REPORT OF EXAMINATION
OF THE

INSURANCE COMPANY OF THE WEST

AS OF
DECEMBER 31, 2009

Participating State
and Zone:

California

Filed January 21, 2011

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Los Angeles, California
November 17, 2010

Honorable Alfred W. Gross
Chairman of the NAIC Financial
Condition Subcommittee
Commissioner of Insurance
Virginia Bureau of Insurance
Richmond, Virginia

Honorable Christina Urias
Secretary, Zone IV-Western
Director of Insurance
Arizona Department of Insurance
Phoenix, Arizona

Honorable Steve Poizner
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Chairman, Secretary, and Commissioner:

Pursuant to your instructions, an examination was made of the

INSURANCE COMPANY OF THE WEST

(hereinafter also referred to as the Company) at its home office located at 11455 El Camino Real, San Diego, California 92130.

SCOPE OF EXAMINATION

The previous examination of the Company was made as of December 31, 2005. This examination covers the period from January 1, 2006 through December 31, 2009. The examination was conducted pursuant to the National Association of Insurance Commissioners' plan of examination. The examination included a review of the Company's practices and procedures, an examination of management records, tests and analyses of detailed transactions within the examination period, and an evaluation of the assets and a determination of liabilities as of December 31, 2009, as deemed necessary under the circumstances.

The examination was conducted concurrently with the examination of the Company's subsidiary, Explorer Insurance Company.

In addition to those items specifically commented upon in this report, other phases of the Company's operations were reviewed including the following areas that require no further comment: corporate records; fidelity bonds and other insurance; officers', employees' and agents' welfare and pension plans; growth of company; business in force by states; loss experience; and sales and advertising.

SUBSEQUENT EVENTS

Effective July 12, 2010, the Company entered into a Surety Business Transition Agreement with The Hanover Insurance Company. Under the terms of the agreement, the Company sold the renewal rights to its inforce block of surety accounts and related assets. Effective September 15, 2010, the Company ceased writing new surety business.

COMPANY HISTORY

In connection with its application to write surplus lines business in New Jersey, the Company increased its common capital stock account from $3 million to $3.5 million. The Company transferred $500,000 from its gross paid-in and contributed surplus account and issued 25,000 shares of $20 par value stock to its parent, Western Insurance Holdings, Inc.

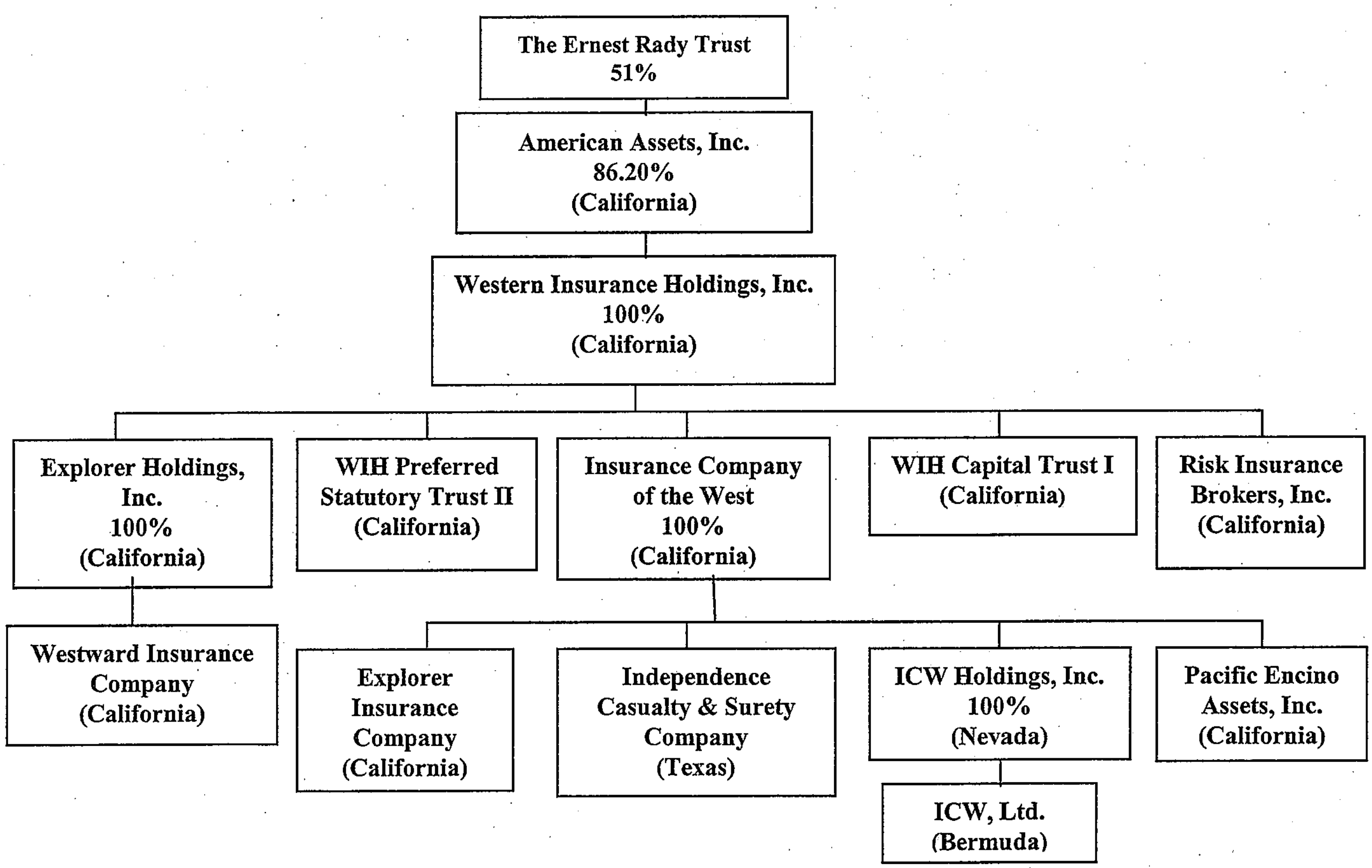
For the purpose of facilitating its subsequent application for full admission to New Jersey, which required a further increase in its common capital stock account from $3.5 million to $4.2 million, the Company transferred an additional $700,000 from its gross paid-in and contributed surplus account and issued an additional 35,000 shares of $20 par value stock to Western Insurance Holdings, Inc.

As a result of these two 2006 transactions, which were reported to the California Department of Insurance, the Company's common capital stock account increased from $3,000,000 to $4,200,000 and the gross paid-in and contributed surplus account declined from $129,181,658 to $127,981,658.

During the four-year period under review, dividend distributions to the Company's sole stockholder totaled $77,500,000. None of the yearly dividend distributions required prior approval from the California Department of Insurance.

MANAGEMENT AND CONTROL

Ultimate control of the Company is maintained by Ernest S. Rady and family members. The following organizational chart depicts the Company's relationship within the holding company system:



Management of the Company is vested in a nine-member board of directors elected annually. A listing of the members of the board and principal officers serving on December 31, 2009 follows:

Directors

Name and Residence	Principal Business Affiliation
Bernard M. Feldman Del Mar, California	Former President Insurance Company of the West
John L. Hannum* La Jolla, California	Former President Independence Casualty and Surety Company
Gene P. Irizarry San Diego, California	Former Chief Operating Officer Insurance Company of the West
Kevin M. Prior San Diego, California	President and Chief Executive Officer Insurance Company of the West
Ernest S. Rady San Diego, California	Chairman of the Board Insurance Company of the West
Charles E. Scribner La Jolla, California	Retired Bank Executive
Lawrence W. Shea La Jolla, California	Retired Insurance Executive
James E. Tecca Laguna Niguel, California	Retired Bank Executive
John H. Warner, JR La Jolla, California	Director and Consultant TREX Enterprises Corporation

*Resigned on March 3, 2010 and replaced by Michael Freet, former Senior Vice President

Principal Officers

Name	Title
Kevin M. Prior	President and Chief Executive Officer

Name	Title
Neal A. Fuller	Senior Vice President and Treasurer
Mary J. Boyd*	Senior Vice President
Kevin D. Harris	Senior Vice President
James D. Browne	Senior Vice President
Fariborz Rostamian	Vice President and Controller
Mary E. Cannon	Vice President and Secretary
David G. Hoppen	Vice President and Chief Operating Officer

*Resigned March 1, 2010 and replaced by Stephen Marshall

Management Agreements

Tax Allocation Agreement: Since January 1, 1996, the Company and its affiliates have been parties to a consolidated federal income tax agreement with the ultimate parent, American Assets, Inc. (AA). Allocation of taxes is based upon separate return calculations with current credit for net losses. Intercompany tax balances were found to be settled in accordance with the terms of the agreement. The tax allocation agreement did not require prior approval by the California Department of Insurance.

Investment Management Agreement: In accordance with an Investment Management Agreement executed March 1, 1992, AA began managing the Company's investment portfolio at a cost of $50,000 per quarter. The services performed by AA are subject to the direction and control of the Company's Investment Committee. The investment management agreement did not require prior approval by the California Department of Insurance.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2009, the Company was licensed to write various property and casualty coverages in the District of Columbia and all 50 states.

During 2009, the Company wrote $238.6 million of direct premiums; 59.6% of the writings pertained to workers' compensation business, the remainder consisted primarily of earthquake and surety coverages. Of the total direct premiums written, $191.2 million (80.1%) was written in

California. Business is produced through approximately 700 independent agents. Branch offices are maintained in Concord, Fresno, Pleasanton, Sacramento, Santa Clarita, Tustin, and Ventura, California; Chicago, Illinois; Dallas and Houston, Texas; Denver, Colorado; Las Vegas, Nevada; Portland, Oregon; Jackson, Mississippi; Memphis, Tennessee; Orlando, Florida; and Seattle, Washington.

REINSURANCE

Intercompany Pooling Agreement

Under the terms of an Intercompany Pooling Agreement, the Company's wholly-owned subsidiaries, Explorer Insurance Company (Explorer) and Independence Casualty and Surety Company (Independence), cede 100% of their written premiums to the Company. The Company, in turn, retrocedes a 15% and 1.5% pro rata portion of premiums, losses and expenses to Explorer and Independence, respectively.

Assumed

Notwithstanding an immaterial exception, assumed business is limited to the Company's participation in the above referenced intercompany pooling agreement.

Ceded

The largest net amount retained in any one risk is $15 million. Excess of loss reinsurance provides $100 million excess of $1 million coverage for workers' compensation; and $15 million excess of $2 million coverage for surety. Catastrophe reinsurance provides $425 excess of $15 million coverage on earthquake business.

The following is a summary of the Company's principal reinsurance agreements in-force as of December 31, 2009:

Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Maximum Limits
Workers' Compensation:			
Excess of Loss	100.00% ICW Ltd. (U)	$1 million	$4 million excess of $1 million
1st Excess of Loss	23.53% Catlin Syndicate at Lloyds (A) 22.21% Flagstone Reassurance (U) 1.76% Liberty Mutual Insurance Co. (A) 15.00% Paris Re (U) 20.00% Safety National Casualty Corp. (A) 17.50% Lloyd's Syndicates (A)	$7.5 million	$42.5 million excess of $7.5 million
2rd Excess of Loss	15.00% Axis Specialty Ltd. (U) 2.00% Liberty Mutual Insurance Co. (A) 7.50% Munich Reinsurance America (A) 5.00% Odyssey America Re (A) 12.50% Paris Re (U) 3.00% Safety National Casualty Corp. (A) 55.00% Lloyd's Syndicates (A)	$50 million	$50 million excess of $50 million
Surety:			
1st Excess of Loss	35.00% Munich Reinsurance America (A) 45.00% Odyssey America Reinsurance (A)	$2 million	80% of $5 million excess of $2 million
2nd Excess of Loss	35.00% Munich Reinsurance America (A) 45.00% Odyssey America Reinsurance (A)	$7 million	80% of $8 million excess of $7 million
Property Catastrophe Excess:			
Property Catastrophe Excess	100.00% ICW, Ltd. (U)	$15 million	$10 million excess of $15 million
1st Property Catastrophe Excess	25.50% Lloyd's Underwriters (Both (A) & (U) components) 1.00% Employers Mutual Casualty (A) 3.00% QBE Reinsurance (A) 36.50% Various (U) reinsurers	$50 million	60% of $25 million excess of $50 million

Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Maximum Limits
2nd Property Catastrophe Excess	36.25% Lloyd's Underwriters (Both (A) & (U) components 1.00% Employers Mutual Casualty (A) 5.00% QBE Reinsurance (A) 57.75% Various (U) reinsurers	$75 million	$25 million excess of $75 million
3rd (a) Property Catastrophe Excess	.50% Employers Mutual Casualty (A) 5.00% Transatlantic Reinsurance (A) 22.50% Underwriters at Lloyd's (Both A & U components) 72.00% Various (U) reinsurers	$100 million	50 % of $200 million excess of $100 million
3rd (b) Property Catastrophe Excess	5.80% Transatlantic Reinsurance (A) .50 % Employers Mutual Casualty (A) 32.50% Underwriters at Lloyd's (Both A & components) 61.20% Various (U) reinsurers	$100 million	50 % of $200 million excess of $100 million
4th Property Catastrophe Excess	1.00% Employers Mutual Casualty (A) 29.00% Lloyd's Underwriters (Both A & U comments) 70.00% Various (U) reinsurers	$300 million	$100 million excess of $300 million
5th Property Catastrophe Excess	50.00% Underwriters at Lloyd's (both A & U components) 50.00% Various (U) reinsurers	$400 million	$25 million excess of $400 million

* (A) - authorized reinsurer
(U) - unauthorized reinsurer

ACCOUNTS AND RECORDS

Information Systems Controls

A consulting firm contracted by the California Department of Insurance conducted a review of the Company's information system general controls. As referenced in the consultant's report, it is recommended that management review the policies and practices related to business continuity planning, physical security, security and access controls, and program change controls.

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2009

Underwriting and Investment Exhibit for the Year Ended December 31, 2009

Reconciliation of Surplus as Regards Policyholders
from December 31, 2005 through December 31, 2009

Statement of Financial Condition
as of December 31, 2009

Assets	Ledger and Nonledger Assets	Assets Not Admitted	Net Admitted Assets	Notes
Bonds	$ 430,611,385	$	$ 430,611,385	
Preferred stocks	583,638		583,638	
Common stocks	134,017,653		134,017,653	
Cash and short-term investments	66,901,990		66,901,990	
Other invested assets	7,180,133		7,180,133	
Receivable for securities	161,615,773		161,615,773	
Investment income due or accrued	2,675,321		2,675,321	
Uncollected premiums and agents' balances in course of collection	13,127,869	1,342,100	11,785,769	
Deferred premiums, agents' balances and installments booked but deferred and not yet due	78,137,785		78,137,785	
Amounts recoverable from reinsurers	8,538,848		8,538,848	
Current federal and foreign income tax recoverable	20,038,410		20,038,410	
Net deferred tax asset	32,605,621	2,166,848	30,438,773	
Guaranty funds receivable or on deposit	1,176,050		1,176,050	
Electronic data processing equipment and software	28,012,437	24,517,693	3,494,744	
Furniture and equipment	1,161,853	1,004,955	156,898	
Receivable from parent, subsidiaries and affiliates	7,940,448		7,940,448	
Aggregate write-ins for other than invested assets	15,640,872	6,122,843	9,518,029	
Total assets	$1,009,966,086	$ 35,154,439	$ 974,811,647	

Statement of Financial Condition
as of December 31, 2009
(Continued)

Liabilities, Surplus and Other Funds

Losses		$253,000,288	(1)
Loss adjustment expenses		75,236,840	(1)
Commissions payable, contingent commissions and other similar charges		452,329	
Other expenses		21,684,117	
Taxes, licenses and fees		282,777	
Unearned premiums		107,072,114	
Ceded reinsurance premiums payable		16,627,000	
Funds held by company under reinsurance treaties		14,294,000	
Amounts withheld or retained by company for account of others		1,539,649	
Remittances and items not allocated		949,895	
Provision for reinsurance		6,888,938	
Drafts outstanding		461,168	
Payable for securities		121,528,649	
Aggregate write-ins for liabilities		232,977	
Total liabilities		620,250,741	
Common capital stock	$ 4,200,000		
Gross paid-in and contributed surplus	127,981,658		
Unassigned funds (surplus)	222,379,248		
Surplus as regards policyholders		354,560,906	
Total liabilities, surplus and other funds		$974,811,647	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2009

Statement of Income

Underwriting Income		
Premiums earned		$ 313,834,901
Deductions:		
Losses incurred	$ 174,379,000	
Loss expenses incurred	43,354,161	
Other underwriting expenses incurred	131,880,978	
Total underwriting deductions		349,614,139
Net underwriting loss		(35,779,238)
Investment Income		
Net investment income earned	$ 27,195,392	
Net realized capital gains	20,935,765	
Net investment gain		48,131,157
Other Income		
Net loss from agents' or premium balances charged off	$ (3,314,723)	
Finance and service charges not included in premiums	4,178,827	
Aggregate write-ins for miscellaneous income	(2,296,904)	
Total other income		(1,432,800)
Net income before dividends to policyholders and before federal income taxes		10,919,119
Dividends to policyholders		1,962,381
Federal and income taxes incurred		(8,707,524)
Net income		$ 17,664,262

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2008		$ 374,474,997
Net income	$ 17,664,262	
Change in net unrealized capital gains	1,512,634	
Change in net deferred income tax	(4,955,158)	
Change in nonadmitted assets	(14,643,046)	
Change in provision for reinsurance	(2,591,391)	
Dividends to stockholders	(15,000,000)	
Aggregate write-ins for losses in surplus	(1,901,392)	
Change in surplus as regards policyholders		(19,914,091)
Surplus as regards policyholders, December 31, 2009		$ 354,560,906

Reconciliation of Surplus as Regards Policyholders
from December 31, 2005 through December 31, 2009

	Gain in Surplus	Loss in Surplus	
Surplus as regards policyholders, December 31. 2005 per Examination			$364,612,120
Net income	$ 207,449,714	$	
Change in net unrealized capital losses		230,039,545	
Change in net deferred income tax		31,268,637	
Change in nonadmitted assets and related items		29,785,306	
Change in provision for reinsurance		2,051,851	
Capital changes: Transferred from surplus	1,200,000		
Surplus adjustments: Transferred from capital		1,200,000	
Dividends to stockholders		77,500,000	
Aggregate write-ins for gains in surplus	153,144,411		
Totals	$ 361,794,125	$ 371,845,339	
Net decrease in surplus as regards policyholders			(10,051,214)
Surplus as regards policyholders, December 31, 2009 per Examination			$354,560,906

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Losses and Loss Adjustment Expenses

Based on the analysis by a Casualty Actuary from the California Department of Insurance, the Company's December 31, 2009 reserves for losses and loss adjustment expenses were determined to be reasonably stated.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Accounts and Records – Information System Controls (Page 8): It is recommended that management review the policies and practices related to business continuity planning, physical security, security and access controls, and program change controls.

Previous Report of Examination

Reinsurance – Finite Transaction (Page 11): It was recommended that the Company perform adequate risk transfer analysis on all future reinsurance agreements and account for the agreements in accordance with SSAP No. 62. The Company is in compliance with the recommendation.

Accounts and Records (Page 14): It was recommended that the disaster recovery plan be tested at the earliest possible time. The Company is in compliance with the recommendation.

ACKNOWLEDGEMENT

The courtesy and cooperation extended by the Company's officers and employees during the course of this examination are hereby acknowledged.

Respectfully submitted,

______/S/__________________
David A. Fischman, CFE
Examiner-In-Charge
Senior Insurance Examiner
Department of Insurance
State of California