

**ORGANIZATIONAL EXAMINATION**  
**OF**  
**FAIR AMERICAN SELECT INSURANCE COMPANY**  
**AS OF**  
**MAY 17, 2013**

Karen Weldin Stewart, CIR-ML  
Commissioner



Delaware Department of Insurance

I, Karen Weldin Stewart, Insurance Commissioner of the State of Delaware, do hereby certify that the attached ORGANIZATIONAL EXAMINATION, made as of May 17, 2013 of the

**FAIR AMERICAN SELECT INSURANCE COMPANY**

is a true and correct copy of the document filed with this Department.

Attest By:

Brante Biddle

Date: June 5, 2013



In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 5<sup>th</sup> day of June, 2013.

Karen Weldin Stewart, CIR-ML  
Insurance Commissioner

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The above-captioned report was completed by examiners of the Delaware Department of Insurance.

Consideration has been duly given to the comments, conclusions and recommendations of the examiners regarding the status of the company as reflected in the report.

This report is hereby accepted, adopted and filed as an official record of this Department.

A handwritten signature in black ink, appearing to read "Karen Weldin Stewart", is written over a horizontal line.

Karen Weldin Stewart, CIR-ML  
Insurance Commissioner

Dated this 5<sup>th</sup> day of June, 2013

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## **SALUTATION**

May 17, 2013

Honorable Karen Weldin Stewart, CIR-ML  
Insurance Commissioner  
State of Delaware  
841 Silver Lake Boulevard  
Dover, Delaware 19904

Dear Commissioner:

In accordance with instructions and pursuant to statutory provisions contained in Certificate of Authority No. 13.036, dated April 15, 2013, an Organizational Examination has been conducted of the

### **Fair American Select Insurance Company**

hereinafter referred to as “FASIC” or “ the Company”, incorporated under the laws of the State of Delaware as a stock property and casualty insurance company.

The Company’s registered agent is Corporation Service Company with its registered office located at 2711 Centerville Road, Suite 400, Wilmington, Delaware 19808. The Company’s administrative office address is located at 80 Pine Street, 7<sup>th</sup> Floor, New York, New York 10005.

This examination was conducted at the Company’s aforementioned administrative office location. The report of such examination is respectfully submitted herewith.

## **SCOPE OF EXAMINATION**

This organizational examination was conducted in conjunction with the Company's application for a domestic Certificate of Authority in the State of Delaware. The Company's corporate records, records applicable to and attendant with its application, as well as financial data as of May 17, 2013, have been reviewed.

## **HISTORY**

The Company was incorporated on October 1, 2012, under the laws of the State of Delaware and authorized to issue one thousand (1,000) common shares with a par value of \$1 per share. The Company amended its Articles of Incorporation via Board resolution and Unanimous Written Consent, which was filed with the Delaware Secretary of State on May 14, 2013, changing the par value of its issued common stock from \$1 per share to \$500 per share. The following amended common stock certificate was issued by the Company to Fair American Insurance and Reinsurance Company (FAIRCO), a New York insurance company:

<u>Certificate</u>	<u>Shares</u>	<u>Date</u>	<u>Capital</u>	<u>Surplus</u>	<u>Total</u>
1	<u>1,000</u>	10/1/2012	<u>\$500,000</u>	<u>\$500,000</u>	<u>\$1,000,000</u>
Total	<u>1,000</u>		<u>\$500,000</u>	<u>\$500,000</u>	<u>\$1,000,000</u>

On May 15, 2013, FAIRCO contributed an additional \$15,000,000 in gross paid-in and contributed surplus to the Company.

## **MANAGEMENT AND CONTROL**

### **Board of Directors**

In accordance with its bylaws, adopted October 1, 2012, the business and affairs of the Company shall be managed by a Board (Board), which shall consist of no less than one (1) nor more than ten (10) members. Directors do not need to be residents of the State of Delaware or shareholders of the Company. The directors are to be elected at the annual meeting of the Company's stockholder and shall hold office until his successor shall be elected and qualified.

The directors serving as of the examination date were as follows:

Kenneth Apfel  
Kenneth W. Brandt  
Michael C. Sapnar  
Gary A. Schwartz  
Steven S. Skalicky  
Julian Spence  
Javier E. Vijil

### **Committees of the Board of Directors**

There were no elected committees of the Board as of the examination date.

### **Officers**

In accordance with its bylaws, the officers of the Company shall be a president, a treasurer, a secretary, all of whom shall be elected by the Board and who shall hold office until their successors are elected and qualified. The Board of Directors may also elect a Chairman, one or more vice-presidents, assistant secretaries and assistant treasurers and other officers as deemed necessary. None of the officers need be directors. The officers shall be elected at the first meeting of the Board after each annual meeting. More than two offices may be held by the same person.

The officers serving as of the examination date were as follows:

<u>Officer</u>	<u>Office</u>
Michael C. Sapnar	President & Chief Executive Officer
Kenneth Apfel	Executive Vice President & Chief Actuary
Kenneth W. Brandt	Executive Vice President, President of North America
Thomas V. Cholnoky	Executive Vice President, Global Head of Strategy and Communications
George J. DiMartino	Executive Vice President & Chief Information Officer
Beth A. Levene	Executive Vice President & Chief Claims Officer
Gary A. Schwartz	Executive Vice President & General Counsel
Steven S. Skalicky	Executive Vice President & Chief Financial Officer
Julian H. Spence	Executive Vice President & Chief Risk Officer
Javier E. Vijil	Executive Vice President, President – Latin America and Caribbean
Robert M. Baldrey	Senior Vice President
Donna N. Byron	Senior Vice President
Eugene L. Fisher	Senior Vice President & Director of Internal Audit
Edward J. Kelley	Senior Vice President & Deputy General Counsel
Matthew Mahoney	Senior Vice President & Controller
Paul F. McKeon	Senior Vice President & Chief Underwriting Officer for North America
Edward T. Sheehan III	Senior Vice President
Lee J. Taylor	Senior Vice President
Richard Henderson	Vice President
Shawn Lynch	Vice President
James Ready	Vice President & Treasurer
Sandra C. Rushbrook	Vice President & Chief Compliance Officer
Amy M. Cinquegrana	Assistant Vice President & Corporate Secretary

The Company completed the NAIC Form 11 - Biographical Affidavit for each of the directors and senior management officers (at the level of senior vice president and higher) noted above.

The Company directors and officers each completed an annual conflict of interest disclosure statement.

## **HOLDING COMPANY SYSTEM**

At formation, the Company became a member of an Insurance Holding Company System. 18 Del. C. §5001(3) states that “control shall be presumed to exist if any person, directly or indirectly, owns, controls, holds with the power to vote, or holds proxies representing 10% or more of the voting securities of any other person.” Davis Selected Advisers, L.P. (Davis Advisers), a Colorado limited partnership, which owned or controlled 10% or more of the voting shares of the Company as of the examination date, is considered the ultimate controlling entity of the Company.

The organizational structure as of the examination date with control percentages of the upstream affiliates’ control of the downstream affiliate is presented below:

	<u>Economic Control</u>	<u>Voting Control</u>
Davis Selected Advisers, L.P. [CO] {1}	11.75%	10.78%
Alleghany Corporation [DE] {2}	100.0%	100.0%
Transatlantic Holdings, Inc. [DE]	100.0%	100.0%
Transatlantic Reinsurance Company [NY]	100.0%	100.0%
Fair American Insurance and Reinsurance Company [NY]	100.0%	100.0%
<b>Fair American Select Insurance Company [DE]</b>		

{1} Davis Advisers beneficially held 2,054,010 common stock shares of Alleghany Corporation (Alleghany), or 11.75% (economic control), as of December 31, 2012: 1,884,618 voting shares and 169,392 non-voting shares. The 1,884,618 voting common shares beneficially held by Davis Advisers constitutes 10.78% voting control of Alleghany as of December 31, 2012. Other than Davis Advisers, no other entity beneficially owned or controlled, directly or indirectly, more than 10% of the voting common shares of Alleghany as of the examination date. The Company is aware that Davis Advisers has not filed, but upon the Company’s licensure plans to file, a disclaimer of affiliation with the Delaware Department of Insurance.

{2} Alleghany common stock shares are publicly traded on the New York Stock Exchange under the symbol “Y”. At December 31, 2012, Alleghany had 17,478,746 common shares issued and outstanding.

The Company completed the NAIC Form 12 - Uniform Consent to Service of Process (Power of Attorney), dated and effective October 11, 2013.

## **FIDELITY BOND AND OTHER INSURANCE COVERAGE**

The Company is covered as a subsidiary of Alleghany, which carries a financial institution bond with \$20.0 million in fidelity coverage and a \$0.5 million deductible. This policy exceeds the minimum suggested coverage per the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook (Handbook)*.

## **AGREEMENTS**

The Company has no employees and does not intend to have employees. Instead, the Company's staffing needs and other administrative services will be provided by and paid by affiliate FAIRCO. As of the examination date, the Company is not a party to an expense sharing agreement with affiliate FAIRCO. However, upon licensure, the Company plans to enter into an expense sharing agreement with affiliate FAIRCO, which the Company intends to file with the Delaware Department of Insurance.

As of the examination date, the Company is not a party to an affiliated tax allocation agreement. However, upon licensure, the Company plans to enter into a tax allocation agreement with affiliate Alleghany, which the Company intends to file with the Delaware Department of Insurance.

As of the examination date, the Company is not a party to any general agency agreements. However, upon licensure, the Company plans to enter into a general agency agreement with affiliate Professional Risk Management Services, Inc. (PRMS), which the Company intends to file with the Delaware Department of Insurance.

As of the examination date, the Company is not a party to any investment management or advisory agreement. However, upon licensure, the Company plans to enter into an investment management and advisory agreement with non-affiliate BlackRock Investments.

The Company has entered into a custodial agreement with non-affiliate JPMorgan Chase Bank, N.A. (J.P. Morgan) effective October 25, 2012, which appears to contain the required wording as specified in the NAIC Handbook.

### **PLAN OF OPERATION**

The Company is being formed to write medical malpractice liability business on a non-admitted authorized excess and surplus lines basis in all 50 U.S. States, and the Territories, Districts and Possessions of the United States. The focus will be on professional liability for psychiatrists and neurologists on both a claims-made and claims-incurred basis written through affiliate PRMS pursuant to a general agency agreement. There will be no general or public advertising due to the niche segment that the Company is targeting. Upon licensure in Delaware, the Company intends to increase the capitalization to \$45 million.

### **REINSURANCE**

The Company is not a party to any reinsurance agreements at this time. Upon licensure, the Company plans to enter into a 90% quota share ceding reinsurance agreement with affiliate Transatlantic Reinsurance Company (TransRe) with an anticipated effective date of July 1, 2013. The Company intends to file this reinsurance agreement with the Delaware Department of Insurance.

### **CAPITAL AND SURPLUS REQUIREMENTS**

18 Del. C. §511(a) requires \$500,000 as the minimum common capital stock for a stock insurance company authorized to write multiple lines property and casualty insurance. The Delaware Domestic/Foreign Insurers Bulletin No. 45 effective October 14, 2011, requires that newly-formed Delaware-domestic surplus lines insurers have \$15,000,000 as the minimum



The reported balance of \$15,999,707 consists of the \$1,000,000 issuance of common stock on October 1, 2012, plus the \$15,000,000 contribution from FAIRCO on May 15, 2013, less \$293 in organizational expenses incurred since inception.

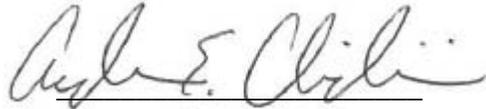
**CONCLUSION**

Based on the organizational examination conducted as of May 17, 2013, the financial condition of the Fair American Select Insurance Company is as follows:

Assets	\$15,999,707
Liabilities	<u>0</u>
Capital and Surplus as Regards Policyholders	<u>\$15,999,707</u>

Upon completion of the organizational examination, the Company has complied with the capitalization requirements for the State of Delaware. The examination was conducted by the undersigned.

Respectfully Submitted,



Andrew E. Chiodini, CFE  
Examiner-In-Charge  
Department of Insurance  
State of Delaware