

REPORT OF EXAMINATION
OF THE
WESTERN SELECT INSURANCE COMPANY
AS OF
DECEMBER 31, 2013

Filed January 6, 2015

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Los Angeles, California
October 17, 2014

Honorable Dave Jones
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear 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

We have performed our multi-state examination of the Company. The previous examination of the Company was made as of December 31, 2009. This examination covers the period from January 1, 2010 through December 31, 2013. The examination was conducted in accordance with the National Association of Insurance Commissioner's Financial Condition Examiner's Handbook. The Handbook requires the planning and performance of the examination to evaluate the Company's financial condition, to identify prospective risk, and to obtain information about the Company, including corporate governance, identification and assessment of inherent risk, and the evaluation of the system controls and procedures used to mitigate those risks. The examination also included an assessment of the principles used and the significant estimate made by management, as well as an evaluation of the overall financial

statement presentation, and management's compliance with Statutory Accounting Principles and Annual Statement Instructions. All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

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; pensions; stock ownership and insurance plans; growth of company; loss experience; accounts and records; and statutory deposits.

COMPANY HISTORY

Effective October 1, 2012, a reorganization of the holding company system took place by redomesticating the Company's ultimate parent, Public Service Mutual Insurance Company (PSMIC), from New York to Illinois. Upon the redomestication, PSMIC was converted to a stock insurer and its name was changed to Public Service Insurance Company. As part of the reorganization, a new Illinois domiciled mutual insurance holding company, Public Service Mutual Holding Company (PSMHC), was formed as the ultimate parent of the group.

Also, in connection with the reorganization, MCC Financial Holdings, Inc. (MCC), a Delaware intermediate holding company, was formed as an indirect wholly owned subsidiary of PSMHC, and the Company became a wholly owned subsidiary of MCC.

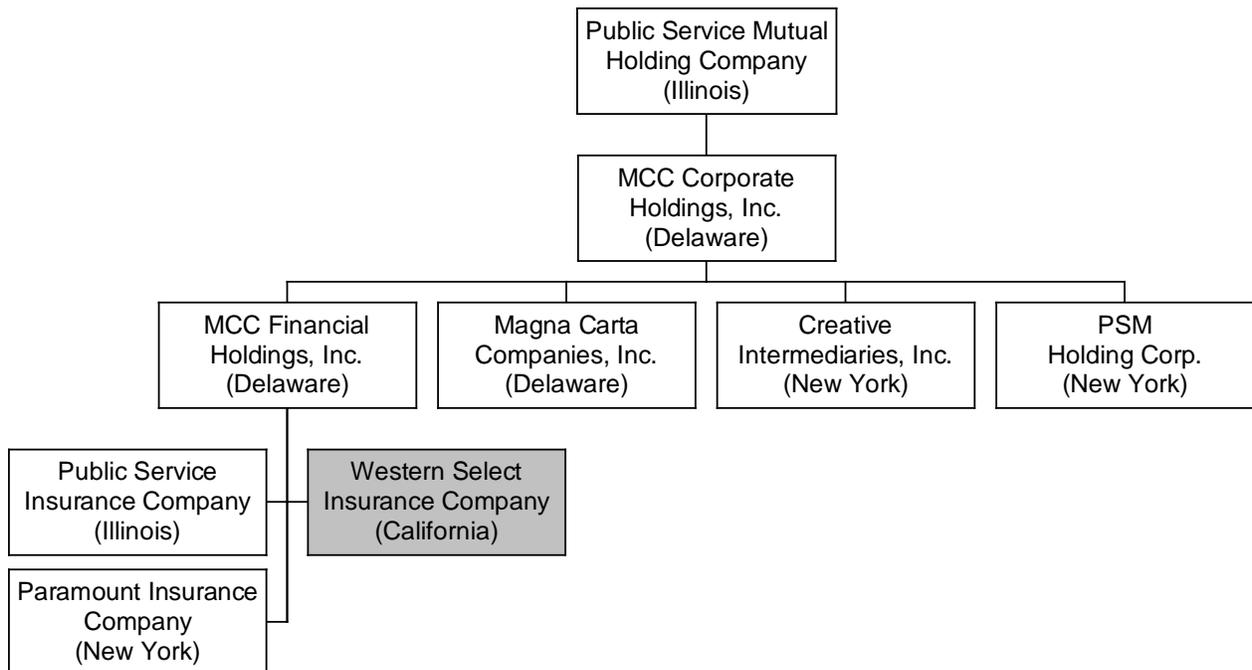
Capitalization

As of December 31, 2013, the Company has 100,000,000 shares of common stock authorized, at \$30 par value, with a total of 87,000 shares issued and outstanding.

MANAGEMENT AND CONTROL

The Company is a wholly-owned subsidiary of MCC Financial Holdings, Inc., which is an indirect wholly-owned subsidiary of Public Service Mutual Holding Company, an Illinois holding company whose insurance company subsidiaries are principally engaged in the property and casualty insurance business.

The following abridged organizational chart, which is limited to the Company's parent along with its subsidiaries, depicts the Company's relationship within the holding company system (all ownership is 100%):



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, 2013 follows:

Directors

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

Intercompany Agreements

Administrative Services Agreement: The Company entered into this agreement with its former ultimate parent, Public Service Mutual Insurance Company (PSMIC), effective August 1, 2011. Under the terms of the agreement, PSMIC will provide: office services; accounting and financial reporting; tax preparation services; policy issuance; underwriting; actuarial; claims administration; investment and treasury services; legal and personnel; information technology; and sales and marketing. In consideration for these services, the Company will reimburse PSMIC the actual cost incurred. During the years 2011, 2012, and 2013, the Company paid PSMIC \$35,375, \$96,468, and \$111,823, respectively. This agreement was approved by the California Department of

Insurance (CDI) on June 29, 2011. The Company is currently working to replace this agreement with a new one which includes all the companies in the holding company system and to reflect the name changes.

Consolidated Federal Income Tax Liability Allocation Agreement: The Company is a party to a Tax Sharing Agreement effective November 1, 2013. The agreement provides for participants to file a consolidated federal income tax return with Public Service Mutual Holding Company (PSMHC). Allocation of taxes is based upon separate return calculations with inter-company tax balances payable or receivable being settled in amounts equal to the amounts which would be due to or from federal taxing authorities if separate returns were filed. The agreement was approved by the CDI on October 8, 2013.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2013, the Company was licensed to transact multiple lines of property and casualty insurance in New York and California.

In 2002 the Company ceased writing new business and was in run off until 2011. During 2011, the Company began writing homeowners business in New York only. The total premium written in 2013 was \$2.2 million.

REINSURANCE

Assumed

The Company has no reinsurance assumed.

Ceded

The Company has a 90% quota share reinsurance agreement with its affiliate, Public Service Mutual Insurance Company (PSMIC). During 2012, PSMIC was redomesticated from New York to Illinois and the name was changed to Public Service Insurance Company. It is recommended that the Company amend the reinsurance agreement to reflect the correct name of the reinsurer and its domiciled state.

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2013

Underwriting and Investment Exhibit for the Year Ended December 31, 2013

Reconciliation of Surplus as Regards Policyholders
from December 31, 2009 through December 31, 2013

Statement of Financial Condition
as of December 31, 2013

<u>Assets</u>	<u>Assets</u>	<u>Net Admitted Assets</u>	<u>Note</u>
Bonds	\$ 12,950,637	\$ 12,950,637	
Cash, cash equivalents and short-term investments	2,559,079	2,559,079	
Investment income due and accrued	146,188	146,188	
Uncollected premiums and agents' balances in course of collection	194,671	194,671	
Net deferred tax asset	30,756	30,756	
Receivables from parent, subsidiaries and affiliates	41,174	41,174	
Aggregate write-ins for other than invested assets	<u>8,091</u>	<u>8,091</u>	
 Total assets	 <u>\$ 15,930,596</u>	 <u>\$ 15,930,596</u>	
 <u>Liabilities, Surplus and Other Funds</u>			
Losses		\$ 42,751	(1)
Loss adjustment expenses		20,591	(1)
Other expenses		167,351	
Taxes, licenses and fees		73,980	
Current federal income taxes		358,683	
Unearned premiums		124,578	
Aggregate write-ins for liabilities		<u>5,030</u>	
 Total liabilities		 792,964	
Common capital stock	\$ 2,610,000		
Gross paid-in and contributed surplus	7,395,000		
Unassigned funds (surplus)	<u>5,132,632</u>		
 Surplus as regards policyholders		 <u>15,137,632</u>	
 Total liabilities, surplus and other funds		 <u>\$ 15,930,596</u>	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2013

Statement of Income

Underwriting Income (Loss)

Premiums earned		\$ 233,514
Deductions:		
Losses incurred	\$ 92,901	
Loss adjustment expenses incurred	49,713	
Other underwriting expenses incurred	<u>41,925</u>	
Total underwriting deductions		<u>184,539</u>
Net underwriting gain		48,975

Investment Income

Net investment income earned	\$ 359,331	
Net realized capital gains	<u>58,721</u>	
Net investment gain		418,052

Other Income (Loss)

Net loss from agents' or premium balances charged off	\$ (5,628)	
Finance and service charges not included in premiums	<u>11,825</u>	
Total other income		<u>6,197</u>
Net income before federal income taxes		473,224
Federal income taxes		<u>194,530</u>
Net income		<u>\$ 278,694</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2012		\$ 14,777,513
Net income	\$ 278,694	
Change in net unrealized capital gain	28,612	
Change in net deferred income tax	<u>52,813</u>	
Change in surplus as regards policyholders for the year		<u>360,119</u>
Surplus as regards policyholders, December 31, 2013		<u>\$ 15,137,632</u>

Reconciliation of Surplus as Regards Policyholders
from December 31, 2009 through December 31, 2013

Surplus as regards policyholders, December 31, 2009, per Examination			\$ 13,924,939
	Gain in Surplus	Loss in Surplus	
Net income	\$1,207,942	\$	
Change in net deferred income tax	19,490		
Net unrealized capital losses		14,739	
Totals	<u>\$ 1,227,432</u>	<u>\$ 14,739</u>	
Net increase in surplus as regards policyholders for the examination period			<u>1,212,693</u>
Surplus as regards policyholders, December 31, 2013, per Examination			<u>\$ 15,137,632</u>

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Losses and Loss Adjustment Expenses

The December 31, 2013 loss and loss adjustment expense reserves were evaluated by a Casualty Actuary from the California Department of Insurance. Based on the analysis performed, the Company's reserves for losses and loss adjustment expenses were found to be reasonably stated and have been accepted for purposes of this examination.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Management and Control – Intercompany Service Agreement (Page 4): The Company will replace the current agreement with a new one which includes all companies in the holding company system and to reflect the name changes.

Reinsurance-ceded (Page 5): It is recommended that the Company amend the reinsurance agreement to reflect the correct name of the reinsurer and its domiciled state.

Previous Report of Examination

Management and Control - Intercompany Service Agreement (Page 3): It was 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 was 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. The Company has complied with these recommendations.

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/

Aram W. Shahenian, CFE
Examiner-In-Charge
Senior Insurance Examiner-Supervisor
Department of Insurance
State of California