affiliates, for themselves and on behalf of each member of the ACE INA Group of Companies, and the Subscribing Reinsurers (including ACE Property and Casualty Insurance Company), effective December 1, 2006.

8. Environmental excess of loss contract between Westchester Fire Insurance Company and various affiliates, for themselves and on behalf of each member of the ACE INA Group of Companies, and the Subscribing Reinsurers (including ACE Property and Casualty Insurance Company), effective December 1, 2006.
9. Airmet legal liability quota share reinsurance contract between ACE American Insurance Company, ACE Property and Casualty Insurance Company, Westchester Fire Insurance Company and Westchester Surplus Lines Insurance Company, for themselves and on behalf of each member of the ACE INA Group of Companies, and certain underwriting members of Lloyd's (includes No. 2488), effective January 15, 2003.
10. Airmet legal liability quota share reinsurance contract between ACE American Insurance Company, ACE Property and Casualty Insurance Company, Westchester Fire Insurance Company and Westchester Surplus Lines Insurance Company, for themselves and on behalf of each member of the ACE INA Group of Companies, and certain underwriting members of Lloyd's (includes No. 2488), effective January 15, 2004.
11. Surety reinsurance contract between Westchester Fire Insurance Company and ACE INA Insurance (Canada), whereby the Company cedes all exposures related to Export Development Corporation, effective December 19, 2003.
12. Surety reinsurance contract between Westchester Fire Insurance Company and ACE INA Insurance (Canada), whereby the Company cedes all exposures related to Export Development Corporation, effective December 19, 2004.
13. Surety reinsurance contract between Westchester Fire Insurance Company and ACE INA Insurance (Canada), whereby the Company cedes all exposures related to Export Development Corporation, effective December 19, 2005.
14. Surety reinsurance contract between Westchester Fire Insurance Company and ACE INA Insurance (Canada), whereby the Company cedes all exposures related to Export Development Corporation, effective April 13, 2007.
15. Westchester Specialty Division second property per risk excess of loss contract between Westchester Fire Insurance Company and various affiliates, for themselves and on behalf of each member of the ACE INA Group of Companies, and subscribing reinsurers (including Lloyd's syndicate No. 2488), effective January 1, 2003.
16. Westchester Specialty Division second property per risk excess of loss contract between Westchester Fire Insurance Company and various affiliates, for themselves and on behalf of each member of the ACE INA Group of Companies, and subscribing reinsurers (including ACE European Group, Limited), effective January 1, 2004.
17. Westchester Specialty Division third property per risk excess of loss contract between Westchester Fire Insurance Company and various affiliates, for themselves and on behalf of each member of the ACE INA Group of Companies, and subscribing reinsurers (including ACE Bermuda Insurance, Ltd. and Lloyd's syndicate No. 2488), effective January 1, 2003.

18. Westchester Specialty Division Third Property per Risk Excess of Loss Contract between Westchester Fire Insurance Company and various affiliates, for themselves and on behalf of each member of the ACE INA Group of Companies, and Subscribing Reinsurers (including ACE Bermuda Insurance, Ltd. and ACE European Group, Limited), effective January 1, 2004.

19. Westchester Specialty Division Second Property per Risk Runoff Business - between Westchester Fire Insurance Company and various affiliates, for themselves and on behalf of each member of the ACE INA Group of Companies, and Subscribing Reinsurers (including ACE European Group, Limited), effective January 1, 2003.

20. Westchester Specialty Division Third Property per Risk Runoff Business - between Westchester Fire Insurance Company and various affiliates, for themselves and on behalf of each member of the ACE INA Group of Companies, and Subscribing Reinsurers (including ACE Bermuda Insurance, Ltd. and ACE European Group, Limited), effective January 1, 2004.

Respectfully submitted,

Cathie A. Stewart, CPA, CFE
Director

STATE OF NEW YORK)
)SS:
)
COUNTY OF NEW YORK)

Cathie A. Stewart, being duly sworn, deposes and says that the foregoing report, subscribed by him, is true to the best of his knowledge and belief.

Cathie A. Stewart

Subscribed and sworn to before me

this _____ day of _____, 2009.

Appointment No. 22660

STATE OF NEW YORK
INSURANCE DEPARTMENT

I, Eric R. Dinallo, Superintendent of Insurance of the State of New York,
pursuant to the provisions of the Insurance Law, do hereby appoint:

Cathie Stewart

as proper person to examine into the affairs of the

WESTCHESTER FIRE INSURANCE COMPANY

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

Company

with such other information as he shall deem requisite.

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

this 16th day of July, 2007



A handwritten signature in black ink, appearing to read "Eric Dinallo".

ERIC R. DINALLO
Superintendent of Insurance