

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

IN THE MATTER OF: )  
 )  
**Federal Insurance Company** )  
**One American Square** )  
**202 North Illinois Street, Suite 2600** )  
**Indianapolis, Indiana 46282** )

Examination of: **Federal Insurance Company**


**NOTICE OF ENTRY OF ORDER**

Enclosed is the Final Order entered by Amy L. Beard, 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 amended by the Final Order, 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 25, 2021  
Date

  
Roy Eft  
Chief Financial Examiner

**CERTIFIED MAIL NUMBER: 7018 1130 0001 7982 6215**

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Examination of: **Federal Insurance Company**

### FINDINGS AND FINAL ORDER

The Indiana Department of Insurance conducted an examination into the affairs of the Federal Insurance Company (hereinafter “Company”) for the time period January 1, 2017 through December 31, 2019.

The Verified Report of Examination was filed with the Commissioner of the Department of Insurance (hereinafter “Commissioner”) by the Examiner on May 5, 2021.

A copy of the Verified Report of Examination, along with a Notice of Opportunity to Make Written Submission or Rebuttal, was mailed to the Company via Certified Mail on June 14, 2021 and was received by the Company on June 18, 2021.

On June 18, 2021, pursuant to Ind. Code § 27-1-3.1-10, the Company filed a response to the Verified Report of Examination. The Commissioner has fully considered the Company’s response.

NOW THEREFORE, based on the Verified Report of Examination and the response filed by the Company, the Commissioner hereby FINDS as follows:

1. The suggested modifications to the Verified Report of Examination submitted by the Company are reasonable and shall be incorporated into the Verified Examination Report. A copy of the Verified Report of Examination, as amended, is attached hereto.
2. The Verified Report of Examination, as amended, is true and accurate report of the financial condition and affairs of the Company as of December 31, 2019.

3. The Examiners' recommendations are reasonable and necessary in order for the Company to comply with the insurance laws of the state of Indiana.

Based on the FINDINGS, the Commissioner does hereby ORDER:

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, as amended, 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, as amended. 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 25 day of  
June, 2021.

  
Amy L. Beard  
Insurance Commissioner

## ABOUT AFFIRMATIONS

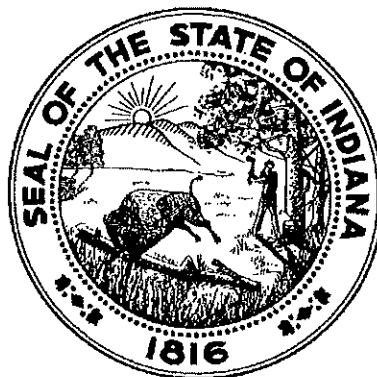
The following pages for affirmations need to be signed by each Board Member and returned to the Indiana Department of Insurance within thirty (30) days in accordance with I.C. §27-1-3.1-12(b).

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.

**STATE OF INDIANA**  
**Department of Insurance**  
**REPORT OF EXAMINATION**  
**OF**  
**FEDERAL INSURANCE COMPANY**  
NAIC Co. CODE 20281  
NAIC GROUP CODE 626

As of  
December 31, 2019



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# STATE OF INDIANA

ERIC J. HOLCOMB, GOVERNOR

## Indiana Department of Insurance

Amy L. Beard, Commissioner  
311 W. Washington Street, Suite 103  
Indianapolis, Indiana 46204-2787  
Telephone: 317-232-2385  
Fax: 317-232-5251  
Website: [in.gov/idoi](http://in.gov/idoi)

May 5, 2021

Honorable Amy L. Beard, 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 4037, an examination has been made of the affairs and financial condition of:

**Federal Insurance Company  
One American Square  
202 North Illinois Street, Suite 2600  
Indianapolis, Indiana 46282**

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, 2019, is hereby respectfully submitted.

ACCREDITED BY THE NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

AGENCY SERVICES 317-232-2389    COMPANY COMPLIANCE 317-232-3495    CONSUMER SERVICES 317-232-2595/1-800-622-4461    FINANCIAL SERVICES 317-232-2390    MEDICAL MALPRACTICE 317-232-2402    COMPANY RECORDS 317-232-5692    STATE HEALTH INSURANCE PROGRAM 1-800-452-4800

## SCOPE OF EXAMINATION

The Company was last examined by representatives of the Indiana Department of Insurance (INDOI) and covered the period from January 1, 2012 through December 31, 2016. The present risk-focused examination was conducted by Noble Consulting Services, Inc., and covered the period from January 1, 2017 through December 31, 2019, 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 Chubb Limited Group (Group) was called by the Pennsylvania Insurance Department (PID) in accordance with the Handbook guidelines, through the NAIC's Financial Examination Electronic Tracking System. The PID served as the lead state on the examination, and the INDOI, California Department of Insurance, Connecticut Insurance Department, Delaware Department of Insurance, Georgia Office of Insurance and Safety Fire Commissioner, Illinois Department of Insurance, Iowa Insurance Division, New Jersey Department of Banking and Insurance, New York State Department of Financial Services, Texas Department of Insurance, and Wisconsin Office of the Commissioner of Insurance served as participants.

The PID staff provided all actuarial services throughout the examination and conducted a review of the Company's actuarial related risks as of December 31, 2019.

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 commenced business on March 2, 1901. Federal became an Indiana-domiciled company effective March 23, 1990.

Until January 14, 2016, the ultimate parent company of Federal was The Chubb Corporation (Chubb Corp.), a holding company for property and casualty insurance companies, and until January 15, 2016, Federal was a wholly owned subsidiary of Chubb Corp.

On July 1, 2015, it was announced that ACE Limited (ACE) had agreed to acquire Chubb Corp. Effective January 14, 2016, Chubb Corp. merged with William Investment Holdings Corporation, a wholly owned subsidiary of ACE created for the purpose of the transaction. Chubb Corp. was the surviving corporation and became a wholly owned indirect subsidiary of ACE. On January 15, 2016, Chubb Corp. merged with and into ACE INA Holdings Inc.



(ACE INA), a Delaware corporation and indirect subsidiary of ACE, with ACE INA continuing as the surviving corporation. ACE INA subsequently changed its name to Chubb INA Holdings, Inc (Chubb INA). On January 15, 2016, ACE was renamed Chubb Limited. Federal is a wholly owned subsidiary of Chubb INA.

**CAPITAL AND SURPLUS**

As of December 31, 2019, 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 Chubb INA during the examination period:

<u>Year</u>	<u>Total</u>	<u>Ordinary Dividends</u>	<u>Extraordinary Dividends</u>
2019	\$ 1,400,000	\$ 400,000	\$ 1,000,000
2018	3,604,246	-	3,604,246
2017	5,836,046	-	5,836,046
Total	<u>\$ 10,840,292</u>	<u>\$ 400,000</u>	<u>\$ 10,440,292</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.

On June 4, 2018, the Company made a capital contribution of \$1,799,323, to an affiliate, Chubb Insurance Company Limited (Chubb China).

On August 1, 2018, the Company made a capital contribution of \$17,885,932 to Chubb China.

**TERRITORY AND PLAN OF OPERATION**

Federal is licensed in all fifty (50) states, Washington D.C., Puerto Rico, American Samoa, Guam, U.S. Virgin Islands, and the Northern Mariana Islands. The Company also has a Canadian branch operation that is licensed in all provinces. The Company writes, directly or indirectly, nearly all personal and commercial property and casualty lines through participation in an Intercompany Reinsurance Pooling Agreement (see Intercompany Reinsurance Pooling Agreement in the Reinsurance section of this Report of Examination).

In 2019, the Company’s largest three (3) states, by Direct Premiums Written (DPW), are California (\$1.31B – 21.9%), New York (\$592M – 9.8%) and Florida (\$546M – 9.1%). The largest line of business is Other Liability (Claims Made and Occurrence), making up approximately 35.4% of DPW.

## 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
2019	\$ 15,513,662	\$ 11,474,328	\$ 4,039,335	\$ 4,430,930	\$ 674,556
2018	15,689,631	10,899,790	4,789,842	4,228,026	2,866,769
2017	21,770,040	14,473,362	7,296,678	4,174,980	4,948,102

\*Amounts include immaterial rounding differences

Beginning in 2018, the Company participates in a new intercompany reinsurance pooling agreement (the Chubb Pool) in which ACE American Insurance Company (ACE American) is the lead company; see Intercompany Reinsurance Pooling Agreement in the Reinsurance section of this Report of Examination for additional details. Because of this, many of the variances in balances from 2017 to 2018 were due to the impact of the Company's participation in the Chubb Pool.

The admitted assets decreased in 2018 through cash dividends to help effectuate capital reallocation as a result of the new intercompany pooling structure. The balances in 2018 and 2019 stabilized.

Liabilities fluctuated due to losses, LAE reserves, and reinsurance ceded.

Surplus and other funds decreased during the period due to capital contributions and dividends related to implementation of the Chubb Pool, effective January 1, 2018, but have since stabilized.

Premiums earned were consistent during the examination period.

Net income decreased during the period due to the Company's decreased net realized gains. In addition, the Company began discounting workers' compensation unpaid losses as a result of its participation in the Chubb Pool.

## MANAGEMENT AND CONTROL

### Directors

The Bylaws provide that the business and 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. 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, 2019, and their principal occupations as of that date:

<u>Name and Address</u>	<u>Principal Occupation</u>
Scott Henck Lebanon, New Jersey	Executive Vice President, Chief Actuary Chubb North America
Latrell Johnson Robbinsville, New Jersey	Executive Vice President, Human Resources Chubb North America

Paul Krump Mendham, New Jersey	Executive Vice President, Chubb Group; President, North America Commercial and Personal Ins. Chubb North America
John Lupica Newtown, Pennsylvania	Vice Chairman, Chubb Group; President, North America Major Accounts and Specialty Ins. Chubb North America
Michelle McLaughlin Monroe Township, New Jersey	Executive Vice President, Property and Marine Manager, Commercial Insurance Chubb North America
Allison Meta Fishers, Indiana	Vice President and Indianapolis Branch Manager Chubb North America
Frances O'Brien Basking Ridge, New Jersey	Senior Vice President, Chubb Group; Division President, North America Personal Risk Services Chubb North America
Kevin Rampe New Hope, Pennsylvania	Director of Global Legal Operations and General Counsel Chubb North America
Drew Spitzer Summit, New Jersey	Executive Vice President and Chief Financial Officer Chubb North America
Edward Zaccaria New Hope, Pennsylvania	Chief Underwriting Officer Chubb North America

Officers

The Bylaws state that the elected officers of the Company shall consist of a President, one (1) or more Vice Presidents, a Treasurer, and a Secretary. 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, 2019:

<u>Name</u>	<u>Office</u>
Paul Krump	Chairman, President, and Chief Executive Officer
Drew Spitzer	Executive Vice President, Chief Financial Officer and Treasurer
Brandon Peene	Vice President and Secretary
John Lupica	Executive Vice President
Christopher Maleno	Executive Vice President
Paul O'Connell	Senior Vice President and Chief Actuary
Jason Howard	Senior Vice President
Frances O'Brien	Senior Vice President
John Taylor	Senior Vice President
James Walloga	Senior Vice President

## CONFLICT OF INTEREST

Directors and officers are required to review and sign Conflict of Interest statements annually. It was determined that all directors and officers listed in the Management and Control section of this Report of Examination have reviewed and signed their statements as of December 31, 2019.

## 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 subscribed to an oath as of December 31, 2019.

## CORPORATE RECORDS

### Articles of Incorporation

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

### Bylaws

There were no amendments made to the Bylaws during the examination period.

### 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 committee meeting minutes for the examination period, and through the fieldwork date, were reviewed for the following committees: Audit Committee (Chubb Limited), Executive Committee, and Investment Committee.

## AFFILIATED COMPANIES

### Organizational Structure

The following abbreviated organizational chart shows the Company's parent, subsidiaries, and certain affiliates as of December 31, 2019:

	NAIC Co. Code	Domiciliary State/Country
Chubb Limited		
Chubb Group Holdings Inc.		
Chubb US Holdings Inc.		
Westchester Fire Insurance Company (1)	10030	PA
Chubb INA Holdings Inc.		
Executive Risk Indemnity Inc. (1)	35181	DE
<b>Federal Insurance Company (1)</b>	<b>20281</b>	<b>IN</b>
<b>Chubb National Insurance Company (1)</b>	<b>10052</b>	<b>IN</b>
<b>Great Northern Insurance Company (1)</b>	<b>20303</b>	<b>IN</b>
Chubb Insurance Company of New Jersey (1)	41386	NJ
Pacific Indemnity Company (1)	20346	WI
INA Corporation		
INA Financial Corporation		
INA Holdings Corporation		
ACE American Insurance Company (1)	22667	PA
Indemnity Insurance Company of No. America (1)	43575	PA
Bankers Standard Insurance Company (1)	18279	PA
Penn Millers Holding Corporation		
PMMHC Corp		
Penn Millers Insurance Company (1)	14982	PA
Pacific Employers Insurance Company (1)	22748	PA
ACE Property and Casualty Insurance Company (1)	20699	PA
<b>ACE Insurance Company of the Midwest (1)</b>	<b>26417</b>	<b>IN</b>
Atlantic Employers Insurance Company (1)	38938	NJ
ACE Fire Underwriters Ins. Company (1)	20702	PA
ESIS, Inc. (2)		
Insurance Company of North America (1)	22713	PA
Chubb & Son Inc.		
Chubb Insurance Solutions Agency Inc. (2)		
Chubb Asset Management Inc. (2)		

(1) Participant in the Chubb Pool

(2) Non-insurance affiliate – party to an affiliated agreement with Federal

### 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.

Under the Intercompany Reinsurance Pooling Agreement effective January 1, 2018, all underwriting results, including loss adjustment and other underwriting expenses allocated to Chubb's active U.S. property and casualty companies, are ultimately ceded to ACE American for aggregation and retroceded to the companies participating

in the Chubb Pool in accordance with their participation percentage. As a result, on a pooled basis, Federal incurs 25% of the total net underwriting results for the Chubb Pool.

Federal has many agreements between non-U.S. affiliates (in Europe, Asia, Australia, South America, Central America, Japan and Canada) within the Chubb Group for various processes, including but not limited to general management, administrative, employee services, claims agents and software licenses. The overall financial impact of the services provided under these agreements is considered minimal. Therefore, not all affiliated and subsidiary agreements are documented in this Report of Examination. Additional details for all individual agreements can be found in Federal's filed Annual Statement for the year ended December 31, 2019, see Notes to Financial Statements, Note 10.F.

#### *Management Agreements*

Effective January 1, 1998, and as amended December 31, 2007, the Company entered into Management Agreements with Pacific Indemnity Company, Great Northern Insurance Company, Chubb Insurance Company of New Jersey, Chubb National Insurance Company, and Chubb Indemnity Insurance Company, whereby Federal acts as manager of the general insurance business of these affiliates. Effective January 1, 2000, the Company entered into a similar agreement with Executive Risk Indemnity Inc.

#### *Investment Advisory Agreement*

Effective July 1, 2016, the Company entered into an Investment Advisory Agreement with Chubb Asset Management (Chubb Asset) pursuant to which Chubb Asset 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.

#### *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 (1) level below the Company's Standard & Poor's rating.

#### *Service Agreements*

The Company has Service Agreements and Management Agreements with certain subsidiaries where it provides employees, underwriting, data processing, claim, and facility services, along with other services for its affiliates. At the same time, the Company has Service Agreements with certain subsidiaries that provide employees, underwriting, data processing, claim, and facility services, along with other services to the Company.

#### *Service Agreement (ACE American)*

Effective March 14, 2016, and as amended January 1, 2018 and December 1, 2018, ACE American and Federal entered into a Service Agreement (Agreement) under which either party to the Agreement may provide services to the other. Services include actuarial, administrative support, administrative, audit, claims, communications, marketing, compliance, financial, human resources, information technology, internal audit, investment, legal, loss control, operations support, reinsurance related, treasury, underwriting and other services. Under the Agreement, either party has the right to subcontract with any third-party, affiliated or unaffiliated, for the performance of the services. The January 1, 2018 amendment added Great Northern and Chubb National, as well as other affiliated entities, as parties to the Agreement. The December 1, 2018 amendment served to add Executive Risk Specialty Insurance Company to the Agreement.

#### *SIU Service and Support Agreement*

Effective August 12, 2010, and as amended on January 1, 2011, March 19, 2015, July 1, 2016, and January 1, 2018, Federal and certain of its affiliated property and casualty insurance companies (Insurers) entered into a SIU Service and Support Agreement (SIU Agreement) with ESIS, Inc. (ESIS), an affiliated licensed third-party claims administrator. Under the terms of the SIU Agreement, ESIS handles claims under policies issued by the Insurers.

The 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.

*Producer Agreement*

Effective January 1, 2012, and as amended April 19, 2018, Federal and certain of its affiliated property and casualty insurance companies (the affiliated companies) entered into a Producer Agreement with Chubb Insurance Solutions Agency Inc. (CISA), an affiliated insurance agency. Pursuant to the agreement, CISA acts as an insurance agent for the affiliated companies, in accordance with the authority granted to CISA from time to time.

*Reinsurance Services Agreement*

Effective December 3, 1998, and as amended December 31, 2007, Federal entered into a Reinsurance Services Agreement with Chubb Re, Inc. (Chubb Re), whereby Chubb Re provides the management of Federal's reinsurance business and serves as Federal's underwriting office for reinsurance. Effective August 15, 2018, Chubb Re merged into Chubb INA. The agreement is now, therefore, between Federal and Chubb INA.

*Service Agreement – TPA Deposits (ESIS)*

Effective December 1, 2016, Federal entered into a Service Agreement with ESIS whereby ESIS assumes the responsibility of maintaining deposits required under certain agreements entered into between Federal and certain third-party administrators.

*Consolidated Federal Income Tax Allocation Agreement*

Effective January 1, 2012, as amended December 31, 2012, January 1, 2014, February 18, 2015, December 8, 2016, and January 10, 2017, the Company became a party to an Amended and Restated Tax Allocation Agreement (Tax Allocation Agreement) with Chubb Group Holdings, Inc. The Tax 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 Reinsurance Pooling Agreement*

See Intercompany Reinsurance Pooling Agreement in this Report of Examination.

**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 National Union Fire Insurance Company. The bond has a single loss coverage limit of \$25 million with a \$5 million 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, 2019, including but not limited to commercial property liability, employment practices liability, ERISA liability, management indemnity/directors and officers liability, professional indemnity liability, and workers' compensation liability.

**PENSION, STOCK OWNERSHIP, AND INSURANCE PLANS**

In 2016, Chubb INA became the sponsor of the Pension Plan and the Other Post-Employment Benefits (OPEB) Plan previously disclosed through amendments to the plan documents, and the Group has no legal obligation under the Pension Plan or OPEB Plan.

The Company has no defined contribution plans or multiemployer plans.

Chubb INA sponsors a defined benefit and other postretirement benefit plan. The net liability for the defined benefit plan in 2019 and 2018 totaled \$173.9 million and \$213.1 million, respectively. The net asset for the other postretirement benefits plan in 2019 and 2018 totaled \$73.7 million and \$52.0 million, respectively. The Company's and its affiliates' share of expenses related to the pension plan and the other postretirement benefit plan in 2019 and 2018 was \$0 as the allocation methodologies for expenses are based upon pension plan contributions and other post-retirement service costs, neither which were incurred in 2019 and 2018.

Chubb INA sponsors two (2) defined contribution (DC) retirement plans, both covering substantially all employees. The plans were designed to be qualified under the Internal Revenue Code (IRC), as amended by the Employees Retirement Income Security Act of 1974. Under the first plan, employer contributions are based on a percentage of eligible compensation. Under the second plan, employer contributions on a pre-tax basis 401(k) are supplemented by employer matching contributions. Certain employees also have the opportunity to participate in a nonqualified arrangement that permits contributions that would otherwise be limited under the IRC. Total DC plan expenses for the Company and its affiliates totaled approximately \$105.7 million and \$102.1 million for the years ended December 31, 2019 and 2018 respectively. The Company's and certain affiliates' allocated share of expenses totaled approximately \$94.0 million and \$94.0 million for the years ended December 31, 2019 and 2018, respectively.

### SPECIAL AND STATUTORY DEPOSITS

The Company reported the following deposits, (in 000s), as of December 31, 2019:

<u>State</u>	<u>Book Value</u>	<u>Fair Value</u>
For All Policyholders:		
Indiana	\$ 3,154	\$ 3,179
New Jersey	4,357	4,494
All Other Special Deposits:		
California	479,932	515,871
Delaware	120	120
District of Columbia	53	55
Georgia	126	128
Idaho	1,601	1,629
Massachusetts	182	184
Montana	120	121
Nevada	303	306
New Mexico	491	517
North Carolina	312	323
Oregon	17,665	17,690
Tennessee	76	77
Virginia	257	255
Aggregate Alien and Other	265,606	272,080
Total Deposits*	<u>\$ 774,355</u>	<u>\$ 817,029</u>

\*Amounts include immaterial rounding differences



## REINSURANCE

### Intercompany Reinsurance Pooling Agreement

Effective January 1, 2018, the Company participates in an Intercompany Reinsurance Pooling Agreement in which ACE American is the lead company of the Chubb Pool. ACE American ultimately reinsures the gross business written by each of the companies listed below, as well as other active U.S. property and casualty companies that ceded to Federal or directly to ACE American via the Intercompany Reinsurance Pooling Agreement or a 100% quota share reinsurance agreement. All ceded reinsurance in force for the Chubb Pool and certain foreign branch business, inures to ACE American's benefit. After placing ceded reinsurance, ACE American retrocedes the remaining net business to each of the other Chubb Pool members in proportion to their agreed upon pool share. See the companies' Annual Statement Notes for additional information on the various 100% quota share reinsurance agreements.

The names, NAIC company codes and pool participation percentages of the Chubb Pool members are as follows:

<u>Chubb Pool Participants</u>	<u>NAIC Company Code</u>	<u>Chubb Pool Participation %</u>
ACE American (A)	22667	25%
Federal (B) (C)	20281	25%
ACE Property and Casualty Insurance Company (C)	20699	20%
Pacific Indemnity Company (D)	20346	20%
Executive Risk Indemnity, Inc. (D)	35181	10%
ACE Fire Underwriters Insurance Company (C)	20702	0%
ACE Insurance Company of the Midwest (C)	26417	0%
Atlantic Employers Insurance Company (C)	38938	0%
Bankers Standard Insurance Company (C)	18279	0%
Chubb Insurance Company of New Jersey (D)	41386	0%
Chubb National Insurance Company (D)	10052	0%
Great Northern Insurance Company (D)	20303	0%
Indemnity Insurance Company of North America (C)	43575	0%
Insurance Company of North America (C)	22713	0%
Pacific Employers Insurance Company (C)	22748	0%
Penn Millers Insurance Company (C)	14982	0%
Westchester Fire Insurance Company (C)	10030	0%

- (A) ACE American aggregates and cedes the Chubb Pool's 3rd Party reinsurance; as a result, it has recorded the Chubb Pool's Provision for Reinsurance.
- (B) Federal assumes from other Pool/Quota Share Companies, then retrocedes 100% gross loss, LAE and underwriting expenses to ACE American.
- (C) Company cedes 100% gross loss, LAE and underwriting expenses to ACE American
- (D) Company cedes 100% gross loss, LAE and underwriting expenses to Federal

In order to avoid incurred loss/LAE and earned premium while effectuating the Chubb Pool in 2018, paid losses/LAE and written premiums were used to offset changes in loss/LAE reserves and unearned premium reserves resulting in zero incurred/earned impact. This will make some assumed and ceded paid/written items appear distorted; however, this treatment is in accordance with SSAP guidance.

## Ceded Reinsurance

The Group purchases ceded reinsurance on a combined group basis; see Intercompany Reinsurance Pooling Agreement for additional details. The most significant component of the Group's ceded reinsurance program is directed at per-event (catastrophe) risks associated with property risks.

Chubb's core property catastrophe reinsurance program provides protection against natural catastrophes impacting its primary property operations (i.e., excluding their Global Reinsurance and Life Insurance segments). Chubb renewed its Global Property Catastrophe Reinsurance Program for their North American and International operations effective April 1, 2019 through March 31, 2020, with modest enhancements in coverage from the expiring program. The program consists of three (3) layers in excess of losses retained by Chubb on a per occurrence basis. In addition, Chubb also renewed its 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, 2019 through March 31, 2020 with the same limits and retention and percentage placed except that the majority of terrorism coverage is on an aggregate basis above their retentions without a reinstatement.

### **Natural Catastrophe Property Reinsurance Program**

<u>Loss Location</u>	<u>Layer of Loss</u>	<u>Comments Notes</u>	<u>Notes</u>
United States (excluding Alaska and Hawaii)	\$0 million – \$1.0 billion	Losses retained by Chubb	(a)
United States (excluding Alaska and Hawaii)	\$1.0 billion – \$1.2 billion	All natural perils and terrorism	(b)
United States (excluding Alaska and Hawaii)	\$1.2 billion – \$2.2 billion	All natural perils and terrorism	(c)
United States (excluding Alaska and Hawaii)	\$2.2 billion – \$3.5 billion	All natural perils and terrorism	(d)
International (including Alaska and Hawaii)	\$0 million – \$175 million	Losses retained by Chubb	(a)
International (including Alaska and Hawaii)	\$175 million – \$1.175 billion	All natural perils and terrorism	(c)
Alaska, Hawaii, and Canada	\$1.175 billion– \$2.475 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 partially placed with reinsurers.
- (c) These coverages are both part of the same Second layer within the Global Catastrophe Program and are fully placed with reinsurers.

(d) These coverages are both part of the same Third layer within the Global Catastrophe Program and are fully placed with reinsurers.

Chubb also has a property catastrophe bond in place that offers 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 2015 bond currently provides \$250 million of coverage as part of a \$427 million layer in excess of \$2 billion retention through March 13, 2020.

#### Assumed Reinsurance

Until late 2005, the Group maintained a professional reinsurance assumed operation commonly referred to as Chubb Re. This operation assumed reinsurance from various domestic and foreign markets, using Federal as the primary contracting vehicle. In December 2005, the Group completed a transaction aimed at facilitating an orderly exit from the assumed reinsurance business. As part of that transaction, the Group transferred the administration of its discontinued reinsurance assumed business, together with certain related assets, and all renewal rights, to Harbor Point Limited (Harbor Point). Since 2005, this block of business has been in run-off and the Group's U.S. companies have no longer engaged directly in the professional assumed reinsurance business. The Chubb Re/Harbor Point business continues to run-off and post-acquisition, Chubb Tempest Re (Chubb Tempest) assumed the management of the run-off from Markel.

In the prior examination period, the Group significantly expanded its activities directed at developing Program Business relationships with various strategic partners, including the assumption of a limited amount of reinsurance. The Group's most significant business program partner was the C.V. Starr Group of insurance companies. The Starr program business is in run-off and is currently being managed by Brandywine Holdings.

In addition to the reinsurance assumed described above, Federal also provided reinsurance to a number of its foreign domiciled affiliates, principally on an excess of loss basis. None of these contracts is regarded as being individually significant from a financial perspective. The internal reinsurance Federal provided to the foreign domiciled affiliates went into run-off during 2016 as the foreign domiciled affiliates were added to the internal reinsurance coverage provided by Chubb Tempest. Subsequently, the run-off internal reinsurance between Federal and several of the foreign domiciled affiliates has been commuted or novated to Chubb Tempest.

#### 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, 2018 and December 31, 2019, were agreed to the respective Annual Statements. The Annual Statements for the years ended December 31, 2017 through December 31, 2019, were agreed to each year's independent audit report without material exception. The Company's accounting procedures, practices, and account records were deemed satisfactory.

## FINANCIAL STATEMENTS

### FEDERAL INSURANCE COMPANY

#### Assets

As of December 31, 2019

(in 000s)

	<u>Per Examination*</u>
Bonds	\$ 9,873,925
Stocks:	
Preferred stocks	15,019
Common stocks	1,151,380
Real estate (Schedule A):	
Properties occupied by the company	91,052
Cash, cash equivalents and short-term investments	(429,780)
Other invested assets	1,089,811
Receivables for securities	16,073
Subtotals, cash and invested assets	<u>11,807,480</u>
Investment income due and accrued	88,490
Premiums and considerations:	
Uncollected premiums and agents' balances in course of collection	571,441
Deferred premiums, agents' balances and installments booked but deferred and not yet due	900,188
Accrued retrospective premiums	39,467
Reinsurance:	
Amounts recoverable from reinsurers	1,629,613
Funds held by or deposited with reinsured companies	55,332
Current federal and foreign income tax recoverable and interest thereon	58,795
Net deferred tax asset	127,313
Receivables from parent, subsidiaries and affiliates	21,108
Aggregate write-ins for other than invested assets	214,435
Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts	<u>15,513,662</u>
Totals	<u>\$ 15,513,662</u>

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

FEDERAL INSURANCE COMPANY  
 Liabilities, Surplus and Other Funds  
 As of December 31, 2019  
 (in 000s)

	Per Examination*
Losses	\$ 5,263,065
Reinsurance payable on paid losses and loss adjustment expenses	1,433,250
Loss adjustment expenses	1,560,626
Commissions payable, contingent commissions and other similar charges	46,739
Taxes, licenses and fees**	30,800
Unearned premiums	2,014,727
Dividends declared and unpaid:	
Policyholders	25,131
Ceded reinsurance premiums payable	353,115
Amounts withheld or retained by company for account of others	18,764
Remittances and items not allocated	97,804
Drafts outstanding	36,783
Payable to parent, subsidiaries and affiliates	398,544
Payable for securities	20,978
Aggregate write-ins for liabilities	174,003
Total liabilities excluding protected cell liabilities**	11,474,328
Total liabilities**	11,474,328
Common capital stock	20,980
Gross paid in and contributed surplus	2,711,474
Unassigned funds (surplus)	1,306,881
Surplus as regards policyholders	4,039,335
Totals**	\$ 15,513,662

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

\*\* Amounts include immaterial rounding differences.

FEDERAL INSURANCE COMPANY  
Statement of Income  
For the Year Ended December 31, 2019  
(in 000s)

UNDERWRITING INCOME	<u>Per Examination*</u>
Premiums earned	\$4,430,930
DEDUCTIONS	
Losses incurred	2,506,004
Loss adjustment expenses incurred	595,702
Other underwriting expenses incurred	1,039,992
Total underwriting deductions	<u>4,141,698</u>
Net underwriting gain (loss)	289,232
INVESTMENT INCOME	
Net investment income earned**	396,151
Net realized capital gains (losses) less capital gains tax	<u>159,467</u>
Net investment gain (loss)	555,617
OTHER INCOME	
Aggregate write-ins for miscellaneous income	<u>3,968</u>
Total other income	<u>3,968</u>
Net income, before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	848,817
Dividends to policyholders**	<u>11,460</u>
Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	837,358
Federal and foreign income taxes incurred	<u>162,802</u>
Net income**	<u>\$ 674,556</u>

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

\*\* Amounts include immaterial rounding differences.

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

	2019	2018	2017
Surplus as regards policyholders, December 31 prior year	\$ 4,789,842	\$ 7,296,678	\$ 11,423,809
Net income	674,556	2,866,769	4,948,102
Change in net unrealized capital gains or (losses) less capital gains tax	(39,430)	(1,324,691)	(3,199,145)
Change in net unrealized foreign exchange capital gain (loss)	2,245	4,051	27,303
Change in net deferred income tax	25,072	(205,687)	(587,346)
Change in nonadmitted assets	(11,382)	421,816	449,901
Change in provision for reinsurance	-	57,140	(27,800)
Surplus adjustments:			
Paid in	-	(497,719)	102,384
Dividends to stockholders	(1,400,000)	(3,604,246)	(5,836,046)
Aggregate write-ins for gains and losses in surplus*	(1,567)	(224,268)	(4,485)
Change in surplus as regards policyholders for the year*	<u>(750,507)</u>	<u>(2,506,836)</u>	<u>(4,127,131)</u>
Surplus as regards policyholders, December 31 current year	<u>\$ 4,039,335</u>	<u>\$ 4,789,842</u>	<u>\$ 7,296,678</u>

\* Amounts include immaterial rounding differences.

## **COMMENTS ON THE FINANCIAL STATEMENTS**

There were no recommended adjustments to the financial statements as of December 31, 2019, based on the results of this examination.

## **OTHER SIGNIFICANT ISSUES**

There were no significant issues based on the results of this examination.

## **SUBSEQUENT EVENTS**

### **COVID-19**

On March 11, 2020, the World Health Organization declared the outbreak of a coronavirus (COVID-19) pandemic. The extent of the impact of COVID-19 on Federal's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, regulatory decisions, and the impact on the financial markets, all of which are uncertain and cannot be predicted. Due to the timing of the examination and field work, the effects of the pandemic on this entity are not fully addressed within this examination report.




**AFFIDAVIT**

This is to certify that the undersigned is a duly qualified Examiner-in-Charge appointed by the Indiana Department of Insurance and that he, in coordination with staff assistance from Noble Consulting Services, Inc., and actuarial assistance from Pennsylvania Insurance Department Actuaries, performed an examination of Federal Insurance Company, as of December 31, 2019.

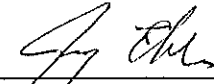
The Indiana Department of Insurance is accredited under the National Association of Insurance Commissioners Financial Regulation Accreditation Standards.

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 the condition of Federal Insurance Company as of December 31, 2019, as determined by the undersigned.

  
Barry Armstrong, CFE  
Noble Consulting Services, Inc.

Under the Supervision of:

  
Jerry Ehlers, CFE, AES  
Examinations Manager  
Indiana Department of Insurance


State of: Indiana  
County of: Marion

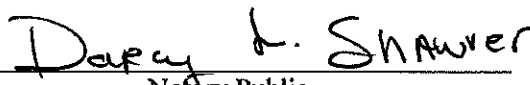
DARCY L. SHAWVER  
NOTARY PUBLIC  
SEAL

MARION COUNTY, STATE OF INDIANA  
MY COMMISSION EXPIRES OCTOBER 4, 2025  
COMMISSION NO. 726059

On this 15<sup>th</sup> day of June, 2021, before me personally appeared, Barry Armstrong 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: October 4<sup>th</sup> 2025   
Notary Public

  
Notary Public

