

**REPORT ON EXAMINATION**  
**OF**  
**UNITED STATES FIRE INSURANCE COMPANY**  
**AS OF**  
**DECEMBER 31, 2019**

Office of the  
Commissioner



Delaware  
Department of Insurance

REPORT ON EXAMINATION  
OF  
UNITED STATES FIRE INSURANCE COMPANY  
AS OF  
DECEMBER 31, 2019

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 blue ink that reads "Trinidad Navarro".

Trinidad Navarro  
Insurance Commissioner

Dated this 23 day of June, 2021

## TABLE OF CONTENTS

SCOPE OF EXAMINATION .....	1
SUMMARY OF SIGNIFICANT FINDINGS.....	4
COMPANY HISTORY .....	4
CAPITALIZATION .....	5
DIVIDENDS .....	5
MANAGEMENT AND CONTROL.....	6
DIRECTORS.....	6
OFFICERS.....	6
COMMITTEES OF THE BOARD.....	6
CORPORATE RECORDS.....	7
INSURANCE HOLDING COMPANY SYSTEM.....	7
AGREEMENTS WITH AFFILIATES .....	10
TERRITORY AND PLAN OF OPERATION.....	13
REINSURANCE .....	15
FINANCIAL STATEMENTS.....	18
STATEMENT OF ASSETS .....	19
STATEMENT OF LIABILITIES AND SURPLUS.....	20
STATEMENT OF INCOME.....	21
CAPITAL & SURPLUS ACCOUNT.....	22
RECONCILIATION OF CAPITAL AND SURPLUS.....	23
ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS RESULTING FROM THE EXAMINATION.....	23
COMMENTS ON FINANCIAL STATEMENT ITEMS .....	23
SUBSEQUENT EVENTS.....	24
COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS.....	25
SUMMARY OF RECOMMENDATIONS.....	25

May 26, 2021

Honorable Trinidad Navarro  
Commissioner of Insurance  
Delaware Department of Insurance  
1351 West North Street  
Suite 101  
Dover, Delaware 19904

Dear Commissioner:

In compliance with instructions and pursuant to statutory provisions contained in Exam Authority No. 20.002, dated November 22, 2019, an examination has been made of the affairs, financial condition and management of

**UNITED STATES FIRE INSURANCE COMPANY**

hereinafter referred to as the Company or USF. USF was incorporated under the laws of the State of Delaware as a stock company with its registered office located at 1209 Orange Street, Wilmington, Delaware. Due to the COVID-19 Pandemic, the examination was conducted offsite. The administrative office of the Company located at 305 Madison Avenue, Morristown, New Jersey, 07960. The report of examination thereon is respectfully submitted.

**SCOPE OF EXAMINATION**

The Delaware Department of Insurance (Department) performed a risk-focused financial examination of the Company. The previous regulatory examination of the Company covered the four-year period from January 1, 2011 through December 31, 2014. This examination will cover the five-year period from January 1, 2015 through December 31, 2019, and encompasses a general review of transactions during the period, the Company's business policies and practices, as well

as management and relevant corporate matters, with a determination of the financial condition of the Company as of December 31, 2019. Transactions subsequent to the examination date were reviewed where deemed necessary.

The examination of the Company was performed as part of the multi-state coordinated examination of the Fairfax Group of regulated United States property and casualty insurance companies (Fairfax U.S. Group) as of December 31, 2019. Delaware is the lead state for the Fairfax U.S. Group examination. The examination was conducted concurrently with that of the Company's U.S. affiliates. The examination was conducted concurrently with that of the Company's affiliates.

**Crum & Forster Subgroup (Crum Group):**

<b><u>Company Name</u></b>	<b><u>NAIC Number</u></b>	<b><u>State of Domicile</u></b>
United States Fire Ins Co (USF)	21113	DE
Crum & Forster Specialty Ins Co (CFSIC)	44520	DE
North River Insurance Co (NRIC)	21105	NJ
First Mercury Ins Co (FMIC)	10657	DE
Crum & Foster Ind. Co (Indemnity)	31348	DE
Seneca Ins Co Inc. (SIC)	10936	NY
Seneca Specialty Ins Co. (Seneca Specialty)	10729	DE
Crum & Forster Ins Co (CFIC)	42471	NJ
American Underwriters Ins Co (AUIC)	10251	AK
MTAW Insurance Co (MTAW)	16498	DE

**Hudson Subgroup – 100% owned by Odyssey Re Subgroup below:**

<b><u>Company Name</u></b>	<b><u>NAIC Number</u></b>	<b><u>State of Domicile</u></b>
Hudson Insurance Co	25054	DE
Hudson Excess Insurance Co	14484	DE
Hudson Specialty Insurance Co	37079	NY

**Odyssey Re Subgroup:**

<b><u>Company Name</u></b>	<b><u>NAIC Number</u></b>	<b><u>State of Domicile</u></b>
Greystone Insurance Co	10019	CT
Odyssey Reinsurance Co	23680	CT

**Zenith Subgroup:**

<b><u>Company Name</u></b>	<b><u>NAIC Number</u></b>	<b><u>State of Domicile</u></b>
Zenith Insurance Co	13269	CA
ZNat Insurance Co	30120	CA

**Allied World Subgroup <sup>1</sup>:**

<b><u>Company Name</u></b>	<b><u>NAIC Number</u></b>	<b><u>State of Domicile</u></b>
Allied World Natl Assur Co	10690	NH
Allied World Assur Co US Inc.	19489	DE
Allied World Surplus Lines Ins Co	24319	AK
Allied World Specialty Ins Co	16624	DE
Allied World Ins Co	22730	NH
Vantapro Specialty Ins Co	44768	AK
Vault Recip. Exch. FL NY	16186	FL
Vault E&S Ins Co	16237	AK

**Riverstone Subgroup <sup>2</sup>:**

<b><u>Company Name</u></b>	<b><u>NAIC Number</u></b>	<b><u>State of Domicile</u></b>
Commonwealth Insurance Co of America	10220	DE
TIG Insurance Co	25534	CA

We conducted our examination in accordance with the *National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook* (Handbook) and generally accepted statutory insurance examination standards consistent with the Insurance Code and Regulations of the State of Delaware. The NAIC 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.

<sup>1</sup> Fairfax Financial Holdings Limited and Allied World Assurance Company Holdings, Ltd recently announced in a November 12, 2020 press release, that they have, through their subsidiaries, entered into an agreement to sell their majority interest in Vault Holdings Inc. The transaction closed on March 1, 2021.

<sup>2</sup> TIG Insurance Company sold Commonwealth Insurance Company of America to Brit Insurance USA Holdings Inc. (affiliate), effective April 30, 2018.

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, pursuant to the General Corporation Law of the State of Delaware as required by 18 *Del. C.* §321, along with general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature, are not included within the examination report but separately communicated to other regulators and/or the Company.

During the course of this examination, consideration was given to work performed by the Company's external accounting firm PricewaterhouseCoopers LLC (PwC). Certain auditor work papers of the 2019 PwC audit of the Company have been incorporated into the work papers of the examiners and have been utilized in determining the scope, areas of emphasis in conducting the examination, and in the area of risk mitigation and substantive testing.

### **SUMMARY OF SIGNIFICANT FINDINGS**

There were no significant findings or material changes in financial statements as a result of this examination.

### **COMPANY HISTORY**

The Company was incorporated under the laws of New York on April 1, 1824. The Company absorbed the following companies by merger: Peter Cooper Insurance Company of New York in September, 1911; Williamsburg City Fire Insurance Company of New York on October 31, 1916; Colonial Assurance Corporation of New York on December 21, 1922; Allemannia Fire

United States Fire Insurance Company

Insurance Company of Pittsburgh on May 31, 1951; and Southern Fire Insurance Company on September 21, 1956.

During 2003, MJR Fire Insurance Company was incorporated in Delaware as a wholly owned property and casualty insurance company subsidiary of USF. Effective December 31, 2003, USF, a New York domiciled Company, was merged with and into the MJR Fire Insurance Company. In connection with the merger, MJR Fire Insurance Company's name was changed to USF and became the wholly owned subsidiary of Crum & Forster Holding Inc., (Crum Holdings) which is a wholly owned subsidiary of Fairfax (US) Inc. (Fairfax US).

#### Capitalization

The Company's Certificate of Incorporation authorizes the issue of 4,981 shares of common stock with a \$3,000 par value. As of December 31, 2019, the Company had all common shares issued and outstanding for a total amount of \$14,943,000. All outstanding common shares of the Company are owned by Crum Holdings.

#### Dividends

The Company paid dividends for the years indicated, as reflected in the Board of Director (Board) meeting minutes, dividends were paid to the sole stockholder and approved by the Department as follows:

<u>Year</u>	<u>Stock</u>	<u>Type</u>	<u>Amount</u>	<u>Paid Date</u>
2016	Common	Ordinary	\$65,000,000	01/04/2016
2017	Common	Ordinary	\$ 303,717	03/27/2017
2017	Common	Ordinary	\$12,000,000	11/17/2017
2019	Common	Ordinary	\$50,000,000	06/29/2019



## MANAGEMENT AND CONTROL

### Directors

Pursuant to the general Corporation Laws of the State of Delaware, as implemented by the Company's Certificate of Incorporation and bylaws, the property, business and affairs of the Company shall be managed by the Board. The bylaws require the Board consist of three directors but not more than seven.

The Directors are elected annually by the stockholder and hold office until the next annual election and until their successors are elected. Directors duly elected and serving as of December 31, 2019, are as follows:

<u>Name</u>	<u>Title</u>
Marc James Adee	President, Chairman of the Board, & CEO
Arleen Ambrose Paladino	Senior Vice President & CFO
Anthony Robert Slimowicz	Executive Vice President & COO

### Officers

Officers were elected in accordance with the bylaws during the period under examination. The bylaws require election of a President, and may elect one or more Vice Presidents, a Treasurer, a Secretary, one or more Assistant Vice Presidents, and Assistant Secretaries. The Board may also elect a Chairman of the Board and a Chief Executive Officer at its discretion. The primary officers serving as of December 31, 2019 were as follows:

<u>Name</u>	<u>Title</u>
Marc James Adee	President, Chairman of the Board, & CEO
Arleen Ambrose Paladino	Senior Vice President & CFO
James Vincent Kraus	Senior Vice President, General Counsel & Secretary

### Committees of the Board

The Audit Committee (AC) for Crum Holdings serves as the AC for the Company. The AC is composed entirely of members of Fairfax Financial Holdings Limited (FFHL) Executive

Management, and as such, is independent from the Company's Management. There is also an investment and compensation committee at the Board Level. The following Fairfax employees sit on Crum Holdings AC:

<u>Name</u>	<u>Title</u>
Jennifer Allen	Chief Financial Officer of FFHL
Peter Clarke	Chief Risk Officer of FFHL
Oliver Quesnel	VP and Chief Actuary of FFHL

#### Corporate Records

The recorded minutes of the Shareholder and Board were reviewed for the period under examination. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions and events including approval of investment transactions in accordance with 18 *Del. C.* §1304. In addition, the review of Company files indicated that written correspondence was submitted to the Department with regards to the changes in officers and directors during the period under examination in compliance with 18 *Del. C.* §4919.

#### Insurance Holding Company System

The Company is a member of an insurance holding company system known as FFHL as defined under 18 *Del. C.* §5001 of the Delaware Insurance Code. FFHL is a publicly listed company whose subordinate voting shares trade on the Toronto Stock Exchange under the symbol FFH. As of December 31, 2019, FFHL had consolidated assets of \$70,508 million and shareholders' equity of \$17,907 million. 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 percent or more of the voting securities of any other person.” Pursuant to this presumption, V. Prem Watsa and The Watsa Family Trust, which collectively owned or controlled 10% or more of the voting shares of the FFHL as of the examination date, are considered ultimate controlling entities of the Company.

United States Fire Insurance Company

An abbreviated organizational chart of FFHL as of December 31, 2019, with domicile in brackets, along with the control percentages of the upstream affiliates' control of the downstream affiliate is presented below:

		Equity Ownership Percentage	Voting Control Percentage	
V. Prem Watsa and the Watsa Family Trust {1}{8}	{2}	6.73 %	42.49%	{3}
All Other Publicly Traded Shares Held {4}	{5}	93.27%	57.51%	{6}
Fairfax Financial Holdings Limited [Canada] {7}		100.0%	100.0%	
FFHL Group Ltd. [Canada]		100.0%	100.0%	
Fairfax (US) Inc. [DE]*		93.98%	93.98%	
Crum & Forster Holdings Corp. [DE]		100.0%	100.0%	
United States Fire Insurance Company [DE]		100.0%	100.0%	
Crum & Forster Specialty Insurance Company [DE]		100.0%	100.0%	
Crum & Forster SPC Reinsurance Company [Cayman}Islands]		100.0%	100.0%	
Crum & Forster SPC [Cayman Islands]		100.0%	100.0%	
American Underwriters Insurance Company [AK]		100.0%	100.0%	
The North River Insurance Company [NJ]		100.0%	100.0%	
Seneca Insurance Company, Inc. [NY]		100.0%	100.0%	
MTAW Insurance Company [DE]		100.0%	100.0%	
Seneca Specialty Insurance Company [DE]		100.0%	100.0%	
Crum & Forster Insurance Company [NJ]		100.0%	100.0%	
Crum & Forster Indemnity Company [DE]		100.0%	100.0%	
First Mercury Insurance Company [DE]		100.0%	100.0%	

As of December 31, 2019, unless otherwise indicated

\* FFHL directly owns 6.02% of Fairfax US and indirectly owns the remaining 93.98% through FFHL Group Ltd.

Notes 1 through 8 more fully describe the ownership and voting percentages throughout the holding company.

{1} Through voting and economic ownership control, both directly and indirectly, of the following individual and entities: Mr. V. Prem Watsa, 2771489 Canada Limited, The One Zero Nine Holdco Limited and The Sixty Two Investment Company Limited.

{2} Calculated as follows:

<b>Description</b>	<b>Shares Outstanding</b>	<b>Shares Owned/Controlled</b>	<b>Percentage of total shares outstanding</b>
Total SVS Shares outstanding	26,082,299		
SVS Shares owned personally and through 1109 HoldCo		258,790	0.9922%
Additional SVS shares under control and direction		2,100	0.0081%
SVS Shares held through Sixty Two HoldCo		50,620	0.1941%
<b>Total SVS shares owned/controlled</b>		<b>311,510</b>	<b>1.1943%</b>
Total MVS Shares Outstanding	1,548,000		
Total MVS + SVS Shares Outstanding	27,630,299		
MVS Shares owned and controlled through Sixty Two Holdco		1,548,000	100%
<b>Total MVS + SVS Shares owned and controlled by Mr. Watsa</b>		<b>1,859,510</b>	<b>6.73%</b>

{3} Calculated as 0.58% through V. Prem Watsa and 41.91% through ownership in the three entities as described above. It should be noted that pursuant to Canadian securities filing requirements, 2100 subordinate voting shares owned by immediate family members of Mr. Watsa are also considered to be under the control and/or direction of Mr. Watsa and are therefore included in the voting control percentages reported herein.

- {4} No other individual or entity owns or controls greater than 10% of the voting common shares of FFH as of December 31, 2019.
- {5} Calculated as 100.00% - 6.73% {2}.
- {6} Calculated as 100.00% - 42.49% {3}.
- {7} FFH common shares are publicly-traded on the Toronto Stock Exchange in Canadian dollars under the symbol FFH and in US dollars under the symbol FFH.U. As of December 31, 2019, FFH has issued 1,548,000 multiple voting common shares, 26,082,299 subordinate voting common shares, 58,239,178 non-voting preferred Series C thru M. FFH's equity attributable to Shareholders as of December 31, 2019, totals \$14,378.1 million (\$U.S.) which consists of \$13,042.6 million (includes \$3.8 million of multiple voting shares) related to voting common shares (90.71% of the total) and \$1,335.5 million related to non-voting preferred shares (9.29% of the total).
- {8} During the second quarter of 2020, Mr. V. Prem Watsa purchased an additional 482,600 subordinate voting common shares through 12002574 Canada Inc., which is wholly owned by him, with the result that the total aggregate voting control increased from 42.49% to 43.61% as at June 30, 2020.

#### Agreements with Affiliates

The Company has entered into various agreements with members of the affiliated group in an effort to obtain efficiencies in operations and limit cost. The Company had the following material intercompany agreements in effect as of December 31, 2019:

##### *Expense Allocation & Administration Services Agreement*

Effective April 1, 2010, USF entered into an Expense Allocation & Administration Services Agreement with Crum Holdings pertaining to the performance of certain administrative services by the Company for Crum Holdings relating to accounting, legal, and other corporate matters. Additionally, the agreement applies to the allocation of certain holding company operating expenses of Crum Holdings and insurance company operating expenses of the Company pertaining to shared personnel and to certain resources and services provided by the Company to Holdings.

*Administrative Service Agreement*

Effective June 30, 2010, USF entered into an Administrative Services Agreement with CFIC. Under the terms of this agreement, USF provides CFIC the following services: underwriting and administrative services, maintaining required bank accounts, binding new and renewal business, policy issuing and billing services, claims services, maintenance of company records, preparation and rendering of reports to any regulatory agency, collection of premiums and paying all of the operating expenses of CFIC.

*Tax Allocation Agreement*

Effective January 1, 2009, the USF became a party to a tax allocation agreement with the Crum Holdings along with certain of its affiliates. Crum Holdings, the Company and affiliates constitute an affiliated group and have elected to file a consolidated return under the provisions of §1501 of the Internal Revenue Code of 1986. Pursuant to the terms of the tax allocation agreement, no party will be required to pay more in taxes or receive a lesser payment of a refund than it would have paid or received if it computed its taxes independently and filed a separate tax return.

Additionally, the Company has an enforceable right to recoup federal income taxes paid in prior years in the event of future net losses, which it may incur, or to recoup its net losses carried forward as an offset to future net income subject to federal income taxes.

*Master Repurchase Agreement*

Effective July 1, 2000, with an amendment dated September 11, 2001, USF is party to a master repurchase agreement with FFHL. The agreement provides for the repurchase of securities that are transferred to FFHL from time to time in order to provide liquidity in the event that the Company is required to pay claims or other corporate obligations, subject to an aggregate limitation for USF \$100.

Pursuant to the agreement, the Company is obligated to repurchase from FFHL securities that are transferred for this purpose before the end of each calendar year in which the original purchase took place at a price equal to the amount initially raised from their sale plus the stated interest rate for each security pursuant to the initial sale. During the time that such securities are transferred to FFHL, the Company is entitled to receive income payable on such securities. There were no transactions under this agreement during the examination period.

*Administrative Services Agreement*

Effective August 31, 2000, USF entered into an administrative services agreement with SIC, a New York insurance company and wholly-owned by the Company's immediate parent, Crum Holdings. Under the terms of this agreement, the Company provides SIC with certain underwriting and administrative services. Seneca agrees to pay all costs and expenses incurred by the Company.

*Investment Agreement*

Effective October 1, 2002, and amended April 1, 2007, USF became a party to an investment management and administrative services agreement among Hamblin Watsa Investment Counsel Ltd. (Hamblin Watsa) and FFHL. Pursuant to the agreement, Hamblin Watsa is authorized to supervise and direct all investments of the Company and to exercise whatever powers the Company may possess with respect to its invested assets. Investment transactions will be in accordance with investment objectives of the Company and subject to restrictions established by the Company, as communicated to Hamblin Watsa in writing from time to time.

Subject to these limitations, Hamblin Watsa may buy, sell, exchange, convert and otherwise trade and engage in investment transactions of any nature whatsoever involving any stocks, bonds, commercial paper, money market instruments and other securities and assets when it deems appropriate and without prior consultation with the Company.

*Administrative Services Agreement*

Effective January 1, 2005, USF entered into an administrative services agreement with Seneca Specialty, a Delaware company. Under the terms of this agreement, the Company provides Seneca Specialty with certain underwriting and administrative services. Seneca Specialty agrees to pay all costs and expenses incurred by the Company.

*Claims Service and Management Agreement*

Effective January 1, 2006, USF entered into a claims services and management agreement with Fairmont Premier Insurance Company (Fairmont Premier), Fairmont Specialty Insurance Company (Fairmont Specialty) and Fairmont Insurance Company (Fairmont). Under the terms of this agreement, USF provides claims services for certain identified types of claims for Fairmont Premier, Fairmont Specialty and Fairmont. Fairmont Premier, Fairmont Specialty and Fairmont each agree to pay a fee based on each entity's share of the costs, overhead, and general expenses incurred by the Company in providing the services.

*Master Administrative Service Agreement*

Effective November 1, 2014, USF entered into a Master Administrative Services Agreement among various U.S. operating subsidiaries of FFHL. Each party to the agreement may provide certain administrative services to any other party. Each party provides quarterly detailed statements to each company to which it provided services during the quarter. Effective August 1, 2018, this agreement was amended to add the Allied World subgroup.

**TERRITORY AND PLAN OF OPERATION**

Territory

As of December 31, 2019, the Company was licensed to transact multiple property and casualty lines of insurance in all fifty states, the District of Columbia, Puerto Rico and the U.S. Virgin Islands.



### Plan of Operation

The Company is a national commercial property and casualty insurance company with a focused underwriting strategy, targeting specialty classes of business and underserved market opportunities. The Company writes business through approximately 2,000 insurance producers nationwide who, on a direct written basis, generally fall into four categories: wholesale brokers 35%, regional producers 25%, national brokers 6%, Direct 11% and Managing General Underwriters (MGU)/Managing General Agents (MGA) 23%. Specialty program business is written through MGUs where appropriate for the class Accident & Health (A&H), Bail Bonds and Excess & Surplus binding authorities. The Company generally conducts business on a brokerage basis through their home office and regional branch network, allowing them to control the underwriting process and build close relationships with producers and policyholders. The Company has producers located throughout the United States, writing a broad range of coverage, including general liability, A&H, workers' compensation on both a guaranteed cost and large deductible basis, excess and umbrella, commercial multi-peril, environmental and commercial automobile.

The Company's objective is to expand opportunistically into classes of business or market segments that have the potential to generate an underwriting profit. The Company's business is diversified in terms of product line, varying policy sizes and geographic mix, with three states: California, New York and Texas, comprising approximately 28% of total direct written premiums.

The Company uses MGAs and MGUs to write group accident and health business. In aggregate, the amount of premium written by them totals \$115,099,000 or 9.8% of premium written.

On the filed Annual Statement for 2019, the Company reported the following distribution of Direct Premiums Written:

Line of Business	Direct Premium Written	Percentage of Direct Premium Written
Group Accident and Health	\$ 454,762,946	36%
Inland Marine	330,619,237	26%
Other liability - Occurrence	90,847,948	7%
Commercial auto liability	89,371,939	7%
Workers Compensation	84,161,309	7%
Surety	72,073,859	6%
Commercial multiple peril	55,610,180	4%
Auto physical damage	26,692,706	2%
Other liability - claims-made	24,948,148	2%
Ocean Marine	18,741,041	1%
All other lines	19,317,204	2%
Total Direct Premium Written	\$ 1,267,146,517	100%

### REINSURANCE

#### General

USF reported the following distribution of net premiums written for 2019:

Direct	\$1,267,146,517
Reinsurance assumed from affiliates	1,473,938,427
Reinsurance assumed from non-affiliates	<u>\$89,254,968</u>
Total gross (direct and assumed)	\$2,830,339,912
Reinsurance ceded to affiliates	\$730,625,161
Reinsurance ceded to non-affiliates	<u>\$325,864,553</u>
Total ceded	\$1,056,489,714
Net premiums written	<u>\$1,773,850,198</u>

#### Ceded

In order to control the exposure to losses and protect capital resources, the Company cedes a portion of their gross policy premiums to reinsurers in exchange for the reinsurers' agreement to share a portion of the covered losses under excess of loss and quota share reinsurance contracts, as

well as facultative arrangements, in order to limit the amount of their loss retention. The majority of the reinsurance contracts purchased by the Companies provide coverage for a one-year term.

In general, the Group's reinsurance contracts provide coverage for domestic acts of terrorism. Certain casualty contracts have additional terrorism coverage for acts of terrorism certified under the Terrorism Risk Insurance Program Reauthorization Act of 2007. None of the contracts cover acts of terrorism involving use of nuclear, biological or chemical agents.

#### Affiliated Reinsurance

The Company is a participant in a 100% Reinsurance Participation Agreement (the Agreement) with other members of the Crum Group by which the premiums, losses and other underwriting expenses of each participant are pooled by means of mutual reinsurance on a fixed percentage basis as follows:

<u>Pool Participants</u>	<u>NAIC #</u>	<u>Percentages</u>
USF	21113	76%
NRIC	21105	22%
CFIC	42471	1%
Indemnity	31348	1%

The Agreement provides that the Company, acting as the lead company, assumes from the Pool Participants 100% of their premiums, losses and other underwriting expenses and, in turn, cedes to each Pool Participant its percentage of premiums, losses and other underwriting expenses. Accounts are rendered at monthly intervals and are settled no later than thirty days after the close of the month. The obligation for insurance ceded by the Pool Participants to the Company does not relieve the Pool Participants of their primary liability as the originating insurers.

In addition, the Company participates in 100% quota share reinsurance agreements with CFSIC, FMIC, AUIC and SIC. Under the terms of these agreements, USF assumes all the

liabilities of these companies for all insurance business written. SIC assumes 100% of the liabilities under the business written by SSIC.

Effective October 1, 2018, USF entered into a 100% quota share reinsurance agreement with Crum and Forster Special Purpose Company, a Cayman Islands segregated Portfolio Company, here after referred to as C&F Cayman. Under the terms of the agreement, USF assumes 100% of the segregated portfolios written by C&F Cayman.

USF has a 100% quota share reinsurance agreements in effect with Northbridge Insurance Company (Northbridge). Northbridge is a Canadian Insurance Company which is 100% owned by FFHL. Under these agreements US Fire assumes 100% of the business written by Northbridge related to Cross Border Business, Travel Insurance Business and the Trushield Travel Insurance Business.

As of December 31, 2019, USF has in effect quota share reinsurance agreement with an Affiliate Brit Syndicate 2987 (Syndicate 2987). Under the agreements in effect with Syndicate 2987, US Fire assumes 50% of the Business written by Syndicate 2987 related to the All Risks Program and all Bloodstock business.

Effective December 31, 2011, the Company, along with NRIC, Indemnity and CFIC, entered into a reinsurance agreement (the Reinsurance Agreement) with Clearwater Insurance Company (Clearwater). Under the terms of this agreement, the Companies ceded and Clearwater assumed certain liabilities under insurance and reinsurance contracts entered into by the Companies on or prior to December 31, 1998, exclusive of workers' compensation and surety. Effective September 30, 2016, Clearwater was merge into TIG Insurance Company (TIG).

*Quota Share Reinsurance Agreement*

The Company is a party to a personal lines administrative services agreement, a personal lines reinsurance agreement, a reinsurance and insurance management and services agreement

effective January 1, 1993 and a quota share reinsurance agreement effective January 1, 2001, with TIG, formerly International Insurance Company, an Illinois insurer. TIG provides certain underwriting and administrative services relating to the personal lines reinsurance agreement between TIG and the Company. TIG provides the Company with management of certain reinsurance recoverables and for run-off along with performing discontinued operations previously performed by certain of the Crum Group business units on behalf of the Company as well as the underwriting, issuance and delivery of policies, and handling of claims in the state of Hawaii. The Company agrees to pay all costs and expenses incurred by TIG for these services.

### **FINANCIAL STATEMENTS**

The following financial statements, as reported and filed by the Company with the Department, are reflected in the following:

- Statement of Assets as of December 31, 2019
- Statement of Liabilities and Surplus as of December 31, 2019
- Statement of Income for the year ended December 31, 2019
- Statement of Capital and Surplus Account for the year ended December 31, 2019
- Reconciliation of Capital and Surplus for the Period December 31, 2014 to December 31, 2019

**UNITED STATES FIRE INSURANCE COMPANY**  
**STATEMENT OF ASSETS**  
**AS OF DECEMBER 31, 2019**

	Ledger Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$ 1,378,263,278	\$ -	\$ 1,378,263,278
Preferred Stock	2,500,000	-	2,500,000
Common Stock	1,303,085,745	17,838,118	1,285,247,627
Mortgage loans on real estate: First Liens	5,900,000	1,325,000	4,575,000
Real estate	99,533,430	-	99,533,430
Cash	145,360,107	-	145,360,107
Cash equivalents	50,035,531	-	50,035,531
Short Term Investments	374,990,136	-	374,990,136
Derivatives	7,268,292	-	7,268,292
Other Invested Assets	264,177,859	1,125,034	263,052,825
Receivables for securities	14,897	-	14,897
Subtotals, cash and invested assets	<u>\$ 3,631,129,275</u>	<u>\$ 20,288,152</u>	<u>\$ 3,610,841,123</u>
Investment income due and accrued	12,069,093	-	12,069,093
Uncollected premiums and agents' balances in the course of collection	205,727,946	5,957,178	199,770,768
Deferred premiums	89,414,643	494,258	88,920,385
Accrued retrospective premiums	20,900,000	2,090,000	18,810,000
Amounts recoverable from reinsurers	41,921,190	-	41,921,190
Funds held by or deposited with reinsured companies	18,044,399	-	18,044,399
Current federal and foreign income tax recoverable	3,123,199	-	3,123,199
Net deferred tax asset	181,612,019	10,995,498	170,616,521
Electronic data processing equipment and software	31,891,686	29,360,972	2,530,714
Furniture and equipment, including healthcare delivery assets	23,175,022	23,175,022	-
Receivables from parent; subsidiaries and affiliates	189,801,729	-	189,801,729
Aggregate write-ins for other than invested assets	<u>144,825,658</u>	<u>56,445,589</u>	<u>88,380,069</u>
Total Assets	<u>\$ 4,593,635,859</u>	<u>\$ 148,806,669</u>	<u>\$ 4,444,829,190</u>

**UNITED STATES FIRE INSURANCE COMPANY**  
**STATEMENT OF LIABILITIES AND SURPLUS**  
**AS OF DECEMBER 31, 2019**

	<u>2019</u>	<u>Note</u>
Losses	\$ 1,608,110,571	1
Reinsurance payable on paid losses and loss adjustment expenses	99,388,149	
Loss adjustment expenses	382,336,986	
Commissions payable; contingent commissions and other similar charges	6,450,761	
Other expenses (excluding taxes; licenses and fees)	58,812,009	
Taxes, licenses, and fees	24,123,914	
Current federal and foreign income taxes	-	
Unearned premiums	622,338,241	
Advance Premium	10,107,620	
Dividends declared and unpaid: Policyholders	-	
Ceded reinsurance premiums payable	40,131,540	
Funds held by company under reinsurance treaties	30,307,801	
Amounts withheld or retained by company for account of others	87,984,822	
Remittances and items not allocated	-	
Provision for reinsurance (Including \$0 certified)	1,244,113	
Drafts outstanding	-	
Payable to parent; subsidiaries and affiliates	4,801,800	
Derivatives	50,989,802	
Payable for securities	272,977	
Aggregate write-ins for liabilities	11,351,662	
Total liabilities excluding protected cell liabilities	<u>3,038,752,768</u>	
Total liabilities	<u>\$ 3,038,752,768</u>	
Common capital stock	\$ 14,943,000	
Preferred capital stock	-	
Gross paid in and contributed surplus	1,374,911,940	
Unassigned funds (surplus)	<u>16,221,482</u>	
Surplus as regards policyholders	<u>1,406,076,422</u>	
Totals of liabilities & surplus	<u>\$ 4,444,829,190</u>	

**UNITED STATES FIRE INSURANCE COMPANY  
STATEMENT OF INCOME  
FOR THE YEAR ENDED DECEMBER 31, 2019**

	<u>2019</u>
Underwriting Income	
Premiums earned	\$ 1,667,300,105
Deductions	
Losses incurred	\$ 909,008,670
Loss adjustment expenses incurred	140,681,610
Other underwriting expenses incurred	606,720,657
Total underwriting deductions	<u>1,656,410,937</u>
Net underwriting gain (loss)	<u>\$ 10,889,168</u>
Investment Income	
Net investment income earned	\$ 67,095,772
Net realized capital gains (losses) less capital gains tax of \$14,642,560	<u>(49,661,476)</u>
Net investment gain (loss)	<u>\$ 17,434,296</u>
Other Income	
Net gain (loss) from agents' or premium balances charged off (amount recovered \$139,967, amount charged off \$436,894)	\$ (296,927)
Finance and service charges not included in premium	1,654,792
Aggregate write-ins for miscellaneous income	<u>(2,555,518)</u>
Total other income	<u>\$ (1,197,653)</u>
Net income before dividends to policyholders; after capital gains tax and before all other federal and foreign income taxes	<u>\$ 27,125,811</u>
Dividends to policyholders	<u>-</u>
Net income; after dividends to policyholders; after capital gains tax and before all other federal and foreign income taxes	<u>\$ 27,125,811</u>
Federal and foreign income taxes incurred	<u>(14,545,327)</u>
Net Income	<u><u>\$ 41,671,138</u></u>



**UNITED STATES FIRE INSURANCE COMPANY  
CAPITAL & SURPLUS ACCOUNT  
AS OF DECEMBER 31, 2019**

	<u>2019</u>
Surplus as regards to policyholders; December 31, 2018	\$ 1,317,641,374
Net income	41,671,138
Change in net unrealized capital gains (losses) less capital gains tax of (9,263,150)	(28,251,070)
Change in net unrealized foreign exchange capital gain (loss)	8,554,300
Change in net deferred income tax	(6,407,993)
Change in nonadmitted assets	(6,515,141)
Change in provision for reinsurance	(616,186)
Capital Changes: Paid in	1,383,000
Surplus adjustment: Paid in	128,617,000
Transferred to Capital (Stock Dividend)	-
Dividends to stockholders	(50,000,000)
Aggregate write-ins for gains and losses in surplus	-
Net change in capital and surplus for the year	<u>\$ 88,435,048</u>
Capital and surplus; December 31, 2019	<u>\$ 1,406,076,422</u>

**UNITED STATES FIRE INSURANCE COMPANY  
RECONCILIATION OF CAPITAL AND SURPLUS  
As of December 31, 2014 to December 31, 2019**

	Common Capital Stock		Aggregate write- ins for special surplus funds		Gross Paid-in and Contributed Surplus		Unassigned Surplus		Total
12/31/2014	\$ 8,007,567		\$ 149,005,261	(5)	\$ 676,492,567		\$ 65,110,559		\$ 898,615,954
12/31/2015	2,906,433	(2)	(149,005,261)		307,263,494	(3)	118,173,703	(1)	279,338,369
12/31/2016	1,182,000	(2)	-		120,002,879	(3)	(15,278,190)	(1)	105,906,689
12/31/2016			-				(65,000,000)	(4)	(65,000,000)
12/31/2017	114,000	(2)	-		11,886,000	(3)	83,704,565	(1)	95,704,565
12/31/2017			-				(12,303,717)	(4)	(12,303,717)
12/31/2018	1,350,000	(2)	-		130,650,000	(3)	(116,620,485)	(1)	15,379,515
12/31/2019	1,383,000	(2)	-		128,617,000	(3)	8,435,048	(1)	138,435,048
12/31/2019			-				(50,000,000)	(4)	(50,000,000)
	<u>\$ 14,943,000</u>		<u>-</u>		<u>\$ 1,374,911,940</u>		<u>\$ 16,221,483</u>		<u>\$ 1,406,076,423</u>

- (1) Represents net income, change in unrealized capital gains(losses), change in unrealized foreign exchange capital gain (loss), change in net deferred income tax, change in non-admitted assets, change in provision for reinsurance, aggregate write-ins for gains and losses in surplus.
- (2) Capital Changes– Paid In.
- (3) Surplus Adjustments - Paid In.
- (4) Dividends to stockholders.
- (5) Retroactive Reinsurance Cessions.

**ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS RESULTING FROM THE EXAMINATION**

There were no changes made to the Financial Statements as a result of this Examination.

**COMMENTS ON FINANCIAL STATEMENT ITEMS**

Note 1:

<u>Losses</u>	<u>\$1,608,110,571</u>
<u>Loss Adjustment Expenses</u>	<u>\$382,336,986</u>

The examination liabilities for the aforementioned captioned items are the same as those balances reported by the Company as of December 31, 2019. The examination analysis of Loss and Loss Adjustment Expense reserves was conducted in accordance with Statutory Accounting Principles, including NAIC *Accounting Practices and Procedures Manual*, Statement of Statutory Accounting Principles No. 55.

## **SUBSEQUENT EVENTS**

On March 11, 2020, the World Health Organization declared COVID-19 a pandemic, and national, state and local governments have implemented a range of policies and actions to combat it. The extent of the impact of COVID-19 on world economies and the Company will depend on future developments, which are highly uncertain and difficult to predict, including the severity and duration of the pandemic, and the actions taken by government authorities and other third parties to contain or address its impact. Various government officials, including U.S. state insurance commissioners, have taken actions to protect consumers from hardship caused by COVID-19 that, in the aggregate, may adversely impact the Company's results of operations in the near term. While it is likely that certain lines of business may experience increased loss activity due to COVID-19, there are also segments in which the Company operates that may benefit from improved loss experience due to reduced exposures. Company Management will continue to monitor developments, and their impacts on the Company including its operations, capital position (including the risk-based capital ratio), the fair value of investments, and estimates reported in the financial statements and accompanying notes.

The Company and FFHL do not directly consider a pandemic event in their regular stress testing, the potential credit and market price fluctuation risks arising from COVID-19 crisis are captured in regular stress testing conducted, both at the Fairfax level and subsidiary group level (including the Crum Group) and the performance of Fairfax's subsidiaries investment portfolios since the start of the crisis falls within expectations. With nearly \$10 billion of cash and short-term investments held across its insurance portfolios at year end 2019, FFHL believes it has ample liquidity to withstand a prolonged economic slowdown.

At the date of this report, the extent and severity of the COVID-19 pandemic is not yet fully clarified by the Crum & Forster subgroup, but they do not expect a material adverse effect

on any specific lines of business or products and the Company was fully operational and was providing services to its policyholders.

The Department has been in communication with the Company regarding the impact of COVID-19 on its business operations and financial position and continues to closely monitor any impact on the Company and will take necessary action if a solvency concern arises.

There were no other material subsequent events noted.

**COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS**

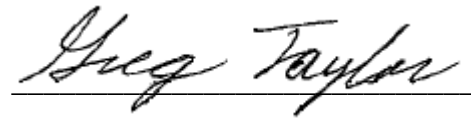
There were no recommendations contained in the prior examination report issued by the Department as of December 31, 2014.

**SUMMARY OF RECOMMENDATIONS**

There were no recommendations as a result of this examination.

The assistance and cooperation of the consulting actuarial firm, INS Consultants, Inc., the consulting information systems specialist firm, INS Services, Inc., the consulting investment specialist, Rutter Associates LLC, the Company's outside audit firm, PwC and the Company's management and staff was appreciated and is acknowledged.

Respectfully submitted,

A handwritten signature in cursive script, reading "Greg Taylor", positioned above a horizontal line.

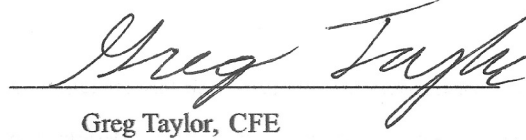
Greg Taylor, CFE  
Examiner In-Charge  
State of Delaware

A handwritten signature in cursive script, reading "Anthony C. Cardone", positioned above a horizontal line.

Anthony Cardone, CPA, CFE  
Supervising Examiner  
State of Delaware

United States Fire Insurance Company

I, Greg Taylor, hereby verify and attest, under penalty of perjury, that the above is a true and correct copy of the examination report and findings submitted to the Delaware Department of Insurance pursuant to examination authority 20.002.

  
Greg Taylor, CFE