

REPORT ON EXAMINATION

OF THE

ZURICH AMERICAN INSURANCE COMPANY

AS OF

DECEMBER 31, 2011

DATE OF REPORT

DECEMBER 13, 2012

EXAMINER

SHAWN TOWCHIK, CFE

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NEW YORK STATE
DEPARTMENT *of*
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Benjamin M. Lawsky
Superintendent

December 13, 2012

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

Sir:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 30775 dated January 6, 2012, attached hereto, I have made an examination into the condition and affairs of Zurich American Insurance Company as of December 31, 2011, and submit the following report thereon.

Wherever the designation “the Company” or “Zurich American” appears herein without qualification, it should be understood to indicate Zurich American Insurance Company.

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

Wherever the term “the 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 main administrative office located at 1400 American Lane, Schaumburg, Illinois 60196-1056.

1. SCOPE OF EXAMINATION

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

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

- American Guarantee and Liability Insurance Company (NY)
- American Zurich Insurance Company (IL)
- Assurance Company of America (NY)
- Colonial American Casualty and Surety Company (MD)
- Empire Fire & Marine Insurance Company (NE)
- Fidelity and Deposit Company of Maryland (MD)
- Maryland Casualty Company (MD)
- Northern Insurance Company of New York (NY)
- Steadfast Insurance Company (DE)
- Zurich American Insurance Company (NY)
- Zurich American Insurance Company of Illinois (IL)

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

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 and management’s compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All financially significant accounts and activities of the Company were considered in accordance with the risk-focused examination process. This examination also included a review and evaluation of the Company’s own control environment assessment and evaluation based upon the

Company's Internal Control Framework ("ICF") documentation and testing. The Company is not publicly traded and is not required to comply with the Sarbanes-Oxley Act of 2002. The Company has, in its place, initiated an ICF process with similar goals and objectives as that of the Sarbanes-Oxley Act with respect to documentation and testing of the Company's internal control environment. The examiner also relied upon audit work performed by the Company's independent certified public accountants when appropriate.

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

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

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

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

2. DESCRIPTION OF COMPANY

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

ZAIG, through its individual legal entities, has licenses in all fifty states, the District of Columbia, and several United States of America (“U.S.”) protectorates. It also provides coverage to the international companies on a “non-admitted” basis in foreign countries. It provides a variety of commercial insurance and risk management products and services to domestic and international companies. The property and casualty insurance companies within ZAIG are managed as one entity with no distinction in operations or strategy by legal entity.

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

At December 31, 2011, capital paid in was \$5,000,000 consisting of 5,000 shares of common stock at \$1,000 par value per share. Gross paid in and contributed surplus was \$4,394,131,320. Gross paid in and contributed surplus increased by an immaterial amount during the examination period.

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 members nor more than twenty-one members. At December 31, 2011, the Board of Directors was comprised of the following thirteen members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Earl Randall Clouser Princeton, NJ	Executive Vice President, Zurich American Insurance Company
Michael Thomas Foley Barrington Hills, IL	Chairman and Chief Executive Officer, Zurich American Insurance Company
Craig Jay Fundum Omaha, NE	Executive Vice President, Zurich American Insurance Company
Steven Michael Hatch Barrington, IL	Executive Vice President, Zurich American Insurance Company
Richard Patrick Kearns East Williston, NY	Director, Zurich American Insurance Company
Michael Gerard Kerner Wyckoff, NJ	Executive Vice President, Zurich American Insurance Company
Dennis Francis Kerrigan, Jr. North Barrington, IL	Executive Vice President and Corporate Secretary, Zurich American Insurance Company
Mary Rose Merkel Mount Prospect, IL	Executive Vice President, Zurich American Insurance Company
Nancy Diane Mueller Kildeer, IL	President, Zurich American Insurance Company
Daniel Wayne Riordan McLean, VA	Executive Vice President, Zurich American Insurance Company
Vibhu Ranjan Sharma Wayzata, MN	Executive Vice President and Chief Financial Officer, Zurich American Insurance Company
Angus Mark Talbot Horgen, Switzerland	Director, Zurich American Insurance Company
Vincent Christopher Tizzio Summit, NJ	Executive Vice President, Zurich American 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, 2011, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Michael Thomas Foley	Chief Executive Officer
Nancy Diane Mueller	President
Vibhu Ranjan Sharma	Executive Vice President, Chief Financial Officer
Dennis Francis Kerrigan, Jr.	Executive Vice President, Corporate Secretary
Barry Sajowitz Paul	Treasurer
Bob David Effinger, Jr.	Executive Vice President, Chief Actuary
Earl Randall Clouser	Executive Vice President
Martin Feuer	Executive Vice President
Craig Jay Fundum	Executive Vice President
Steven Michael Hatch	Executive Vice President
Michael Gerard Kerner	Executive Vice President
Tina Gaye Mallie	Executive Vice President
Mary Rose Merkel	Executive Vice President
John Clarence Parker	Executive Vice President
Daniel Wayne Riordan	Executive Vice President
Vincent Christopher Tizzio	Executive Vice President

B. Territory and Plan of Operation

As of December 31, 2011, the Company was licensed to write business in all fifty states, the District of Columbia, Guam, Puerto Rico, U.S. Virgin Islands, and the Northern Mariana Islands.

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

<u>Paragraph</u>	<u>Line of Business</u>
3	Accident & health
4	Fire
5	Miscellaneous property
6	Water damage
7	Burglary and theft
8	Glass
9	Boiler and machinery
10	Elevator
11	Animal

12	Collision
13	Personal injury liability
14	Property damage liability
15	Workers' compensation and employers' liability
16	Fidelity and surety
17	Credit
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine
21	Marine protection and indemnity
22	Residual value
24	Credit unemployment
26(A)(B)(C)(D)	Gap
27	Prize indemnification
28	Service contract reimbursement
29	Legal services

In addition, the Company is licensed to transact such workers' compensation insurance as may be 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 ("U.S.") as well as reinsurance of every kind or description.

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

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

DIRECT WRITTEN PREMIUMS

<u>Calendar Year</u>	<u>New York State</u>	<u>Total Premiums</u>	<u>Percentage of Premiums Written in New York State as a Percentage of Total Premiums</u>
2007	\$470,773,770	\$5,533,720,421	8.51%
2008	\$442,221,251	\$4,563,455,213	9.69%
2009	\$389,067,996	\$4,304,704,528	9.04%
2010	\$385,636,270	\$4,268,660,135	9.03%
2011	\$353,672,512	\$4,451,431,877	7.95%

In 2011, direct written premiums for the Company as well as ZAIG were produced by a combination of approximately 9,637 independent agents, 288 brokers, 136 general agents, and 464 captive agents. Agency produced business accounted for approximately 67% of direct written premiums with the remainder produced by brokers.

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

Central to the Company's business strategy is its customer-focused business divisions, which are supported by shared service units. These customer-focused business divisions operate through independent agents and brokers that have access to products and services through a nationwide network of four regional offices and eighty-eight field offices. The Company is divided into two strategic business divisions:

- Global Corporate in North America ("GCiNA"), which is the North American portion of Zurich Financial Services, Ltd.'s (Zurich), (Switzerland), Global Corporate business division; and
- North America Commercial ("NAC") which is part of Zurich's general insurance segment and represents its own business division within Zurich.

Global Corporate in North America

GCiNA is comprised of two key business segments, domestic business and global business. GCiNA is an integrated business meeting the domestic and international insurance needs of corporate and global companies by capitalizing on its unique transatlantic footprint and global network to deliver customized insurance solutions to its customers and brokers. The domestic business segment serves large corporate customers and commercial markets with domestic and global solutions that include property and custom-tailored casualty programs. This segment also includes integrated programs combining insurance and alternative risk mitigating solutions for corporate customers. The global business segment provides comprehensive risk solutions, risk engineering services and claims support to companies with multi-national and global risk management needs.

GCiNA is a key provider of risk management services for large and multinational customers, featuring a broad portfolio of solutions and services chosen by the majority of Fortune's Global 100 companies including workers' compensation, general liability, commercial automobile, highly protected risks, property, boiler and machinery, marine hull and liabilities, ocean cargo, energy property, and energy casualty.

GCiNA's core property and casualty lines, in tandem with other Zurich global business divisions, provide a broad variety of insurance and risk management services including custom-tailored casualty programs to large corporate and commercial businesses seeking global and domestic property-casualty solutions. Customers are offered insurance and risk management programs designed to help them reduce the cost of risk. This is achieved by developing an extensive knowledge about the needs of each customer through strong broker and customer relationships, together with distinctive underwriting, risk engineering, and claims solutions that leverage global knowledge and capabilities within the Zurich companies worldwide.

Customer service is delivered by a global network of Zurich offices in 50 countries and resources that extend GCiNA's reach to more than 170 countries worldwide. GCiNA's services are supported by the experience of more than 1,000 risk-engineering professionals and 8,000 claims professional around the globe. As a key business division of Zurich, Global Corporate has a significant presence in both North America and Europe.

North America Commercial

NAC provides a broad array of property and casualty insurance coverages (including both standard and specialty lines) to commercial customers in the U.S. NAC serves its customers through shared service units, which provide a unified approach to managing claims, managed care, risk engineering, information technology, marketing and other support services. NAC is subdivided into the following three primary business units:

- Commercial Markets and Customer Industry Segments,
- Specialty Products, and
- Programs and Direct Markets.

Commercial Markets

Commercial Markets is the primary market-facing business unit in NAC with a team of over 300 underwriters across the country. Commercial Markets strives to maintain a flexible and responsive approach to meeting the needs of its brokers and customers through focused risk management solutions that target its industry-leading segment strategy.

Customer Industry Segments (CIS) is NAC's newest business unit encompassing nine segments that offer significant growth in key industries: Construction, Environmental, Financial Institutions, Healthcare, International, Manufacturing, Real Estate, Technology, and General Industry Groups. The leaders within CIS are well-known in their industries and work closely with their colleagues in Commercial Markets, Specialty Products, and Programs and Direct Markets to support three areas of focus: growing top-line sales, increasing customer centricity and serving as thought leaders in their chosen markets.

Specialty Products

Specialty Products offers a unique set of insurance and risk management services. Specialty Products offers coverage for emerging, potentially volatile and unique third-party liability exposures through six strategic business units: Accident and Health, Casualty and Property, Credit and Political Risk, Healthcare, Management Solutions, and Surety.

Programs and Direct Markets

Programs have provided program coverage for more than fifty years, specializing in insurance for small and mid-sized commercial and professional markets. The Company provides a variety of coverages including commercial auto, general liability, professional liability, excess liability and property exposures for various target businesses and industry segments. Direct Markets specializes in providing insurance for businesses that sell or service autos, trucks, motorcycles and equipment and to auto recyclers.

The Programs and Direct Markets business unit is made up of seven strategic business units: Alternative Programs, Captives and Alternative Risk Transfer Solutions, Construction Services Programs, Direct Markets, Segmented Programs, Transportation, and New Programs.

C. Reinsurance

Assumed Reinsurance

Assumed reinsurance by the Company from non-affiliates was 3.87% of total gross written premium.

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

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

Inter-company Pooling Agreement

Effective January 1, 1999, the Company entered into an amended ZAIG inter-company pooling agreement which includes the Zurich American and seventeen affiliated insurers. Pursuant to the terms of the agreement, the participants cede 100% of all underwriting assets, liabilities and expenses, as well as underwriting income and losses (net of applicable reinsurance) to Zurich

American. There is no retrocession from the Zurich American to any of the pool participants. Subsequent to the January 1, 1999, revised and restated agreement, several amendments each adding or deleting participants in the pool have been made and this agreement was superseded by the Amended Intercompany Pooling Agreement effective January 1, 2009. At December 31, 2011, the following fourteen insurers participated in the pool:

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

Prior to cessions to the pooling agreement, the companies reduce their exposure to losses through facultative and treaty reinsurance. Article V of the pooling agreement provides that Zurich American agrees to be liable, for annual statement and other financial statement purposes, for any amount disallowed by any of the companies on account of reinsurance with unauthorized companies and any amount disallowed for non-admitted assets. Accordingly, only Zurich American reports a provision for reinsurance as the liability at December 31, 2011.

Total premium assumed by the Company from the affiliated companies participating in the pooling agreement represented 47.8% of the total gross written premium by the Company during the 2011 year.

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

Ceded Reinsurance

The Company reinsures a portion of the risks it underwrites in an effort to control its net exposure and limit the volatility to incurred losses by product line. The Company utilizes a variety of reinsurance agreements to control exposures to large property casualty losses. The Company utilizes

facultative reinsurance for policies with limits exceeding a threshold specific to each product line. The Company also purchased catastrophe reinsurance covering wind, earthquake, hurricane, and property damage.

The following is an overview of the Company's ceded reinsurance program in effect at December 31, 2011:

Specialties

<u>Type of Treaty</u>	<u>Cession</u>
NA Excess Casualty Quota Share:	
Lead Business	15% (5.25M Max Ceded Limit)
Excess Business	20% (7M Max Ceded Limit)
NA Combined Lines Excess of Loss:	
Excess Casualty Only	\$15,000,000 excess of \$35,000,000
Umbrella, Fidelity, RR, MM & DM Umbrella	\$25,000,000 excess of \$10,000,000
NA Surety Excess of Loss (3 layers):	
Layer 1	\$100,000,000 excess of \$50,000,000
Layer 2	\$25,000,000 excess of \$50,000,000
Layer 3	\$25,000,000 excess of \$75,000,000
	\$50,000,000 excess of \$100,000,000
NA Political Risk & Trade Credit Quota Share:	
Section 1- Political Risk	68.125% quota share up to \$150,000,000
Section 2- Trade Credit	55.125% quota share up to \$150,000,000
NA Excess Trade Credit Quota Share:	
Per Obligor / Per Policy	50% quota share up to \$75,000,000
All Obligors / One Policy	50% quota share up to \$150,000,000
All Obligors / All Policies	50% quota share up to \$200,000,000
A&H Medical Exp Quota Share:	
Multi Limit	50% quota share (Various Limits)

Middle Market

<u>Type of Treaty</u>	<u>Cession</u>
NA Property Per Risk Excess of Loss-MM Share:	
Two Layers	\$100,000,000 excess of \$50,000,000

Construction

<u>Type of Treaty</u>	<u>Cession</u>
NA Subguard & Professional Liability excess of loss:	\$20,000,000 excess of \$30,000,000

NA ACIG GL, AL & Umbrella Quota Share:	
Core Program	75% quota share up to \$3,000,000
AZ Program	50% quota share up to \$3,000,000
CCIP AZ Program	37.5% quota share up to \$2,000,000

NA Property Per Risk Excess of Loss - ZACD Share:	
Two Layers	\$100,000,000 excess of \$50,000,000

Zurich Integrated Products

<u>Type of Treaty</u>	<u>Cession</u>
NA Property Per Risk Excess of Loss - ZIP Share:	
Two Layers	\$100,000,000 excess of \$50,000,000

Canada

<u>Type of Treaty</u>	<u>Cession</u>
Auto/Casualty Excess Cover:	\$10,000,000 excess of \$20,000,000

Property / EB Per Risk Excess of Loss:	
Three Layers	\$130,000,000 excess of \$20,000,000

Property & Auto PD Cat Cover Excess of Loss:	\$925,000,000 excess of \$175,000,000
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Global Property Per Risk Excess of Loss:	
Layer 1	\$50,000,000 excess of \$150,000,000
Layer 2	\$115,000,000 excess of \$200,000,000

Programs and Direct Markets

<u>Type of Treaty</u>	<u>Cession</u>
NA Property Per Risk Excess of Loss - ZP&DM Share	
Two Layers	\$100,000,000 excess of \$50,000,000

CA Programs Specific EQ Cat Excess of Loss	
Two Layers	\$400,000,000 excess of \$200,000,000

NA Deans & Homer Pool Excess of Loss	F&D Pool Participation – Group I – 12% / Group II – 11.5%
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NA Group Captives Raffles Casualty Excess of Loss	\$500,000 excess of \$500,000
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QBE First Ceded Quota Share	80% quota share of all business subject to treaty (no limit)
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Global Corporate in North America

<u>Type of Treaty</u>	<u>Cession</u>
NA Property Per Risk Excess of Loss - GC Share Two Layers	\$100,000,000 excess of \$50,000,000

Global Property Per Risk Excess of Loss- GC Share: Three Layers	\$165,000,000 excess of \$150,000,000
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NA HPR Auto Facultative Excess of Loss	\$250,000,000 excess of \$315,000,000
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Global Strategic Risk Solutions Quota Share Integrated Book	42% quota share up to \$60,000,000
M&A Book	42% quota share up to \$25,000,000

Energy and Marine

<u>Type of Treaty</u>	<u>Cession</u>
Global Energy Property Per Risk Excess of Loss Three Layers	\$120,000,000 excess of \$30,000,000

Global Energy E&P Quota Share	66% quota share up to \$150,000,000
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Global Energy International Casualty Quota Share	60% quota share up to \$50,000,000
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Global Marine Program Excess of Loss Layer 1	\$7,500,000 excess of \$10,000,000
Layer 2	\$17,500,000 excess of \$17,500,000
Layer 3	\$25,000,000 excess of \$35,000,000
Layer 4	\$30,000,000 excess of \$60,000,000

Global Water Quality Insurance Syndicate Pool Excess of Loss	\$120,000,000 excess of \$1,000,000
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Corporate Catastrophe Covers

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

<u>Type of Treaty</u>	<u>Cession</u>
US Prop Cat Excess of Loss - All Peril Ex CA EQ Three Layers 1	\$400,000,000 excess of \$500,000,000
US Prop Cat Excess of Loss - Hurricane Only Two Layers	\$500,000,000 excess of \$900,000,000
California EQ Cat Bond	\$250,000,000 excess of \$577,000,000
Global Multi-Line Terrorism Aggregate Excess of Loss	\$300,000,000 excess of \$300,000,000
US WC Indexed Cat Excess of Loss Three Layers	\$300,000,000 excess of \$200,000,000
PCS Cat Aggregate Excess of Loss Two Layers	\$500,000,000 excess of \$400,000,000
Global Property Per Risk Excess of Loss - NAC Share	\$165,000,000 excess of \$150,000,000
International Top Layer Cat Excess of Loss - NA Share	\$100,000,000 excess of \$425,000,000
European Property Cat Excess of Loss - NA Share	EUR 1,200,000,000 excess of EUR 250,000,000
International Property Cat Excess of Loss - NA Share	\$250,000,000 excess of \$175,000,000

Corporate Internal Catastrophe Covers

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

<u>Type of Treaty</u>	<u>Cession</u>
Global Aggregate Excess of Loss	\$250,000,000 excess of \$1,000,000,000
US Property PCS Cat Aggregate Excess of Loss Two Layers	\$500,000,000 excess of \$400,000,000

Whole Account Quota Share

Effective July 1, 2001, the Company entered into a whole account quota share treaty with Zurich Insurance Company, Bermuda Branch (“Bermuda Branch of ZIC”). The Company periodically reviews its overall reinsurance programs relative to capital, the Company's willingness to accept underwriting volatility, and other risk management strategies. As a result of the Company's ongoing risk assessment, during 2005 the Company increased its cessions to the Bermuda Branch of ZIC from 23.81% in 2004 to 50% effective January 1, 2005. This increase has remained in effect throughout the period covered by the examination.

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

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

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

Additionally, management has represented that all material ceded reinsurance agreements transfer both underwriting and timing risk as set forth in SSAP No. 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 paragraphs 41 to 44 of SSAP No. 62.

During the examination period, the Company has effected commutation agreements pertaining to its reinsurance ceded business. These commutations resulted in a gain to the Company's surplus position.

D. Holding Company System

The Company is a wholly-owned subsidiary of Zurich Holding Company of America ("ZHCA"), a Delaware holding company, which in turn is 99.87% owned by Zurich Insurance Company (Switzerland) ("ZIC"). ZIC is wholly-owned by Zurich Financial Services, Ltd. (Switzerland) ("Zurich"). Effective April 29, 2012, Zurich changed its name to Zurich Insurance Group Ltd.

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

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

Zurich Financial Services Ltd. (Zurich, Switzerland)

100%	Allied Zurich Limited (UK)
12.1%	Farmers Group, Inc. (NV)
100%	Zurich Insurance Company Ltd (Zurich, Switzerland)
87.90%	Farmers Group, Inc. (NV)
	various 13 Direct and indirect 100% owned subsidiaries
99.87%	Zurich Holding Company of America, Inc. (DE) (remaining 0.1289% owned by Crown Management Services Limited)
100%	Zurich Global Investment Management Inc.
	100% Zurich CZI Management Holding Ltd.
100%	ZFUS Services, LLC
	100% ZNA Services, LLC
	100% Farmers Services, LLC
100%	Zurich American Corporation
	100% Maunaula Associates, Inc.
	75% KLMLP, LP
	100% Directly/indirectly owns 100% of KSMLP 2, 3 and Delta Wetlands Prop
	41.67% ZKS Real Estate Partners, LLC
	100% Zurich American Life Insurance Company (NY)
	100% Zurich American Life Insurance Company of New York (NY)
100%	Zurich Global, Ltd. (Bermuda)
100%	Zurich American Insurance Company
	100% Zurich E&S Brokerage, Inc.
	100% Empire Indemnity Insurance Company (OK)
	100% Empire Fire and Marine Insurance Company (NE)
	100% American Guarantee and Liability Insurance Company (NY)
	100% Steadfast Insurance Company (DE)
	100% Steadfast Santa Clarita Holdings LLC
	100% American Zurich Insurance Company (IL)
	100% Zurich American Insurance Company of Illinois (IL)
	100% Zurich Warranty Solutions, Inc.
100%	Fidelity and Deposit Company of Maryland (MD)
	100% Colonial American Casualty and Surety Company (MD)
100%	Maryland Casualty Company (MD)
	100% Assurance Company of America (NY)
	100% Northern Insurance Company of New York (NY)
	100% Zurich Agency Services, Inc. (TX)
100%	Universal Underwriters Insurance Company (KS)
	100% Universal Underwriters of Texas Insurance Company (TX)
	100% Universal Underwriters Life Insurance Company
100%	Sterling Forest LLC (DE)
	100% South County Services Co. Inc.
100%	ZI Park 80 West LLC
	100% L&L Park 80 Investors LLC

In addition to the entities indicated above, ZAIG includes affiliations with the Farmers Insurance Exchange, the Fire Insurance Exchange and the Truck Insurance Exchange, which in turn own entities grouped as Farmers, Foremost, Bristol West and 21st Century organizations (referred to collectively as Farmers Group).

In addition to the intercompany pooling arrangement previously discussed in the Reinsurance section of this report, the Company was a party to the following agreements with other members of its holding company system at December 31, 2011:

Amended and Restated Tax Allocation Agreement

Effective 1998, Zurich American has been a party to a tax sharing agreement between ZHCA and its subsidiaries. This agreement was amended in January 2006 in order to clarify that the intercompany tax settlements would be paid in cash or eligible investment securities as a result the new effective date of the agreement was January 1, 2006. The participants of the agreement record their apportioned tax liabilities and estimated tax payments according to terms of the agreement. In general, allocation is based upon a separate return calculation with no immediate benefit for a taxable loss, which is utilized in the current year consolidated return. Intercompany tax balances are settled within thirty days after any of the following events: the filing of the consolidated Federal income tax return; the payment of an estimated payment; an additional assessment of the consolidated tax liability; a refund of the consolidated tax liability; or any other adjustment to the member's apportioned tax liability in accordance with the terms of the tax sharing agreement. The agreement was filed with the Department pursuant to Section 1505 of the New York Insurance Law.

Intercompany Service Agreement – Centre Group Holdings Limited

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

Intercompany Service Agreement – Zurich Alternative Asset Management

Effective July 1, 2006 Zurich American participates in an intercompany services agreement with Zurich Alternative Asset Management, LLC (“ZAAM”). Under the terms of the agreement

Zurich American provides ZAAM administrative services such as accounting, payroll, human resources, real estate, payor, tax, and information technology. The agreement was filed with this Department pursuant to Section 1505 of the New York Insurance Law.

Intercompany Service Agreement – Zurich Global Investment Advisors

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

Investment Advisory Agreement – Zurich Global Investment Advisors & Zurich Investment Services

Effective January 1, 2003, Zurich American on behalf of itself and its direct and indirect subsidiaries entered into an investment advisory agreement with ZGI and Zurich Investment Services Limited (“ZIS”). Under the terms of the agreement ZGI provides investment advice and develops investment guidelines for the Company’s investment committee. ZIS provides record keeping services for the companies. Services include investment accounting and reporting such as, monthly security acquisition and disposition information and investment income summaries. On May 7, 2007 the Investment Advisory Agreement was amended to allow ZGI to sub-contract ZIC as sub-advisor effective January 1, 2007. The agreement was filed with this Department pursuant to Section 1505 of the New York Insurance Law.

Intercompany Service Agreement – Zurich Services Corporation

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

services, general claim adjusting services, worker's compensation hearing representation service and care center services.

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

Service Agreement – Zurich Alternative Asset Management

Effective October 5, 2007, Zurich American entered into a service agreement with ZAAM wherein ZAAM provides specialized investment advisory services to Zurich American. Under the terms of the agreement, ZAAM is set up and authorized by Zurich to manage alternative assets of Zurich and its affiliates with superior risk-adjusted investment returns on such alternative assets. The agreement was filed with this Department pursuant to Section 1505 of the New York Insurance Law.

Intercompany Service Agreement – Zurich American Insurance Group

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

Effective January 1, 2010 the agreement was amended (Amendment No.1) to allow Zurich American to provide additional services through one of its affiliates. These services includes managed care-related services, risk engineering services, SIU services; general claims adjusting

services, workers' compensation hearing representation services, care center services and recovery services. Effective March 31, 2011 the agreement was amended (Amendment No.2) to add subsection (aa), "Aircraft Transportation Services," to Appendix (A). The agreement was filed with this Department pursuant to Section 1505 of the New York Insurance Law.

Master Service Agreement – ZFUS Services

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

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

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

Service Agreement – Zurich Global Limited

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

Service Agreement – Zurich American Life Insurance Company

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

services. The agreement was filed with this Department pursuant to Section 1505 of the New York Insurance Law.

Service Agreement – Zurich Benefit Finance

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

Service Agreement – Universal Underwriters Insurance Services

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

Producer Agreement – Universal Underwriters Insurance Services

Effective January 18, 2012, a Producer Agreement was entered into among UUISI, Zurich American and certain of the other Zurich NA companies. Pursuant to the Producer Agreement, UUISI, as the producer, may provide insurance producer services to Zurich American and certain of the other ZAIG companies. The 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, 2011, based upon the results of this examination:

Net premiums written to surplus as regards policyholders	59%
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	*102%
Premiums in course of collection to surplus as regards policyholders	25%

The above ratios denoted with an asterisk fall outside the benchmark ranges set forth in the Insurance Regulatory Information System of the National Association of Insurance Commissioners. The liabilities to liquid assets ratio of 102% was slightly above the benchmark range as a result of a \$650.0 million repayment of principal on surplus notes, which was approved by the Department.

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	\$18,388,656,590	77.54%
Other underwriting expenses incurred	4,858,042,158	20.48
Net underwriting loss	<u>468,836,824</u>	<u>1.98</u>
Premiums earned	<u>\$23,715,535,572</u>	<u>100.00%</u>

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2011. This statement is the same as the balance sheet filed by the Company. Due to rounding the columns may not total.

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$18,985,096,131	\$ 0	\$18,985,096,131
Preferred stocks (stocks)	259,036	0	259,036
Common stocks (stocks)	2,076,769,919	7,888,000	2,068,881,919
Cash, cash equivalents and short-term investments	(21,418,253)	0	(21,418,253)
Other invested assets	2,065,634,039	0	2,065,634,039
Receivables for securities	18,523,294	0	18,523,294
Securities lending reinvested collateral assets	120,821,061	0	120,821,061
Employee Trust for Deferred Compensation Plan	124,809,033	0	124,809,033
Investment income due and accrued	149,413,707	41,264	149,372,442
Uncollected premiums and agents' balances in the course of collection	1,885,395,928	117,305,150	1,768,090,778
Deferred premiums, agents' balances and installments booked but deferred and not yet due	1,487,219,015	25,292,032	1,461,926,983
Accrued retrospective premiums	407,163,526	25,312,983	381,850,543
Amounts recoverable from reinsurers	233,357,918	0	233,357,918
Funds held by or deposited with reinsured companies	28,073,922	0	28,073,922
Net deferred tax asset	1,278,106,569	489,442,108	788,664,462
Guaranty funds receivable or on deposit	20,711,054	0	20,711,054
Electronic data processing equipment and software	180,366,235	180,098,356	267,879
Furniture and equipment, including health care delivery assets	19,388,496	19,388,496	0
Receivables from parent, subsidiaries and affiliates	97,601,773	2,018,757	95,583,016
Amounts Billed and Receivable under High Deductible Policies	264,253,352	17,313,751	246,939,602
Surcharges and Other Amounts Recoverable	181,225,017	2,459,895	178,765,122
Equities and Deposits	12,587,577	0	12,587,577
Summary of remaining write-ins for other than invested assets	<u>209,624,995</u>	<u>209,257,217</u>	<u>367,778</u>
Totals	<u>\$29,824,983,345</u>	<u>\$1,095,818,009</u>	<u>\$28,729,165,335</u>

Liabilities, Surplus and Other FundsLiabilities

Losses and Loss Adjustment Expenses	\$14,401,632,170
Reinsurance payable on paid losses and loss adjustment expenses	353,274,509
Commissions payable, contingent commissions and other similar charges	63,749,920
Other expenses (excluding taxes, licenses and fees)	539,313,427
Taxes, licenses and fees (excluding federal and foreign income taxes)	245,185,536
Current federal and foreign income taxes	47,352,138
Unearned premiums	4,066,273,586
Policyholders (dividends declared and unpaid)	9,123,086
Ceded reinsurance premiums payable (net of ceding commissions)	278,235,370
Funds held by company under reinsurance treaties	218,214,563
Amounts withheld or retained by company for account of others	233,483,055
Remittances and items not allocated	69,677,903
Provision for reinsurance	60,498,188
Payable to parent, subsidiaries and affiliates	92,111,683
Payable for securities lending	120,821,061
Amounts Held under High Deductible Policies	858,825,356
Deposit Accounting	28,842,967
Retroactive Reinsurance Reserve - Assumed	14,035,993
Summary of remaining write-ins for liabilities	<u>9,735,415</u>
Total liabilities	<u>\$21,710,385,928</u>

Surplus and Other Funds

Net Deferred Tax Asset as provided in SSAP 10R	\$ 340,894,437	
Special Surplus from Retroactive Reinsurance	55,544,000	
Common capital stock	5,000,000	
Surplus notes	883,000,000	
Gross paid in and contributed surplus	4,394,131,320	
Unassigned funds (surplus)	<u>1,340,209,650</u>	
Surplus as regards policyholders		<u>\$ 7,018,779,407</u>
Total liabilities, surplus and other funds		<u>\$28,729,165,335</u>

NOTE: During the third quarter of 2012, Zurich Holding Company of America (“ZHCA”) executed Form 870-AD, concluding its audit settlement with the Appeals Division of the Internal Revenue Service (“IRS”) with respect to tax years 2005 and 2006. The IRS has completed its audits of the Company’s consolidated Federal income tax returns through tax years 2007 and 2008 and issued a Revenue Agents Report to which the Parent disagreed. The Group sought resolution of the disputed issues through the Appeals Division of the IRS and during the fourth quarter of 2012 reached a settlement in principle with IRS Appeals. ZHCA is in the process of determining additional taxes due for 2007 and 2008. Audits covering tax years 2009 and 2010 are expected to conclude on an agreed basis by June 30, 2013. A contingent Federal Income Tax liability of \$44.0 million as of December 31, 2011 was established for the companies participating in the Consolidated Tax Agreement. The IRS has not yet begun to audit tax returns covering tax years 2011.

B. Statement of Income

Surplus as regards policyholders increased \$1,318,177,347 during the five-year examination period January 1, 2007 through December 31, 2011, detailed as follows:

Underwriting Income

Premiums earned		\$23,715,535,572
Deductions:		
Losses and loss adjustment expenses incurred	\$18,388,656,590	
Other underwriting expenses incurred	<u>4,858,042,158</u>	
Total underwriting deductions		<u>23,246,698,748</u>
Net underwriting gain or (loss)		\$ 468,836,824

Investment Income

Net investment income earned	\$ 4,702,943,330	
Net realized capital gain	<u>(669,788,504)</u>	
Net investment gain or (loss)		4,033,154,826

Other Income

Net gain or (loss) from agents' or premium balances charged off	\$ (130,700,119)	
Finance and service charges not included in premiums	34,511,008	
Interest on Reinsurance Contracts	1,969,337	
Restructuring	(2,192,746)	
Other Miscellaneous expenses	<u>(59,736,855)</u>	
Total other income		<u>(407,148,571)</u>
Net income before dividends to policyholders and before federal and foreign income taxes		\$ 4,094,843,079
Dividends to policyholders		<u>45,989,877</u>
Net income after dividends to policyholders but before federal and foreign income taxes		\$ 4,048,853,202
Federal and foreign income taxes incurred		<u>11,312,030</u>
Net Income		\$ <u>4,037,541,172</u>

C. Capital and Surplus Accounts

Surplus as regards policyholders per report on examination as of December 31, 2006			<u>\$5,700,602,064</u>
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income	\$4,037,541,175		
Net unrealized capital gains or (losses)		\$ 325,094,565	
Change in net unrealized foreign exchange capital gain (loss)		16,251,315	
Change in net deferred income tax	74,221,055		
Change in nonadmitted assets		118,128,736	
Change in provision for reinsurance	58,585,804		
Change in surplus notes		1,131,300,000	
Cumulative effect of changes in accounting principles	58,157,173		
Surplus adjustments paid in	180		
Dividends to stockholders		1,640,000,000	
Additional minimum pension liability	(20,447,862)		
Change in deferred income tax – SSAP10R	340,894,438		
Total gains and losses	<u>\$4,548,951,963</u>	<u>\$3,230,774,616</u>	
Net increase (decrease) in surplus			<u>\$1,318,177,347</u>
Surplus as regards policyholders per report on examination as of December 31, 2011			<u>\$7,018,779,410</u>

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of \$14,401,632,170 is the same as reported by the Company as of December 31, 2011. The examination analysis was conducted in accordance with generally accepted actuarial principles and practices and was based on statistical information contained in the Company's internal records and in its filed annual statements.

5. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

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

<u>ITEM</u>	<u>PAGE NO.</u>
A	
<u>Management</u>	
It is recommended that the Company retain detail documentation of the transactions submitted for approval and provide same upon examination so that compliance with Section 1411(a) of the New York Insurance Law can be verified. It is noted that a recommendation regarding compliance with Section 1411(a) was included in the prior report on examination.	6
The Company has complied with this recommendation.	
B	
<u>Reinsurance</u>	
i It is recommended that reinsurance arrangements, where the Company participated in coverage with non-pooled affiliates, be amended to contain acceptable language for agreements with multiple reinsureds.	13
The Company has complied with this recommendation.	
ii It is again recommended the Company ensure that its trust agreements are compliant with the requirements of Department Regulation 114, Part 126.	23
The Company has complied with this recommendation.	
iii It is recommended that the Company ensure that the letters of credit it accepts are in compliance with Department Regulation 133, Parts 79.1(b), 79.1(c)(2) and 79.2(d).	24
The Company has complied with this recommendation.	
C	
<u>Holding Company</u>	
It is recommended that the Company's board of directors approve all amendments to their tax allocation agreement in compliance with Department Circular Letter No. 33 (1979).	28
The Company has complied with this recommendation.	

<u>ITEM</u>		<u>PAGE NO.</u>
D	<u>Accounts and Records</u>	
i	It is recommended that the Company report the collateral held for securities loans based on the underlying nature of the invested security.	33
	The Company has complied with this recommendation.	
ii	It is recommended that the Company record its investment in L & L Park 80 Investors in Schedule BA in compliance with SSAP No. 48, paragraph 6.	33
	The Company has complied with this recommendation.	
iii	It is again recommended that the Company recognize and set up the liability for Advance premiums for those premiums received prior to the effective date of a policy in accordance with SSAP No. 53, Paragraph 13.	34
	The Company has complied with this recommendation.	
iv	It is recommended that the Company reclassify \$36,869,485 from Bonds (Schedule D, Part 1) to Preferred Stocks (Schedule D, Part 2, Section 1) in accordance with guidance from the NAIC Working Group and Annual Statement Instructions.	34
	The Company has complied with this recommendation.	
v	It is again recommended that the Company comply with Department Regulation 118, Part 89.2 and incorporate the appropriate language in all future contracts with its certified public accountants (“CPA”) firm, which all parties have executed.	34
	The Company has complied with this recommendation.	
vi	It is recommended that the Company include its available NOL carryforwards on the inventory of temporary reversing differences and to include the tax effect of those differences in the Gross DTA/DTL amounts.	35
	The Company has complied with this recommendation.	
vii	It is recommended that the Company properly limit the net admitted DTA to no more than the amount expected to be realized within one year of the balance sheet date in compliance with SSAP No 10, paragraph 10(b).	35
	The Company has complied with this recommendation.	

ITEMPAGE NO.

- viii It is again recommended that the ZAIG Pool, and specifically the Company, comply with Department Circular Letter No. 10 (2001) and treat the amount of deductible paid by the policyholder to the insurer under high deductible policies as premium paid to the insurer for the purpose of Section 1510 of the New York Tax Law. 36

The Company has complied with this recommendation.

E Risk Management and Internal Controls

- It is recommended that the Company complete its implementation of the required controls for the ASPIRE, ZLPRS and Premium Audit applications. 37

The Company has complied with this recommendation.

F Market Conduct

- i It is again recommended that the Company fully comply with the requirements of Circular Letter No. 11 (1978) and going forward maintain a complaint log that encompasses the eleven subject matters required in this circular letter. 44

The Company has complied with this recommendation.

- ii It is recommended that the Company fully comply with the Department Circular Letter No. 11 (1978) by forwarding quarterly reports from the complaint logs to heads of respective operating units and to the Company's president. 44

The Company has complied with this recommendation.

6. SUMMARY OF COMMENTS AND RECOMMENDATIONS

This report contains no comments or recommendations.

Respectfully submitted,

Shawn Towchik, CFE

STATE OF TEXAS)
)ss:
COUNTY OF TARRANT)

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

Shawn Towchik, CFE

Subscribed and sworn to before me

this _____ day of _____, 2013.

APPOINTMENT NO. 30775

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:

Shawn Towchik

as a proper person to examine the affairs of the

ZURICH AMERICAN INSURANCE COMPANY

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

COMPANY

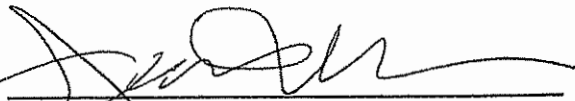
with such other information as he shall deem requisite.

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

this 6th day of January, 2012

BENJAMIN M. LAWSKY
Superintendent of Financial Services

By:



Jean Marie Cho
Deputy Superintendent

