

Report  
of the  
Examination of  
Fidelity and Guaranty Insurance Underwriters, Inc.  
Brookfield, Wisconsin  
As of December 31, 2014

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# State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

**Scott Walker**, Governor  
**Theodore K. Nickel**, Commissioner

**Wisconsin.gov**

May 7, 2016

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Honorable Theodore K. Nickel  
Commissioner of Insurance  
State of Wisconsin  
125 South Webster Street  
Madison, Wisconsin 53703

Commissioner:

In accordance with your instructions, a compliance examination has been made of the affairs and financial condition of:

FIDELITY AND GUARANTY INSURANCE UNDERWRITERS, INC.  
Brookfield, Wisconsin

and this report is respectfully submitted.

## I. INTRODUCTION

The previous examination of Fidelity and Guaranty Insurance Underwriters, Inc. (FGIU or the company) was conducted in 2010 as of December 31, 2009. The current examination covered the intervening period ending December 31, 2014, and included a review of such 2015 transactions as deemed necessary to complete the examination.

The examination of the company was conducted concurrently with the examination of the U.S.-domiciled insurance subsidiaries of The Travelers Companies, Inc. The Connecticut Department of Insurance acted in the capacity as the Lead State for the coordinated examinations. The work performed by the Lead State was relied on where deemed appropriate. The Lead State is solely responsible for the quality of their work papers, and therefore such work papers were not reviewed for purposes of this examination.

The examination was conducted using a risk-focused approach in accordance with the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners

Handbook. This approach sets forth guidance for planning and performing the examination of an insurance company to evaluate the financial condition, assess corporate governance, identify current and prospective risks (including those that might materially affect financial condition, either currently or prospectively), and evaluate system controls and procedures used to mitigate those risks.

All accounts and activities of the company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with statutory accounting principles, annual statement instructions, and Wisconsin laws and regulations. The examination does not attest to the fair presentation of the financial statements included herein. If during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately at the end of the "Financial Data" section in the area captioned "Reconciliation of Surplus per Examination."

Emphasis was placed on the audit of those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. As part of the coordinated examination, the Lead State's review of these work papers is considered sufficient. No review of the independent accountant's work papers was performed by the Wisconsin examination team. The Wisconsin examination work papers contain documentation with respect to the alternative or additional examination steps performed specific for the Wisconsin company only.

## II. HISTORY AND PLAN OF OPERATION

The company was organized in 1951 as a stock and fire casualty company under the laws of the state of Ohio and commenced business on November 1, 1951. The company re-domesticated to Wisconsin on October 1, 1994. All outstanding stock is held by its parent, United States Fidelity and Guaranty Company (USF&G).

USF&G Corporation, a holding company, gained financial control of the company through an exchange of stock in October 1981. The St. Paul Companies, Inc., a Minnesota holding company, acquired USF&G Corporation in April 1998, whereby USF&G Corporation and all its subsidiaries became wholly owned subsidiaries of The St. Paul Companies, Inc. USF&G Corporation was merged into St. Paul Fire and Marine Insurance Company, a Minnesota-domiciled property and casualty insurance company, pursuant to an agreement and plan of merger effective January 1, 1999.

The St. Paul Companies, Inc., parent of St. Paul Fire and Marine Insurance Company, merged with Travelers Property Casualty Corp. on April 1, 2004, forming The St. Paul Travelers Companies, Inc. On February 26, 2007, The St. Paul Travelers Companies, Inc., was renamed The Travelers Companies, Inc. (TRV), which is a publicly traded holding company and the ultimate parent of the group.

On November 1, 2010, Travelers Auto Insurance Company of New Jersey merged into FGIU.

The company and certain of its affiliates participate in an intercompany reinsurance agreement (combined pool or TRV Pool). The Travelers Indemnity Company (TIC or Indemnity) is the lead company of the pool. In 2007, FGIU terminated a certain quota share reinsurance agreement with Indemnity that was effective January 1, 2005, and joined the TRV Pool<sup>1</sup>.

The TRV Pool's operation was organized into three primary reportable business segments: 1) Business Insurance, 2) Financial, Professional and International Insurance, and 3) Personal Insurance. Effective July 1, 2014, the first two segments were realigned to reflect the realignment of the group's senior management responsibilities and the manner in which the

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<sup>1</sup> This is discussed in detail in Section V – Reinsurance.

company's businesses have been managed starting July 1, 2014, and the aggregation of products and services based on the type of customer, how the business is marketed and the manner in which risks are underwritten. The business segments were realigned as follows:

- The International Insurance Group, which had previously been included in the Financial, Professional and International Insurance segment, was combined with the previous Business Insurance segment to create a new Business and International Insurance segment.

FGIU's business is primarily aligned with the Business and International Insurance segment.

- The Bond & Financial Products group, which comprised the remaining businesses in the Financial, Professional and International Insurance segment, now comprises the new Bond & Specialty Insurance segment.

FGIU is licensed in all states and the District of Columbia. In 2014, 99.6% of the direct premiums written were in New Jersey. The remaining 0.4% was in all other states. The major products marketed by the company are: private passenger auto liability (40%), homeowner's multiple peril (38%), and auto physical damage (16%). All other lines are immaterial. The major products are marketed through the TRV Pool's Business and International Insurance segment, which distributes the products through approximately 11,400 independent agencies and brokers that are serviced by 133 field offices and three customer service centers.

The following table is a summary of the net insurance premiums written by the company in 2014. The growth of the company is discussed in the “Financial Data” section of this report.

<b>Line of Business</b>	<b>Direct Premium</b>	<b>Reinsurance Assumed</b>	<b>Reinsurance Ceded</b>	<b>Net Premium</b>
Fire	\$ 3,840,014	\$ 533,970	\$ 3,840,014	\$ 533,970
Allied lines	1,867,526	485,307	1,867,526	485,307
Farmowner’s multiple peril	0	163,347	0	163,347
Homeowner’s multiple peril	121,851,814	3,210,829	121,851,814	3,210,829
Commercial multiple peril	0	2,996,290	0	2,996,290
Ocean marine	5,001	243,412	5,001	243,412
Inland marine	4,602,441	667,614	4,602,441	667,614
Medical professional liability – claims made	0	(8)	0	(8)
Earthquake	158,184	119,422	158,184	119,422
Worker’s compensation	1,393,154	3,840,116	1,393,154	3,840,116
Other liability – occurrence	5,474,285	1,731,272	5,474,285	1,731,272
Other liability – claims made	0	581,397	0	581,397
Excess worker’s compensation	0	18,709	0	18,709
Products liability – occurrence	0	147,677	0	147,677
Products liability – claims made	0	27,296	0	27,296
Private passenger auto liability	126,524,560	1,993,788	126,524,560	1,993,788
Commercial auto liability	0	1,464,884	0	1,464,884
Auto physical damage	52,171,906	1,674,655	52,171,906	1,674,655
Aircraft (all perils)	0	82	0	82
Fidelity	0	51,976	0	51,976
Surety	7,350	(25,011)	7,350	(25,011)
Burglary and theft	1,616	5,998	1,616	5,998
Boiler and machinery	0	188,471	0	188,471
Credit	0	2	0	2
International	0	1,905	0	1,905
Reinsurance – non-proportional assumed property	0	42,505	0	42,505
Reinsurance – non-proportional assumed liability	0	18,285	0	18,285
Reinsurance – non-proportional assumed financial lines	0	1,488	0	1,488
Write-ins for other lines of business:				
Tribal worker’s compensation	0	2,781	0	2,781
<b>Total All Lines</b>	<b><u>\$317,897,852</u></b>	<b><u>\$20,188,457</u></b>	<b><u>\$317,897,852</u></b>	<b><u>\$20,188,457</u></b>

### III. MANAGEMENT AND CONTROL

#### Board of Directors

The board of directors consists of five members. The directors are elected annually to serve a one-year term. Officers are elected at the board's annual meeting. Members of the company's board of directors may also be members of other boards of directors in the holding company group. The board members are currently executive employees of the insurance holding company system and receive no compensation specific to their services on the board.

Currently the board of directors consists of the following persons:

<b>Name and Residence</b>	<b>Principal Occupation</b>	<b>Term Expires</b>
Jay Steven Benet Groton Long Point, Connecticut	Vice Chairman and Chief Financial Officer	2016
Brian William MacLean Vernon, Connecticut	Chairman, President and Chief Executive Officer	2016
Gregory Cheshire Toczydlowski North Granby, Connecticut	Executive Vice President and President, Small Commercial, BI Technology and Operations	2016
William Herbert Heyman New York, New York	Vice Chairman and Chief Investment Officer	2016
Kenneth Franklin Spence, III Minneapolis, Minnesota	Executive Vice President and General Counsel	2016

#### Officers of the Company

The principal officers serving at the time of this examination are as follows:

<b>Name</b>	<b>Office</b>	<b>2014 Compensation</b>
Brian William MacLean	Chairman, President and CEO	\$8,173,346
William Herbert Heyman	Vice Chairman and Chief Investment Officer	6,881,227
Jay Steven Benet	Vice Chairman and CFO	6,585,619
Alan David Schnitzer	Vice Chairman and CEO, Business and Int'l Ins	6,181,227
Doreen Spadorcia	Vice Chairman and CEO, PI, Bond and FP	5,741,220



The 2014 compensation represents consolidated amounts as reported on The Travelers Companies, Inc., holding company filings and includes all salaries, bonuses and other compensation based on the company's filing of the Report on Executive Compensation.

**Committees of the Board**

The company's bylaws allow for the formation of certain committees by the board of directors. The committees at the time of the examination are listed below:

**Executive Committee**

Jay S. Benet  
Brian W. MacLean

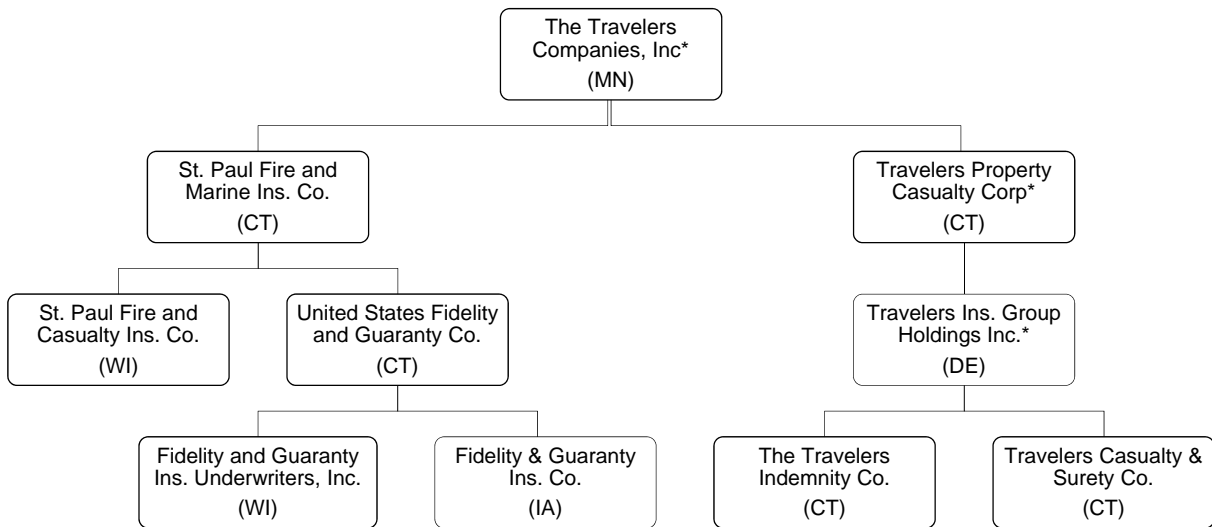
**Investment Committee**

Jay S. Benet  
William H. Heyman  
Brian W. MacLean

#### IV. AFFILIATED COMPANIES

Fidelity and Guaranty Insurance Underwriters, Inc., is a member of a holding company system. The organizational chart below depicts the position of FGIU in the group and the relationship among the significant affiliates in the group. A brief description of the company's parent, ultimate parent, and affiliates with which the company has agreements or significant transactions follows the organizational chart.

**Organizational Chart  
As of December 31, 2014**



\*Denotes non-insurer affiliate.

#### **The Travelers Companies, Inc.**

The Travelers Companies, Inc., a publicly traded holding company incorporated in Minnesota, is the ultimate parent of the Travelers Group including the Wisconsin-domiciled companies. The group has a total of 146 separate entities within and outside the United States, including the ultimate parent and 54 insurance companies worldwide. Of the 54 insurance companies, 46 are located in the United States. TRV has operations in the United States, United Kingdom, Canada, Lloyd's of London, and the Republic of Ireland. In Brazil, it has partnered with JMalucelli, Brazil's market leader in surety.

Within the Travelers Group is the Travelers Combined Pool which consists of 35 property-casualty insurance companies of the Travelers Reinsurance Pool (Reinsurance Pool)<sup>2</sup>, as well as seven additional property-casualty companies (non-Pool entities) that cede 100% of their business to the Reinsurance Pool. Effective July 1, 2014, Travelers Group operations are organized into three business segments: Business and International Insurance, Personal Insurance, and Bond & Specialty Insurance. The Business and International Insurance segment offers a broad array of property and casualty insurance and insurance-related services to its clients primarily in the United States. It also includes the Special Liability Group (which manages the Combined Pool's asbestos and environmental liabilities) and the assumed reinsurance and certain other runoff operations, which are collectively referred to as Business and International Insurance Other. The Personal Insurance segment writes a broad range of property and casualty insurance covering individuals' personal risks. The primary products of automobile and homeowner's insurance are complemented by a broad suite of related coverages. The Bond & Specialty Insurance segment provides surety, crime, management and professional liability coverages and related risk management services to a wide range of primarily domestic customers, utilizing various degrees of financially based underwriting approaches.

The consolidated financial statements of TRV as of December 31, 2014, reported assets of \$103.1 billion, liabilities of \$78.2 billion, and shareholders' equity of \$24.8 billion. Operations for 2014 produced net income of \$3.7 billion.

The Travelers Combined Pool audited financial statements (statutory basis) reported assets of \$70.6 billion, liabilities of \$50.3 billion, and surplus as regards policyholders of \$20.3 billion as of December 31, 2014. Operations for 2014 produced net income of \$3.7 billion.

#### **St. Paul Fire and Marine Insurance Company**

St. Paul Fire and Marine Insurance Company (SPFM) is a property and casualty insurer incorporated under the laws of Minnesota in 1925. On December 31, 2010, an Order of Approval was granted by the Minnesota Department of Commerce to re-domesticate St. Paul Fire and Marine Insurance Company from Minnesota to Connecticut. The majority of direct business

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<sup>2</sup> The Travelers Reinsurance Pool is discussed in detail in Section V – Reinsurance.

written includes other liability – occurrence, other liability – claims made, ocean marine, and commercial auto liability. SPFM is the direct parent of St. Paul Fire and Casualty Insurance Company and United States Fidelity and Guaranty Company. USFG is the direct parent and 100% owner of Fidelity and Guaranty Insurance Underwriters, Inc., and Fidelity & Guaranty Insurance Company (FGIC).

SPFM statutory financial statements reported assets of \$18.9 billion, liabilities of \$12.9 billion, and surplus as regards policyholders of almost \$6.0 billion as of December 31, 2014. Operations for 2014 produced net income of \$933.7 million.

#### **St. Paul Fire and Casualty Insurance Company**

St. Paul Fire and Casualty Insurance Company (SPFC) is a property and casualty insurance company domiciled in Wisconsin. The majority of SPFC direct business is other liability – occurrence. Effective January 1, 2016, SPFC was merged with SPFM (the direct parent).

SPFC statutory financial statements reported assets of \$16.2 million, liabilities of \$232,297, and surplus as regards policyholders of \$16.0 million, as of December 31, 2014. Operations for 2014 produced net income of \$479,014.

#### **United States Fidelity and Guaranty Company**

United States Fidelity and Guaranty Company is a property and casualty insurance company domiciled in Connecticut. The majority of USFG direct business writings include worker's compensation, other liability – occurrence, and inland marine. USFG is the direct parent of FGIU.

USFG's statutory financial statements reported admitted assets of \$4.7 billion, liabilities of \$2.2 billion, and surplus as regards policyholders of \$2.5 billion, as of December 31, 2014. Operations for 2014 produced net income of \$206.8 million.

#### **The Travelers Indemnity Company**

The Travelers Indemnity Company is a property and casualty insurance company domiciled in Connecticut. It is a direct subsidiary of the Travelers Insurance Group Holdings, Inc., a 100% owned subsidiary of Travelers Property Casualty Corporation, which encompasses

ownership of various insurance- and noninsurance-related investment, finance and real estate companies or trusts. The majority of TIC direct business written includes worker's compensation, other liability – occurrence, and commercial multiple peril. TIC is the leader and administrator of the Travelers reinsurance pool and manager of the Travelers Money Market Liquidity Pool (TRV MMLP). The company also administers all external reinsurance.

TIC statutory financial statements reported assets of \$20.7 billion, liabilities of \$14.1 billion, and surplus as regards policyholders of \$6.6 billion, as of December 31, 2014. Operations for 2014 produced net income of \$942.2 million.

### **Agreements with Affiliates**

Fidelity and Guaranty Insurance Underwriters, Inc., operates under the following major affiliate agreement relationships.

### **Travelers Money Market Liquidity Pool**

TRV maintains a private short-term investment pool, known as the Travelers Money Market Liquidity Pool, in which the affiliated companies may participate through signing in the "Pooling Agreement for Travelers Money Market Liquidity" or TRV MMLP Agreement. This pool is managed by TIC.<sup>3</sup>

Each company may convert its position in the pool into cash at any time and may also use its position in the pool to settle transactions with other affiliated participants in the pool. The position of each company in the pool is calculated and adjusted daily in proportion to the book value of the assets invested in the pool. Each participating insurance company carries its share of the pool as a one-line short-term investment in Schedule DA of the Annual Statements. At December 31, 2014 and 2013, the TRV MMLP totaled \$4.5 billion and \$3.5 billion, respectively.

The TRV MMLP Agreement became effective on August 20, 2002, under Travelers Property Casualty Corp. (Parent). The original name of the agreement was "Pooling Agreement for Travelers Money Market Liquidity." FGIU and several companies joined the pool effective January 1, 2005, by signing an Addendum, and at the same time, the agreement was renamed to

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<sup>3</sup> The Travelers Indemnity Company was appointed by Travelers Property Casualty Corp. (Parent) as Pool Manager effective January 1, 2005.

“Pooling Agreement for St. Paul Travelers Money Market Liquidity.” Effective February 26, 2007, the agreement was renamed back to “Pooling Agreement for Travelers Money Market Liquidity.”

Under this agreement, additional companies may become parties to the agreement by signing an “Addendum Signature” page without the need for an amendment to the agreement or acknowledgment by the existing parties. Any party other than the Pool Manager may terminate its participation on demand without penalty or other assessment by giving written notice to the Pool Manager during any business day. Any party shall be terminated from the agreement if that party shall cease to be a subsidiary of TRV. The Pool Manager may terminate from the agreement by giving 180 days’ advance written notice to TRV.

The Pool Manager shall administer the pool so that the investment in the pool and the pool assets are admitted assets for the companies which are insurance companies including subsidiaries or affiliates of insurance companies. Likewise, the Pool Manager shall maintain records accurately reflecting all transactions of the pool.

#### **Travelers Reinsurance Pool**

Effective January 1, 2007, FGIU became a party to an intercompany pooling arrangement under the TRV Pool, by signing in “Travelers Reinsurance Pool Amended and Restated Quota Share Reinsurance Agreement” (TRV Pool) The Travelers Indemnity Company is the lead company of the TRV Pool. Under the terms of the arrangement, the property-casualty underwriting risks for substantially all lines of business of the intercompany pool participants are reinsured with TIC. The pool of net underwriting risks remaining after reinsurance is transacted with third parties by TIC is then retroceded to the pool participants based on pool participation percentages. The provision for reinsurance and the write-off of uncollectible reinsurance are reported in the statutory financial statements of TIC and are not allocated to the other pool participants.

FGIU’s participation in the TRV Pool is 0.10%. The three highest participants of the pool as of December 31, 2014, in terms of allocation were as follows:

St. Paul Fire and Marine Insurance company	24.79%
The Travelers Indemnity Company	23.29%
Travelers Casualty and Surety Company	20.36%

All of the companies in the TRV Pool are party to reinsurance agreements with non-affiliated reinsurers covering business subject to the pooling agreement and have contractual rights of direct recovery from the non-affiliated reinsurers under the terms of such reinsurance agreements. The allocation of external reinsurance ceded premiums and losses between TIC on behalf of itself and the members of the TRV Pool and non-Pool member insurers are covered in a separate "Reinsurance Allocation Agreement."

As of December 31, 2014, FGIU had \$1,745,052 receivables from TIC as a result of the intercompany reinsurance transactions which settled in January 2015.

### **Travelers Expense Allocation**

FGIU became a party to the TRV "Expense Allocation Agreement" effective December 15, 2012. Under this agreement, TIC shall provide to the TRV Companies certain services required by the TRV Companies in the ordinary course of business. Such services may include, but are not limited to, financial management, operational management, accounting, treasury, property management, payroll, internal audit, human resource management, tax, transportation, risk management, legal, investment management and advisory, government relations, records management and data processing, the acquisition of equipment, software and office space, benefits administration and support, claim handling and administration, billing and collection, business processing, agency administration and intellectual property rights.

TIC allocates to participating companies the expense relating the services it provided directly or pursuant to the Service Agreement. The allocation is based on salaries, census, and premiums, losses or other appropriate measures and shall be done in a manner consistent with applicable statutory provisions and related guidance consistently applied. It is the intention of the parties that TIC neither realize profit nor incur a loss as a result of providing or obtaining services for the TRV Companies.

TIC furnishes the companies with a monthly statement for services provided. Each company reimburses TIC for the amount due within 30 days of its receipt of the monthly statement. Payment is made by inter-company credits and debits settled monthly in arrears. TIC maintains a detailed record of all costs for services provided to each company.

Subsidiaries and affiliates of TIC may become parties to the agreement by executing an addendum to the agreement which shall indicate the effective date as of which such affiliate shall have become a party to the agreement, subject to regulatory approval.

### **Travelers Consolidated Tax Allocation**

FGIU became a party to TRV “Consolidated Tax Allocation Agreement” effective April 1, 2004, under the name “The St. Paul Travelers Companies, Inc. Tax Allocation Agreement.” The agreement was amended on February 26, 2007, to rename it to “The Travelers Companies, Inc. Tax Allocation Agreement.”

Under this agreement, TRV and the State Parent file consolidated federal and consolidated state tax returns in behalf of the members at the federal and state level, respectively. Each member pays to TRV and to the State Parent the amount of tax due based upon individual company pro forma tax returns, as follows:

- a. Federal Income Tax Returns. Within 15 days after the end of the third, fifth, eighth and eleventh month of each consolidated taxable year, or other applicable federal due date used, TRV makes a reasonable determination of the separate federal income tax liability which each member is required to pay as estimated tax payments on a separate return basis, the same method for calculating estimated tax installment payments. Upon presentation of estimated amount of federal income tax, each member pays immediately to TRV in available funds<sup>4</sup> no later than three business days following such presentation, and need not be made sooner than the business day immediately preceding the applicable federal due date.

After the end of taxable year, and on or before the 15<sup>th</sup> day of the third month thereafter, upon presentation by TRV, each member pays to TRV the entire amount estimated to be due and payable, less all amounts previously paid. Overpayment or refund is paid to the member within three business days from receipt of notification of such overpayment.

If, after filing the consolidated federal tax return, it is determined that TRV or a member has paid an amount greater than the allocated amount due, the full amount of such overpayment shall be reimbursed by the member to TRV within three business days from receipt of notification of such overpayment, or by TRV to the member within three business days of such determination, and that such determination shall be made not later than 60 days after filing of the consolidated federal tax return, and need not be made prior to receipt or other credit of such overpayment from the IRS, as applicable.

Any amounts that are not paid on or before due date shall bear interest from the due date at the prime interest rate published in the Wall Street Journal on the first day of each month.

- b. State and Local Taxes. TRV or its designated affiliate (State Parent) is the sole agent for the TRV State Group in all matters relating to liability for combined state return taxes. The State Parent includes all TRV state group members where it is obligated to file combined state tax returns. The state group member prepares and submits pro forma state and local income or

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<sup>4</sup> According to the “Travelers Expense Allocation Agreement,” payment is made by inter-company credits and debits settled monthly in arrears. TIC maintains a detailed record of all costs for services provided to each company.



franchise tax returns to the State Parent, for allocation and apportionment, at least five business days prior to the last permissible date for payments. Each member of the state group pays to the State Parent an amount equal to the tax liability of the respective member for each taxable period and for each state in which such member joined in the filing of a combined state tax return.

The allocated liability for combined state return taxes for each taxable year is separate, distinct and absolute liability of the member, not otherwise subject to offset or reduction, for any reason, without the express or written consent of the TRV Tax Officer.

After the end of the third, fifth, eighth and eleventh month of each combined or consolidated state or local taxable year or other applicable state due date, the State Parent makes a reasonable determination of the member's allocable share of estimated taxes for such period employing the same method for calculating installment tax payments. Each member pays to the State Parent the amount due upon presentation of such estimate.

Before the un-extended due date of the combined state tax return, each member pays to the State Parent the entire amount estimated to be due and payable from the member. If upon filing for the combined state tax return, it is determined that a member has overpaid to the State Parent, then the full amount shall be promptly refunded to the member, and vice versa.

#### **Intercompany Netting Agreement**

Effective April 1, 2004, FGIU became a party to an "Intercompany Netting Agreement" between TIC and The St. Paul Travelers Companies, Inc. (SPTC), and those subsidiaries of SPTC. Each party agreed that monetary obligations resulting from transactions with the other party be netted, for purposes of settling such obligations.

On a daily basis and not later than the close of each calendar month, TIC determines the net amount of outstanding eligible obligations between parties, and that only the netted obligation shall remain at the end of each calendar month.

A party, other than TIC may withdraw from this agreement by written notice to TIC, but such withdrawal shall not terminate this agreement as to the other parties. TIC may withdraw from this agreement by written notice to all other parties and shall terminate this agreement upon such withdrawal.

## V. REINSURANCE

FGIU participates in the Travelers Reinsurance Pool, an intercompany pooling arrangement. The lead company of the TRV Pool is The Travelers Indemnity Company. Under the terms of the arrangement, the property-casualty underwriting risks for substantially all lines of business of the intercompany pool participants are reinsured with TIC. The Pool's net underwriting risks remaining after reinsurance is transacted with third parties by TIC is then retroceded to the pool participants based on pool participation percentages<sup>5</sup>. The provision for reinsurance and the write-off of uncollectible reinsurance are reported in the statutory financial statements of TIC and are not allocated to the other pool participants.

The TRV Pool has two components, quota share reinsurance and reinsurance allocation. Below is the brief history:

### **Quota Share Reinsurance**

An amended and restated Quota Share Reinsurance Agreement with TIC effective January 1, 2005, was amended as of October 1, 2007, to terminate FGIU's participation in that separate 100% quota share reinsurance. At the same time as the termination and commutation, FGIU became a "joining company" and became a party to the TRV Pool Amended and Restated Quota Share Reinsurance Agreement effective January 1, 2007. FGIU's participation in the pool is 0.10%. As of December 31, 2014, there were 35 companies participating in the TRV Pool.

TIC is the lead company of the pool and provides quarterly statements to the participating companies showing premiums, expenses, losses, and loss expense paid and salvage and subrogation received during said accounting period, and unearned premiums, loss outstanding, loss expenses outstanding, other underwriting expenses, etc. Accounts between and among TIC and the participating companies are settled on a daily basis through the Intercompany Money Market Pool or cash. Any items open at the end of the month are settled in the following month.

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<sup>5</sup> Each participant of the pool reinsures TIC's gross liabilities, net of any Third Party reinsurance contracts for all Non-Bond Business written, according to its respective quota share percentage.

Each party to the pooling agreement has the right to offset any balance or balances, whether on account of premiums or on account of losses or otherwise, due from such party to the other party in connection with the reinsurance pool.

A written notice shall be provided to each of the parties and TIC no less than 12 months prior to the removal by commutation of any party or termination and commutation of the pooling agreement by all of the parties.

The pooling agreement contains the proper insolvency clause.

### **Reinsurance Allocation**

The Reinsurance Allocation Agreement was approved on May 3, 2006. The agreement was not a reinsurance agreement, but rather an allocation agreement that documents the current methodology by which external reinsurance ceded premiums and losses are allocated between TIC on behalf of itself and the members of the TRV Pool (Pooled Entities) and the non-member insurers (Non-Pooled Entities).

The agreement was amended on August 19, 2013, to clean up and update the references and signature block, as well as move the allocations in Section 1 to an Exhibit A for ease of future revisions. There were no significant or substantive changes to the original agreement or to the methodology of allocation.

The Reinsurance Allocation Agreement was amended effective January 1, 2013. The allocation among and between the Pooled Entities was not affected, which is based upon the quota share percentages contained in the TRV Pool agreement. The agreement was amended to resolve allocations of ceded premiums and ceded losses by and between Pooled Entities and Non-Pooled Entities, as follows:

1. Ceded premium deposits will be allocated based on the expected loss as determined through actuarial modeling and analysis by the TIC's Reinsurance Department. Each Non-Pooled Entity will be allocated ceded premium based on a ratio of the Non-Pooled Entity's expected treaty loss to TIC's total expected treaty loss, multiplied by the total deposit premium. Adjustments of the deposit premium, with the exception of reinstatement premium, will be allocated in the same manner.
2. Ceded loss (including ceded loss adjustment expenses) and reinstatement premiums will be allocated based on actual treaty loss sustained. Each Non-Pooled Entity will be allocated ceded loss and reinstatement premium based on a ratio of Non-Pooled Entity's treaty loss to TIC's total treaty loss, multiplied by the available event limit, per occurrence limit, terrorism sublimit, and/or aggregate limit, as applicable to TIC's reinsurance treaty.

The agreement is administered by TIC and settled in accordance with the Expense Allocation Agreement<sup>6</sup> and the TRV Reinsurance Pool Amended and Restated Quota Share Reinsurance Agreement, as applicable. Resulting amounts owed to or due from the respective participants shall be reimbursed within 30 days of receipt of a monthly statement by inter-company credits and debits settled monthly in arrears.

The agreement had a term of 12 months, beginning January 1, 2013, and is being renewed automatically from year to year. The agreement shall terminate with respect to a party, if that party ceases to be a majority-owned subsidiary of TRV. TIC has no automatic right to terminate the agreement, regardless if a Pooled Entity or Non-Pooled Entity is placed in receivership pursuant to Chapter 704c of the Connecticut General Statutes.

The agreement has a proper indemnification clause.

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<sup>6</sup> Expense Allocation Agreement is discussed separately under “Agreements with Affiliates” in Section IV – Affiliated Companies of the examination report.

## **VI. FINANCIAL DATA**

The following financial statements reflect the financial condition of the company as reported to the Commissioner of Insurance in the December 31, 2014, annual statement.

Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Surplus per Examination." Also included in this section are schedules that reflect the growth of the company, NAIC Insurance Regulatory Information System (IRIS) ratio results for the period under examination, and the compulsory and security surplus calculation.

**Fidelity and Guaranty Insurance Underwriters, Inc.**  
**Assets**  
**As of December 31, 2014**

	<b>Assets</b>	<b>Nonadmitted Assets</b>	<b>Net Admitted Assets</b>
Bonds	\$133,474,717	\$	\$133,474,717
Cash, cash equivalents, and short-term investments	5,595,496		5,595,496
Investment income due and accrued	1,613,358		1,613,358
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	1,345,652	159,156	1,186,496
Deferred premiums, agents' balances, and installments booked but deferred and not yet due	4,138,810	21,050	4,117,761
Accrued retrospective premiums	88,844	4,978	83,866
Reinsurance:			
Amounts recoverable from reinsurers	18,261,728	0	18,261,728
Net deferred tax asset	1,531,432	331,900	1,199,532
Guaranty funds receivable or on deposit	67,817		67,817
Write-ins for other than invested assets:			
Amounts receivable under high deductible policies	76,674	7,668	69,006
Equities and deposits in pools and associations	60,370		60,370
State surcharges receivable	47,383		47,383
Other assets	45,280		45,280
Other assets nonadmitted	1,902	1,902	
Assumed reinsurance receivable and payable	(224)		(224)
Suspense, undistributed payments	(1,246)		(1,246)
<b>Total Assets</b>	<b><u>\$166,347,992</u></b>	<b><u>\$526,654</u></b>	<b><u>\$165,821,338</u></b>

**Fidelity and Guaranty Insurance Underwriters, Inc.**  
**Liabilities, Surplus, and Other Funds**  
**As of December 31, 2014**

Losses	\$ 29,185,149
Reinsurance payable on paid loss and loss adjustment expenses	1,118,581
Loss adjustment expenses	7,106,327
Commissions payable, contingent commissions, and other similar charges	617,122
Other expenses (excluding taxes, licenses, and fees)	767,176
Taxes, licenses, and fees (excluding federal and foreign income taxes)	336,349
Current federal and foreign income taxes	129,691
Unearned premiums	9,124,670
Dividends declared and unpaid:	
Policyholders	46,507
Ceded reinsurance premiums payable (net of ceding commissions)	15,651,865
Amounts withheld or retained by company for account of others	60,504
Payable to parent, subsidiaries, and affiliates	905,970
Write-ins for liabilities:	
Retroactive reinsurance reserve assumed	2,236
Retroactive reinsurance reserve ceded	<u>(86,550)</u>
 Total liabilities	 64,965,599
 Write-ins for special surplus funds:	
Special surplus from retroactive reinsurance	\$ 84,064
Common capital stock	13,434,900
Gross paid in and contributed surplus	72,016,120
Unassigned funds (surplus)	<u>15,320,654</u>
 Surplus as regards policyholders	 <u>100,855,739</u>
 Total Liabilities and Surplus	 <u>\$165,821,338</u>

**Fidelity and Guaranty Insurance Underwriters, Inc.**  
**Summary of Operations**  
**For the Year 2014**

<b>Underwriting Income</b>		
Premiums earned		\$19,979,435
Deductions:		
Losses incurred	\$9,236,012	
Loss adjustment expenses incurred	2,852,486	
Other underwriting expenses incurred	<u>6,066,115</u>	
Total underwriting deductions		<u>18,154,613</u>
Net underwriting gain (loss)		1,824,822
<b>Investment Income</b>		
Net investment income earned	4,439,496	
Net realized capital gains (losses)	<u>19,926</u>	
Net investment gain (loss)		4,459,422
<b>Other Income</b>		
Net gain (loss) from agents' or premium balances charged off	(45,326)	
Finance and service charges not included in premiums	77,786	
Write-ins for miscellaneous income:		
Fines and penalties of regulatory authorities	(1,043)	
Retroactive reinsurance gain/loss	(5,489)	
Profit and loss, miscellaneous	<u>(317,989)</u>	
Total other income		<u>(292,060)</u>
Net income (loss) before dividends to policyholders and before federal and foreign income taxes		5,992,183
Dividends to policyholders		<u>31,466</u>
Net income (loss) after dividends to policyholders but before federal and foreign income taxes		5,960,718
Federal and foreign income taxes incurred		<u>(13,640)</u>
Net Income		<u>\$ 5,974,357</u>



**Fidelity and Guaranty Insurance Underwriters, Inc.**  
**Cash Flow**  
**For the Year 2014**

Premiums collected net of reinsurance		\$13,943,115
Net investment income		5,454,657
Miscellaneous income		<u>(292,060)</u>
Total		19,105,712
Benefit and loss related payments	\$7,549,351	
Commissions, expenses paid, and aggregate write-ins for deductions	8,340,307	
Dividends paid to policyholders	31,938	
Federal and foreign income taxes paid (recovered)	<u>(288,458)</u>	
Total deductions		<u>15,633,138</u>
Net cash from operations		3,472,574
Proceeds from investments sold, matured, or repaid:		
Bonds	<u>\$8,513,750</u>	
Total investment proceeds		8,513,750
Cost of investments acquired (long-term only):		
Bonds	<u>8,994,297</u>	
Total investments acquired	<u>8,994,297</u>	
Net cash from investments		(480,547)
Cash from financing and miscellaneous sources:		
Dividends to stockholders	5,200,000	
Other cash provided (applied)	<u>3,417,117</u>	
Net cash from financing and miscellaneous sources		<u>(1,782,883)</u>
<b>Reconciliation:</b>		
Net change in cash, cash equivalents, and short-term investments		1,209,143
Cash, cash equivalents, and short-term investments:		
Beginning of year		<u>4,386,353</u>
End of year		<u>\$ 5,595,496</u>

**Fidelity and Guaranty Insurance Underwriters, Inc.  
Compulsory and Security Surplus Calculation  
December 31, 2014**

Assets		\$165,821,338
Less liabilities		<u>64,965,599</u>
Adjusted surplus		100,855,739
Annual premium:		
Lines other than accident and health	\$20,156,991	
Factor	<u>20%</u>	
Compulsory surplus (subject to a minimum of \$2 million)		<u>4,031,398</u>
Compulsory Surplus Excess (or Deficit)		<u>\$ 96,824,341</u>
Adjusted surplus (from above)		\$100,855,739
Security surplus: (140% of compulsory surplus, factor reduced 1% for each \$33 million in premium written in excess of \$10 million, with a minimum factor of 110%)		<u>5,643,957</u>
Security Surplus Excess (or Deficit)		<u>\$ 95,211,782</u>

**Fidelity and Guaranty Insurance Underwriters, Inc.**  
**Analysis of Surplus**  
**For the Five-Year Period Ending December 31, 2014**

The following schedule details items affecting surplus during the period under examination as reported by the company in its filed annual statements:

	2014	2013	2012	2011	2010
Surplus, beginning of year	\$100,993,340	\$ 99,207,920	\$97,135,601	\$101,107,519	\$100,228,332
Net income	5,974,357	5,284,272	3,506,744	3,030,428	5,420,588
Change in net unrealized capital gains/losses	4,034	(4,104)			
Change in net deferred income tax	(924,006)	(156,479)	55,764	301,201	388,122
Change in nonadmitted assets	7,450	64,799	1,536,633	(46,484)	(1,423,584)
Cumulative effect of changes in accounting principles			(26,822)		
Dividends to stockholders	(5,200,000)	(3,400,000)	(3,000,000)	(7,300,000)	(3,500,000)
Write-ins for gains and (losses) in surplus:					
Prior period adjustment	564	(3,068)		7	
Change in special surplus from deferred taxes	_____	_____	_____	42,930	(5,940)
Surplus, End of Year	<u>\$100,855,739</u>	<u>\$100,993,340</u>	<u>\$99,207,920</u>	<u>\$ 97,135,601</u>	<u>\$101,107,519</u>

**Fidelity and Guaranty Insurance Underwriters, Inc.**  
**Insurance Regulatory Information System**  
**For the Five-Year Period Ending December 31, 2014**

The company's NAIC Insurance Regulatory Information System (IRIS) results for the period under examination are summarized below. Unusual IRIS results are denoted with asterisks and discussed below the table.

<b>Ratio</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>
#1 Gross Premium to Surplus	335%	395%	413%	423%	402%
#2 Net Premium to Surplus	20	20	20	20	18
#3 Change in Net Premiums Written	0	3	2	4	2
#4 Surplus Aid to Surplus	0	0	0	0	0
#5 Two-Year Overall Operating Ratio	70	73	81	75	69
#6 Investment Yield	3.2	3.3	3.4	3.4	4.6
#7 Gross Change in Surplus	0	2	2	(4)	179*
#8 Change in Adjusted Surplus	0	2	2	(4)	179*
#9 Liabilities to Liquid Assets	43	47	67	51	50
#10 Agents' Balances to Surplus	1	1	1	1	1
#11 One-Year Reserve Development to Surplus	(1)	0	(1)	0	(3)
#12 Two-Year Reserve Development to Surplus	(2)	(1)	(1)	(5)	(5)
#13 Estimated Current Reserve Deficiency to Surplus	(1)	1	0	0	0

Ratio No. 7 and No. 8 measure the change in company's profitability and underwriting practices compared to the prior year. The exceptional results in 2010 were due to FGIU's merger with Travelers Auto Insurance Company of New Jersey (TNJ) on November 1, 2010; TNJ had a statutory value of \$65,657,328 at the time of merger.

**Growth of Fidelity and Guaranty Insurance Underwriters, Inc.**

<b>Year</b>	<b>Admitted Assets</b>	<b>Liabilities</b>	<b>Surplus as Regards Policyholders</b>	<b>Net Income</b>
2014	\$165,821,338	\$64,965,599	\$100,855,739	\$5,974,357
2013	170,719,503	69,726,163	100,993,340	5,284,272
2012	194,799,998	95,592,078	99,207,920	3,506,744
2011	173,758,128	76,622,527	97,135,601	3,030,428
2010	180,975,279	79,867,760	101,107,519	5,420,588
2009	84,625,250	48,442,971	36,182,279	4,158,925

<b>Year</b>	<b>Gross Premium Written</b>	<b>Net Premium Written</b>	<b>Premium Earned</b>	<b>Loss and LAE Ratio</b>	<b>Expense Ratio</b>	<b>Combined Ratio</b>
2014	\$338,086,309	\$20,188,457	\$19,979,435	60.5%	30.0%	90.5%
2013	399,201,706	20,138,477	19,885,579	60.9	30.2	91.1
2012	410,109,881	19,559,235	19,395,474	68.4	31.3	99.7
2011	410,429,613	19,149,714	18,977,291	76.9	31.5	108.4
2010	406,638,087	18,492,109	18,198,001	62.0	31.6	93.6
2009	24,514,409	18,127,413	18,153,649	58.3	32.1	90.4

**Reconciliation of Surplus per Examination**

No adjustments were made to surplus as a result of the examination. The amount of surplus reported by the company as of December 31, 2014, is accepted.

## VII. SUMMARY OF EXAMINATION RESULTS

### Compliance with Prior Examination Report Recommendations

There were three specific comments and recommendations in the previous examination report. Comments and recommendations contained in the last examination report and actions taken by the company are as follows:

1. Aggregate Write-ins for Other Than Invested Assets—It is recommended that commencing with the 2010 Annual Statement, the company report intercompany reinsurance receivables in the appropriate reinsurance annual statement lines (e.g., uncollected premiums and agents' balances in the course of collection, amounts recoverable from reinsurers, reinsurance paid on paid loss and loss adjustment expenses and ceded reinsurance premium payable) in accordance with SAP No. 63 of the NAIC Accounting Practices and Procedures Manual. The company changed the presentation of the various reinsurance amounts in its 2010 Annual Statement to conform to the above recommendation, including changes to the 2009 balances to conform to the 2010 presentation.

Action—Compliance.

2. Remittances and Items Not Allocated—It is recommended that the company implement controls to ensure that the reconciliation of accounts is performed at a legal-entity level, including amounts due to/from affiliates. Effective December 2010, the company implemented a new policy to ensure that account reconciliations are performed at a legal-entity level and, when necessary, settled through the intercompany settlement process. Effective December 2010, the company implemented a new policy to ensure that account reconciliations are performed at a legal-entity level and, when necessary, settled through the intercompany settlement process.

Action—Compliance.

3. Aggregate Write-ins for Liabilities—It is recommended that the company strengthen controls surrounding the netting and presentation of the accrued retrospective premium reserves for retrospectively rated contracts. As of March 31, 2010, the company corrected this error and conformed its accounting to be consistent with the company's accounting policy and SSAP No. 66 of the NAIC Accounting Practices and Procedures Manual.

Action—Compliance.

## **Summary of Current Examination Results**

This section contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the company's operations is contained in the examination work papers.

## **Travelers Money Market Liquidity Pool**

The invested assets under the TRV MMLP are reported as unaffiliated investments in Schedule DA under one line (without details). Based on the Investment Pool Agreement, the ownership of the underlying assets remains the property of each company from which they were received, in proportion to their contribution (on a pro rata basis). Without the details of actual invested assets by CUSIP, it is not possible for regulators to monitor the specific assets for compliance purposes. It is recommended that a detailed schedule of investments by CUSIP that make up the entire MMLP be provided to this office by March 31st of each year.

## **Report on Executive Compensation**

The company excluded perquisites and other compensation less than \$10,000 from the Wisconsin Executive Compensation form. The instructions to that form and in s. 611.63 (4), Wis. Stat., requires disclosure of all gross direct and indirect remuneration paid and accrued during the report year including wages, salaries, bonuses, retirement benefits, deferred compensation, commissions, directors fees, retainers, stock grants, gains from the exercise of stock option, and all other forms of personal compensation (including employer-paid health, life and any other premiums). It is recommend that FGIU include in the Wisconsin Report on Executive Compensation all gross direct and indirect remuneration paid and accrued during the report year including wages, salaries, bonuses, retirement benefits, deferred compensation, commissions, directors fees, retainers, stock grants, gains from the exercise of stock option, and all other forms of personal compensation (including employer-paid health, life and any other premiums), for individuals required to be included in the Wisconsin Executive Compensation report according to the instructions on the form and in accordance with s. 611.63 (4), Wis. Stat.

### **Committees of the Board**

The Executive Committee created by the Board of Directors currently consists of two members. According to s. 611.56, Wis. Stat., the board (by resolution adopted by majority of the full board) may designate one or more committees, each consisting of at least three directors serving at the pleasure of the board. It is recommended that the number of members of the Executive Committee shall be at least three directors pursuant to s. 611.56, Wis. Stat.



## VIII. CONCLUSION

FGIU is a Wisconsin-domiciled company and a member of the holding company system under Travelers Companies, Inc., as the ultimate parent, domiciled in Minnesota. TRV operates in a reinsurance pool under The Travelers Indemnity Company as reinsurer and administrator of the pool. The three highest participants of the pool are St. Paul Fire and Marine Insurance Company (24.79%), Travelers Casualty and Surety Company (20.36%), and TIC (23.29%). All three companies are domiciled in Connecticut. FGIU's participation in the pool is 0.10%. In order to provide liquidity to the pool's operation, the group maintains a private short-term investment pool, The Travelers Money Market Liquidity Pool, managed and administered by TIC. Members may convert their position in the pool to cash and use it to settle obligations. Obligations among members are settled through offset on a daily basis, such that only the netted amount remains at the end of each month.

Most of the operations in the group is managed and administered by TIC through the intercompany pooling arrangements and other service agreements. It is the intention of the group that TIC neither realize profits nor incur losses in providing or obtaining services for the group, as costs and expenses were proportionately allocated among the members.

FGIU reported assets of \$165.8 million, liabilities of almost \$65 million, and surplus as regards policyholders of \$100.8 million as of December 31, 2014. In 2010, Travelers Auto Insurance Company of New Jersey merged with FGIU in 2010, which resulted to FGIU's significant increase in surplus from \$36.2 million in 2009 to \$101.1 million in 2010. Since then, FGIU's surplus has averaged \$100 million over the last five years.

The current examination was conducted in coordination with Connecticut as the Lead State. Wisconsin placed reliance on the Lead State's work as deemed applicable. As of the date of this report, the Lead State was in the process of finalizing the examination report.

The Wisconsin examination was specific for FGIU only and resulted in three recommendations discussed in the previous section. There are no adjustments to surplus or reclassifications of account balances as a result of this examination. The company is in compliance with all of the recommendations made on the previous examination.

## IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 29 - Money Market Liquidity Pool—It is recommended that a detailed schedule of investments by CUSIP that make up the entire MMLP be provided to this office by March 31st of each year.
2. Page 29 - Report on Executive Compensation—It is recommend that FGIU include in the Wisconsin Report on Executive Compensation all gross direct and indirect remuneration paid and accrued during the report year including wages, salaries, bonuses, retirement benefits, deferred compensation, commissions, directors fees, retainers, stock grants, gains from the exercise of stock option, and all other forms of personal compensation (including employer-paid health, life and any other premiums), for individuals required to be included in the Wisconsin Executive Compensation report according to the instructions on the form and in accordance with s. 611.63 (4), Wis. Stat.
3. Page 30 - Committees of the Board—It is recommended that the number of members of the Executive Committee shall be at least three directors pursuant to s. 611.56, Wis. Stat.

**X. ACKNOWLEDGMENT**

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company are acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

<b>Name</b>	<b>Title</b>
Shelly Bueno	Insurance Financial Examiner
Richard Janosik	Insurance Financial Examiner
David Jensen	IT Specialist
Jerry DeArmond	Reserve Specialist
John Litweiler	Workpaper Specialist

Respectfully submitted,

Angelita Romaker  
Examiner-in-Charge