

**ORGANIZATIONAL EXAMINATION**  
**OF**  
**MTAW INSURANCE COMPANY**  
**AS OF**  
**SEPTEMBER 25, 2014**

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 September 25, 2014 of the

**MTAW INSURANCE COMPANY**

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

Attest By: \_\_\_\_\_

*Brando Biddle*

Date: November 5, 2014



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 May, 2014.

\_\_\_\_\_

Karen Weldin Stewart, CIR-ML  
Insurance Commissioner

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Delaware Department of Insurance

ORGANIZATIONAL EXAMINATION  
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MTAW INSURANCE COMPANY  
AS OF  
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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".

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Karen Weldin Stewart, CIR-ML  
Insurance Commissioner

Dated this 5<sup>th</sup> day of November, 2014

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## **SALUTATION**

September 25, 2014

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. 14.907, dated July 31, 2014, an Organizational Examination has been conducted of the

### **MTAW Insurance Company**

hereinafter referred to as “MTAW” 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 The Corporation Trust Company with its registered office located at 1209 Orange Street, Wilmington, Delaware 19801. The Company’s administrative office address is located at 160 Water Street, New York, New York 10038-4922.

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 September 17, 2014, have been reviewed.

## **HISTORY**

The Company was incorporated on January 31, 2014 under the laws of the State of Delaware and authorized to issue twenty-four thousand (24,000) common shares with a par value of \$200 per share. The following common stock certificate was issued by the Company to Seneca Insurance Company, Inc., a New York insurance company:

| <u>Certificate</u> | <u>Shares</u> | <u>Date</u> | <u>Capital</u> | <u>Surplus</u> | <u>Total</u> |
|--------------------|---------------|-------------|----------------|----------------|--------------|
| 1                  | 2,500         | 9/3/2014    | \$500,000      | \$250,000      | \$750,000    |

The Company plans to issue the remaining 21,500 authorized common shares to its parent after licensure by the Delaware Department of Insurance and prior to licensure by the New York Department of Insurance in exchange for \$6,450,000, which will consist of \$4,300,000 in common capital stock and \$2,150,000 in gross paid-in and contributed surplus. After the issuance of the remaining shares, the capital common stock balance is anticipated to be \$4,800,000 and the gross paid-in and contributed surplus balance is anticipated to be \$2,400,000, for a total capitalization of \$7,200,000.

## **MANAGEMENT AND CONTROL**

### **Board of Directors**

In accordance with its bylaws, adopted February 19, 2014, the business and affairs of the Company shall be managed by a Board of Directors, which shall consist of no less than three (3) nor more than fourteen (14) 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:

Paul W. Bassaline  
James V. Kraus  
Marc T. Wolin

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

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

### **Officers**

In accordance with its bylaws, the officers of the Company shall be a president, who shall be elected by the Board of Directors and who shall hold office until their successors are elected and qualified. The Board of Directors may also elect a Chairman of the Board and one or more vice-presidents, secretaries and assistant secretaries 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 of Directors after each annual meeting.

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

| <u>Officer</u>    | <u>Office</u> |
|-------------------|---------------|
| Marc T. Wolin     | President     |
| Paul W. Bassaline | Treasurer     |
| James V. Kraus    | Secretary     |

The Company completed the NAIC Form 11 - Biographical Affidavit for each of the three directors and officers noted above.

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

The Company completed the NAIC Form 12 - Uniform Consent to Service of Process (Power of Attorney), dated and effective July 30, 2014.

### **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.”

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

|  |     | Economic<br>Ownership<br>Control<br><u>Percent</u> | Voting<br>Control<br><u>Percent</u> |     |
|--|-----|--|-------------------------------------|-----|
| Southeastern Asset Management, Inc. {1}                | {2} | 11.43%   | 7.56%                               | {3} |
| V. Prem Watsa and the Watsa Family Trust {4}           | {5} | 1.30%  | 43.94%                              | {6} |
| All Other Publicly Traded Shares Held {7}              | {8} | 87.27%   | 48.50%                              | {9} |
| Fairfax Financial Holdings Limited [Canada] (FFH) {10} |     | 100.0%   | 100.0%                              |     |
| FFHL Group Ltd. [Canada]                               |     | 100.0%   | 100.0%                              |     |
| Fairfax (US) Inc. [DE]                                 |     | 100.0%   | 100.0%                              |     |
| Crum & Forster Holdings Corp. [DE] (Crum & Forster)    |     | 100.0%   | 100.0%                              |     |
| The North River Insurance Company [NJ] (North River)   |     | 100.0%   | 100.0%                              |     |
| Seneca Insurance Company, Inc. [NY] (Seneca)           |     | 100.0%   | 100.0%                              |     |
| <b>MTAW Insurance Company [DE]</b>                     |     | 100.0%   | 100.0%                              |     |

Notes 1 through 10 more fully describe the ownership and voting percentages throughout the holding company.

- {1} Disclaimer of control filed with the Delaware Department of Insurance and approved on November 22, 2004
- {2} Calculated as 2,717,437 subordinate voting common shares held / 20,451,232 total subordinate voting common shares X \$7,186,700,000 [FFH common stock equity] / \$8,353,100,000 [FFH common stock and preferred stock equity] (see {10})
- {3} Calculated as 2,717,437 votes (2,717,437 subordinate voting common shares held) / 35,931,232 total votes (see {10})
- {4} Through voting and economic ownership control, both directly and indirectly, of the following individual and entities: Mr. V. Prem Watsa, 2771489 Canada Limited, 1109519 Ontario Limited, 810679 Ontario Limited and The Sixty Two Investment Company Limited
- {5} Calculated as 308,541 subordinate voting common shares held (257,921 plus 50,620 (see {6})) / 20,451,232 total subordinate voting common shares X \$7,186,700,000 [FFH common stock equity] / \$8,353,100,000 [FFH common stock and preferred stock equity] (see {10})
- {6} Calculated as 0.72% through V. Prem Watsa and 43.22% through The Watsa Family Trust and the four entities described in {4}. The 0.72% is calculated as 139,835 subordinate voting common shares (139,835 votes) through 810679 Ontario Limited + 84,586 subordinate voting common shares (84,586 votes) held personally by Mr. V. Prem Watsa + 33,500 subordinate voting common shares (33,500 votes) held through Prenstin Holdings Ltd. which = 257,921 votes / 35,931,232 total votes. The 43.22% is calculated as 50,620 subordinate voting common shares (50,620 votes) + 1,548,000 subordinate multiple voting common shares (15,480,000 votes) held through The Watsa Family Trust, 1109519 Ontario Limited, 810679 Ontario Limited and The Sixty Two Investment Company which equals 15,530,620 votes / 35,931,232 total votes (see {10})
- {7} No individual or entity owns or controls greater than 10% of FFH as of December 31, 2013
- {8} Calculated as 100.00% - 11.43% {2} - 1.30% {5}

{9} Calculated as 100.00% - 7.56% {3} – 43.94% {6}

{10} FFH common shares are publicly-traded on the Toronto Stock Exchange (TSE) in Canada under the symbol “FFH”. At December 31, 2013, FFH has issued 1,548,000 multiple voting common shares (which carry ten votes per share), 20,865,653 subordinate voting common shares [less 414,421 shares held in treasury for an outstanding balance of 20,451,232 shares] (which carry one vote per share), 10,000,000 non-voting preferred Series C shares, 8,000,000 non-voting preferred Series E shares, 10,000,000 non-voting preferred Series G shares, 12,000,000 non-voting preferred Series I shares and 9,500,000 non-voting preferred Series K shares. The total votes then consist of 35,931,232 as follows: 15,480,000 votes attributable to the 1,548,000 subordinate multiple voting common shares and 20,451,232 votes attributable to the 20,451,232 subordinate voting common shares. FFH’s non-minority capital account at December 31, 2013, totals \$8,353,100,000 (\$ U.S.) which consists of \$7,186,700,000 related to voting common shares (86.04% of the total) and \$1,166,400,000 related to non-voting preferred shares (13.96% of the total)

Southeastern Asset Management was identified in the 2013 Holding Company Registration Statement as controlling more than 10% of the voting stock of FFH [reported as owning or controlling 13.3% of the subordinate voting shares of FFH, however, the actual economic ownership control was 11.43% and the voting control was 7.56% as calculated at {2} and {3} above, respectively]. Southeastern Asset Management filed a disclaimer of control and requested exemption under 18 Del. C. §5003(e) (2) regarding control of greater than 10% of the securities of FFH. This filing was approved by the Delaware Insurance Department on November 22, 2004. V. Prem Watsa, who had 43.94% voting control of FFH and 1.30% economic ownership control of FFH, is identified in the 2013 holding company registration statement as the “Chairman” of the ultimate controlling entity, FFH.

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

The Company is covered as a subsidiary of Crum & Forster, which carries a financial institution bond with \$10.0 million in fidelity coverage and a \$250 thousand deductible. This policy exceeds the minimum suggested coverage per the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook*.

## **AGREEMENTS**

As of the examination date, the Company is not a party to any claims service agreement. However, Seneca is a party to a claims adjustment services agreement with affiliate Excelsior Claims Administrators, Inc. (Excelsior) effective April 29, 1994. Subsequent to the merger with Seneca, MTAW will succeed to all assets, liabilities and obligations of the non-surviving New York company. This includes the rights and obligations under the existing claims adjustment services agreement with Excelsior.

As of the examination date, the Company is not a party to any intercompany tax allocation agreement. However, Seneca is a party to an intercompany tax allocation agreement with Fairfax and certain other affiliates effective January 1, 2000, whereby the parties allocate tax liabilities in accordance with the requirements of the Internal Revenue Service and New York Insurance Department Circular Letter No. 33 (1979). Subsequent to the merger with Seneca, MTAW will succeed to all assets, liabilities and obligations of the non-surviving New York company. This includes the rights and obligations under the existing intercompany tax allocation agreement with Fairfax.

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 U.S. Fire Insurance Company (US Fire). As of the examination date, the Company is not a party to any administrative services agreement. However, Seneca is a party to an administrative services agreement with US Fire effective August 31, 2000. US Fire provides Seneca with certain underwriting, claims, policy administration and general services, including underwriting advice, policy issuance and billing, claims, maintenance of Company records, preparation and rendering of any reports to regulatory agencies requiring such reports, collection of premiums, corporate communications and public relations, actuarial, audit, executive, legal, human resource, maintenance of benefits and benefit plans, accounting, tax and other financial services, as well as the provision of necessary office accommodations. Seneca agrees to pay all costs and expenses incurred by US Fire. Subsequent to the merger with Seneca, MTAW will succeed to all assets, liabilities and obligations of the non-surviving New York company. This includes the rights and obligations under the existing administrative services agreement with US Fire.

As of the examination date, the Company is not a party to any investment management or advisory agreement. However, Seneca is a party to an investment management agreement among affiliates Hamblin Watsa Investment Counsel Ltd. (Hamblin Watsa) and FFH effective October 1, 2002, and amended January 1, 2005. Subsequent to the merger with Seneca, MTAW will succeed to all assets, liabilities and obligations of the non-surviving New York company. This includes the rights and obligations under the existing investment management agreement with Hamblin Watsa and FFH.

As of the examination date, the Company is not a party to any underwriting and claims services agreement. However, Seneca is a party to an underwriting and claims administrative services agreement with Seneca Specialty Insurance Company (SSIC) effective January 1, 2008.

Subsequent to the merger with Seneca, MTAW will succeed to all assets, liabilities and obligations of the non-surviving New York company. This includes the rights and obligations under the existing underwriting and claims administrative services agreement with SSIC.

The Company has entered into a custodial agreement with non-affiliate Bank of New York Mellon (BONY) effective August 8, 2014, which contains the required wording as specified in the NAIC *Financial Condition Examiners Handbook*.

### **PLAN OF OPERATION**

The Company is being formed to facilitate the re-domestication of Seneca Insurance Company, Inc. (Seneca) from New York to Delaware by means of a statutory merger with the Company, with MTAW being the surviving entity. Subsequent to the merger, MTAW will change its name to Seneca Insurance Company, Inc. and will succeed to all assets, liabilities and obligations of the non-surviving New York company and will carry on the business of Seneca as it is currently conducted.

Seneca is a property and casualty insurance company licensed in 50 states that provides insurance for risks classified as “Main Street” as well as specialty lines, which includes bail bonds, custom property, inland marine (including a builder’s risk division), national property and excess and surplus lines casualty insurance business written by Seneca’s subsidiary, Seneca Specialty Insurance Company.

“Main Street” business is generated from offices located in New York City, Louisville, Denver, Richmond, Phoenix, Chicago and Dallas. Custom property and inland marine business is comprised of property-oriented surplus lines risks principally emanating from offices located in New York City, Boston, Chicago, Atlanta, New Jersey, Philadelphia and Los Angeles. Excess

and surplus casualty offices are located in Richmond. National property business is written from offices located in New Jersey, San Francisco and Los Angeles.

### **REINSURANCE**

The Company is not a party to any reinsurance agreements at this time. However, Seneca is a party to an assumption and reinsurance agreement with affiliate SSIC effective October 1, 2010, whereby SSIC cedes and Seneca assumes 100% of SSIC's liabilities occurring before or after the effective date. However, subsequent to the merger with Seneca, MTAW will succeed to all assets, liabilities and obligations of the non-surviving New York company. This includes the rights and obligations under the existing assumption and reinsurance agreement with SSIC.

In addition, Seneca is a party to a 100% quota share reinsurance agreement and loss portfolio transfer with affiliate US Fire effective April 1, 2013, whereby Seneca cedes and US Fire assumes 100% of Seneca's liabilities occurring before or after the effective date. However, subsequent to the merger with Seneca, MTAW will succeed to all assets, liabilities and obligations of the non-surviving New York company. This includes the rights and obligations under the existing 100% quota share reinsurance agreement and loss portfolio transfer with US Fire.

## CAPITAL AND SURPLUS REQUIREMENTS

18 Del. C. §511(a) requires \$500,000 as the minimum common capital stock and \$250,000 gross paid-in and contributed surplus for a stock insurance company authorized to write multiple lines property and casualty insurance. Consequently, the minimum required amounts for this examination are as follows:

|  |                  |
|--|------------------|
| Common Capital Stock                         | \$500,000        |
| Gross Paid-in and Contributed Surplus        | <u>250,000</u>   |
| Capital and Surplus as Regards Policyholders | <u>\$750,000</u> |

## FINANCIAL DATA

The financial position of the Company as of the examination date, as determined by this organizational examination, was as follows:

| <u>Assets</u>                                     |                  | <u>Note</u> |
|---|------------------|-------------|
| Cash, Cash Equivalents and Short-term Investments | \$750,000        | 1           |
| Total Admitted Assets                             | <u>\$750,000</u> |             |
| <br><u>Liabilities, Capital and Surplus</u>       |                  |             |
| Total Liabilities                                 | \$ 0             |             |
| Common Capital Stock                              | \$500,000        |             |
| Gross Paid In and Contributed Surplus             | 250,000          |             |
| Unassigned Funds                                  | <u>0</u>         |             |
| Capital and Surplus as Regards Policyholders      | <u>\$750,000</u> | 2           |
| Total Liabilities, Capital and Surplus            | <u>\$750,000</u> |             |

