

STATE OF INDIANA)
) SS: BEFORE THE INDIANA
COUNTY OF MARION) COMMISSIONER OF INSURANCE

IN THE MATTER OF:)
)
Federal Insurance Company)
202 North Illinois Street, Suite 2600)
Indianapolis, IN 46282)

Examination of: **Federal Insurance Company**

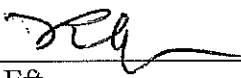
NOTICE OF ENTRY OF ORDER

Enclosed is the Final Order entered by Stephen W. Robertson, Commissioner of the Indiana Department of Insurance, after fully considering and reviewing the Verified Report of Examination of Federal Insurance Company, any relevant examination work papers, and any written submissions or rebuttals. The Verified Report of Examination, as sent to you on June 6, 2018, has been adopted by the Commissioner.

Pursuant to Ind. Code § 27-1-3.1-12(b), within thirty (30) days of receipt of the Final Order, each director of Federal Insurance Company shall file an affidavit with the Indiana Department of Insurance stating that he/she has received a copy of the Verified Report of Examination and the Final Order.

The Final Order is a final administrative decision that may be appealed pursuant to Ind. Code § 4-21.5-5.


June 20, 2018
Date


Roy Eft
Chief Financial Examiner

CERTIFIED MAIL NUMBER: 7005 3110 0002 4443 9834

1. Pursuant to Ind. Code § 27-1-3.1-11(a)(1), the Verified Report of Examination is adopted and shall be filed. Hereafter the Verified Report of Examination, may constitute prima facie evidence of the facts contained therein in any action or proceeding taken by the Indiana Department of Insurance against the Company, its officers, directors, or agents.
2. The Company shall comply with the Examiner's Recommendations enumerated in summary form and throughout the text of the Verified Report of Examination. A written response to these recommendations should be provided to the Department within 30 days of receipt of this order.
3. Compliance with the Examiner's recommendations shall be completed on or before the filing of the subsequent annual statement. In the event it is not feasible to comply with a recommendation before the filing of the subsequent annual statement, the Company shall submit a written explanation as to why it was not feasible with the filing of the annual statement.

Signed this 20 day of
June, 2018.


Stephen W. Robertson
Insurance Commissioner
Indiana Department of Insurance

ABOUT AFFIRMATIONS

The following pages for affirmations need to be signed by each Board Member and returned to the Indiana Department of Insurance within thirty (30) days in accordance with I.C. §27-1-3.1-12(b).

If your affirmations list individuals that are no longer on your Board of Directors, you may simply retype the form on plain white paper with the correct names and a line to the right for signature. If the names are misspelled, you may do the same, simply re-type the corrected form with a line to the right for signature.

Should you have any questions or difficulties with these forms or you require additional time past the thirty (30) day requirement, please do not hesitate to contact this department at (317) 232-2390.

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[Handwritten initials]

STATE OF INDIANA
Department of Insurance
REPORT OF EXAMINATION
OF
FEDERAL INSURANCE COMPANY

NAIC Co. CODE 20281
NAIC GROUP CODE 0626

As of

December 31, 2016

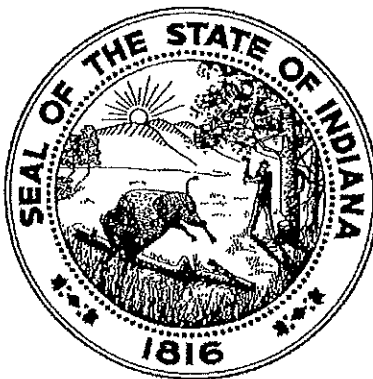


TABLE OF CONTENTS

SALUTATION.....	1
SCOPE OF EXAMINATION.....	2
HISTORY.....	2
CAPITAL AND SURPLUS.....	3
DIVIDENDS TO STOCKHOLDERS.....	3
TERRITORY AND PLAN OF OPERATION.....	4
GROWTH OF THE COMPANY.....	4
MANAGEMENT AND CONTROL.....	5
Directors.....	5
Officers.....	5
CONFLICT OF INTEREST.....	6
OATH OF OFFICE.....	6
CORPORATE RECORDS.....	6
Articles of Incorporation.....	6
Bylaws.....	7
Minutes.....	7
AFFILIATED COMPANIES.....	7
Organizational Structure.....	7
Affiliated Agreements.....	8
FIDELITY BOND AND OTHER INSURANCE.....	9
PENSION, STOCK OWNERSHIP, AND INSURANCE PLANS.....	9
SPECIAL AND STATUTORY DEPOSITS.....	10
REINSURANCE.....	11
Reinsurance Pool.....	11
ACCOUNTS AND RECORDS.....	13
FINANCIAL STATEMENTS.....	14
Assets.....	14
Liabilities, Surplus and Other Funds.....	15
Statement of Income.....	16
Capital and Surplus Account Reconciliation.....	17
COMMENTS ON THE FINANCIAL STATEMENTS.....	18
OTHER SIGNIFICANT ISSUES.....	18
SUBSEQUENT EVENTS.....	18
AFFIDAVIT.....	19



STATE OF INDIANA

ERIC J. HOLCOMB, GOVERNOR

Indiana Department of Insurance

Stephen W. Robertson, Commissioner

311 W. Washington Street, Suite 103

Indianapolis, Indiana 46204-2787

Telephone: 317-232-2385

Fax: 317-232-5251

Website: in.gov/doi

April 2, 2018

Honorable Stephen W. Robertson, Commissioner
Indiana Department of Insurance
311 West Washington Street, Suite 300
Indianapolis, Indiana 46204-2787

Dear Commissioner:

Pursuant to the authority vested in Appointment Number 3946, an examination has been made of the affairs and financial condition of:

**Federal Insurance Company
202B Hall's Mill Road
Whitehouse Station, New Jersey 08889**

hereinafter referred to as the "Company", or "Federal", an Indiana domestic stock, property and casualty insurance company. The examination was conducted at the corporate offices of the Company in Whitehouse Station, New Jersey.

The Report of Examination, reflecting the status of the Company as of December 31, 2016, is hereby respectfully submitted.

ACCREDITED BY THE NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

AGENCY SERVICES 317-232-2413	COMPANY COMPLIANCE 317-232-3495	CONSUMER SERVICES 317-232-2395/1-800-622-4461	FINANCIAL SERVICES 317-232-2390	MEDICAL MALPRACTICE 317-232-2402	COMPANY RECORDS 317-232-5692	STATE HEALTH INSURANCE PROGRAM 1-800-452-4800
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SCOPE OF EXAMINATION

The Company was last examined by representatives of the Indiana Department of Insurance (INDOI), and covered the period from January 1, 2007 through December 31, 2011. The present risk focused examination was conducted by Noble Consulting Services, Inc., and covered the period from January 1, 2012 through December 31, 2016, and included any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

The examination was conducted in accordance with the NAIC *Financial Condition Examiners Handbook* (Handbook). The Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company, and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

The examination of the Indiana domestic insurance companies of the Legacy Chubb Group (Group) was called by INDOI in accordance with the Handbook guidelines, through the NAIC's Financial Examination Electronic Tracking System. The Group entities included in this examination include Chubb Custom Insurance Company, Chubb Indemnity Insurance Company, Chubb Insurance Company of New Jersey, Chubb Lloyds Insurance Company of Texas, Chubb National Insurance Company, Executive Risk Indemnity, Inc., Executive Risk Specialty Insurance Company, Federal Insurance Company, Great Northern Insurance Company, Pacific Indemnity Insurance Company, and Vigilant Insurance Company. Texas Pacific Indemnity Company elected not to participate due to a merger approval, effective September 30, 2017. The INDOI served as the lead state on the examination, and the Connecticut Insurance Department, the Delaware Department of Insurance, the State of New Jersey Department of Banking and Insurance, the New York State Department of Financial Services, the Texas Department of Insurance, and the Wisconsin Office of the Commissioner of Insurance served as participants.

The Merlinos & Associates, Inc. staff provided all actuarial services throughout the examination and conducted a review of the Company's actuarial related risks representing INDOI as of December 31, 2016.

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, as in the Indiana Code (IC) 27-1-3.1-10 and general information about the insurer 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.

HISTORY

Federal was incorporated on February 15, 1901, under the laws of the state of New Jersey and became an Indiana domiciled company effective March 23, 1990. Until January 14, 2016, Federal was a wholly owned subsidiary of The Chubb Corporation, a holding company for property and casualty insurance companies.

On July 1, 2015, it was announced that ACE Limited (ACE) had agreed to acquire The Chubb Corporation. Effective January 14, 2016, The Chubb Corporation merged with William Investment Holdings Corporation, a

wholly owned subsidiary of ACE created for the purpose of the transaction. The Chubb Corporation was the surviving corporation and became a wholly owned indirect subsidiary of ACE. The Chubb Corporation subsequently merged with and into ACE INA Holdings, Inc., a Delaware corporation and indirect subsidiary of ACE, with ACE INA Holdings, Inc. continuing as the surviving corporation. ACE INA Holdings Inc. subsequently changed its name to Chubb INA Holdings, Inc. On January 15, 2016, ACE was renamed Chubb Limited.

CAPITAL AND SURPLUS

As of December 31, 2016, there were 3,499,971 authorized shares of common stock with a par value of \$6 per share and 3,496,678 shares issued and outstanding. The Company has no preferred stock authorized.

DIVIDENDS TO STOCKHOLDERS

The Company paid the following dividends, (in 000s), to The Chubb Corporation and Chubb INA Holdings, Inc. during the examination period:

Year	Total	Ordinary Dividends	Extraordinary Dividends
2016	\$ 5,084,176	\$ -	\$ 5,084,176
2015	1,855,000	1,855,000	-
2014	2,021,000	2,021,000	-
2013	1,564,000	1,564,000	-
2012	1,760,000	930,000	830,000
Total	<u>\$ 12,284,176</u>	<u>\$ 6,370,000</u>	<u>\$ 5,914,176</u>

In accordance with IC 27-1-23-4(h), the payment of dividends to holding companies or affiliated insurers may not exceed the greater of 10% of the prior year's surplus or the net income of such insurer of the prior year. The Company paid ten (10) extraordinary dividends during the examination period with the prior approval of the INDOI. Other dividends paid during the examination period were ordinary in nature and did not require prior regulatory approval. In accordance with IC 27-1-23-1.5, the Company notified the INDOI of all declared dividends to the parent during the examination period.

In addition, the Company made capital contributions, (in 000s), to the following affiliates:

	2012	2013	2014	2015	2016
Chubb de Chile Compania de Seguros Generales S.A.	\$ -	\$ -	\$ -	\$ -	\$ 950
Chubb Insurance (China) Co., Ltd.	-	7,004	-	12,840	16,000
Chubb Investment Holdings, Inc.	-	-	-	130	-
Total	<u>\$ -</u>	<u>\$ 7,004</u>	<u>\$ -</u>	<u>\$ 12,970</u>	<u>\$ 16,950</u>

TERRITORY AND PLAN OF OPERATION

Chubb Limited is a Swiss-incorporated holding company and the ultimate parent company of the Group. Chubb Limited provides commercial and personal property and casualty insurance, personal accident and supplemental health insurance, reinsurance and life insurance to a diverse group of clients, with operations in fifty-four (54) countries. Chubb Limited operates through six (6) business segments as follows: North America Commercial P&C Insurance, North America Personal P&C Insurance, North America Agricultural Insurance, Overseas General Insurance, Global Reinsurance, and Life Insurance. The results of operations of The Chubb Corporation are included from the date of acquisition forward. The Legacy Chubb companies primarily write in North America Commercial P&C Insurance and North America Personal P&C Insurance.

The North America Commercial P&C Insurance segment provides property and casualty insurance to large, middle market, and small commercial businesses in the U.S., Canada, and Bermuda, and includes Major Accounts, Commercial Insurance, Westchester, and Chubb Bermuda.

Major Accounts represent approximately 41% of North America Commercial P&C Insurance's net premiums earned in 2016. Within Major Accounts, there are differentiated business units that offer specialized products. In general, Major Accounts provides a broad array of traditional and specialty property and casualty, accident and health, and risk management products and services to large U.S. and Canadian-based institutional organizations and corporations.

Commercial Insurance represents approximately 40% of North America Commercial P&C Insurance's net premiums earned in 2016. This unit has two (2) business units within it: Commercial Insurance and Small Commercial Insurance. The Commercial Insurance unit provides a broad range of property and casualty, professional lines and accident and health products targeted to U.S. and Canadian-based middle market customers in a variety of industries with annual revenues greater than \$10 million. The Small Commercial operations provide a broad range of property and casualty, workers' compensation, small commercial management, and professional liability for small businesses based in the U.S. with annual revenues up to \$10 million.

The North America Personal P&C Insurance segment provides affluent and high net worth individuals and families with homeowners, automobile and collector cars, valuable articles (including fine arts), personal and excess liability, travel insurance, and recreational marine insurance and services. This segment includes business written by Chubb Personal Risk Services division, which comprises the Group's high net worth personal lines business and ACE Private Risk Services, with operations in the U.S. and Canada. The homeowners' business, including valuable articles, represents 70% of North America Personal P&C Insurance's net premiums earned in 2016.

The top five (5) states in which the Company writes premiums are as follows, ranked from highest to lowest based on direct written premiums: California, New York, Florida, Texas, and Illinois.

GROWTH OF THE COMPANY

The following exhibit summarizes the financial results, (in 000s), of the Company during the examination period:

Year	Admitted Assets	Liabilities	Surplus and Other Funds	Premiums Earned	Net Income
2016	\$ 27,371,175	\$ 15,947,366	\$ 11,423,809	\$ 5,706,234	\$ 3,239,191
2015	32,240,565	18,961,860	13,278,705	7,271,195	2,154,094
2014	32,484,337	17,655,954	14,828,383	6,963,175	1,855,277
2013	31,761,350	17,020,038	14,741,312	6,762,607	2,021,923
2012	31,246,668	17,405,652	13,841,016	6,570,100	1,564,704

Admitted assets, liabilities, and surplus decreased in 2016 primarily due to extraordinary dividends paid to the parent company due to the acquisition of The Chubb Corporation by ACE.

Earned premiums decreased in 2016 due primarily to the quota share reinsurance agreement with ACE Property and Casualty Insurance Company (ACE P&C) where 20% of all Legacy Chubb Pool current accident year business was ceded to ACE P&C effective January 1, 2016.

Net income increased in 2016 driven primarily by realized gains related to dividends of stock in subsidiaries to the Company's parent. Net income increased in 2013 due to substantially lower catastrophe losses in 2013 as compared to 2012, when Hurricane Sandy struck the northeastern United States.

MANAGEMENT AND CONTROL

Directors

The Bylaws provide that the business affairs of the Company are to be managed by a Board of Directors (Board), the number of which determined by a resolution of a majority of the Board. At least one (1) of the directors must be a resident of Indiana. In 2016, the Board fixed the number of directors at eight (8). The shareholders, at each annual meeting, elect the members of the Board.

The following is a listing of persons serving as directors as of December 31, 2016, and their principal occupations as of that date:

<u>Name and Address</u>	<u>Principal Occupation</u>
Paul Joseph Krump Mendham, New Jersey	Executive Vice President Chubb Group Holdings, Inc.
John Joseph Lupica Newtown, Pennsylvania	Vice Chairman Chubb Limited
Allison Williams Meta Fishers, Indiana	Vice President Federal Insurance Company
Harold Lawrence Morrison, Jr. Basking Ridge, New Jersey	Senior Vice President Chubb Group Holdings, Inc.
Frances Dugan O'Brien Princeton, New Jersey	Executive Vice President ACE American Insurance Company
Paul Gerard O'Connell Princeton, New Jersey	Chief Actuary Chubb INA Holdings Inc.
Kevin Michael Rampe New Hope, Pennsylvania	Deputy General Counsel, Operations Chubb Group Holdings, Inc.
Drew Kiehn Spitzer Summit, New Jersey	Executive Vice President and Treasurer ACE American Insurance Company

Officers

The Bylaws state that the elected officers of the Company shall consist of a President, one (1) or more Vice Presidents, a Secretary and a Treasurer. The Board may also elect from time to time such other officers as is deemed necessary. All officers shall hold office at the pleasure of the Board.

The following is a list of key officers and their respective titles as of December 31, 2016:

Name	Office
Paul Joseph Krump	Chairman, President and Chief Executive Officer
Drew Kiehn Spitzer	Executive Vice President, Chief Financial Officer, and Treasurer
Paul Gerard O’Connell	Senior Vice President and Chief Actuary
Bay Hon Chin	Senior Vice President
Matthew Thomas Doquile	Senior Vice President
Jason Paul Howard	Senior Vice President
Harold Lawrence Morrison, Jr.	Senior Vice President
Frances Dugan O’Brien	Senior Vice President
John Paul Taylor	Senior Vice President
Nivaldo Venturini	Senior Vice President
Brandon Michael Peene	Vice President and Secretary

CONFLICT OF INTEREST

Directors and officers are required to review and sign Conflict of Interest statements annually. It was determined that the directors and officers listed in the Management and Control section of this Report of Examination did not review and sign their statements as of December 31, 2016. See the Other Significant Issues section of this Report of Examination.

OATH OF OFFICE

IC 27-1-7-10(i) stipulates that every director, when elected, shall take and subscribe to an oath stating that he or she will faithfully, honestly, and diligently administer the affairs of the Company and will not knowingly violate any of the laws applicable to such Company. It was determined that all directors listed in the Management and Control section of this Report of Examination have signed an Oath of Office Statement as of December 31, 2016.

CORPORATE RECORDS

Articles of Incorporation

There were no amendments made to the Articles of Incorporation during the examination period.

Bylaws

There were amendments made to the Bylaws as of August 30, 2012. The amendments were to update the minimum director requirements to tailor them to the Indiana insurance law requirements and to conform the form and structure of the Bylaws to be consistent with the other Group companies.

Minutes

The Board and shareholders meeting minutes were reviewed for the period under examination through the fieldwork date. Significant actions taken during each meeting were noted.

IC 27-1-7-7(b) states an annual meeting of shareholders, members, or policyholders shall be held within five (5) months after the close of each fiscal year of the Company and at such time within that period as the Bylaws may provide. The Company's Bylaws do not specify the date or time the annual meeting of shareholders is to be held. For each year under review, the annual meeting of shareholders was held within five (5) months following the close of each fiscal year.

The Chubb Limited Board Committee meeting minutes for the examination period, and through the fieldwork date, were reviewed for the Audit Committee and the Risk and Finance Committee.

AFFILIATED COMPANIES

Organizational Structure

The following abbreviated organizational chart shows the Company's parent and subsidiaries as of December 31, 2016:

	NAIC Co. Code	Domiciliary State/Country
Chubb Limited		
Chubb INA Holdings, Inc.		
Federal Insurance Company	20281	IN
Vigilant Insurance Company	20397	NY
Chubb National Insurance Company	10052	IN
Pacific Indemnity Company	20346	WI
Great Northern Insurance Company	20303	IN
Chubb Indemnity Insurance Company	12777	NY
Chubb Custom Insurance Company	38989	NJ
Executive Risk Indemnity Inc.	35181	DE
Chubb Insurance Company of New Jersey	41386	NJ
Chubb Lloyds Insurance Company of Texas (a)	27774	TX
Chubb De Chile Compania De Seguros		Chile
PT Asuransi Chubb Indonesia		Indonesia
Chubb de Mexico Compania Afianzadora, S.A. de C.V.		Mexico
Chubb Argentina de Seguros, S.A.		Argentina
Chubb de Mexico Compania de Seguros, S.A. de C.V.		Mexico
Chubb de Colombia Compania de Seguros S.A.		Colombia
Chubb Financial Solutions (Bermuda) Ltd.		Bermuda
Chubb Investment Holdings, Inc.		NJ

(a) Lloyds company/syndicate

Affiliated Agreements

The following significant affiliated agreements and transactions were disclosed as part of the Form B – Holding Company Registration Statement and were filed with the INDOI, as required, in accordance with IC 27-1-23-4. The Form B – Holding Company Registration Statement included additional affiliated agreements not included in this Report of Examination.

Management and Service Agreements

Effective January 1, 1998, the Company has service agreements with certain affiliates in which the Company provides employee services, underwriting, data processing, claim, and facility services, along with other services. At the same time, the Company has service agreements with Chubb Insurance Company of Canada (CICC) and Chubb Custom Market Inc. (CCM) whereby CICC and CCM provide various services to the Company.

Effective January 1, 1998, the Company has management agreements with certain affiliates whereby the Company acts as manager of the general insurance business of the affiliates. Under the terms of the Management Agreement, the affiliates make periodic advances to the Company in order to meet the affiliate's proportionate share of expenses and liabilities incurred by the Company.

Effective January 1, 2000, the Company entered into a management agreement with Executive Risk Indemnity Inc. (ERII) whereby the Company acts as manager of the general insurance business of ERII.

Effective September 19, 2003, the Company entered into a management agreement with Executive Risk Specialty Insurance Company (ERSIC) whereby the Company acts as manager of the general insurance business of ERSIC.

Effective June 1, 2004, the Company entered into a management agreement with Texas Pacific Indemnity Company (TPI) whereby the Company acts as manager of the general insurance business of TPI.

Investment Advisory Agreement

Effective July 1, 2016, the Company entered into an Investment Advisory Agreement with Chubb Asset Management pursuant to which Chubb Asset Management assists with the evaluation and selection of the Company's investment advisors and monitors the performance, compliance and risk profile of the Company's portfolio.

Software License Agreement

The Company has a Software License Agreement with certain affiliates where the Company licenses its Latin American Zone Commercial Underwriting Workstation.

Net Worth and Liquidity Agreement

Effective May 15, 2000, the Company entered into a Net Worth & Liquidity Maintenance Agreement with Chubb Australia Insurance Company whereby the Company causes the affiliate to maintain the necessary capital and liquidity to qualify for a Standard & Poor's rating at one level below the Company's Standard & Poor's rating.

Consolidated Federal Income Tax Allocation Agreement

Effective January 1, 2016 to January 14, 2016, the Company was party to an intercompany tax allocation agreement with The Chubb Corporation.

Effective January 15, 2016, the Company is a party to an intercompany tax allocation agreement with Chubb Group Holdings Inc. The Company's tax sharing allocation agreement provides that any subsidiary having taxable income will pay a tax liability equivalent to what that subsidiary would have paid if it had filed a separate federal income tax return for the year. If the separately calculated federal income tax return for any subsidiary results in a tax loss, the current tax benefit resulting from such loss, to the extent utilizable on a separate return basis, will be paid to that subsidiary.

Intercompany Pooling Agreement

The Company is a member of an Intercompany Pooling Agreement with affiliated insurers. The Intercompany Pooling Agreement dated October 1, 2006, covers substantially all business. Business is apportioned among the member companies based upon pre-determined rates of participation. As of December 31, 2016, the Company's pooling percentage was 68.5%.

FIDELITY BOND AND OTHER INSURANCE

The Company protects itself against loss from any fraudulent or dishonest acts by any employees through a fidelity bond issued by Lloyd's of London. The bond has a single loss coverage limit of \$25,000,000, with a \$2,500,000 deductible. The fidelity bond is adequate to meet the prescribed minimum coverage specified by the NAIC.

The Company had additional types of coverage in-force as of December 31, 2016, including but not limited to directors and officers, errors and omissions liability, general liability, property liability, and workers' compensation.

PENSION, STOCK OWNERSHIP, AND INSURANCE PLANS

Chubb Limited sponsors a non-contributory defined benefit pension plan, which covers U.S. employees of the Company. Prior to 2001, benefits were generally based on an employee's years of service and average compensation during the last five years of employment. Effective January 1, 2001, the plan's formula for providing pension benefits was changed from the final average pay formula to a cash balance formula. Under the cash balance formula, a notional account for each employee is credited twice a year with amounts equal to a percentage of eligible compensation based on age and years of service plus interest based on the account balance. Employees hired prior to 2001 will generally be eligible to receive vested benefits based on the higher of the final average pay or cash balance formulas.

Certain other postretirement benefits, principally health care and life insurance, are provided to retired employees of the Company and their beneficiaries and covered dependents. Substantially all employees hired before January 1, 1999, may become eligible for these benefits upon retirement if they meet minimum age and years of service requirements. Health care coverage is contributory. Retiree contributions vary based upon a retiree's age, type of coverage, and years of service. Life insurance coverage is non-contributory.

On October 31, 2016, Chubb Limited amended its non-contributory defined pension plan. In 2020, Chubb Limited will transform from a traditional defined benefit pension program that had been in effect for certain employees to a defined contribution program. Additionally, after 2025, Chubb Limited plans to eliminate the subsidized U.S. retiree healthcare plan that had been in place for certain employees.

Chubb Limited has a defined contribution benefit plan, the Capital Accumulation Plan, in which substantially all U.S. employees of Chubb Limited, including those of the Company, are eligible to participate. Under the plan, the Company makes matching contributions equal to 100% of each eligible employee's pre-tax elective contributions, up to 4% of the employee's eligible compensation. Contributions are invested at the election of the employee in Chubb Limited's common stock or in various other investment funds.

The Company's eligible employees participate in an employee stock purchase plan sponsored by Chubb Limited. Maximum annual purchases by participants are limited to the number of whole shares that can be purchased by an amount equal to 10% of the participant's compensation or \$25,000, whichever is less. Participants may purchase ordinary shares at a purchase price equal to 85% of the fair market value of the stock on the last day of the subscription period.

The Company also participates in certain incentive plans sponsored by Chubb Limited, which incorporate stock options and restricted stock awards. Stock options granted under the incentive plans may be exercised for ordinary shares of Chubb Limited upon vesting. Generally, options expire ten years after the award date and vest in equal portions over three years. Under long term incentive plans, restricted stock awards in shares of Chubb Limited are granted to officers of the Company and generally vest over a four-year period.

SPECIAL AND STATUTORY DEPOSITS

The Company reported the following deposits, (in 000s), as of December 31, 2016:

<u>State</u>	<u>Book Value</u>	<u>Fair Value</u>
For All Policyholders:		
Indiana	\$ 3,167	\$ 3,203
New Jersey	4,377	4,672
All Other Special Deposits:		
California	536,192	554,667
Delaware	122	121
District of Columbia	55	55
Georgia	128	136
Idaho	1,600	1,609
Massachusetts	184	196
Montana	120	121
Nevada	306	327
New Mexico	455	466
North Carolina	315	342
Oregon	18,332	18,503
Tennessee	77	82
Virginia	274	268
Total Deposits	<u>\$ 565,704</u>	<u>\$ 584,768</u>

REINSURANCE

Reinsurance Pool

The Company and eight (8) affiliates participate in an Intercompany Pooling Agreement, the Chubb Group Reinsurance Pool (the Chubb Pool). The Intercompany Pooling Agreement covers substantially all business with the exception of foreign business, the run-off of an aircraft voluntary pool, and certain older asbestos and environmental losses. Federal is the lead company with a 68.5% participation in the Chubb Pool.

The Chubb Pool differs from traditional pooling arrangements whereby participants cede all of their business to a lead reinsurer, and the lead reinsurer retrocedes to each company a portion of all net business written. In the case of the Chubb Pool, each participating company retains a designated percentage of their own business, ceding the remainder of their business to the participating companies. Each participating company also assumes a designated percentage of all other pool participants' business. To illustrate, Federal, which has a 68.5% share of the pool, cedes 31.5% of their business to the other eight (8) pool participants. Federal, in turn, then assumes 68.5% of the subject business from each of the remaining eight (8) pool participants. Although the methodology utilized differs from a "traditional" pooling arrangement, the net financial results are identical.

Following is a list of the companies within the Chubb Pool and their respective contract percentage:

Name of Pool Members	Percentage of Pool	Domiciliary State
Federal Insurance Company	68.5%	IN
Pacific Indemnity Company	17.0%	WI
Executive Risk Indemnity Inc.	8.0%	DE
Great Northern Insurance Company	4.0%	IN
Chubb Custom Insurance Company	0.5%	NJ
Chubb Indemnity Insurance Company	0.5%	NY
Chubb National Insurance Company	0.5%	IN
Executive Risk Specialty Insurance Company	0.5%	CT
Vigilant Insurance Company	0.5%	NY
Total	<u>100.0%</u>	

There are three (3) other affiliated companies which cede 100% of their business to one (1) of the participating pool members where it is, in turn, then included within the Chubb Pool. These companies are: Texas Pacific Indemnity Company, a wholly owned subsidiary of Pacific Indemnity Company (PIC), which cedes 100% of its business to PIC, who retains 17% and cedes the remaining 83% to the other eight (8) pool participants, Chubb Insurance Company of New Jersey which cedes 100% of its business to Federal, who retains 68.5% and cedes the remaining 31.5% to the other eight (8) pool participants, and Chubb Lloyds Insurance Company of Texas which cedes 100% of its business to Great Northern Insurance Company, who retains 4% and cedes the remaining 96% to the other eight (8) pool participants.

Effective January 1, 2016, the Company and other affiliated participants of the Chubb Pool entered into a net liabilities quota share reinsurance agreement with ACE P&C to reinsure 20% of the Chubb Pool's current accident year results, excluding Unallocated Loss Adjustment Expenses (Legacy Chubb net liabilities quota share agreement). The Legacy Chubb net liabilities quota share agreement was approved by the INDOI, as well as all other appropriate regulatory authorities.

Natural Catastrophe Property Reinsurance Program

Chubb Limited's core property catastrophe reinsurance program provides protection against natural catastrophes impacting its primary property operations (i.e., excluding Global Reinsurance and Life Insurance segments). Chubb Limited regularly reviews their reinsurance protection and corresponding property catastrophe exposures. This may or may not lead to the purchase of additional reinsurance prior to a program's renewal date. Chubb Limited purchased a Global Property Catastrophe Reinsurance Program for their North American and International operations. The program was effective April 1, 2016 through March 31, 2017, and consisted of three layers in excess of losses retained by Chubb Limited. In addition, Chubb Limited also purchased terrorism coverage (excluding nuclear, biological, chemical and radiation coverage, with an inclusion of coverage for biological and chemical coverage for personal lines) for the United States from April 1, 2016 through March 31, 2017 with the same limits and retention and percentage placed except that the majority of terrorism coverage was on an aggregate basis above their retentions without a reinstatement.

The following table depicts the catastrophe reinsurance program outlined above.

Loss Location	Layer of Loss	Comments
United States (excluding Alaska and Hawaii)	\$0 million - \$1.0 billion	Loss retained by Chubb (a)
United States (excluding Alaska and Hawaii)	\$1.0 billion - \$1.25 billion	All natural perils and terrorism (b)
United States (excluding Alaska and Hawaii)	\$1.25 billion - \$2.0 billion	All natural perils and terrorism (c)
United States (excluding Alaska and Hawaii)	\$2.0 billion - \$3.5 billion	All natural perils and terrorism (d)
International (including Alaska and Hawaii)	\$0 million - \$175 million	Loss retained by Chubb (a)
International (including Alaska and Hawaii)	\$175 million - \$925 million	All natural perils and terrorism (c)
Alaska, Hawaii, and Canada	\$925 million - \$2.425 billion	All natural perils and terrorism (d)

(a) Ultimate retention will depend upon the nature of the loss and the interplay between the underlying per risk programs and certain other catastrophe programs purchased by individual business units. These other catastrophe programs have the potential to reduce their effective retention below the stated levels.

(b) These coverages are 20 percent placed with Reinsurers.

(c) These coverages are both part of the same Second layer within the Global Catastrophe Program and are 100 percent placed with Reinsurers. As such, it may be exhausted in one region and not available in the other.

(d) These coverages are both part of the same Third layer within the Global Catastrophe Program and are 100 percent placed with Reinsurers. As such, it may be exhausted in one region and not available in the other.

Chubb Limited also has two series of property catastrophe bonds in place (assumed as part of The Chubb Corporation acquisition) that offer additional natural catastrophe protection for certain parts of the portfolio. The geographic scope of this coverage is from Virginia through Maine. The East Lane VI 2014 series provides \$270 million of coverage as part of a \$300 million layer in excess of \$3.453 billion retention through March 14, 2018. The East Lane VI 2015 series currently provides \$250 million of coverage as part of a \$500 million layer in excess of \$2.602 billion retention through March 13, 2020.

ACCOUNTS AND RECORDS

The Company's accounting procedures, practices, account records, and supporting data were reviewed and tested to the extent deemed necessary. The trial balances prepared from the Company's general ledger for the years ended December 31, 2015 and December 31, 2016, were agreed to the respective Annual Statements. The Annual Statements for the years ended December 31, 2012 through December 31, 2015, were agreed to each year's independent audit report without material exception. In 2016, the independent audit report was on a combined basis. The Company's accounting procedures, practices, and account records were deemed satisfactory.

FEDERAL INSURANCE COMPANY
 Assets
 As of December 31, 2016
 (in 000s)

	Per Examination*
Bonds	\$ 13,606,642
Stocks:	
Preferred stocks	14,807
Common stocks	9,420,448
Real Estate:	
Properties occupied by the company	100,888
Cash, cash equivalents and short-term investments	(86,990)
Other invested assets	1,497,153
Receivables for securities	5,069
Subtotals, cash and invested assets	24,558,017
Investment income due and accrued	159,349
Premiums and considerations:	
Uncollected premiums and agents' balances in course of collection	1,006,517
Deferred premiums, agents' balances and installments booked but deferred and not yet due	503,590
Reinsurance:	
Amounts recoverable from reinsurers	189,528
Funds held by or deposited with reinsured companies	59,431
Other amounts receivable under reinsurance contracts	714
Net deferred tax asset	422,932
Electronic data processing equipment and software	15,168
Receivables from parent, subsidiaries and affiliates	255,682
Aggregate write-ins for other than invested assets	200,246
Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts	27,371,175
Totals	\$ 27,371,175

* There were no adjustments to the as-filed financial statements, therefore the Annual Statement amounts agree to the examination amounts, including immaterial rounding differences.

FEDERAL INSURANCE COMPANY
 Liabilities, Surplus and Other Funds
 As of December 31, 2016
 (in 000s)

	Per Examination*
Losses	\$ 8,491,279
Reinsurance payable on paid losses and loss adjustment expenses	96,607
Loss adjustment expenses	2,894,422
Commissions payable, contingent commissions and other similar charges	101,704
Other expenses	217,023
Taxes, licenses and fees	31,492
Current federal and foreign income taxes	151,588
Unearned premiums	2,723,875
Advance premium	8,762
Dividends declared and unpaid:	
Policyholders	67,535
Ceded reinsurance premiums payable	566,868
Funds held by company under reinsurance treaties	2,493
Amounts withheld or retained by company for account of others	10,028
Remittances and items not allocated	162,197
Provision for reinsurance	29,339
Payable to parent, subsidiaries and affiliates	63,445
Payable for securities	3,518
Aggregate write-ins for liabilities	325,191
Total liabilities excluding protected cell liabilities	15,947,366
Total liabilities	15,947,366
Common capital stock	20,980
Gross paid in and contributed surplus	3,106,809
Unassigned funds (surplus)	8,296,020
Surplus as regards policyholders	11,423,809
Totals	\$ 27,371,175

* There were no adjustments to the as-filed financial statements, therefore the Annual Statement amounts agree to the examination amounts, including immaterial rounding differences.

FEDERAL INSURANCE COMPANY
Statement of Income
For the Year Ended December 31, 2016
(in 000s)

	Per Examination*
UNDERWRITING INCOME	
Premiums earned	\$ 5,706,234
DEDUCTIONS	
Losses incurred	2,251,044
Loss adjustment expenses incurred	713,350
Other underwriting expenses incurred	1,540,270
Aggregate write-ins for underwriting deductions	81
Total underwriting deductions	4,504,744
Net underwriting gain (loss)	1,201,489
INVESTMENT INCOME	
Net investment income earned	1,016,975
Net realized capital gains (losses) less capital gains tax	1,546,444
Net investment gain (loss)	2,563,419
OTHER INCOME	
Net gain (loss) from agents' or premium balances charged off	(5,994)
Aggregate write-ins for miscellaneous income	(100,047)
Total other income	(106,042)
Net income, before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	3,658,867
Dividends to policyholders	31,079
Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	3,627,788
Federal and foreign income taxes incurred	388,597
Net income	\$ 3,239,191

* There were no adjustments to the as-filed financial statements, therefore the Annual Statement amounts agree to the examination amounts, including immaterial rounding differences.

FEDERAL INSURANCE COMPANY
Capital and Surplus Account Reconciliation
(in 000s)

	2016	2015	2014	2013	2012
Surplus as regards policyholders, December 31 prior year	\$13,278,705	\$ 14,828,383	\$ 14,741,312	\$ 13,841,016	\$ 13,707,546
Net income	3,239,191	2,154,094	1,855,277	2,021,923	1,564,704
Change in net unrealized capital gains or (losses) less capital gains tax	(1,306,667)	(190,908)	617,960	394,083	312,830
Change in net unrealized foreign exchange capital gain (loss)	8,463	6,577	(11,581)	5,329	(5,834)
Change in net deferred income tax	(224,291)	(76,428)	84,421	(30,344)	(15,397)
Change in nonadmitted assets	(78,886)	(245,314)	(28,848)	343,844	251,708
Change in provision for reinsurance	6,220	10,911	14,881	899	18,680
Dividends to stockholders	(3,684,176)	(3,255,000)	(2,021,000)	(1,564,000)	(1,760,000)
Aggregate write-ins for gains and losses in surplus	185,250	46,391	(424,039)	(271,438)	(233,220)
Change in surplus as regards policyholders for the year	(1,854,896)	(1,549,678)	87,071	900,296	133,470
Surplus as regards policyholders, December 31 current year	<u>\$ 11,423,809</u>	<u>\$ 13,278,705</u>	<u>\$ 14,828,383</u>	<u>\$ 14,741,312</u>	<u>\$ 13,841,016</u>

* There were no adjustments to the as-filed financial statements, therefore the Annual Statement amounts agree to the examination amounts, including immaterial rounding differences.

COMMENTS ON THE FINANCIAL STATEMENTS

There were no recommended adjustments to the financial statements as of December 31, 2016, based on the results of this examination.

OTHER SIGNIFICANT ISSUES

Pursuant to Company policy directors and officers are required to review and sign Conflict of Interest statements annually. The Company could not provide current Conflict of Interest statements for all directors and officers listed in the Management and Control section of this Report of Examination. It is recommended that the Company ensure compliance with Company policy by having directors and officers review and sign Conflict of Interest statements annually.

SUBSEQUENT EVENTS

Effective January 1, 2017, the Legacy Chubb net liabilities quota share agreement was amended to reinsure 35% of the Chubb Pool's current accident year underwriting results. This amendment was approved by the appropriate regulatory authorities. This agreement was terminated effective January 1, 2018, with subject losses continuing to be reinsured.

AFFIDAVIT

This is to certify that the undersigned is a duly qualified Examiner-in-Charge appointed by the Indiana Department of Insurance and that she, in coordination with staff assistance from Noble Consulting Services, Inc., and actuarial assistance from Merlinos & Associates, Inc., performed an examination of Federal Insurance Company, as of December 31, 2016.

The Indiana Department of Insurance is accredited under the National Association of Insurance Commissioners Financial Regulation Accreditation Standards.

This examination was performed in accordance with those procedures required by the NAIC Financial Condition Examiners Handbook and other procedures tailored for this examination. Such procedures performed on this examination do not constitute an audit made in accordance with generally accepted auditing standards and no audit opinion is expressed on the financial statements contained in this report.

The attached Report of Examination is a true and complete report of condition of Federal Insurance Company as of December 31, 2016, as determined by the undersigned.



Nadine Treon, CFE
Noble Consulting Services, Inc.

Under the supervision of,




Jerry Ehlers, CFE
Examinations Manager
Indiana Department of Insurance

State of: Indiana
County of: Marion

On this 2 day of April, 2018, before me personally appeared, Nadine Treon and Jerry Ehlers, to sign this document.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my notarial seal in said County and State, the day and year last above written.

My commission expires: July 4, 2019



Notary Public

