

Examination Warrant Number 14-00626-22667-R1

**Report of Examination of  
ACE American Insurance Company  
Philadelphia, PA**

**As of December 31, 2014**

**For Informational Purposes Only**

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Harrisburg, Pennsylvania  
March 10, 2016

Honorable Joseph DiMemmo, CPA  
Deputy Insurance Commissioner  
Commonwealth of Pennsylvania  
Insurance Department  
Harrisburg, Pennsylvania

Dear Sir:

In accordance with instructions contained in Examination Warrant Number 14-00626-22667-R1 dated April 4, 2014, an examination was made of

**ACE American Insurance Company, NAIC Code: 22667**

a Pennsylvania domiciled multi-state stock property and casualty company, hereinafter referred to as "ACE American" or "Company." The examination was conducted at the Company's home office, located at 436 Walnut Street, Philadelphia, PA 19106.

A report of this examination is hereby respectfully submitted.

**SCOPE OF EXAMINATION**

The Pennsylvania Insurance Department ("Department") has performed an examination of ACE American, which was last examined as of December 31, 2009. This examination covered the five-year period from January 1, 2010 through December 31, 2014.

Work programs employed in the performance of this examination were designed to comply with the standards promulgated by the Department and the National Association of Insurance Commissioners ("NAIC") *Financial Condition Examiners Handbook* ("Handbook").

The Handbook requires that the Department plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company, evaluate system controls and procedures used to mitigate those risks, and review subsequent events. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

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.

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 following the Company's financial statements.

This examination report includes significant findings of fact, in accordance with 40 P.S. § 323.5(a), and general information about the Company and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the Company.

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For each year during the period under examination, the Certified Public Accountant (“CPA”) firm of PricewaterhouseCoopers LLP (“PwC”) provided an unmodified audit opinion on the Company’s year-end financial statements based on statutory accounting principles. Relevant work performed by the CPA, during its annual audit of the Company, was reviewed during the examination, and incorporated into the examination workpapers.

The following companies were examined at the same time as part of the coordinated examination:

<b>Company</b>	<b>State</b>	<b>NAIC Code</b>
ACE Fire Underwriters Insurance Company	PA	20702
ACE Insurance Company of the Midwest	IN	26417
ACE Property and Casualty Insurance Company	PA	20699
Agri General Insurance Company	IA	42757
Atlantic Employers Insurance Company	NJ	38938
Bankers Standard Fire and Marine Company	PA	20591
Bankers Standard Insurance Company	PA	18279
Century Indemnity Company	PA	20710
Illinois Union Insurance Company	IL	27960
Indemnity Insurance Company of North America	PA	43575
Insurance Company of North America	PA	22713
Pacific Employers Insurance Company	PA	22748
Penn Millers Insurance Company	PA	14982
Westchester Fire Insurance Company	PA	10030
Westchester Surplus Lines Insurance Company	GA	10172

## HISTORY

ACE American was incorporated as the Allied Compensation Insurance Company on November 1, 1945. The Company was licensed by the California Insurance Department on January 1, 1946 and commenced business the same day. In 1961, it adopted the name Allied Insurance Company. In 1969, the entire stock ownership of the Company was transferred from Pacific Employers Insurance Company (“PEIC”) to Insurance Company of North America (“INA”), a Pennsylvania domestic insurer. In 1977, INA sold its interest in the Company to INA Financial Corporation, an intermediate holding company of the INA Corporation. The Company then purchased 100% of PEIC’s stock. On December 14, 1977, ACE American changed its name from Allied Insurance Company to INA Underwriters Insurance Company. In 1982, Connecticut General Corporation and INA merged, and as a result, became the wholly owned subsidiaries of the newly formed CIGNA Corporation. Effective December 31, 1983, the Company’s name was changed from INA Underwriters Insurance Company to CIGNA Insurance Company. On December 20, 1996, the Company redomesticated from California to Pennsylvania.

At the conclusion of a restructuring of INA Financial Corporation in 1996, INA Holdings Corporation owned the stock of the active insurance company subsidiaries and Brandywine Holdings Corporation (“Brandywine Group”) owned the stock of Century Indemnity Company. The Brandywine Group included three Pennsylvania domiciled insurance companies: Century

## **ACE American Insurance Company**

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Indemnity Company, Century Reinsurance Company, and ACE American Reinsurance Company, in addition to other entities. Currently, only Century Indemnity Company survives.

On July 2, 1999, ACE Limited acquired the property and casualty insurance company subsidiaries of CIGNA Corporation. CIGNA Corporation sold INA Corporation and its subsidiaries to ACE INA Holdings, Inc. ("ACE INA"), a subsidiary of ACE Limited, for \$3.45 billion. After the acquisition, ACE American changed its name to ACE American Insurance Company effective November 1, 1999.

ACE Insurance Company of Texas, ACE Employers Insurance Company, and Allied Insurance Company merged into the Company effective December 31, 2005. ACE Insurance Company of Ohio and ACE American Lloyds Insurance Company merged effective December 31, 2006. ACE Insurance Company of Illinois merged effective December 31, 2007.

ACE Limited is a holding company, which, until July 18, 2008, was incorporated with limited liability under the Cayman Islands Companies Law. In March 2008, the Board of Directors ("the Board") approved a proposal to move ACE Limited's jurisdiction of incorporation from the Cayman Islands to Zurich, Switzerland ("the Continuation"). In July 2008, during ACE Limited's annual general meeting, the shareholders approved the Continuation and ACE Limited became a Swiss company effective July 18, 2008.

ACE American is currently authorized to transact those classes of insurance described in 40 P.S. § 382 (b)(1) Property and Allied Lines, (b)(2) Inland Marine and Physical Damage, (b)(3) Ocean Marine, (c)(1) Fidelity and Surety, (c)(2) Accident and Health, (c)(3) Glass, (c)(4) Other Liability, (c)(5) Boiler and Machinery, (c)(6) Burglary and Theft, (c)(7) Credit, (c)(8) Water Damage, (c)(9) Elevator, (c)(10) Livestock, (c)(11) Auto Liability, (c)(12) Mine and Machinery, (c)(13) Personal Property Floater, and (c)(14) Workers' Compensation.

## **MANAGEMENT AND CONTROL**

### **CAPITALIZATION**

As of the examination date, December 31, 2014, the Company's total capital was \$2,992,907,211, consisting of 100,000 capital shares of issued and outstanding common stock with a par value of \$50 per share amounting to \$5,000,000; \$1,147,769,970 of paid in and contributed surplus; \$1,150,960 in aggregate write-ins for special surplus funds; and \$1,838,986,281 in unassigned funds (surplus).

The Company's minimum capital and surplus requirements for the types of business for which it is licensed, pursuant to 40 P.S. § 386, is \$2,350,000 in capital and \$1,175,000 in surplus. The Company satisfied the capital and surplus requirements throughout the examination period.

### **STOCKHOLDER**

The Company is a wholly owned subsidiary of INA Holdings Corporation, a Delaware corporation. During the examination period, the following dividend payments, all considered ordinary dividends, were made:

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Year	Dividend
2011	\$180,000,000
2010	<u>125,000,000</u>
Total	<u>\$305,000,000</u>

### INSURANCE HOLDING COMPANY SYSTEM

During the period under examination, the Company met the requirements for filing an insurance holding company system annual registration statement, in compliance with 40 P.S. § 991.1404. For each of the years under examination, ACE American filed the Statement with the Department by March 31 on its own behalf, as well as on behalf of the other Pennsylvania domestic insurance companies ultimately controlled by ACE Limited.

ACE Limited is named as the ultimate controlling person in the system. ACE Limited is a publicly held holding company traded on the New York Stock Exchange, under the symbol "ACE." ACE Limited is widely held, with beneficial owners, Wellington Management Company, LLP, Capital World Investors, BlackRock Inc., Vanguard Group Inc., JP Morgan Chase & Co. and State Street Corporation each holding more than 5% of ACE Limited common shares as of December 31, 2014. The global headquarters of ACE Limited is located in Zurich, Switzerland.

Members of the holding company system include the following entities shown below. Members of the holding company being examined as part of the ACE property and casualty subgroup examination are identified with an asterisk (\*).

#### ACE Limited (Switzerland)

- ACE Life Insurance Company (CT, USA)
- Westchester Fire Insurance Company (PA, USA)\*
- Westchester Surplus Lines Insurance Company (GA, USA)\*
- Combined Insurance Company of America (IL, USA)
  - Combined Life Insurance Company of New York (NY, USA)
- INA Holdings Corporation (DE, USA)
  - Bankers Standard Insurance Company (PA, USA)\*
    - Bankers Standard Fire and Marine Company (PA, USA)\*
  - ACE American Insurance Company (PA, USA)\***
    - Pacific Employers Insurance Company (PA, USA)\*
      - Illinois Union Insurance Company (IL, USA)\*
    - Rain and Hail Insurance Service, Inc. (IA, USA)
      - Agri General Insurance Company (IA, USA)\*
    - Penn Millers Holding Corporation (PA, USA)
      - PMMHC Corp. (PA, USA)
        - Penn Millers Insurance Company (PA, USA)\*
  - ACE Property and Casualty Insurance Company (PA, USA)\*
    - Atlantic Employers Insurance Company (NJ, USA)\*
    - ACE Fire Underwriters Insurance Company (PA, USA)\*
    - ACE Insurance Company of the Midwest (IN, USA)\*
  - Indemnity Insurance Company of North America (PA, USA)\*
  - Insurance Company of North America (PA, USA)\*
  - Century Indemnity Company (PA, USA)\*

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Century International Reinsurance Company Ltd. (Bermuda)  
ACE Insurance Company (PR, USA)  
ACE Seguros S.A. (Peru)  
ACE Insurance Limited (Australia)  
ACE European Group Limited (United Kingdom)  
ACE Insurance S.A.-N.V. (Belgium)  
CJSC ACE Insurance Co. (Russia)  
ACE Seguros S.A. (Mexico)  
ACE Insurance Limited (South Africa)  
ACE INA Overseas Insurance Company Ltd. (Bermuda)  
    ACE INA Insurance (Canada)  
    ACE INA Life Insurance (Canada)  
    ACE Insurance Limited (Singapore)  
ACE Arabia Insurance Company Limited B.S.C. (C) (Saudi Arabia)  
ACE Seguros S.A. (Argentina)  
ACE Life Insurance Company Limited (Vietnam)  
ACE Insurance Limited (Hong Kong)  
PT. ACE INA Insurance (Indonesia)  
ACE Seguradora S.A. (Brazil)  
ACE Seguros de Vida S.A. (Chile)  
ACE Seguros S.A. (Chile)  
ACE Seguros S.A. (Ecuador)  
ACE Life Insurance Company Egypt, S.A.E. (Egypt)  
ACE Resseguradora S.A. (Brazil)  
ACE Fianzas Monterrey S.A. (Mexico)  
ABA Seguros S.A. de C.V. (Mexico)  
ACE Insurance Limited (Pakistan)  
Insurance Company of North America (Philippines)  
Egyptian American Insurance Company (Egypt)  
Rio Guayas Compania de Seguros y Reaseguros S.A. (Ecuador)  
ACE Bermuda Insurance Ltd. (Bermuda)  
    Corporate Officers & Directors Assurance Ltd. (Bermuda)  
    ACE Capital Title Reinsurance Company (PA, USA)  
    ACE Bermuda International Insurance (Ireland) Limited (Ireland)  
    Paget Reinsurance Ltd. (Bermuda)  
ACE Tempest Life Reinsurance Ltd. (Bermuda)  
    ACE Tempest Reinsurance Ltd. (Bermuda)  
ACE Global Markets Limited (United Kingdom)  
ACE Insurance S.A.R.L. (Macau)  
ACE Arabia Cooperative Insurance Company (Saudi Arabia)  
ACE Insurance Co. (Japan) Limited (Japan)  
ACE American Fire and Marine Insurance Co. (South Korea)  
ACE Seguros S.A. (Colombia)  
ACE Insurance (Switzerland) Limited (Switzerland)  
    Ace Reinsurance Switzerland Ltd. (Switzerland)

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ACE Limited's holdings, inclusive of the companies listed in the preceding chart, is a global insurance and reinsurance organization, serving the needs of commercial and individual customers in more than 200 countries and jurisdictions. ACE Limited provides specialized insurance products, such as personal accident, supplemental health and life insurance to individuals in select countries. The reinsurance operations include both property and casualty and life companies. ACE Limited reported consolidated GAAP equity at December 31, 2014, of approximately \$30.0 billion.

### BOARD OF DIRECTORS

Management of the Company is vested in its Board of Directors ("Board"), which was comprised of the following members as of the examination date, December 31, 2014:

<b>Name and Address</b>	<b>Principal Occupation</b>
John J. Lupica Newtown, PA	Vice Chairman, ACE Limited/ACE Group Chairman, Insurance – North America
Ross R. Bertossi Centerport, NY	President ACE USA Casualty Lines
James M. English Newtown, PA	Chief Operations Officer (North America) Westchester Fire Insurance Company
Matthew G. Merna Mendham, NJ	President ACE Capital Title Reinsurance Company
Douglas Poetzsch West Islip, NY	EVP & CTO, ACE North American Claims ACE American Insurance Company
David J. Lupica Alpharetta, GA	Division President ACE Commercial Risk Services
Kevin M. Rampe New Hope, PA	Global Corporate Officer/ General Counsel North America, ACE American
Bruce L. Kessler Atlanta, GA	SVP, ACE Group Division President, ACE Westchester
Christopher A. Maleno Manhasset, NY	SVP, ACE Group Division President, ACE USA
Edward D. Zaccaria New Hope, PA	President, Global Underwriting Group Insurance Company of North America
Paul G. O'Connell Princeton, NJ	Executive Vice President, Chief Actuary Global Property & Casualty, ACE Group
Joseph F. Fisher Philadelphia, PA	Chief Finance Officer ACE North America
John J. Alfieri Neshanic Station, NJ	Division President ACE USA Regional Operations
Caroline Clouser Princeton, NJ	Executive Vice President Medical Risk & Life Services
Deborah Ann Giss Stalker Landenberg, PA	Deputy General Counsel ACE Group

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Mary Boyd  
Whitehouse Station, NJ

Catherine Fabbitti  
Brooklyn, NY

David Charlton  
Pottstown, PA

Division President  
ACE Private Risk Services

Division President  
ACE Private Risk Services

Division President  
ACE Commercial Risk Services

All directors serve a one-year term as provided in the by-laws. Elections are held at the Annual Meeting of INA Holdings Corporation, the Stockholder.

The Company provides all employees with the ACE Employee Code of Conduct ("Code"), which includes a section on conflicts of interest. Employees are invited to express concerns or solicit comments via e-mail or a toll-free telephone number. The Code is reviewed, reaffirmed and redistributed to employees annually. At least annually, all employees are asked to review the Code, not only as prompted by training, but also by certifying that they have read and understood the Code.

### COMMITTEES

The Board appoints an Executive Committee and Investment Committee as provided in the by-laws. Our review of the Executive and Investment Committee meeting minutes indicates the committees are acting in accordance with the Company's by-laws. The directors and/or officers were assigned to serve on the following Committees as listed below:

#### **Investment Committee**

John J. Lupica  
Joseph F. Fisher  
Bruce L. Kessler

#### **Executive Committee**

John J. Lupica  
Joseph F. Fisher  
Bruce L. Kessler

ACE American achieves compliance with the Board committee membership requirements of 40 P.S. § 991.1405(c)(3)(ii), (4) and (4.1) through 40 P.S. § 991.1405(c)(5), which states: "The provisions of paragraphs (3), (4) and (4.1) shall not apply to a domestic insurer if the person controlling such insurer is an insurer, an attorney in fact for a reciprocal exchange, a mutual insurance holding company or a publicly held corporation having a board of directors and committees thereof, which already meet the requirements of paragraphs (3), (4) and (4.1)". The ultimate controlling parent, ACE Limited, of the Company is publicly traded on the New York Stock Exchange and a review of its Board and Committee structures reflects compliance with the independence requirements of 40 P.S. § 1405(c)(3), (4) and (4.1). Consistent with 40 P.S. § 991.1405(c)(5), the Company is considered to be in compliance with the overall dictates of Pennsylvania's laws as they relate to the existence, composition, and independence of the Board and committees thereof.

**OFFICERS**

As of the examination date, December 31, 2014, the following officers were appointed and serving in accordance with the Company's by-laws:

<b>Name</b>	<b>Title</b>
John J. Lupica	President and Chairman of the Board
Joseph F. Fisher	Treasurer
Rebecca L. Collins	Secretary
Paul G. O'Connell	Chief Actuary
Joseph Jordan	Chief Financial Officer
John J. Alfieri	Executive Vice President
Ross R. Bertossi	Executive Vice President
Mary Boyd	Executive Vice President
David Charlton	Senior Vice President
Caroline Clouser	Executive Vice President
Michael J. Coleman	Executive Vice President
Robert H. Courtemanche	Executive Vice President
James M. English	Executive Vice President
Catherine Fabbitti	Executive Vice President
Bruce L. Kessler	Executive Vice President
David J. Lupica	Executive Vice President
Christopher A. Maleno	Executive Vice President
Matthew G. Merna	Executive Vice President
Douglas Poetzsch	Executive Vice President
Kevin M. Rampe	Executive Vice President
Henry O. Schramm II	Executive Vice President
Deborah Ann Giss Stalker	Executive Vice President
John P. Taylor	Senior Vice President
Jose Vasquez	Executive Vice President
Edward D. Zaccaria	Executive Vice President

**CORPORATE RECORDS**

**MINUTES**

A compliance review of corporate minutes revealed the following:

- The annual meetings of the Company's Stockholder were held in compliance with its by-laws.
- The Stockholder elects directors at such meetings in compliance with the by-laws.
- The Stockholder ratified the prior year's actions of the officers and directors.
- Quorums were present at all directors' meetings.

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- The Company's investment and reinsurance transactions are approved quarterly by the Board.
- All directors regularly attend Board meetings.
- The Company's Board meeting minutes reflect approval of reinsurance contracts.

## ARTICLES OF INCORPORATION

There were no changes to the Articles of Incorporation during the period under examination.

## BY-LAWS

The Company amended its by-laws, effective July 11, 2013, to reflect updated language under Article V - Miscellaneous, Section 5.5 Indemnification.

## SERVICE AND OPERATING AGREEMENTS

The Company is a party to a number of service and operating agreements with its affiliates. These agreements, which may include more than one affiliate, can be classified as one of the following types: administrative; accounting and legal service; expense allocation; reinsurance services (including brokerage); investment advisory; employee leasing; and tax allocation. The examination team reviewed a sample of these agreements and found them to be in compliance with the standards contained in 40 P.S. § 991.1405, with the exception of the agreements between the ACE American and ESIS, Inc. ("ESIS"), an affiliated company, and the agreements between ACE American and its affiliated property and casualty insurance companies with ESIS (see page 10). All of the reviewed agreements are in writing and received approval by the Company's Board.

ACE American and ESIS are party to several "Service" agreements whereby ACE American provides staffing, administrative, and technical services to ESIS, whereas ESIS provides services related to maintaining third party claims administrative services to ACE American. In addition, the ACE property and casualty insurance companies, including ACE American, entered into a Master Claim Service Agreement and a SIU Service and Support Agreement with ESIS. In the first of these two agreements, ESIS provides claims adjusting services as a licensed third party claims administrator to these companies. In the second of the agreements, the ACE property and casualty insurers have delegated to ESIS their obligations to: (a) investigate potentially fraudulent claim activity, and (b) to report potentially fraudulent claim activity to governmental authorities as required by law or filed fraud plan.

Interwoven in the fabric of these agreements is a Cash Management Services Agreement between ACE American and ESIS. Under this agreement, effective January 1, 1999, all funds presently in the possession of ESIS or received in the future by ESIS for ACE American or ESIS from their respective customers are deposited in an account in the name of and under the control of ACE American. ACE American sees to the investment of such funds in securities or cash accounts. ACE American subcontracts the investment duties hereunder to State Street Global Advisors, a division of State Street Bank and Trust Company. ACE American accounts for the

cash received on ESIS's account and the investment thereof, including the balance being held for ESIS, the amount of investment income credited to ESIS, the amount utilized to pay ESIS checks and drafts and the amount of any interest or fees charged by ACE American. ESIS pays ACE American a fee based upon its proportionate share of the costs and expenses that ACE American incurs in providing advisory services to ESIS.

In our review of the above agreements, we noted that neither the Master Claims Service Agreement nor the SIU Service and Support Agreement contain a sufficiently specific due date for payment of the services rendered. The provision in the agreements calling for 12 equal monthly payments without specifying when these payments would be made is not considered to be a specific settlement due date. A specific due date is required within a related party agreement in accordance with the provisions of SSAP No. 25, paragraph 7 (i.e., "Transactions between related parties must be in the form of a written agreement. The written agreement must provide for timely settlement of amounts owed, with a specified due date."). Lack of a specific due date is a violation of 40 P.S. § 991.1405(a)(1) as agreements without a specific due date are not be considered fair and reasonable.

*The ACE property and casualty insurance companies should amend or replace the Master Claims Service Agreement and the SIU Service and Support Agreement, including specific dates for issuing invoices for services rendered and for payment of such services to the service provider in the amended or replacement agreements in compliance with SSAP No. 25, paragraph 7, and 40 P.S. § 991.1405(a)(1).*

Additionally, the Company is party to a number of agreements with external parties e.g., third party administrators, service providers, brokers, and investment advisors, which are not listed here as they were not considered material to the examination.

## **REINSURANCE**

The ACE Property & Casualty Reinsurance Program can be categorized into four components: Affiliated Reinsurance, External Reinsurance, Captive Reinsurance, and Pools and Associations.

### **AFFILIATED REINSURANCE**

#### **POOLING AGREEMENT ("Pool Companies")**

ACE American participates in an intercompany reinsurance pooling agreement and serves as the lead company in the pool ("Intercompany Pool"). Under the terms of this agreement, ACE American reinsures 100% of the gross business written by each of the Pool Companies with the exception of a company's foreign branch business and voluntary and mandatory pools and association business, which remains in the direct writing company. The foreign branch business is ceded 100% to a foreign affiliate, and the voluntary and mandatory pools and association business is not ceded and remains in the direct writing company. The Intercompany Pool determines the extent of gross written business it intends to cede to third parties and cedes this business through ACE American and ACE Property and Casualty Insurance Company ("ACE P&C"). Balances

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ceded to ACE P&C exclude the ACE American's and Insurance Company of North America's foreign branch business that is ceded 100% to a foreign affiliate. ACE American retrocedes the remaining net business to each of the other Pool Companies in proportion to their contractual pool share.

The names, NAIC company code and pool participation percentage of the companies participating in the Intercompany Pool at December 31, 2014 are shown in the following chart:

<b>Pool Participants</b>	<b>NAIC Code</b>	<b>Pool Participation</b>
ACE American Insurance Company	22667	37.0%
ACE Property and Casualty Insurance Company	20699	35.0%
Pacific Employers Insurance Company	22748	17.8%
Insurance Company of North America	22713	5.0%
Bankers Standard Insurance Company	18279	2.1%
Indemnity Insurance Company of North America	43575	2.0%
Bankers Standard Fire and Marine Company	20591	0.9%
ACE Fire Underwriters Insurance Company	20702	0.2%
<b>Pool Participation Total</b>		<u>100.0%</u>

In addition to the affiliated reinsurance provided under the pooling agreement above, the aforementioned Pool Companies had the following reinsurance agreements with affiliates:

### **Pool Companies and WFIC with ACE INA Overseas Insurance Company Ltd**

On December 31, 2000, as amended for a company name change on January 1, 2011, the Pool Companies and Westchester Fire Insurance Company ("WFIC") entered into a reinsurance agreement with a Bermuda affiliate, ACE INA Overseas Insurance Company, Ltd ("AIOIC"). Under the terms of this agreement, AIOIC will reimburse these companies for any and all ultimate net losses incurred by these companies under certain workers' compensation insurance and reinsurance policies issued by the companies. Coverage is provided by AIOIC for all incurred losses, allocated loss adjustment expenses, uncollectible reinsurance and any loss based assessments pertaining to losses occurring on workers' compensation insurance policies issued on or prior to December 31, 2000, net of all salvage, subrogation and other recoverables. Settlements of premiums and losses under this agreement are on a funds held basis with funds remaining on deposit with the ceding companies.

### **Pool Companies and WFIC with ACE Tempest Reinsurance Limited**

Effective January 1, 2007, the Pool Companies and WFIC entered into a loss portfolio transfer agreement with a Bermuda affiliate, ACE Tempest Reinsurance Ltd. ("ATRL"). Under the terms of this agreement, ATRL will reimburse these companies for any and all ultimate net loss and allocated loss adjustment expenses incurred up to \$1.4 billion for workers' compensation insurance and reinsurance policies, classified under certain business classification codes, issued

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by these companies on or after January 1, 2001, and on or before December 31, 2005. Effective January 1, 2011, WFIC's participation in this treaty was terminated on a cut-off basis. Consideration payable to ATRL is based on the premiums and losses that are ceded under the terms of the contracts.

### **Pool Companies and ACE Tempest Reinsurance Limited**

Effective January 1, 2008, the Pool Companies entered into a net liabilities quota share reinsurance agreement with ATRL to reinsure 20% of the Pool Companies' current accident year underwriting results, excluding unallocated loss adjustment expenses. In addition, this agreement includes loss occurrence caps and an aggregate accident loss ratio cap of 150% of net earned premium. This net liabilities quota share reinsurance agreement was approved by the Department at inception. As of January 1, 2014, the parties entered into a new agreement that changed the cession rate to 15%.

### **Pool Companies and ACE Reinsurance (Switzerland) Limited**

Effective January 1, 2009, the Pool Companies entered into a net liabilities quota share reinsurance agreement with a Swiss affiliate, ACE Reinsurance (Switzerland) Limited, to reinsure 10% of the Pool Companies' current accident year underwriting results, excluding unallocated loss adjustment expenses. In addition, this agreement includes loss occurrence caps and an aggregate accident loss ratio cap of 150% of net earned premium. This net liabilities quota share reinsurance agreement was approved by the Department at inception. Effective January 1, 2013, this agreement was amended to reinsure 15% of the Pool's current accident year underwriting results beginning January 1, 2013. As of January 1, 2014, the parties entered into a new agreement that changed the cession rate to 20%.

### **ACE American Insurance Co. and Westchester Surplus Lines Insurance Co.**

Effective January 1, 2010, Westchester Surplus Lines Insurance Company ("WSLIC") terminated its 90% quota share reinsurance agreement with WFIC on a cut-off basis. WSLIC contemporaneously entered into an in-kind agreement with ACE American. On January 1, 2010, WFIC returned unearned premium of \$127.2 million to WSLIC and then WSLIC ceded it to ACE American. WFIC shall continue to remain liable for losses related to earned premium on policies it previously assumed under the 90% quota share reinsurance agreement with WSLIC.

### **ACE American Insurance Co. and ACE Tempest Reinsurance Limited**

Effective January 1, 2010, ACE American entered into excess of loss per person and catastrophe reinsurance contract with ATRL. Under the terms of this agreement, ATRL provides the following reinsurance coverage for business classified as personal accident or life:

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Coverage	Attachment Point	Limit	Application of Coverage
Per Person	\$2,000,000	\$3,000,000	Per Accident, Per Person
Catastrophe	\$5,000,000	\$95,000,000	Per Occurrence

Note: This treaty contains sub-limits based on certain coverage, loss and territorial characteristics.

Consideration payable to ATRL is based on the premiums and losses that are ceded under the terms of the contracts.

### **Agri General Insurance Company and ACE American Insurance Co.**

Effective with the 2011 reinsurance year, Agri General Insurance Company ("AGIC") entered into a 100% quota share reinsurance agreement with ACE American. For older reinsurance years, the AGIC assumes a retrocession from ACE American on select lines of business, which it ultimately cedes to unaffiliated reinsurers.

### **Penn Millers Insurance Company and ACE American Insurance Co.**

Effective January 1, 2012, Penn Millers Insurance Company ("PMIC") entered into a 100% quota share agreement with ACE American. Under this agreement, PMIC cedes premiums, losses, and allocated loss adjustment expenses starting with accident year 2012. PMIC receives a ceding commission equal to accident years 2012 and subsequent unallocated loss adjustment expenses incurred and total other underwriting expenses, along with an additional amount equal to 3% of gross written premiums.

### **ACE Insurance Company of the Midwest and ACE American Insurance Co.**

For 2014, ACE Insurance Company of the Midwest ("AICM") entered into a 90% quota share reinsurance agreement with ACE American. This treaty excludes unallocated loss adjustment expenses ("ULAE") and other underwriting expenses. However, ceding commissions are adjusted to reimburse AICM for the ULAE and other underwriting expenses incurred for the year.

### **Illinois Union Insurance Company and ACE American Insurance Co.**

For 2014, Illinois Union Insurance Company ("IUIC") entered into a 100% quota share reinsurance agreement with ACE American. This treaty excludes ULAE and other underwriting expenses. However, ceding commissions are adjusted to reimburse IUIC for the ULAE and other underwriting expenses incurred for the year.

### **Atlantic Employers Insurance Co. and ACE American Insurance Co.**

For 2014, Atlantic Employers Insurance Company ("AEIC") entered into a 90% quota share reinsurance agreement with ACE American. This treaty excludes ULAE and other

## ACE American Insurance Company

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underwriting expenses. However, ceding commissions are adjusted to reimburse AEIC for the ULAE and other underwriting expenses incurred for the year.

## Century Indemnity Company

As provided in the 1996 Restructuring Order (“the Order”) creating the Brandywine Group run-off companies, Century Indemnity Company (“Century”) issued to a number of the active ACE property and casualty insurance companies (“ACE Companies”) a General Liability Reinsurance Agreement (“GL87”). In the GL87 agreement, Century agreed to reinsure certain defined liabilities of these companies arising from direct general liability policies issued prior to January 1, 1987. At the same time, the ACE Companies issued an Excess of Loss Reinsurance Treaty (“XOL”) to Century with a limit of \$800 million to protect the surplus and cash flow of Century. Included in the GL87 agreement is a unique provision that suspends Century’s obligation to settle reinsurance payments to the ACE Companies as long as Century cedes reserves to the XOL. Century currently cedes reserves to the XOL and projects that it will do so until the year 2068.

On September 19, 2013, the Department approved Century’s request, as a consistent interpretation of the intent of certain provisions of the Order, to discount its reinsurance payables to the ACE Companies under the GL87 agreement. The cumulative net effect, as of December 31, 2014, for the discounting of the GL87 reinsurance payables on the ACE Companies is a decrease to surplus of \$429.6 million, which was recorded as change in accounting principles in 2013 and any change moving forward as an “Aggregate write-in for miscellaneous income” on the income statement. Century recorded a similar entry to record the effect of the discount, which offset those amounts recorded by the ACE Companies.

## Certified Affiliated Reinsurers

As of December 31, 2014, the Department had approved the following affiliated reinsurers as Certified Reinsurers pursuant to 40 P.S. § 442.1(a) and 31 Pa. Code 161.3(a):

<b>Reinsurer Name</b>	<b>Certified Rating</b>	<b>Collateral Required</b>
ACE Tempest Reinsurance Ltd.	Secure-2	10%
ACE Reinsurance (Switzerland) Ltd.	Secure-2	10%
ACE INA Overseas Insurance Company Ltd.	Secure-3	20%

## EXTERNAL REINSURANCE

### Reinsurance Intermediaries

Reinsurance intermediaries utilized by various ACE property and casualty insurance companies (“ACE”) include: Aon Re, Inc., Guy Carpenter and Company, Inc., Willis, Benfield, Inc., and JLT Re Solutions, Inc. All are licensed by the Department as required by 40 P.S. § 321.2

and ACE has written authorizations in place as required by 40 P.S. § 321.6. However, 40 P.S. § 321.3 requires that written authorizations between the reinsurance intermediary and the insurer they represent should contain certain specific termination provisions as specified in the statute. The written authorizations that ACE has in place with their reinsurance intermediaries is not in compliance with the specified termination provisions required by 40 P.S. § 321.3.

*ACE should amend or replace the written authorizations with their reinsurance intermediaries to be compliant with the requirements of 40 P.S. § 321.3.*

## **Reinsurance Program**

As previously stated, the Intercompany Pool determines the extent of gross written business it intends to cede to third parties and that portion of business is retroceded to ACE P&C for cession to external reinsurers, thus the External Reinsurance Program is common to all the companies in the Intercompany Pool. The External Reinsurance Program provides indemnification to the companies by unaffiliated reinsurers, excluding captive reinsurers, and voluntary and mandatory pools. The program consists of many treaties in force or in runoff, supplemented by facultative placements. Due to the size and complexity of the program, a large number of authorized and unauthorized reinsurers participate. The following general treaty programs were in place as of the examination date, December 31, 2014:

### **Abbreviations utilized in the following reinsurance treaty schematics:**

#### **Business Units:**

AEG = ACE Europe Group  
AGG = ACE Group Global  
ANAPS = ACE North American Property & Specialty  
AOG = ACE Overseas General  
APR = ACE Professional Risk  
APRS = ACE Private Risk Services  
ARM = ACE Risk Management  
AWSG = ACE Westchester Specialty Group  
CRR = Commercial Risk Services  
USAIG = United States Aircraft Insurance Group

#### **Treaty Types:**

CAT = Catastrophe  
QS = Quota Share  
XOL = Excess of Loss

#### **Line of Business:**

HPL = Hospital Professional Liability  
MPCI = Multi Peril Crop Insurance  
WC = Workmen's Compensation

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<b>Accident and Health</b>	<b>Layer</b>	<b>Placement %</b>	<b>Attachment</b>	
			<b>Point</b>	<b>Limit</b>
Employers Stop Loss QS	1	50.00%		\$ 1,000,000
Employers Stop Loss QS	2	100.00%	\$ 1,000,000	\$ 1,000,000
Employers Stop Loss QS	3	100.00%	\$ 2,000,000	\$ 3,000,000
Employers Stop Loss QS	4	100.00%	\$ 5,000,000	Unlimited
Employers Stop Loss XOL	1	100.00%	\$ 1,000,000	Unlimited
Employers Stop Loss XOL	1	100.00%	\$ 1,000,000	\$ 1,000,000
Employers Stop Loss XOL	2	100.00%	\$ 2,000,000	\$ 3,000,000
Employers Stop Loss XOL	3	100.00%	\$ 5,000,000	Unlimited
Kindergarten-12 Medical CAT QS	1	69.64%		\$ 5,600,000
Kindergarten-12 Medical CAT QS	1	69.64%		\$ 5,600,000
Kindergarten-12 Medical CAT QS	1	73.64%		\$ 6,425,000
Pro Financial Sports Disability QS	1	85.00%		\$ 25,000,000
Pro Financial Sports Disability Upper Limit QS	1	100.00%	\$ 25,000,000	\$ 35,000,000
Pro Financial Sports Disability Upper Limit QS	2	100.00%	\$ 65,000,000	\$ 40,000,000
Pro Financial Sports Disability XOL	1	100.00%	\$ 3,333,000	\$ 4,167,000
Pro Financial Sports Disability XOL	2	100.00%	\$ 7,500,000	\$ 5,000,000
Pro Financial Sports Disability XOL	3	100.00%	\$ 12,500,000	\$ 12,500,000
Special Insurance Service Upper QS	1	90.00%		\$ 5,000,000
AGG Personal Accident CAT Lower Layers	1	100.00%	\$ 5,000,000	\$ 15,000,000
AGG Personal Accident CAT Upper Layers	1	100.00%	\$ 20,000,000	\$ 30,000,000
AGG Personal Accident CAT Upper Layers	2	100.00%	\$ 50,000,000	\$ 50,000,000
AGG Personal Accident CAT Upper Layers	3	100.00%	\$ 100,000,000	\$ 100,000,000
AGG Personal Accident CAT Upper Layers	4	100.00%	\$ 200,000,000	\$ 200,000,000
AGG Personal Accident Per Person Sect. A XOL	1	100.00%	\$ 2,000,000	\$ 8,000,000
PA USA, Canada & CICA CAT XOL	1	100.00%	\$ 2,500,000	\$ 2,500,000

<b>Airport/Aviation</b>	<b>Layer</b>	<b>Placement %</b>	<b>Attachment</b>	
			<b>Point</b>	<b>Limit</b>
ACE USA Airports Aviation QS	1	40.00%		\$ 100,000,000
ACE USA Airports Hull & Liability XOL	1	60.00%	\$ 5,000,000	\$ 10,000,000
ACE USA Airports Hull & Liability XOL	2	60.00%	\$ 15,000,000	\$ 10,000,000
ACE USA Airports Hull Risk XOL	1	60.00%	\$ 2,000,000	\$ 8,000,000
ACE USA Airports Liability Risk XOL	1	60.00%	\$ 25,000,000	\$ 75,000,000
ANAPS Satellites XOL	1	100.00%	\$ 5,000,000	\$ 5,000,000
ANAPS USAIG Pool QS	1	50.00%		Unlimited

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			Attachment	
<b>Agriculture</b>	<b>Layer</b>	<b>Placement %</b>	<b>Point</b>	<b>Limit</b>
ACE AGRI Crop Hail Stop Loss Annual	1	66.03%	\$ 126,000,000	\$ 50,400,000
ACE AGRI Crop Hail Stop Loss Multi-Year	1	28.98%	\$ 126,000,000	\$ 50,400,000
ACE AGRI MPCl QS Multi-Year	1	8.00%		Unlimited
ACE AGRI MPCl Stop Loss	1	15.00%	\$ 1,457,881,128	\$ 44,178,216
ACE AGRI MPCl Stop Loss	2	17.26%	\$ 1,502,059,344	\$ 73,630,360
ACE AGRI MPCl Stop Loss	3	34.25%	\$ 1,575,689,704	\$ 176,712,864
ACE AGRI MPCl Stop Loss	4	30.30%	\$ 1,752,402,568	\$ 265,069,296
ACE AGRI MPCl Stop Loss Multi-Year	1	41.96%	\$ 1,457,881,128	\$ 44,178,216
ACE AGRI MPCl Stop Loss Multi-Year	2	40.89%	\$ 1,457,881,128	\$ 559,590,736
ACE AGRI MPCl Stop Loss Multi-Year	3	39.70%	\$ 1,502,059,344	\$ 73,630,360
ACE AGRI MPCl Stop Loss Multi-Year	4	22.71%	\$ 1,575,689,704	\$ 176,712,864
ACE AGRI MPCl Stop Loss Multi-Year	5	26.66%	\$ 1,752,402,568	\$ 265,069,296
ACE AGRI Casualty Clash XOL	1	100.00%	\$ 1,000,000	\$ 4,000,000
ACE AGRI Casualty Clash XOL	2	100.00%	\$ 5,000,000	\$ 5,000,000
ACE AGRI Casualty Umbrella XOL	1	100.00%	\$ 1,000,000	\$ 4,000,000
ACE AGRI Casualty Umbrella XOL	2	100.00%	\$ 5,000,000	\$ 5,000,000
ACE AGRI Property Per Risk XOL	1	12.50%	\$ 2,500,000	\$ 2,500,000
ACE AGRI Farm & Ranch Property CAT	1	95.00%	\$ 7,500,000	\$ 7,500,000
ACE AGRI Farm & Ranch Property CAT	2	95.00%	\$ 15,000,000	\$ 10,000,000

			Attachment	
<b>Auto Liability</b>	<b>Layer</b>	<b>Placement %</b>	<b>Point</b>	<b>Limit</b>
AEG Motor Excess	1	100.00%	\$ 10,000,000	\$ 15,000,000
AEG Motor Excess	2	100.00%	\$ 25,000,000	Unlimited
AEG Motor Primary	1	100.00%	\$ 2,500,000	\$ 2,500,000
AEG Motor Primary	2	100.00%	\$ 5,000,000	\$ 5,000,000
ACR Custom Casualty Auto Liability XOL	1	100.00%	\$ 500,000	\$ 500,000
ACR Excess Auto Carve Out QS	1	60.00%		\$ 4,000,000

			Attachment	
<b>Environmental Risk</b>	<b>Layer</b>	<b>Placement %</b>	<b>Point</b>	<b>Limit</b>
ACE North American Environ. Liab. Sect. A QS	1	28.22%		\$ 15,000,000
ACE North American Environ. Liab. Sect. A QS	2	42.34%		\$ 20,000,000
ACE North American Environ. Liab. Sect. A QS	3	45.80%		\$ 25,000,000
ACE North American Environ. Liab. Sect. A XOL	1	15.00%	\$ 15,000,000	\$ 10,000,000

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<b>General/Excess Liability</b>	<b>Layer</b>	<b>Placement %</b>	<b>Attachment Point</b>	<b>Limit</b>
ACE Casualty Risk Excess QS	1	50.00%		\$ 25,000,000
ACE Casualty Risk Excess Surplus Share	1	67.00%		\$ 25,000,000
AWSG Casualty Umbrella & High Excess QS	1	60.00%		\$ 25,000,000
AWSG Casualty Primary QS	1	35.00%		\$ 2,000,000
AWSG Product Recall QS	1	60.00%		\$ 10,000,000
AWSG Product Recall QS	2	73.33%		\$ 15,000,000
AWSG Railroad QS	1	50.00%		\$ 20,000,000
APRS Personal Umbrella Variable QS	1	22.86%		\$ 37,500,000
APRS Personal Umbrella Variable QS	1	77.14%		\$ 87,500,000
APRS Personal Umbrella XOL	1	20.00%	\$ 50,000,000	\$ 50,000,000
CRR Umbrella QS	1	67.50%		\$ 10,000,000
CRR Umbrella QS	1	75.00%		\$ 10,000,000

<b>Marine</b>	<b>Layer</b>	<b>Placement %</b>	<b>Attachment Point</b>	<b>Limit</b>
ACE USA Commercial Marine	1	80.00%	\$ 5,000,000	\$ 5,000,000
ACE USA Commercial Marine Cargo Reporter	1	100.00%	\$ 10,000,000	\$ 50,000,000
ACE USA Commercial Marine Excess Liab. QS	1	67.50%		\$ 10,000,000
ACE USA Recreational Marine	1	100.00%	\$ 5,000,000	\$ 5,000,000
ACE USA Recreational Marine	2	100.00%	\$ 10,000,000	\$ 15,000,000
AGG Marine	1	100.00%	\$ 25,000,000	\$ 50,000,000
AGG Marine	2	100.00%	\$ 75,000,000	\$ 50,000,000
AGG Marine	3	90.00%	\$ 125,000,000	\$ 20,000,000
APRS Equipment Breakdown QS	1	100.00%		\$ 100,000,000

<b>Medical Risk/Life Sciences</b>	<b>Layer</b>	<b>Placement %</b>	<b>Attachment Point</b>	<b>Limit</b>
ACE Medical Risk HPL and Misc. Facilities QS	1	30.00%		\$ 15,000,000
ACE Medical Risk Managed Care QS	1	50.00%		\$ 25,000,000

<b>Professional Risk</b>	<b>Layer</b>	<b>Placement %</b>	<b>Attachment Point</b>	<b>Limit</b>
ACE Group Kidnap & Ransom Quota Share	1	100.00%		\$ 10,000,000
APR Cyber Risk Quota Share	1	75.00%		\$ 15,000,000
APR Cyber Risk Quota Share	2	35.00%		\$ 15,000,000

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Property/Property Catastrophe	Layer	Placement %	Attachment	
			Point	Limit
AGG Property CAT XOL	1	68.57%	\$ 500,000,000	\$ 500,000,000
AGG Property CAT XOL	2	20.10%	\$ 500,000,000	\$ 775,000,000
AGG Property CAT XOL	3	76.57%	\$ 1,000,000,000	\$ 275,000,000
ACE North America Property Per Risk XOL	1	100.00%	\$ 5,000,000	\$ 10,000,000
ACE North America Property Per Risk XOL	2	50.00%	\$ 5,000,000	\$ 10,000,000
ACE North America Property Per Risk XOL	3	91.50%	\$ 15,000,000	\$ 10,000,000
ACE North America Property Per Risk XOL	4	91.50%	\$ 25,000,000	\$ 25,000,000
ACE North America Property Per Risk XOL	5	8.50%	\$ 15,000,000	\$ 35,000,000
APRS Property Per Risk XOL	1	100.00%	\$ 5,000,000	\$ 5,000,000
APRS Property Per Risk XOL	2	100.00%	\$ 10,000,000	\$ 15,000,000
APRS Property Per Risk XOL	3	100.00%	\$ 25,000,000	\$ 25,000,000
APRS Property CAT XOL	1	55.00%	\$ 25,000,000	\$ 50,000,000
APRS Property CAT XOL - Reverse Franchise	1	45.00%	\$ 25,000,000	\$ 50,000,000
AWSG Property Per Risk	1	100.00%	\$ 2,500,000	\$ 2,500,000
AWSG Property Per Risk	2	100.00%	\$ 5,000,000	\$ 5,000,000
AWSG Property Per Risk	3	100.00%	\$ 10,000,000	\$ 15,000,000
AWSG Property CAT Surplus Share	1	100.00%		\$ 20,000,000
AGG CAT XOL (AOG)	1	6.00%	\$ 75,000,000	\$ 75,000,000
AOG & ANAPS Property Per Risk Combined	1	100.00%	\$ 50,000,000	\$ 200,000,000
AOG & ANAPS Property Per Risk Combined	2	100.00%	\$ 15,000,000	\$ 22,500,000
ANAPS Energy QS	1	72.50%		\$ 150,000,000
<b>Surety</b>				
	Layer	Placement %	Attachment	
			Point	Limit
ACE Surety Contractors XOL	1	90.50%	\$ 1,000,000	\$ 4,000,000
ACE Surety Contractors XOL	2	90.50%	\$ 5,000,000	\$ 10,000,000
ACE Surety XOL	1	90.00%	\$ 1,000,000	\$ 4,000,000
ACE Surety XOL	2	100.00%	\$ 5,000,000	\$ 5,000,000
ACE Surety XOL	3	100.00%	\$ 10,000,000	\$ 30,000,000
ACE Surety XOL	4	100.00%	\$ 40,000,000	\$ 30,000,000
ACE Surety XOL	5	100.00%	\$ 70,000,000	\$ 30,000,000
ACE Surety XOL	6	100.00%	\$ 100,000,000	\$ 50,000,000
<b>Workmen's Compensation</b>				
	Layer	Placement %	Attachment	
			Point	Limit
ARM Industrial AID	1	100.00%	\$ 1,000,000	\$ 2,000,000
ARM Industrial AID	2	50.00%	\$ 3,000,000	\$ 7,000,000
ARM Industrial AID	3	50.00%	\$ 3,000,000	\$ 7,000,000
ARM WC Direct Assignment QS	1	100.00%		\$ 30,965,890
ARM WC Direct Assignment Aggregate Excess *	1	100.00%	115% Loss Ratio	Unlimited
AGG WC CAT Excess	1	59.17%	\$ 20,000,000	\$ 30,000,000
AGG WC CAT Excess Sect. A & B	2	96.58%	\$ 200,000,000	\$ 300,000,000
AGG WC CAT Excess	3	96.25%	\$ 500,000,000	\$ 200,000,000
ARM Workmen's Compensation	1	60.00%	\$ 10,000,000	\$ 10,000,000

\* ACE American Insurance Company has an 18% participation in this treaty.

## **CAPTIVE REINSURANCE PROGRAM**

The Company, and its affiliates, assumes a portion of the risks insured by certain “captive” insurers (i.e., insurance companies owned by larger institutions, corporations, trade associations, local governments, educational institutions, etc. and insuring only the risks of that institution). These risks are generally assumed through an excess of loss treaty arrangement. These treaties limit the captive insurer’s losses either by occurrence or on an annual aggregate basis. Thus these large institutions are insured through their “captive” insurers and the losses of those “captive” insurers are limited by the reinsurance placed with the ACE family of insurance companies.

## **POOLS AND ASSOCIATIONS**

The Company participates in various mandatory and voluntary pools and associations. The Company, inclusive of its affiliates, is a major writer of crop and hail coverage, which is reinsured by the Federal Crop Insurance Corporation.

## **TERRITORY AND PLAN OF OPERATION**

The Company distributes its insurance products through a limited group of retail brokers. In addition to using brokers, certain products are distributed through channels such as general agents, independent agents, managing general agents, managing general underwriters, alliances, affinity groups and direct marketing operations.

North American property and casualty (“P&C”) operations are organized into five groups or business units: ACE USA, ACE Westchester, ACE Bermuda, ACE Private Risk Services, and ACE Commercial Risk Services. ACE USA distributes its coverage through retail brokers, provides a broad array of specialty property, casualty, and accident and health insurance products and risk management services to corporate clients across the United States and Canada. ACE Westchester specializes in excess and surplus lines specialty products, including property, inland marine, casualty, professional lines, and environmental liability products distributed through wholesale and select retail brokers. ACE Bermuda writes high-level excess liability, property, political risk and directors and officers insurance worldwide. ACE Private Risk Services provides high net worth individuals and families with homeowners, automobile, valuables, umbrella and recreational marine insurance. ACE Commercial Risk Services offers specialty insurance products and solutions for small businesses through a broad range of distribution channels.

North American Agriculture operations are organized into two business units: Rain and Hail and ACE Agribusiness. Rain and Hail provides comprehensive multiple-peril crop and crop-hail insurance distributed through a nationwide network of specialized agents. ACE Agribusiness provides farm and ranch property and specialty P&C coverages distributed through brokers and agents for companies that manufacture, process and distribute agricultural products.

The Company is licensed to write property and casualty insurance in all 50 states, the District of Columbia, Puerto Rico, the U.S. Virgin Islands and several foreign countries. On a direct and assumed writings basis, the Company’s five most significant lines of business are Allied Lines, Other Liability (occurrence), Workers’ Compensation, Other Liability (claims-made), and

## ACE American Insurance Company

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Commercial Multiple Peril, which accounted for 68.2% of direct and assumed written premium and totaled \$6.91 billion for the year ended December 31, 2014.

The Company is the lead company in the Intercompany Pool. Major writings of the Intercompany Pool are Allied Lines, Other Liability and Workers' Compensation, accounting for 63.4% of the pool's net written premium for the year ended December 31, 2014. The Company's premium writings are summarized in the following chart:

Line of Business	Direct and Assumed Premium	Ceded Premium	Net Written Premium	Percentage of Total
Fire	\$ 258,136,666	\$ 238,693,283	\$ 19,443,383	1.2%
Allied lines	2,461,479,109	2,040,924,673	420,554,436	25.5%
Farmowners multiple peril	51,605,572	39,511,682	12,093,890	0.7%
Homeowners multiple peril	362,188,669	281,315,372	80,873,297	4.9%
Commercial multiple peril	691,511,606	621,323,025	70,188,581	4.2%
Mortgage guaranty	111,712	84,845	26,867	0.0%
Ocean marine	160,191,176	131,313,849	28,877,327	1.7%
Inland marine	329,931,722	267,436,407	62,495,315	3.8%
Financial guaranty	956,557	948,952	7,605	0.0%
Medical malpractice - occurrence	18,594,020	14,856,053	3,737,967	0.2%
Medical malpractice - claims-made	128,550,781	103,980,194	24,570,587	1.5%
Earthquake	64,580,697	49,225,971	15,354,726	0.9%
Group accident and health	585,973,731	521,117,349	64,856,382	3.9%
Credit accident and health	61,834	59,699	2,135	0.0%
Other accident and health	51,176,568	47,332,981	3,843,587	0.2%
Workers' compensation	1,233,673,341	1,027,334,048	206,339,293	12.5%
Other liability - occurrence	1,730,030,854	1,485,904,229	244,126,625	14.7%
Other liability - claims-made	794,100,717	614,514,406	179,586,311	10.8%
Excess workers' compensation	130,380,288	99,419,704	30,940,584	1.9%
Products liability - occurrence	126,356,047	107,905,671	18,450,376	1.1%
Products liability - claims-made	46,156,762	35,475,127	10,681,635	0.6%
Private passenger auto liability	233,072,003	182,047,700	51,024,303	3.1%
Commercial auto liability	325,131,311	265,018,106	60,113,205	3.6%
Auto physical damage	106,629,682	85,641,537	20,988,145	1.3%
Aircraft	105,590,316	100,929,955	4,660,361	0.3%
Fidelity	6,160,746	4,897,801	1,262,945	0.1%
Surety	10,704,968	8,130,423	2,574,545	0.2%
Burglary and theft	4,930,114	3,762,817	1,167,297	0.1%
Boiler and machinery	19,626,319	17,622,056	2,004,263	0.1%
Credit	32,306,400	28,584,189	3,722,211	0.2%
International	7,900,342	7,883,490	16,852	0.0%
Warranty	3,629,026	2,756,245	872,781	0.1%
Reinsurance - Non-proportional Assumed Property	23,098,713	17,581,625	5,517,088	0.3%
Reinsurance - Non-proportional Assumed Liability	11,131,337	8,452,825	2,678,512	0.2%
Reinsurance - Non-proportional Assumed Financial Lines	1,746,021	1,326,103	419,918	0.0%
Aggregate write-ins for other lines of business	10,231,336	7,770,699	2,460,637	0.1%
<b>Totals</b>	<b>\$ 10,127,617,063</b>	<b>\$ 8,471,083,091</b>	<b>\$ 1,656,533,972</b>	<b>100.0%</b>

### SIGNIFICANT OPERATING RATIOS AND TRENDS

The underwriting ratios summarized below are shown on an earned/incurred basis, and encompass the five-year period covered under this examination.

## ACE American Insurance Company

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	Amount	Percentage
Premiums earned	\$ 7,593,794,326	100.0 %
Losses incurred	\$ 4,834,982,603	63.6 %
Loss expenses incurred	1,090,184,443	14.4 %
Other underwriting expenses incurred	1,509,054,633	19.9 %
Net underwriting gain or (loss)	159,572,647	2.1 %
Totals	\$ 7,593,794,326	100.0 %

The Company reported the following net underwriting, investment and other gains or losses during the five-year period covered under this examination:

	2014	2013	2012	2011	2010
Admitted assets	\$12,150,666,209	\$11,697,282,605	\$11,040,642,831	\$10,093,298,941	\$10,033,274,749
Liabilities	\$ 9,157,758,998	\$ 9,020,292,145	\$ 8,614,827,579	\$ 8,093,057,218	\$ 8,061,772,539
Surplus as regards policyholders	\$ 2,992,907,211	\$ 2,676,990,460	\$ 2,425,815,252	\$ 2,000,241,723	\$ 1,971,502,210
Gross premium written	\$10,127,617,063	\$10,005,540,892	\$ 9,557,636,641	\$ 9,082,466,871	\$ 8,652,818,576
Net premium written	\$ 1,656,533,972	\$ 1,610,825,756	\$ 1,658,026,836	\$ 1,572,332,400	\$ 1,285,304,927
Underwriting gain/(loss)	\$ 58,335,655	\$ 136,642,994	\$ (143,224,016)	\$ 12,619,790	\$ 95,198,224
Investment gain/(loss)	\$ 294,517,251	\$ 456,829,655	\$ 210,262,426	\$ 691,591,291	\$ 258,959,081
Other gain/(loss)	\$ (10,343,642)	\$ 25,966,637	\$ (18,220,122)	\$ (19,000,955)	\$ 49,543,774
Net income	\$ 251,155,996	\$ 412,255,222	\$ 58,889,031	\$ 616,320,493	\$ 285,958,243

## PENDING LITIGATION

### CLAIMS AND OTHER LITIGATION

The Company is party to various lawsuits and arbitration matters, which have arisen in the ordinary course of business. This category of business litigation typically involves, among other things, allegations of underwriting errors or misconduct, employment claims, regulatory activity, or disputes arising from business ventures. Management believes the outcome of these matters will not have a material adverse effect on the Company's results of operation, liquidity, or financial position, although it is possible the effect could be material to the Company's results of operations for an individual reporting period.

### BUSINESS PRACTICES LITIGATION

In all of the lawsuits described above, plaintiffs seek compensatory and in some cases special damages without specifying an amount. As a result, the Company cannot at this time estimate its potential costs related to these legal matters and, accordingly, no liability for compensatory damages has been established in the financial statements.

The Company's ultimate liability for these matters will not have a material adverse effect on the Company's results of operation, liquidity, or financial position. It is possible, however, the effect could be material to the Company's results of operations for an individual reporting period.

### OTHER LITIGATION

A legal representation letter was obtained from the Company's General Counsel. No material legal issues affecting the Company were presented in the letter.

**FINANCIAL STATEMENTS**

The financial condition of the Company, as of December 31, 2014, and the results of its operations for the five-year period under examination, are reflected in the following statements:

Comparative Statement of Assets, Liabilities, Surplus and Other Funds;

Comparative Statement of Income;

Comparative Statement of Capital and Surplus; and

Comparative Statement of Cash Flow

**For Informational Purposes Only**

## Comparative Statement of Assets, Liabilities, Surplus and Other Funds As of December 31,

	2014	2013	2012	2011	2010
Bonds	\$ 6,120,586,983	\$ 6,142,755,538	\$ 5,403,504,832	\$ 4,571,464,376	\$ 5,755,090,202
Preferred stocks	0	0	4,827,265	13,767,893	22,211,198
Common stocks	1,945,004,789	1,898,949,676	1,890,501,416	1,730,892,346	1,949,372,403
Real estate	55,162,471	56,687,641	58,616,920	60,084,296	61,580,622
Cash, cash equivalents, and short term investments	268,238,820	58,071,934	416,770,616	141,985,948	(359,171,663)
Other invested assets	361,747,643	392,882,792	275,994,325	330,579,805	474,200,355
Receivable for securities	13,747,539	7,993,417	2,480,699	19,747,775	2,974,857
Securities lending reinvested collateral assets	25,206,506	49,818,663	51,430,046	32,253,666	55,493,396
Subtotals, cash and invested assets	8,789,894,731	8,607,159,661	8,104,126,119	6,900,776,095	7,961,751,370
Investment income due and accrued	52,957,114	54,078,727	49,379,712	45,952,350	58,341,035
Premiums and agents' balances due	611,901,143	536,060,099	557,925,122	491,249,898	443,288,443
Amounts recoverable from reinsurers	868,892,648	923,637,557	1,338,910,900	1,003,874,173	435,759,112
Funds held by or deposited with reinsured companies	14,496,133	14,119,633	13,463,290	13,044,000	12,181,050
Amounts receivable relating to uninsured plans	93,147,915	119,223,001	172,812,657	214,499,287	128,227,337
Current federal and foreign income tax recoverable and interest thereon	8,317,831	0	43,012,098	0	0
Net deferred tax asset	108,654,215	108,266,882	118,186,216	115,988,834	115,639,405
Electronic data processing equipment and software	12,360,568	9,242,263	9,373,629	8,427,878	7,899,480
Receivable from parent, subsidiaries and affiliates	375,147,785	229,711,647	234,641,125	263,254,459	228,005,223
Aggregate write-ins for other than invested assets	1,215,096,126	1,095,783,135	398,811,963	1,038,231,877	642,182,294
<b>Total</b>	<b>\$ 12,150,686,209</b>	<b>\$ 11,697,282,605</b>	<b>\$ 11,040,642,831</b>	<b>\$ 10,093,298,941</b>	<b>\$ 10,033,274,749</b>
Losses	\$ 2,472,895,780	\$ 2,345,069,908	\$ 2,311,762,801	\$ 2,123,161,491	\$ 1,919,417,699
Reinsurance payable on paid loss and loss adjustment expenses	415,793,918	253,316,333	350,146,523	373,453,367	296,929,185
Loss adjustment expenses	529,305,519	501,980,534	478,442,006	458,000,750	440,681,558
Commissions payable, contingent commissions and other similar charges	2,065,985	1,800,565	3,814,492	6,329,541	8,049,527
Taxes, licenses and fees	20,569,656	13,355,710	11,820,403	13,034,226	11,488,131
Current federal and foreign income taxes	0	80,839,261	0	13,230,300	103,314,693
Borrowed money and interest thereon	371,076,040	375,386,894	376,255,822	356,605,867	507,119,066
Unearned premiums	536,618,486	511,023,211	520,844,646	464,998,456	449,946,622
Ceded reinsurance premiums payable (net of ceding commissions)	435,467,976	395,694,167	397,109,185	406,220,248	370,942,935
Funds held by company under reinsurance treaties	129,946,446	147,355,882	162,227,136	176,508,720	192,324,582
Amounts withheld or retained by company for account of others	2,202,021,069	2,047,846,816	1,972,471,075	2,068,973,175	1,848,343,823
Remittances and items not allocated	896,800	2,716,786	3,145,336	(47,775,470)	9,273,459
Provision for reinsurance	27,442,000	5,144,000	2,839,000	2,475,000	1,362,000
Drafts outstanding	127,265,108	116,548,836	200,871,523	116,551,940	93,952,498
Payable to parent, subsidiaries and affiliates	1,127,934,859	1,400,946,085	1,033,757,354	735,875,085	925,577,236
Payable for securities	20,885,954	32,185,314	39,551,989	40,932,479	114,760,438
Payable for securities lending	25,216,303	49,840,873	51,473,912	32,377,762	55,709,742
Aggregate write-ins for liabilities	712,355,099	759,358,170	698,494,366	752,104,281	712,579,345
<b>Total liabilities</b>	<b>9,157,758,998</b>	<b>8,020,292,145</b>	<b>8,614,827,579</b>	<b>8,093,057,218</b>	<b>8,061,772,539</b>
Aggregate write-ins for special surplus funds	1,150,960	0	0	45,131,321	44,920,142
Common capital stock	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000
Gross paid in and contributed surplus	1,147,769,970	1,123,395,612	1,093,898,037	1,082,191,237	1,076,331,667
Unassigned funds (surplus)	1,838,986,281	1,548,594,848	1,326,917,215	867,919,165	845,250,181
Surplus as regards policyholders	2,992,907,211	2,676,990,460	2,425,815,252	2,000,241,723	1,971,502,210
<b>Totals</b>	<b>\$ 12,150,686,209</b>	<b>\$ 11,697,282,605</b>	<b>\$ 11,040,642,831</b>	<b>\$ 10,093,298,941</b>	<b>\$ 10,033,274,749</b>

**Comparative Statement of Income  
For the Year Ended December 31,**

	2014	2013	2012	2011	2010
<b>Underwriting Income</b>					
Premiums earned	\$ 1,634,165,330	\$ 1,607,719,658	\$ 1,594,348,408	\$ 1,558,178,491	\$ 1,199,382,439
Deductions:					
Losses incurred	1,024,794,838	918,384,098	1,215,494,966	1,051,791,610	624,517,091
Loss expenses incurred	243,238,790	242,175,592	217,917,373	206,314,875	180,537,813
Other underwriting expenses incurred	307,796,047	310,516,974	304,160,085	287,452,216	299,129,311
Total underwriting deductions	1,575,829,675	1,471,076,664	1,737,572,424	1,545,558,701	1,104,184,215
Net underwriting gain or (loss)	58,335,655	136,642,994	(143,224,016)	12,619,790	95,198,224
<b>Investment Income</b>					
Net investment income earned	303,488,079	453,141,821	198,832,035	644,299,064	262,656,185
Net realized capital gains or (losses)	(8,870,828)	3,687,834	11,430,391	47,292,227	(3,697,104)
Net investment gain or (loss)	294,617,251	456,829,655	210,262,426	691,591,291	258,959,081
<b>Other Income</b>					
Net gain or (loss) from agents' or premium balances charged off	0	(9,265)	(8,880)	(232)	(39,193)
Aggregate write-ins for miscellaneous income	(10,343,642)	25,975,902	(18,211,242)	(19,000,723)	49,582,967
Total other income	(10,343,642)	25,966,637	(18,220,122)	(19,000,955)	49,543,774
Net income before dividends to policyholders and before federal and foreign income taxes	342,509,264	619,439,286	48,818,288	685,210,126	403,701,079
Federal and foreign income taxes incurred	91,353,288	207,184,064	(10,070,743)	68,889,633	117,742,836
Net income	\$ 251,155,976	\$ 412,255,222	\$ 58,889,031	\$ 616,320,493	\$ 285,958,243

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### Comparative Statement of Capital and Surplus For the Year Ended December 31,

	2014	2013	2012	2011	2010
Surplus as regards policyholders,					
December 31, previous year	\$ 2,676,990,460	\$ 2,425,815,252	\$ 2,000,241,723	\$ 1,971,502,210	\$ 2,010,797,478
Net income	251,155,998	412,255,222	58,889,031	616,320,493	285,858,243
Net unrealized capital gains or (losses)	(61,580,309)	(184,391,799)	107,683,449	(355,928,261)	147,930,799
Change in net unrealized foreign exchange capital gain or (loss)	582,173	268,587	(47,486)	(3,998,814)	(126,128)
Change in net deferred income tax	16,014,734	40,931,552	(62,886,483)	3,874,669	50,935,272
Change in nonadmitted assets	42,824,749	(43,350,097)	310,592,218	(57,120,082)	(392,894,619)
Change in provision for reinsurance	(22,298,000)	(2,305,000)	(384,000)	(1,113,000)	1,371,000
Cumulative effect of changes in accounting principles	0	(3,772,390)	45,131,321	0	0
Surplus adjustments:					
Paid in	24,374,358	29,497,575	11,706,600	5,859,350	320,600
Dividends to stockholders	0	0	0	(180,000,000)	(125,000,000)
Aggregate write-ins for gains and losses in surplus	85,043,050	2,041,558	(45,131,321)	845,158	(7,990,435)
Change in surplus as regards policyholder for the year	315,916,751	251,175,208	425,573,529	28,739,513	(39,295,268)
Surplus as regards policyholders,					
December 31, current year	\$ 2,992,907,211	\$ 2,676,990,460	\$ 2,425,815,252	\$ 2,000,241,723	\$ 1,971,502,210

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### Comparative Statement of Cash Flow For the Year Ended December 31,

	2014	2013	2012	2011	2010
<b>Cash from Operations</b>					
Premiums collected net of reinsurance	\$ 1,629,066,564	\$ 1,615,073,954	\$ 1,576,054,144	\$ 1,557,769,656	\$ 1,304,448,439
Net investment income	341,573,460	490,969,175	224,499,316	677,104,306	276,393,864
Miscellaneous income	(5,850,759)	26,266,072	(9,405,862)	(8,788,455)	(14,792,456)
<b>Total income</b>	<u>1,964,789,285</u>	<u>2,132,309,201</u>	<u>1,791,147,598</u>	<u>2,226,085,507</u>	<u>1,566,049,847</u>
Benefit and loss related payments	704,152,061	589,116,218	1,407,414,620	1,367,665,036	595,589,359
Commissions, expenses paid and aggregate write-ins for deductions	490,645,761	474,924,093	461,178,678	560,502,023	558,340,381
Federal and foreign income taxes paid (recovered)	54,847,798	76,332,623	37,788,855	154,763,050	113,675,093
<b>Total deductions</b>	<u>1,249,645,620</u>	<u>1,140,372,934</u>	<u>1,906,382,153</u>	<u>2,082,930,109</u>	<u>1,267,804,833</u>
<b>Net cash from operations</b>	<u>715,143,665</u>	<u>991,936,267</u>	<u>(115,234,555)</u>	<u>143,155,398</u>	<u>298,445,014</u>
<b>Cash from Investments</b>					
Proceeds from investments sold, matured or repaid:					
Bonds	1,740,434,255	2,822,024,279	2,050,015,861	2,835,418,366	2,420,204,049
Stocks	52,996,976	69,037,660	32,990,897	40,248,157	10,077,743
Other invested assets	391,932,786	440,520,400	682,665,300	480,390,623	211,975,646
Net gain or (loss) on cash and short-term investments	(520,454)	(13,050)	(928)	8,435	36,178
Miscellaneous proceeds	0	0	15,874,422	0	136,402,915
<b>Total investment proceeds</b>	<u>2,184,843,563</u>	<u>3,331,569,469</u>	<u>2,781,545,552</u>	<u>3,356,065,601</u>	<u>2,778,696,531</u>
Cost of investments acquired (long-term only):					
Bonds	1,774,176,450	3,601,308,792	2,870,311,815	1,641,677,095	3,247,044,445
Stocks	104,781,075	171,233,747	25,966,981	135,299,345	1,134,271,147
Real estate	555,531	103,183	507,132	454,696	3,216,965
Other invested assets	342,030,172	546,496,386	556,062,247	335,582,690	249,126,145
Miscellaneous applications	17,038,963	12,870,892	0	90,611,733	2,585,430
<b>Total investments acquired</b>	<u>2,238,582,191</u>	<u>4,332,013,000</u>	<u>3,452,868,175</u>	<u>2,203,625,559</u>	<u>4,636,244,132</u>
<b>Net cash from investments</b>	<u>(53,738,628)</u>	<u>(1,000,443,531)</u>	<u>(671,322,623)</u>	<u>1,152,440,042</u>	<u>(1,857,547,601)</u>
<b>Cash from Financing and Miscellaneous Services</b>					
Other cash provided (applied):					
Borrowed funds received or (repaid)	(4,590,451)	(660,246)	19,417,586	(150,646,560)	499,531,721
Dividends to stockholders (paid)	0	0	0	180,000,000	125,000,000
Other cash provided or (applied)	(446,647,680)	(349,531,192)	1,041,924,260	(463,791,289)	585,968,298
<b>Net cash from financing and miscellaneous sources</b>	<u>(451,238,131)</u>	<u>(350,191,438)</u>	<u>1,061,341,846</u>	<u>(794,437,829)</u>	<u>960,500,019</u>
<b>Reconciliation of cash and short-term investments:</b>					
Net change in cash and short-term investments	210,166,886	(358,698,682)	274,784,668	501,157,611	(598,602,568)
Cash and short-term investments:					
Beginning of the year	58,071,934	416,770,616	141,985,948	(359,171,663)	239,430,905
End of the year	<u>\$ 268,238,820</u>	<u>\$ 58,071,934</u>	<u>\$ 416,770,616</u>	<u>\$ 141,985,948</u>	<u>\$ (359,171,663)</u>

## SUMMARY OF EXAMINATION CHANGES

There were no examination changes to the preceding financial statements as filed with regulatory authorities over the five-year period under examination.

## NOTES TO FINANCIAL STATEMENTS

### ASSETS

### INVESTMENTS

As of December 31, 2014, the Company's invested assets were distributed as follows:

	Amount	Percentage
Bonds	\$ 6,120,586,983	69.7 %
Common stocks	1,945,004,769	22.1 %
Real estate	55,162,471	0.6 %
Cash	134,171,062	1.5 %
Cash equivalents	1,502,287	0.0 %
Short-term investments	132,565,471	1.5 %
Other invested assets	361,747,643	4.1 %
Receivable for securities	13,747,539	0.2 %
Securities lending reinvested collateral assets	25,206,506	0.3 %
Totals	<u>\$ 8,789,694,731</u>	<u>100.0 %</u>

The Company's bond and short-term investment portfolio had the following quality and maturity profiles:

NAIC Designation	Amount	Percentage
1 - highest quality	\$ 4,231,076,321	67.6 %
2 - high quality	755,310,213	12.1 %
3 - medium quality	535,364,714	8.6 %
4 - low quality	720,693,133	11.5 %
5 - lower quality	10,704,900	0.2 %
6 - in or near default	1,505,460	0.0 %
Totals	<u>\$ 6,254,654,741</u>	<u>100.0 %</u>

Years to Maturity	Amount	Percentage
1 year or less	\$ 561,847,635	9.0 %
2 to 5 years	2,663,112,948	42.5 %
6 to 10 years	2,405,544,853	38.5 %
11 to 20 years	429,696,523	6.9 %
over 20 years	194,452,782	3.1 %
Totals	<u>\$ 6,254,654,741</u>	<u>100.0 %</u>

The Company's \$6.1 billion of bonds and approximately \$1.9 billion of common stock comprise about 91.8% of the total cash and invested assets. In all categories, the annual statement

values fall within an acceptable range for the property and casualty industry. The bond portfolio is comprised of \$1.9 billion of securities in U.S. government, foreign governments and political subdivisions; \$2.8 billion in unaffiliated securities including credit tenant loans rated by the Securities Valuation Office of the NAIC; and \$1.4 billion in commercial mortgage obligations, asset backed securities, and commercial mortgage backed securities. As of December 31, 2014, the bond portfolio's fair value of \$6,304,486,073 exceeded the book adjusted carrying value of \$6,120,586,982 by approximately \$184 million, or about 3.0% of the book value. The gross yield on the bond portfolio is consistent when compared to the industry during the past five years.

Approximately 79.7% of the Company's bonds are categorized as NAIC 1 or 2. The Company's private bond portfolio is diversified across various industries and issuers. The Company's bond portfolio has 90.0% of its holdings in maturities of ten years or less and 42.5% in maturities of two to five years. Both of these statistics are comparable with the industry averages.

The only real estate owned and reported by the Company includes its building at 436 Walnut Street in Philadelphia, Pennsylvania with a carrying value of \$55 million and an airplane hangar at the Northeast Philadelphia Airport with a net statutory carrying value of \$0.

The Company's other long term investments within the Schedule BA asset category equate to approximately \$362 million, with the largest concentration being \$106 million in its affiliate Century Indemnity Company. There is no concentration risk within the remaining unaffiliated amounts of approximately \$256 million.

The examiners reviewed the Custodial Agreement with State Street Bank and Trust Company for compliance with the provisions of 31 Pa. Code § 148.a.3 and found the Custodial Agreement to be in compliance with the regulation.

The Company has a written investment policy as required by 40 P.S. § 653b(b). The Board reviews and approves the investment policy on an annual basis. The Company was following its investment policy at December 31, 2014.

## **LIABILITIES**

### **LOSS AND LOSS ADJUSTMENT EXPENSE RESERVES**

The Company reported reserves of \$2,472,895,780 and \$529,305,519 for losses and loss adjustment expenses, respectively, on the December 31, 2014 Annual Statement. These amounts represent the Company's share of liabilities from the Intercompany Pool. The Company's reserving methodology has been consistently followed since the prior examination.

Paul G. O'Connell, FCAS, MAAA, Executive Vice President and Chief Actuary of ACE INA Holdings, Inc., has been the Company's appointed actuary for all years in the examination period. For each year in the examination period, Mr. O'Connell issued a Statement of Actuarial Opinion that the Company's carried reserves make a reasonable provision.

The Department engaged the actuarial examination services of Risk and Regulatory Consulting, LLC ("RRC") of Farmington, Connecticut to perform a risk-focused review of the loss and LAE reserves, the forecasting and reserving models, and pricing and underwriting activities

for all companies in the ACE property and casualty subgroup, in conjunction with this examination. In the course of their work, RRC actuarial examiners relied upon the underlying financial and risk-focused procedures performed by the financial examiners, the Company's Internal Audit Department, and the work of the Company's CPA.

Certain risks within the reserving and pricing processes required Phase 5 substantive test work. To mitigate the reserving risks, RRC performed an independent actuarial analysis of selected segments of the loss and LAE reserves as of December 31, 2014 that were assessed to present the highest risk of variability as determined by the risk-focused examination process. RRC also reviewed the loss and LAE reserve actual versus expected emergence through December 31, 2015 for selected segments.

Based upon the procedures performed, the RRC actuarial examiners determined that the Company's loss and LAE reserves fall within a reasonable range. The Department has accepted the appointed actuary's statement that reserves "make a reasonable provision for all unpaid loss and loss adjustment expense obligations combined of the Company under the terms of its contracts and agreements" such that the carried reserves are acceptable for purposes of this examination.

### **SUBSEQUENT EVENTS**

On July 1, 2015, ACE Limited announced it would acquire The Chubb Corporation in a deal ultimately valued at approximately \$29.5 billion. According to ACE Limited management, the combined company will remain a growth company with complementary products, distribution, and customer segments, and will continue to focus on underwriting discipline. As of December 31, 2015, on an aggregate basis, the combined company had total shareholders' equity of nearly \$45 billion and cash, investments and other assets of \$154 billion. This acquisition was finalized on January 14, 2016.

### **RECOMMENDATIONS**

#### **PRIOR EXAMINATION**

The prior examination report contained the following recommendations:

1. It is recommended the Company amend the agreement with ESIS, Inc. to include a specified due date for settlement of amounts owed in compliance with Pennsylvania Insurance Company Law, namely, 40 P.S. §991.1405(a)(1) and SSAP No. 25, Accounting for and Disclosures about Transactions with Affiliates and Other Related Parties and SSAP No. 96, Settlement Requirements for Intercompany Transactions, an amendment to SSAP No. 25.

The Company has not complied with this recommendation.

2. Going forward, it is recommended that the Company prepare a premium deficiency reserve calculation at the MCC level on at least an annual basis in accordance with SSAP No. 53, paragraph 15-16 and have such readily available for the Department, upon request.

The Company has complied with this recommendation.

### CURRENT EXAMINATION

As a result of the current examination, the following recommendations are being made:

1. The ACE property and casualty insurance companies should amend or replace the Master Claims Service Agreement and the SIU Service and Support Agreement; including specific dates for issuing invoices for services rendered and for payment of such services to the service provider in the amended or replacement agreements in compliance with SSAP No. 25, paragraph 7, and 40 P.S. § 991.1405(a)(1). (See “Service and Operating Agreements”, page 10).
2. ACE should amend or replace the written authorizations with their reinsurance intermediaries to be compliant with the requirements of 40 P.S. § 321.3. (See “Reinsurance Intermediaries”, page 15).

### CONCLUSION

As a result of this examination, the financial condition of ACE American Insurance Company, as of December 31, 2014, was determined to be as follows:

	Amount	Percentage
Admitted assets	\$ 12,150,666,209	100.0 %
Liabilities	\$ 9,157,758,998	75.4 %
Surplus as regards policyholders	2,992,907,211	24.6 %
Total liabilities and surplus	\$ 12,150,666,209	100.0 %

Since the previous examination, made as of December 31, 2009, the Company’s assets increased by \$3,447,969,227, its liabilities increased by \$2,465,859,494, and its surplus increased by \$982,109,733.

This examination was conducted by Susan Bernard, CFE, representing California; F. Laurence Lindberg, CPA, CFE and Alex Quasnitschka, CFE, of RRC representing Georgia; Virginia M. Godek, CFE, and Chantel Long, and Joseph G. Jacobs, CFE, of RRC representing Illinois; Cindy Donovan, Chief Financial Examiner, and Roy Eft, CFE, Examination Manager, Mike Dinius, CFE, CPA, Lisa Warrum, CFE, CPA, and Paul Ellis, CPA, CFE, all of Noble Consulting Services, Inc. representing Indiana; Jim Armstrong, CPA, CFE, and Dan Mathis, CFE and Alex Quasnitschka, CFE, of RRC representing Iowa; Vince Kaighn, CFE, and Vinod Manchanda, AFE, representing New Jersey; Melissa Greiner, Bernard Mingo, CFE, and James Carpino all of the Pennsylvania Insurance Department; and LeeAnne Creevy, CPA, CISA, CITP, CRMA, MCM, Patrick Tracy, CPA, CFE, Craig Moore, CPA, CFE, Todd Sauer, Alan Gutierrez-Arana, CRISC, CISA, Inet+, A+, QSA, PICP, Tom Hayden, CISA, AES, Lisa Chanzit, FCAS, MAAA, ARM, Mike C. Dubin, FCAS, MAAA, FCA, Anne Kelly, FCAS, MAAA, John Purple, FCAS, MAAA, Stephan Donk, Amber Kinney, CPA, CFE, CISA, Shawn Hernandez, CFE, Kathleen Wilson and William Michael, CFE, CIA, CPCU, ARe, all of RRC, with the latter in charge.

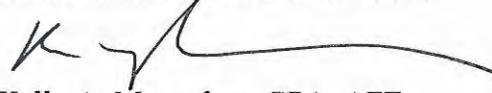
Respectfully,



Melissa L. Greiner

Director

Bureau of Financial Examinations



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