

REPORT OF EXAMINATION
OF THE
WESTERN SELECT INSURANCE COMPANY
AS OF
DECEMBER 31, 2009

Participating State
and Zone:

California

Filed March 14, 2011

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Los Angeles, California
December 2, 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

WESTERN SELECT INSURANCE COMPANY

(hereinafter also referred to as the Company) at the primary location of its books and records, One Park Avenue, New York; New York 10016. The Company's statutory home office is located at 11755 Wilshire Boulevard, Los Angeles, California 90025.

SCOPE OF EXAMINATION

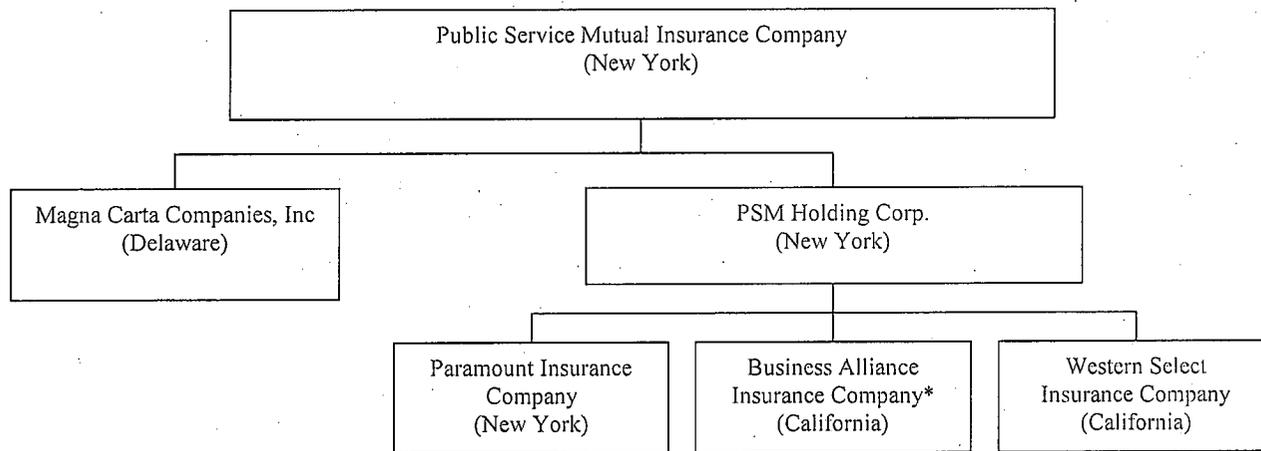
The previous examination of the Company was made as of December 31, 2005. This examination covers the period from January 1, 2006 through December 31, 2009. The examination was made pursuant to the National Association of Insurance Commissioners' plan of examination. The examination included a review 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 that of the Company's affiliate, Business Alliance 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: company history; 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; accounts and records; and sales and advertising.

MANAGEMENT AND CONTROL

The following organization chart depicts the Company's relationship within the holding company system (all ownership is 100%):



* Due to a reversal of a lower court's judgment by the United States Court of Appeals for the Ninth Circuit, ownership of Business Alliance Insurance Company was transferred back to its former owner, National Farm Financial Corporation, effective at 11:59 p.m. on January 31, 2011

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

Directors

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Andrew L. Furgatch Los Angeles, California	Chairman and Chief Executive Officer Public Service Mutual Insurance Company
John T. Hill, II Pennington, New Jersey	President and Treasurer Public Service Mutual Insurance Company
Charles L. Crouch, III La Canada, California	Senior Vice President, General Counsel and Secretary Public Service Mutual Insurance Company
David A. Lawless Mamaroneck, New York	Senior Vice President and Chief Administrative Officer Public Service Mutual Insurance Company

Principal Officers

<u>Name</u>	<u>Title</u>
Andrew L. Furgatch	President
John T. Hill, II	Vice President and Treasurer
Charles L. Crouch, III	Vice President and Secretary
David Lawless	Vice President and Assistant Secretary

Intercompany Agreements

Intercompany Service Agreement: The Company entered into an Intercompany Service Agreement with its parent Public Service Mutual Insurance Company (PSM), effective May 1, 1999. PSM makes available the services of its personnel, office space, equipment and other services. The agreement was approved by California Department of Insurance (CDI) on March 9, 1999. An addendum effective October 21, 2008, added Business Alliance Insurance Company (BAIC) to the Agreement. This addendum was filed on behalf of BAIC and approved by CDI via a no objection determination on December 8, 2008.

The Agreement does not contain a provision for the timely settlement of amounts owed with a specified due date as required by Statements of Statutory Accounting Principles (SSAP) No. 96, Paragraph 2, nor does it contain an offset provision as required by SSAP No. 64, Paragraph 5. It is recommended that the Company amend its Intercompany Service Agreement to comply with SSAP No. 96, Paragraph 2 and SSAP No. 64, Paragraph 5 and file the changed agreement with the CDI. There were no shared costs allocated to the Company during the period covered by this examination.

Consolidated Federal Income Tax Liability Allocation Agreement: PSM, the Company, and other subsidiaries of PSM entered into a Consolidated Federal Income Tax Liability Allocation Agreement, effective January 1, 2001. PSM files the federal income tax return on a consolidated basis and the agreement states that individual companies should not have to pay more than they would were the tax calculated on an individual basis, and will be paid any refund to which they would be entitled were the tax calculated on an individual basis.

The Agreement was submitted to CDI on May 9, 2007. There were no objections to the tax agreement within the deemer period. Effective January 1, 2009, an addendum added BAIC to the agreement. This addendum was filed on behalf of BAIC with no objection by the CDI on December 8, 2008. It was noted that the Company did not account for or settle its tax allocation transactions separately from related party transactions in accordance with the Annual Statement Instructions as required by California Insurance Code Section 923. It is recommended that the Company adhere to Annual Statement Instructions as to its accounting and settlement of tax allocation transactions.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2009, the Company was licensed to transact multiple lines of property and casualty insurance in the states of California and New York.

During 2002, the Company decided to run off its existing business and does not have any immediate plans to write any new business.

REINSURANCE

Assumed

The Company did not assume any reinsurance.

Ceded

In 1999, the Company entered into a 90% Quota Share Agreement with its parent Public Service Mutual Insurance Company, an admitted insurer in California. This agreement is in runoff.

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

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 13,375,260		\$ 13,375,260	
Cash and short-term investments	591,625		591,625	
Interest, dividends, and real estate income due and accrued	137,643		137,643	
Net deferred tax asset	26,005		26,005	
Equities and deposits in pools and associations	<u>1,251</u>		<u>1,251</u>	
Total assets	<u>\$ 14,131,784</u>		<u>\$ 14,131,784</u>	
 <u>Liabilities, Surplus and Other Funds</u>				
Losses			\$ 1,409	(1)
Loss adjustment expenses			935	
Current federal and foreign income taxes			197,319	
Payable to parent, subsidiaries and affiliates			<u>7,182</u>	
Total liabilities			206,845	
Common capital stock		\$ 2,610,000		
Gross paid-in and contributed surplus		7,395,000		
Unassigned funds (surplus)		<u>3,919,939</u>		
Surplus as regards policyholders			<u>13,924,939</u>	
Total liabilities, surplus and other funds			<u>\$ 14,131,784</u>	

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

Statement of Income

Underwriting Income

Premiums earned		\$ 0
Deductions:		
Loss expense incurred	\$ 3,115	
Other underwriting expenses incurred	<u>17,319</u>	
Total underwriting deductions		<u>20,434</u>
Net underwriting loss		(20,434)

Investment Income

Net investment income earned	\$ 584,552	
Net realized capital gains	<u>24,285</u>	
Net investment gain		<u>618,837</u>
Net income before federal income taxes		598,403
Federal income taxes incurred		<u>197,369</u>
Net income		<u>\$ 401,034</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2008		\$ 13,477,984
Net income	\$ 401,034	
Change in net deferred income tax	<u>45,921</u>	
Change in surplus as regards policyholders		<u>446,955</u>
Surplus as regards policyholders, December 31, 2009		<u>\$ 13,924,939</u>

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

Surplus as regards policyholders, December 31, 2005, per Examination		\$12,206,060
	Gain in <u>Surplus</u>	
Net income	\$1,666,605	
Change in provision for reinsurance	19,274	
Aggregate write-ins for gains in surplus	<u>33,000</u>	
Total gains	<u>\$1,718,879</u>	
Net increase in surplus as regards policyholders		<u>1,718,879</u>
Surplus as regards policyholders, December 31, 2009, per Examination		<u>\$13,924,939</u>

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Losses and Loss Adjustment Expenses

No actuary was assigned to this examination as the Company had only one unpaid claim at December 31, 2009 and the net amounts reported for losses and loss adjustment expenses were \$1,409 and \$935, respectively.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Management and Control - Intercompany Service Agreement (Page 3): It is recommended that the Company amend its Intercompany Service Agreement to comply with Statements of Statutory Accounting Principles (SSAP) No. 96, Paragraph 2 and SSAP No. 64, Paragraph 5, and file the changed agreement with California Department of Insurance. It is also recommended that the Company follow the Annual Statement Instructions as required by California Insurance Code Section 923 with respect to its tax allocation transactions.

Previous Report of Examination

Management and Control - Management Agreements (Page 3): It was recommended that the Company submit its Consolidated Federal Income Tax Allocation Agreement (Tax Agreement) to the California Department of Insurance (CDI) for approval as required under California Insurance Code Section 1215.5(b)(4). The Tax Agreement was submitted to CDI on May 9, 2007 and there were no objections to the agreement during the deemer period.

ACKNOWLEDGEMENT

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

Respectfully submitted,

/s/

William Fisher, CFE
Examiner-In-Charge
Contract Insurance Examiner
Department of Insurance
State of California