REPORT OF EXAMINATION

OF THE

ZENITH INSURANCE COMPANY

AS OF

DECEMBER 31, 2019

Insurance Commissioner 

FILED ON June 11, 2021

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Los Angeles, California
June 10, 2021

Honorable Ricardo Lara
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

ZENITH INSURANCE COMPANY

(hereinafter also referred to as the Company). The home office is located at 21255 Califa Street, Woodland Hills, California 91367.

SCOPE OF EXAMINATION

We have performed our multi-state examination of the Company. The previous examination of the Company was for the period January 1, 2013 through December 31, 2014. This current examination covered the period from January 1, 2015, through December 31, 2019.

The examination was conducted in accordance with the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook (Handbook)*. The Handbook requires the planning and performance of the examination to evaluate the Company's financial condition, assess corporate governance, identify current and prospective risks, 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.

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 findings of fact and general information about the Company and its financial condition. There might be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), were not included within the examination report but separately communicated to other regulators and/or the Company.

This was a coordinated examination with California as the facilitating state of the Zenith subgroup of the Fairfax Group of regulated United States (U.S.) property and casualty insurance companies (Fairfax U.S. Group). Delaware is the lead state for the Fairfax U.S. Group examination. The following states participated on the Fairfax U.S. Group examination: Arkansas, Connecticut, Delaware, Florida, New Jersey, and New York. The examination was conducted concurrently with that of the Company's U.S. affiliates. The companies in the Fairfax U.S. Group and their state of domicile are summarized as follows by subgroups:

Group/Company	NAIC CoCode	Domiciled State
ZENITH GROUP		
Zenith Insurance Company	13269	CA
ZNAT Insurance Company	30120	CA

Group/Company	NAIC CoCode	Domiciled State
RIVERSTONE GROUP		
Commonwealth Insurance Co of America(1)	12220	DE
TIG Insurance Co	25534	CA

Group/Company	NAIC CoCode	Domiciled State
ALLIED WORLD GROUP(2)		
Allied World National Assurance Company	10690	NH
Allied World Assurance Company (U.S.) Inc.	19489	DE
Allied World Surplus Lines Insurance Company	24319	AK
Allied World Specialty Insurance Company	16624	DE
Allied World Insurance Company	22730	NH
Vantapro Specialty Insurance Company	44768	AR
Vault Reciprocal Exchange	16186	FL
Vault E&S Insurance Company	16237	AR

(1) TIG Insurance Company sold Commonwealth Insurance Company of America to Brit Insurance USA Holdings Inc., effective April 30, 2018.

(2) 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 Reciprocal Exchange and Vault E&S Insurance Company. The transaction is expected to close during the first quarter of 2021.

Group/Company	NAIC CoCode	Domiciled State
CRUM & FORSTER GROUP		
United States Fire Insurance Company	21113	DE
Crum & Forster Specialty Insurance Company	44520	DE
North River Insurance Company	21105	NJ
First Mercury Insurance Company	10657	DE
Crum & Foster Indemnity Company	31348	DE
Seneca Ins Company Inc.	10936	NY
Seneca Specialty Insurance Company	10729	DE
Crum & Forster Insurance Company	42471	NJ
American Underwriters Insurance Company	10251	AR
MTAW Insurance Company	16498	DE

Group/Company	NAIC CoCode	Domiciled State
HUDSON GROUP(3)		
Hudson Insurance Company	25054	DE
Hudson Excess Insurance Company	14484	DE
Hudson Specialty Insurance Company	37079	NY

(3) 100% owned by Odyssey Re Group below

Group/Company	NAIC CoCode	Domiciled State
ODYSSEY RE GROUP		
Greystone Insurance Company	10019	CT
Odyssey Reinsurance Company	23680	CT

COMPANY HISTORY

Capitalization

As of December 31, 2019, the Company has 20,000 shares of $210 par value common stock authorized, issued, and outstanding. The Company also had 20,000 shares of $5 par value preferred stock authorized, of which none are issued or outstanding.

Dividends Paid to Parent

During the period under review, the Company has paid ordinary dividends through a combination of cash and securities to Zenith National Insurance Corporation in the following amounts:

- $50.0 million on September 29, 2015
- $10.0 million on March 13, 2015
- $80.0 million on December 14, 2016
- $35.0 million on June 19, 2017
- $80.0 million on December 15, 2017
- $85.9 million on December 17, 2018
- $30.65 million on September 12, 2019
- $30.0 million on December 27, 2019

Dividends Received from Subsidiary

During the period under review, the Company received the following ordinary dividends from its subsidiary, ZNAT Insurance Company, in the following amounts:

- $2.7 million on April 28, 2015
- $2.6 million on May 20, 2016
- $2.7 million on December 5, 2017
- $2.5 million on December 6, 2018
- $2.8 million on December 6, 2019

MANAGEMENT AND CONTROL

The Company is a wholly-owned subsidiary of Zenith National Insurance Corp. (ZNIC) which is a wholly-owned indirect subsidiary of Fairfax Financial Holdings Limited (Fairfax), a Canadian financial services holding company, whose common stock is publicly traded on the Toronto Stock Exchange. Fairfax is principally engaged in property and casualty insurance, reinsurance, and associated investment management.

The following abridged organizational chart, which is limited to the Company's parent along with its subsidiary insurance companies, depicts the Company's relationship within the holding company system as of December 31, 2019 (except as otherwise noted, all ownership is 100%):

- Fairfax Financial Holdings Limited (Canada)
  - CRC Reinsurance Ltd (Barbados)
    - TRG Holding Corporation (Delaware) (31.49%)
  - Hamblin Watsa Investment Counsel Ltd. (Canada)
  - Advent Capital (Holdings) PLC (England & Wales) (56.61%)
  - 1102952 B.C. Unlimited Liability Holding Company (British Columbia)
    - Allied World Assurance Company Holdings, Ltd (Bermuda) (70.11%)
      - Allied World Assurance Company Holdings I, Ltd (Bermuda)
        - Allied World Assurance Company, Ltd (Bermuda)
          - Peak Achievement Athletics, Inc. (17.84% v / 15.31% e)
          - Seaspan Corporation (4.17%)
  - FFHL Group Ltd. (Canada)
    - Northbridge Financial Corporation (Canada)
      - Northbridge General Insurance Corporation (Canada)
    - Brit Limited (England & Wales) (89.26%)
      - Brit Insurance Holdings Limited (England & Wales)
        - Brit Insurance USA Holdings, Inc. (Illinois)
          - Commonwealth Insurance Company of America (Delaware)
          - Brit Insurance Services USA, Inc. (Illinois)
          - Brit USA Services Company, Inc. (Delaware)
    - Fairfax Holdings, Inc. (Connecticut)
    - Fairfax (Barbados) International Corp. (Barbados)
      - TIG Insurance (Barbados) Limited (Barbados)
    - Fairfax Luxembourg Holdings (Luxembourg)
      - Colonnade Insurance S. A. (Luxembourg)
        - TIG (Bermuda) Ltd. (Bermuda)
    - Fairfax (US) Inc. (Delaware)
      - Crum and Forster Holdings, Corp. (Delaware)

United States Fire Insurance Company (Delaware)
American Underwriters Insurance Company (Arkansas)
The Redwoods Group, Inc. (North Carolina)
Bail USA (Pennsylvania)
Crum & Forster Indemnity Company (Delaware)
Crum & Forster SPC (FKA International Travel Ins. Segregated Portfolio)
Crum & Forster Insurance Company (New Jersey)
The North River Insurance Company (New Jersey)
Brownyard Programs, Ltd. (New York)
Seneca Insurance Company, Inc. (New York)
MTAW Insurance Company, Inc. (Delaware)
Seneca Specialty Insurance Company (Delaware)
Zenith National Insurance Corp. (Delaware) (0.10%)*
Astarta Holding NV (Ukraine) (5.39%)
Farmers Edge, Inc. (Canada) (5.73%)
Crum & Forster Insurance Brokers, Inc. (Texas)
Crum & Forster Specialty Insurance Company (Delaware)
Zenith National Insurance Corp. (Delaware) (1.90%)*
First Mercury Insurance Company (Delaware)
C & F Insurance Agency, Inc (Ohio)
CoverX Corporation (Michigan)
Travel Insured International, Inc. (Connecticut)
DMC Insurance, Inc. (Indiana)
Wag’n Pet Club, Inc (Texas)
RiverStone Group LLC (Delaware)
RiverStone Resources LLC (Delaware)
RiverStone Claims Management LLC (Delaware)
E.R. Quinn Co. Inc. (New York)
Loyola Group, Inc. (New York)
Rockville Risk Management Associates, Inc. (New York)
Rockville Quinn Management, LLC (New York)
Zenith National Insurance Corp. (Delaware) (91.93%)*
Zenith Insurance Company (California)
Fairfax India Holdings Corp. (3.71% v / 0.93% e)
ZNAT Insurance Company (California)
Zenith of Nevada, Inc. (Nevada)
1390 Main Street LLC
Zenith Insurance Management Services, Inc. (Florida)
Zenith Captive Insurance Company (Vermont)
Toys “R” Us (Canada) Ltd (28.21%)
HWIC Asia Fund (Mauritius) (various from 1.91% to 27.91%)
Boat Rocker Media Inc. (Canada) (20.45%)
Fairfax Africa Holdings Corporation (Canada) (15.08% v / 7.76% e)
Recipe Unlimited Corporation (Canada) (0.07% v / 1.06% e)
2018296 Alberta ULC (Canada) (5.00%)
AGT Food and Ingredients Inc. (Canada) (3.08%)

Apple Bidco Limited (England & Wales) (6.63%)
Astarta Holding NV (Ukraine) (3.27%)
Peak Achievement Athletics, Inc. (Canada) (3.40% v / 2.83% e)
Farmers Edge, Inc. (Canada) (6.11%)
Davos Brands LLC (Delaware) (10.72%)
EXCO Resources, Inc. (Texas) (1.15%)
Seaspan Corporation (Marshall Islands) (0.33%)
Zenith Development Corp. (Nevada)
Fairfax Financial (US) LLC (Delaware)
FFI (US) Inc. (Delaware)
GMPCI Insurance Company, Ltd. (Cayman Islands)
American Safety Holdings II Corporation (Delaware)
Bluestone Agency, Inc. (Arizona)
Bluestone Surety, Ltd. (Cayman Islands)
TRG Holding Corporation (Delaware)
TIG Insurance Company (California)
Recipe Unlimited (Ontario)
HWIC Asia Fund (Mauritius)
Apple Bidco (England & Wales) (3.67%)
Advent Capital (England & Wales) (13.84%)
EXCO Resources, Inc. (Texas) (2.44%)
Seaspan Corporation (Marshall Islands) (1.47%)
Odyssey US Holding, Inc. (Delaware)
Odyssey Group Holdings, Inc. (Delaware)
Seaspan Corporation (5.56%)
Odyssey Reinsurance Company (Connecticut)
Greystone Insurance Company (Connecticut)
Hudson Insurance Company (Delaware)
Hudson Crop Insurance Services (Delaware)
Hudson Specialty Insurance Company (New York)
Hudson Excess Insurance Company (Delaware)
Napa River Insurance Services, Inc. (California)
Pacific Surety Insurance Agency, Inc. (California)
Hudson Insurance Services, Inc. (Canada)
Odyssey Holdings Latin America, Inc. (Delaware)
Zenith National Insurance Corp. (Delaware) (6.07%)*

*Fairfax (US) Inc. owns 91.93% of ZNIC, with the remaining balance owned by Odyssey Reinsurance Company (6.07%), United States Fire Insurance Company (1.90%), and the North River Insurance Company (0.10%). All owners are 100% indirectly owned by Fairfax.

Management of the Company is vested in a three-member board of directors elected annually. A listing of the members of the board and principal officers serving on December 31, 2019, follows:

Directors

Name and Location	Principal Business Affiliation
Chad J. Helin Westlake Village, California	Executive Vice President and General Counsel Zenith Insurance Company
Jack D. Miller Moraga, California	Chairman of the Board Zenith Insurance Company
Kari L. Van Gundy Chatsworth, California	Chief Executive Officer and President Zenith Insurance Company

Principal Officers

Name	Title
Kari L. Van Gundy	Chief Executive Officer and President
Antonio Gaitan	Executive Vice President, Chief Financial Officer, and Treasurer
Chad J. Helin	Executive Vice President and General Counsel
Jason T. Clarke	Executive Vice President and Chief Actuary
Davidson M. Pattiz	Executive Vice President and Chief Operating Officer

Management Agreements

Claims Administration Agreement: In March 2013, the Company entered into a Claims Administration Agreement with TIG Insurance Company (TIG), an affiliate within the Fairfax Group, to become TIG's primary workers' compensation claims service provider.

Effective January 1, 2015, this Agreement was amended to reflect a change in the service fee to be paid to the Company as compensation for its services. The service fee is now comprised of the costs incurred by the Company to perform the services plus a pre-tax profit margin of 20% to the Company. The amendment was approved by the California

Department of Insurance (CDI) on December 22, 2014. The Company recorded service fee income of $8.5 million, $8.7 million, $9.1 million, $8.8 million, and $8.0 million for the years ending December 31, 2015, 2016, 2017, 2018, and 2019, respectively. The amount is recorded as other income in the Statement of Income and is substantially offset by costs of dedicated staff and allocated shared services.

The Company began providing claims processing services for Seneca Insurance Company, Inc. (Seneca) under this agreement in November 2015. The Company recorded service fee income of approximately $1,500, $394,000, $500,000, $441,000, and $355,000 for the years ending December 31, 2015, 2016, 2017, 2018, and 2019, respectively. Prior to providing claims processing services for Seneca, the associated financial transactions under the Agreement in 2015 were not material. For years 2016 and on, the service fee income was reported within Other Income in the Statement of Income and was substantially offset by costs of dedicated staff and allocated shared services. The net receivables from parent, subsidiaries, and affiliates at December 31 for all years under examination include a loss fund of $0.6 million maintained by the Company to process future workers' compensation claim payments on behalf of Seneca.

This Agreement with Seneca does not alter or impact the existing Administrative Services and Cost-Sharing Agreement between the Company and ZNAT dated January 1, 2008, as amended through December 30, 2013.

Administrative Services Agreement: Effective November 1, 2014, the Company and its wholly-owned subsidiary, ZNAT Insurance Company (ZNAT), entered into an Administrative Services Agreement with various affiliated United States domiciled insurance companies and insurance service providers. Under the Agreement, the Company and ZNAT agree to provide to and accept from the other parties, certain administrative and general services, and facilities, at cost, subject to the terms of the Agreement. Specifically, one insurance company may provide, among other services, such as accounting, underwriting, claims, reinsurance, actuarial, and other administrative services or tasks.

The Agreement is subject to renegotiation at least every three years and may be terminated by either party by giving 60 days prior written notice to the other party.

Administrative Services Agreement: Effective March 10, 2014, the Company entered into an Administrative Service Agreement with United States Fire Insurance Company (U.S. Fire), an indirect subsidiary of Fairfax. The Agreement was approved by the CDI on February 5, 2014.

Under the terms of the U. S. Fire Agreement, each party may, from time to time, perform certain administrative and general services such as assistance with accounting, internal audit, tax calculations, preparation of regulatory reports and actuarial analysis on behalf of the other party, subject to conditions set out in the Agreement. Although this Agreement has a continuous term, it is subject to renegotiation at least every three years and may be terminated by either party by giving 60 days prior written notice to the other party. The Company did not engage in any transactions under this Agreement with U.S. Fire during the years under examination.

Inter-Company Tax Allocation Agreement: The Company is a party to an Inter-Company Tax Allocation Agreement, effective May 21, 2010. The Agreement was approved by the CDI on June 14, 2010. The Agreement provides for participants to file a consolidated federal income tax return with ZNIC. 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. During the years under examination, the Company incurred federal and foreign income taxes in the amount of $37.0 million, $43.4 million, $42.7 million, $34.8 million, and $21.2 million for the years ending December 31, 2015, 2016, 2017, 2018, and 2019, respectively.

Investment Management Agreement: The investment portfolio of the Company is managed by Hamblin Watsa Investment Counsel, Ltd. (HWIC), the investment manager for the Fairfax Group of companies, under an Investment Management Agreement dated

May 20, 2010, and approved by the CDI on June 14, 2010. During the years under examination, the Company paid HWIC the amounts of $4.9 million, $4.9 million, $4.6 million, $5.0 million, and $4.6 million for the years ending December 31, 2015, 2016, 2017, 2018, and 2019, respectively.

Administrative Services and Cost Sharing Agreement: ZNIC and its subsidiaries are parties to an Amended and Restated Administrative Services and Cost Sharing Agreement dated November 1, 2018, which covers services and cost-sharing among the following Zenith entities – the Company, ZNAT, ZNIC, Zenith Insurance Management Services, and Zenith Captive Insurance Company.

Under the terms of the Agreement, costs of shared facilities, services, and expenses incurred by the Company are allocated to each party using actual and reasonable costs. During the years under examination, the Company received from ZNAT under this Agreement the amounts of $34.6 million, $45.2 million, $46.1 million, $43.1 million, and $47.6 million for the years ending December 31, 2015, 2016, 2017, 2018, and 2019, respectively. The Company paid ZNIC under this Agreement the amounts of $0.3 million, $2.2 million, $3.3 million, $4.0 million, and $4.6 million for the years ending December 31, 2015, 2016, 2017, 2018, and 2019, respectively.

Under the terms of the Intercompany Pooling Agreement described below, the Company received under this Agreement, the amounts of $31.3 million, $28.3 million, $22.5 million, $25.2 million and $14.9 million for the years ended December 31, 2015, 2016, 2017, 2018, and 2019, respectively from ZNAT. The Administrative Services and Cost Sharing Agreement allocation between the Company and ZNAT and the intercompany pooling agreement should be considered in the aggregate.

Related Party Transactions

In December 2016, the Company invested $10.0 million in 99388983 Canada Inc. (Canada Inc.), a private Canadian company that became an affiliate of Fairfax simultaneous with the Company's investment. Canada Inc. provided a debtor-in-possession (DIP) loan to Performance Sporting Goods (PSG), a Canadian company in the process of bankruptcy restructuring. In February 2017, the bankruptcy restructuring was resolved and the DIP loan was repaid, partially in cash and in assets of PSG, and Canada Inc. purchased the remaining assets and liabilities of PSG. The Company's original investment was converted into Class A common stock of Canada Inc.; and this entity was renamed Peak Achievements Athletics (PAA). In December 2019, the Company recorded a cash distribution received of $1.3 million as a return of capital. The carrying value of PAA was $7.0 million and $8.6 million at December 31, 2019, and 2018, respectively.

In January 2017, the Company invested $4.8 million in Astarta Holding NV (Astarta), a Netherlands company whose common stock is publicly traded on the Polish Stock Exchange. Astarta became an affiliate of Fairfax and the Company in March 2017 when Fairfax obtained significant influence as a result of additional investment. Fairfax and the Company commenced equity method accounting for Astarta in March 2017 and recorded a realized gain of $0.6 million to step up the Company's cost basis to the fair market value of its investment on the day significant influence was obtained. In May 2017, the Company exercised a call option to acquire additional shares of Astarta for $7.5 million and recorded a realized gain of $1.4 million on the call option exercise. Due to the extent and duration of decline in market value for this investment compared to its carrying value, the Company recorded an other-than-temporary impairment of $11.5 million in December of 2019. The carrying value of Astarta was $3.4 million and $12.3 million at December 31, 2019, and 2018, respectively.

In February 2018, Fairfax and the Company invested in private placement non-rated debt securities issued by Seaspan Corporation (Seaspan), a publicly traded company domiciled in the Marshall Islands. Fairfax and the Company received warrants (Seaspan Warrants) to purchase Seaspan common stock in connection with this investment. Seaspan became an affiliate of Fairfax and the Company simultaneously with this investment. The Company's share of this investment was $5.0 million, allocated between $4.4 million ($5.0 million par value) in Seaspan corporate bonds and $0.6 million in Seaspan Warrants. The Company sold its Seaspan Warrants, at fair value, to Wentworth Insurance Company Ltd. (Wentworth), a Fairfax affiliate, in April 2018 for $0.6 million. In July 2018, the Company purchased 800,000 shares of Seaspan Warrants from Wentworth for $2.8 million and subsequently converted these warrants to purchase an equivalent number of Seaspan common stock shares for $5.2 million in cash paid to Seaspan.

The Company recorded the acquisition of Seaspan affiliated common stock at the cost of $7.6 million and recognized a loss of $0.4 million on the conversion of Seaspan Warrants. The Company accounts for this investment in Seaspan affiliated common stock using the equity method, on a one-quarter lag. The carrying value of this investment at December 31, 2019, and December 31, 2018, was $9.0 million and $7.9 million, respectively. The carrying value of the Company's affiliated investment in Seaspan fixed maturity securities was $4.6 million and $4.5 million at December 31, 2019, and December 31, 2018, respectively.

In February 2018, Fairfax and the Company entered into a private loan agreement (Farmers Edge Loan) with Farmers Edge, Inc. (Farmers Edge), an affiliate of Fairfax and the Company. Fairfax and the Company received warrants to purchase Farmers Edge common stock (Farmers Edge Warrants) in connection with this loan. The Company's investment in Farmers Edge was $4.1 million, allocated between $3.4 million (Canadian $5.0 million par value) in Farmers Edge Loan and $0.7 million in Farmers Edge Warrants, as estimated by HWIC. The Company sold the Farmers Edge Warrants to Wentworth on the same day they were acquired, substantially at cost. In February 2019, the Company invested an additional Canadian $4.0 million in Farmers Edge Loans. At December 31, 2019, and December 31, 2018, the total carrying value of the Farmers

Edge Loans was $6.3 million and $3.1 million, respectively. In 2019, the National Association of Insurance Commissioners (NAIC) reviewed the Sub 2 filing submitted by the Company in December 2018 and assigned a zero value to the Company's Farmers Edge affiliated common stock investment due to the negative equity amount reported by Farmers Edge in its December 31, 2017, financial statements. As a result, the Company reduced the carrying value of its investment in Farmers Edge affiliated common stock to zero as of December 31, 2019.

In September 2018, the Company paid $4.3 million to purchase 5.6 million common stock shares of Toys "R" Us (Canada) Ltd. (Toys R Us), a wholly-owned subsidiary of Fairfax, from Allied World Assurance Company, Ltd. (AWAC), a wholly-owned subsidiary of Fairfax. The Company records this investment in the affiliated common stock of Toys R Us using the equity method of accounting, on a one-quarter lag. In November 2019, the Company invested an additional $5.0 million for 4.7 million shares of common stock of Toys "R" Us (Canada) Ltd. The carrying value of the investment in Toys R Us equity-method common stock was $11.1 million and $4.3 million at December 31, 2019, and December 31, 2018, respectively.

TERRITORY AND PLAN OF OPERATION

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

In 2019, the Company wrote $615.1 million of direct premiums. Of these direct premiums, $372.5 million (60.6%) were written in California, $155.6 million (25.3%) were written in Florida, $18.5 million (3.0%) in Pennsylvania, and $15.9 million (2.6%) in New Jersey, with the remaining $52.6 million (8.5%) written in all other states combined.

The Company wrote $535.7 million, or 87.1% of its direct premiums in the workers’ compensation line of business with the remaining business in other property and casualty lines from its agribusiness operations.

The Company's business is written through approximately 1,200 independent licensed insurance agents. The Company and its insurance affiliate maintain branch offices in Fresno, Los Angeles, Orange, Pleasanton, Roseville, San Diego, and San Francisco, California. Additionally, the Company maintains branch offices in Birmingham, Alabama; Hollywood, Orlando, and Sarasota, Florida; Itasca and Springfield, Illinois; Charlotte, North Carolina; East Norriton, Pennsylvania; and Austin and Dallas, Texas.

REINSURANCE

Intercompany Pooling Agreement

The Company is a party to an Amended and Restated Reinsurance and Pooling Agreement with its insurance subsidiary, ZNAT Insurance Company, effective January 1, 2008. Under this Agreement, business is pooled, and premiums, losses, and expenses are reapportioned and shared by the companies as follows:

Pool Member	Percentage
Zenith Insurance Company	98%
ZNAT Insurance Company	2%

Both parties to the pooling agreement are named participants in all workers' compensation reinsurance agreements with non-affiliated reinsurers and have a contractual right of direct recovery from the non-affiliated reinsurers.

The current Agreement, which includes all of its amendments, was approved by the California Department of Insurance (CDI) on February 21, 2008.

Assumed

The Company's assumed business consisted of the intercompany pooling agreement, certain voluntary and mandatory pools, and the runoff of expired assumed reinsurance business.

The following schedule reflects assumed premiums written and known case losses and loss adjustment expense reserves reported by the Company as of December 31, 2019 (000's omitted):

Description	Assumed Premiums	Known Case Losses and LAE Reserves
Intercompany Pooling – ZNAT Insurance Company	$ 127,158	$ 81,338
Voluntary and Mandatory Pools	6,934	11,840
Runoff of Expired Assumed Business	0	739
Totals - Assumed	$ 134,092	$ 93,917

Ceded

The Company maintains excess of loss and catastrophe reinsurance which provides protection up to $150 million for its workers' compensation losses, including catastrophe losses arising out of earthquakes and acts of terrorism including nuclear, biological, and chemical attacks. In 2019, the Company retained the first $10 million and the layer from $20 million to $50 million of each loss arising from industrial accidents and the first $50 million of each loss arising out of earthquakes and acts of terrorism. For all other business classes, the Company retains the first $50 million of each loss. For all other property and casualty business classes, the Company retained the first $3.5 million of each loss.

The Company also continues to be a party to various reinsurance treaties with affiliates of Fairfax Financial Holdings Limited that were entered into in the ordinary course of business, primarily consisting of an excess of loss reinsurance agreement with Odyssey Reinsurance Company (Odyssey). At December 31, 2019, the Company recorded net reinsurance recoverable of $360,000 related to these reinsurance agreements.

The following is a summary of the Company's principal ceded reinsurance treaties in force as of December 31, 2019, covering its workers' compensation and property and casualty agriculture business:

Workers’ Compensation Business

Type of Contract	Reinsurer’s Name (*)	Company’s Retention	Reinsurer’s Maximum Limits
1st Excess of Loss	Arch Reinsurance Company (4.75%) Munich Re America Inc. (5%) Odyssey Reinsurance Corp. (5%) Partner Reinsurance Company of the US (10%) Transatlantic Reinsurance Company (10%) Aspen Insurance UK Ltd. (12%) Lloyds of London (43.25%) Odyssey Reinsurance Corp. (10%)	$10 Million	$10 Million XS of $10 Million (1) Reinsurers’ Aggregate Limit of Liability $20 Million on any and all claims
2nd Excess of Loss	Arch Reinsurance Company (4%) Munich Re America Inc. (5%) Odyssey Reinsurance Corp. (9.5%) Partner Reinsurance Company Ltd. (5%) Cincinnati Insurance Co. (5%) Transatlantic Reinsurance Company (2%) Aspen Insurance UK Ltd. (8.25%) Hannover Re Ltd (13.5%) Allied World Assurance Co. (3%) Lloyds of London (34.75%) Odyssey Reinsurance Corp. (10%)	$30 Million	$50 Million XS of $50 Million (1) Reinsurers’ Aggregate Limit of Liability $100 Million any and all claims
3rd Excess of Loss	Arch Reinsurance Company (2%) Munich Re America Inc. (5%) Odyssey Reinsurance Corp. (6.5%) Cincinnati Insurance Co. (5%) Transatlantic Reinsurance Company (2%) Aspen Insurance UK Ltd. (8.25%) Hannover Re Ltd (13.5%) Allied World Assurance Co. (5%) Lloyds of London (42.75%) Odyssey Reinsurance Corp. (10%)	$-0-	$50 Million XS of $100 Million (1) Reinsurers’ Aggregate Limit of Liability $100 Million any and all claims

(*) All listed reinsurers are authorized.
(1) Includes all terrorism and nuclear, biological, and chemical (NBC) coverage

Property and Casualty – Agriculture Business

The following is a summary of the principal ceded property and casualty reinsurance treaties in force as of December 31, 2019, covering the Company's property and casualty agriculture business:

Type of Contract	Reinsurer's Name (*)	Company's Retention	Reinsurer's Maximum Limits
1st Per Risk Excess of Loss	Arch Reinsurance Company (10%) Allied World Insurance Company (5%) Hannover Ruckversicherung AG (25%) Odyssey Reinsurance Co. (5%) Lloyds of London (35%) Munich Reinsurance America, Inc. (10%) Odyssey Reinsurance Corp (10%)	$3.5 Million	$6.5 Million XS of $3.5 Million Limit of Reinsurers' Liability $6.5 million each loss, each risk $13 Million each Loss Occurrence $13 Million Contract Limit
2nd Per Risk Excess of Loss	Arch Reinsurance Company (10%) Allied World Insurance Company (5%) Hannover Ruckversicherung AG (30%) Odyssey Reinsurance Co. (5%) Lloyds of London (26%) Munich Reinsurance America, Inc. (14%) Odyssey Reinsurance Corp (10%)	$-0-	$15 Million XS of $10 Million Limit of Reinsurers' Liability $15 million each loss, each risk $15 Million each Loss Occurrence $30 Million Contract Limit
Property Automatic Facultative	Arch Reinsurance Company	$25 Million	$35 Million XS of $25 Million (PC1-8) $25 Million XS of $25 Million (PC 9-10)
Property Automatic Facultative	General Reinsurance Corporation		Individual Policy Placement
Property Catastrophe	Hannover Ruckversicherung AG (30%) Allied World Insurance company (8%) Lloyds of London (42%) Arch Reinsurance Company (10%) Odyssey Reinsurance Corp (10%)	$5 Million	$15 Million XS of $5 Million Limit of Reinsurers' Liability $15 Million each Loss Occurrence $30 Million Contract Limit
Casualty Umbrella/Excess Liability Quota Share	General Reinsurance Corporation	$1 Million	Nil% of the first $1 Million occurrence / $1 Million aggregate 95% of the difference, if any, between the policy limit and the first $1 Million each occurrence / $1 Million aggregate.

(*) All listed reinsurers are authorized.

Retroactive Reinsurance

Pursuant to an Asset Purchase Agreement that was approved by the California Department of Insurance (CDI) on March 31, 1998, the Company acquired substantially all of the assets and certain liabilities of RISCORP, Inc. (RISCORP) and certain of its subsidiaries related to its workers' compensation business.

In connection with the RISCORP acquisition, the Company entered into an Aggregate Excess Of Loss Reinsurance Agreement with Inter-Ocean Reinsurance Company, Ltd. (Inter-Ocean) on August 1, 1998, which provided reinsurance for unpaid loss and allocated loss adjustment expenses assumed from RISCORP up to $50 million in excess of $182 million. The Company paid $16.0 million for the coverage. The Agreement was accounted for as retroactive reinsurance as required under Statement of Statutory Accounting Principles No. 62R. The amount of the expected recoveries in excess of $16.0 million paid under the Agreement was recorded as special surplus.

In May 2018, the Company commuted this Retroactive Reinsurance Agreement, received $3.0 million in cash from Inter-Ocean. As a result of this transaction, $3.0 million was reclassified from special surplus to unassigned surplus in 2018. At December 31, 2019, there was no surplus gain reported as the amount has been commuted. There was no reinsurance recoverable balance remaining at December 31, 2019.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the California Department of Insurance and present the financial condition of the Company for the period ending December 31, 2019. The accompanying comments to the amounts reported in the annual statements should be considered an integral part of the financial statements. There were no examination adjustments made to the financial statements as a result of the examination.

Statement of Financial Condition as of December 31, 2019

Underwriting and Investment Exhibit for the Year Ended December 31, 2019

Reconciliation of Surplus as Regards Policyholders from December 31, 2014, through December 31, 2019

Statement of Financial Condition
as of December 31, 2019

Assets	Ledger and Non ledger Assets	Assets Not Admitted	Net Admitted Assets	Notes
Bonds	$ 998,031,476	$	$ 998,031,476	
Preferred stocks	4,351,384		4,351,384	
Common stocks	340,798,119		340,798,119	
Real estate	29,061,098		29,061,098	
Cash and short-term investments	141,718,642		141,718,642	
Derivatives	4,536,342		4,536,342	(1)
Other invested assets	54,577,758		54,577,758	
Receivable for securities	696,703		696,703	
Investment income due and accrued	7,263,143		7,263,143	
Premiums and agents' balances in course of collection	13,713,842	780,274	12,933,568	
Premiums, agents' balances, and installments booked but deferred and not yet due (including $3,537,701 earned but unbilled premiums)	27,619,309	532,237	27,087,072	
Amounts recoverable from reinsurers	340,624		340,624	
Funds held by or deposited with reinsured companies	16,578		16,578	
Current federal and foreign income tax recoverable and interest thereon	2,302,356		2,302,356	
Net deferred tax asset	55,279,257		55,279,257	
Guaranty funds receivable or on deposit	186,570		186,570	
Electronic data processing equipment and software	1,989,897	1,699,422	290,475	
Furniture and equipment, including health care delivery assets	1,299,651	1,299,651	0	
Receivables from parent, subsidiaries, and affiliates	12,676,040		12,676,040	
Aggregate write-ins for other than invested assets	22,142,480	5,776,531	16,365,949	
Total assets	$1,718,601,570	$ 10,088,115	$1,708,513,455	

Liabilities, Surplus and Other Funds			Notes
Losses and loss adjustment expenses		$1,025,323,002	(2)
Reinsurance payable on paid loss and loss adjustment expenses		3,005	
Commissions payable, contingent commissions and other similar charges		10,116,797	
Other expenses		21,688,151	
Taxes, licenses, and fees		6,389,540	
Unearned premiums		85,682,262	
Advance premiums		3,928,514	
Ceded reinsurance premiums payable		2,052,402	
Funds held by company under reinsurance treaties		1,737	
Amounts withheld or retained by company for account of others		1,709,490	
Provision for reinsurance		412,720	
Derivatives		1,819,007	(1)
Aggregate write-ins for liabilities		17,550,852	
Total liabilities		1,176,677,480	
Common capital stock	$ 4,200,000		
Gross paid-in and contributed surplus	318,910,645		
Unassigned funds (surplus)	208,725,330		
Surplus as regards policyholders		531,835,975	
Total liabilities, surplus and other funds		$1,708,513,455	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2019

Statement of Income

Underwriting Income		
Premiums earned		$ 720,297,435
Deductions:		
Losses and loss expenses incurred	$ 336,550,136	
Other underwriting expenses incurred	257,957,396	
Total underwriting deductions		594,507,532
Net underwriting gain		125,789,903
Investment Income		
Net investment income earned	$ 37,025,486	
Net realized capital loss	(48,840,167)	
Net investment loss		(11,814,681)
Other Income		
Net loss from agents' or premium balances charged off (amount recovered $1,186,341 amount charged off $1,991,202)	$ (1,070,476)	
Finance and service charges not included in premiums	96,943	
Aggregate write-ins for miscellaneous income	1,638,954	
Total other income		665,421
Net income before dividends to policyholders, after capital gains tax and before federal and foreign income taxes		114,640,643
Dividends to policyholders		26,527,714
Net income after dividends to policyholders, after capital gains tax and before federal and foreign income taxes		88,112,929
Federal and foreign income taxes incurred		21,183,754
Net income		$ 66,929,175

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2018		$ 541,084,790
Net income	$ 66,929,175	
Change in net unrealized capital gains or (losses), net of tax	(27,189,968)	
Change in net unrealized foreign exchange capital gain (loss)	9,309,428	
Change in net deferred income tax	244,757	
Change in nonadmitted assets	2,214,796	
Change in provision for reinsurance	(107,004)	
Dividends to stockholders	(60,650,000)	
Change in surplus as regards policyholders for the year		(9,248,816)
Surplus as regards policyholders, December 31, 2019		$ 531,835,975

Reconciliation of Surplus as Regards Policyholders from December 31, 2014 through December 31, 2019

	Gain in Surplus	Loss in Surplus	
Surplus as regards policyholders, December 31, 2014 per Examination			$ 564,534,762
Net income	$ 522,770,219		
Net unrealized capital loss		$ 91,542,000	
Change in net foreign exchange capital losses		18,135,445	
Change in net deferred income tax		43,915,812	
Change in nonadmitted assets	1,014,057		
Change in provision for reinsurance	381,168		
Dividends to stockholders		401,550,000	
Aggregate write-ins for losses in surplus		1,720,974	
Total gains and losses	$ 524,165,444	$ 556,864,231	
Net decrease in surplus as regards policyholders			(32,698,787)
Surplus as regards policyholders, December 31, 2019, per Examination			$ 531,835,975

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Derivatives

The following table summarizes the book/fair value of the Company's derivative contracts as of December 31, 2019 (in thousands):

	Fair Value of Derivative	
Type of Contract	Assets	Liabilities
CPI-linked Derivatives	$ 671	
Foreign Currency Options	820	
U.S. Gov. Bond Forwards		$ 659
Long Equity Total Return Swaps	3,046	
Foreign Exchange Forwards		1,039
Totals	$ 4,536*	$ 1,819

difference due to rounding

Derivative contracts entered into by the Company are considered economic hedges and are not designated as accounting hedges. The fair value of derivative contracts in a gain position is presented as a derivative asset on the balance sheet. The fair value of derivative contracts in a loss position is presented as a derivative liability on the balance sheet.

Settlements of the derivative contracts are recorded as net realized capital gains (losses) in the Statement of Income. Changes in fair value of the derivative contracts are recorded in the change in unrealized capital gains (losses) in unassigned surplus in the Statement of Income.

The following is a summary of the last five years net capital gains (losses) in surplus as a result of the Company's derivative investment activities (in thousands):

Type of Derivative	Totals	Net Capital Gains (Losses) in Surplus Year Ended December 31, 2019	2018	2017	2016	2015
Equity Derivatives:						
Total Return Swaps (Long)	$ (8,820)	$ (4,957)	$ (8,003)	$ 4,140		
Call/Put Options	717	(640)		1,357		
Equity Warrants	(1,467)	(20)	(537)	(708)	$ (230)	$ 28
Total Return Swaps (Short)	(80,508)				(106,962)	26,454
U.S. Gov. Bond Forwards	(20,378)	(12,083)	3,291	(8,497)	(3,089)	
Foreign Exchange Forwards	16,582	(227)	4,810	(5,942)	1,450	16,491
Foreign Currency Options	(6,699)	(6,611)	(88)			
CPI-linked Derivatives	(21,170)	(1,632)	(1,142)	(3,696)	(15,889)	1,189
Totals	$ (121,743)	$ (26,170)	$ (1,669)	$ (13,346)	$ (124,720)	$ 44,162

Total capital losses for the five-year period were $121.7 million, with total term return swaps (Short) generating most of the losses ($80.5 million). The Company no longer enters in total return swaps (Short) contracts. Although the past five years results for the total return swaps (and all derivative transactions) have had a significant negative impact on surplus, the Company, and its investment manager, Hamblin Watsa Investment Counsel, Ltd, continue to believe that equity prices generally and significantly exceed their currently sustainable values and are willing to endure the cost of hedging in order to protect the Company against its exposure to a major market downturn as well as other investment risks.

(2) Losses and Loss Adjustment Expenses

Based on an analysis by the Casualty Actuary for the California Department of Insurance, the Company’s loss and loss adjustment expense reserves as of December 31, 2019, were found to be reasonably stated and have been accepted for purposes of this examination.

SUBSEQUENT EVENTS

On March 11, 2020, the World Health Organization declared the coronavirus disease (COVID-19) a pandemic. The pandemic has triggered unprecedented government mandates and health and safety measures which have significantly impacted the U.S. and global financial markets. The examination reviewed the potential impact of the pandemic to the Company and noted minimal impact on the Company's business operations as of the date of this report. However, a significant uncertainty remains on the effect that the pandemic will have on the insurance industry, economy, and the Company at large. The California Department of Insurance continues to closely monitor the impact of the pandemic on the Company and will take necessary action if a solvency concern arises.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

None.

Previous Report of Examination

None.

ACKNOWLEDGMENT

Acknowledgment is made of the cooperation and assistance extended by the Company's officers and employees during the course of this examination.

Respectfully submitted,

Richard B. Foster
Digitally signed by Richard B. Foster
Date: 2021.06.10 10:19:40 -08'00'

Richard B. Foster, CFE
Examiner-In-Charge
INS Regulatory Insurance Services
Representing the
Department of Insurance
State of California

Asuncion, Grace
Digitally signed by Asuncion, Grace
Date: 2021.06.10 11:57:26 -07'00'

Grace Asuncion, CFE
Financial Examinations Supervisor
Department of Insurance
State of California