

Report of Examination of

**Old Guard Insurance Company**  
Westfield Center, Ohio

As of December 31, 2007

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Columbus, Ohio  
August 7, 2008

Honorable Alfred W. Gross  
Commissioner  
Chairman, Financial Condition (E) Committee  
National Association of Insurance Commissioners  
Division of Insurance  
State of Virginia  
1300 East Main Street  
Richmond, Virginia 23219

Honorable Thomas R. Sullivan  
Commission of Insurance  
Secretary, Northeastern Zone  
National Association of Insurance Commissioners  
Connecticut Department of Insurance  
PO Box 816  
Hartford, Connecticut 06142-0816

Honorable Mary Jo Hudson  
Director  
State of Ohio  
Department of Insurance  
50 W. Town Street, Third Floor – Suite 300  
Columbus, Ohio 43215

Dear Madam and Sirs:

In accordance with Section 3901.07 of the Ohio Revised Code “ORC”, an examination was made of

**Old Guard Insurance Company**

an Ohio domiciled, stock, property and casualty insurance company, hereinafter referred to as the “Company.” The examination was conducted at the Company’s home office, located at 9040 Greenwich Road, Westfield Center, Ohio.

A report of this examination is hereby respectfully submitted.

The Company was last examined as of December 31, 2002, by the Ohio Department of Insurance (Department). Representatives of the Department conducted the current examination covering the intervening period to and including December 31, 2007.

## Management and Control

### Board of Directors

Management of the Company is vested in its Board of Directors, which was comprised of the following members as of the examination date.

<b>Name</b>	<b>Principal Occupation</b>
James C. Boland	Cavaliers Operating LLC, Vice President of the Board. Retired Partner of Ernst & Young LLP
Gary D. Hallman	Medina General Hospital, President & Chief Executive Officer
David P. Hollander	Accenture, LTD, Retired Managing Director
Susan J. Insley	Cochran Group, Inc, Retired Executive Vice President & Principal
Robert J. Joyce	Westfield Group, Chairman & CEO
Roger W. McManus	Westfield Group, Chief Operating Officer
Martin J. Murphy	Davis & Young Co., LPA, Retired Vice President
John L. Watson	Brower Insurance Agency, LLC, Managing Principal
Thomas E. Workman	Life Insurance Council of New York, President & Chief Executive Officer

### Officers

As of the examination date, the following officers were elected and serving in accordance with the Company's Bylaws:

<b>Name</b>	<b>Title</b>
James R. Clay	President
Robert Krisowaty	CFO & Treasurer
Frank A. Carrino	Corporate Counsel & Secretary

## **Insurance Holding Company System**

The Company is a member of a holding company system as defined in Section 3901.32 of the ORC. The following displays the chain of ownership of the insurance companies as of December 31, 2007:

Ohio Farmers Insurance Company  
    Westfield Insurance Company  
    Westfield National Insurance Company  
    Old Guard Insurance Company  
    American Select Insurance Company  
    Westfield Management Group  
    Westfield Financial Corporation  
        Investors Southern Corporation  
        Southern Title Insurance Corporation  
    Westfield Bancorp  
        Westfield Bank  
        Westfield Credit Corporation

## **Reinsurance**

The Company participates in a single reinsurance pooling arrangement, with Ohio Farmers Insurance Company as the lead company. Each participating company shares in all lines and in all types of business.

The following companies are participants:

Westfield Insurance Company	64.0%
Westfield National Insurance Company	13.0%
Ohio Farmers Insurance Company	9.0%
Old Guard Insurance Company	9.0%
American Select Insurance Company	<u>5.0%</u>
	100.0%

The Company cedes insurance primarily to reinsurance contracts known as treaties, under which risks are ceded to a reinsurer on specific blocks of business where the underlying risks meet certain predetermined criteria and on a facultative basis, whereby the reinsurer's prior approval is required for each risk reinsured.

Treaty-basis excess of loss contracts in effect through December 31, 2007 generally protect against individual losses over \$3.0 million. These treaties provide a limit of \$12.0 million above retention for property losses and \$12.0 million above retention for casualty losses. Property catastrophe coverage is also maintained by the Company. This coverage

is in four layers with a total limit of \$230 million excess of \$30 million with limited coverage for domestic terrorism.

Except for the commercial umbrella facultative agreement not containing the entire contract clause, all significant contracts contained an insolvency clause, intermediary clause, errors and omission clause, arbitration clause and a service of suit clause applicable to foreign reinsurers, which meet the guidelines of the National Association of Insurance Commissioners (“NAIC”).

### **Territory and Plan of Operations**

The Company was licensed to transact business in the states of Delaware, Indiana, Iowa, Kentucky, Maryland, North Dakota, Ohio, Pennsylvania, South Dakota, Virginia, and West Virginia.

<u>Percentage of Net Premiums Written by Line</u>	
<u>Description</u>	<u>2007</u>
Ocean marine	18.3%
Private passenger auto liability	12.6%
Auto physical damage	12.0%
Commercial multiple peril	10.6%
Commercial auto liability	9.6%
Allied lines	9.1%
Workers’ compensation	7.5%
Other liability – occurrence	6.6%
Inland marine	4.6%
Surety	3.7%
Homeowners multiple peril	2.7%
All other lines	2.7%
Total	<u>100.00%</u>

### **Scope of Examination**

One of the purposes of the examination was to make an assessment of the financial condition of the Company as of December 31, 2007. To substantiate the various items, tests were made either by complete audits of accounts or by sampling methods prescribed by the NAIC Examiner's Handbook. In selecting the examination procedures used, due consideration was given to the importance of each account to overall solvency. Transactions occurring subsequent to the date of the examination were reviewed to the extent deemed necessary.

For each year during the period under examination, the Certified Public Accounting firms of Ernst & Young LLP and KPMG LLP, have provided an unqualified opinion based on statutory accounting principles. Relevant work performed by KPMG LLP, during its

annual audits of the Company, was reviewed during the examination and incorporated into the examination workpapers.

The Department's property and casualty actuary reviewed the relevant work performed by the opining actuary, to report on the adequacy of the carried reserves, and to comment on any other statutory matters relating to reserves.

In addition, the following items were reviewed during the course of this examination:

1. Company history;
2. fidelity bonds and other insurance;
3. officers', employees', and agents' welfare and pension plans;
4. growth of Company;
5. loss experience;
6. pending litigation; and
7. Articles of Incorporation and Bylaws.

#### **Financial Statements**

The financial information that follows is taken from annual statements as filed by the Company with the Department.

Statement of Assets, Liabilities, Surplus and Other Funds  
Statement of Operations  
Statement of Changes in the Capital and Surplus Account

## Statement of Assets, Liabilities, Surplus and Other Funds

December 31, 2007

### Admitted assets

Cash and invested assets:	
Bonds	\$194,796,207
Common Stocks	56,415,399
Cash and short-term investments	1,497,196
Other invested assets	3,801,614
Total cash and invested assets	256,510,416
Investment income due and accrued	2,820,957
Uncollected premiums and agents' balances in course of collection	7,962,735
Deferred premiums, agents' balances and installments booked but deferred and not yet due	36,590,194
Net deferred tax asset	4,285,256
Total admitted assets	\$308,169,558

December 31, 2007

### Liabilities, capital and surplus

Liabilities:	
Losses	\$89,522,932
Loss adjustment expenses	23,561,908
Commission payable, contingent commissions and other similar Charges	11,274,200
Other expenses (excluding taxes, licenses and fees)	4,085,769
Taxes, licenses and fees (excluding federal and foreign income taxes)	2,335,449
Current federal and foreign income taxes	1,010,810
Unearned premiums	64,426,527
Ceded reinsurance premiums payable (net of ceding commissions)	214,065
Payable to parent, subsidiaries and affiliates	2,344,893
Payable for securities	933,175
Aggregate write-ins for liabilities	2,088,038
Total liabilities	201,797,766
Capital and surplus:	
Aggregate write-ins for special surplus funds	17,917,963
Common capital stock	2,500,000
Gross paid in and contributed surplus	31,870,941
Unassigned funds	54,082,888
Total capital and surplus	106,371,792
Total liabilities, capital and surplus	\$308,169,558

## Statement of Operations

**December 31, 2007**

Premiums earned	\$141,659,136
Losses incurred	77,737,102
Loss expenses incurred	13,460,764
Other underwriting expenses incurred	<u>49,533,618</u>
Underwriting gain (loss)	927,652
Net investment income earned	11,006,182
Net realized capital gains (losses)	<u>237,108</u>
Net investment gain	11,243,290
Net gain from agents' or premium balances charged off	(207,775)
Finance and service charges not included in premiums	357
Aggregate write-ins for miscellaneous income	<u>(2,126,604)</u>
Total other income	(2,334,022)
Income before dividends to policyholders and before federal and foreign income taxes	<u>9,836,920</u>
Income after dividends to policyholders but before federal and foreign income taxes	<u>9,836,920</u>
Federal income taxes	<u>3,451,532</u>
Net income	<u><u>\$6,385,388</u></u>

## Statement of Changes in the Capital and Surplus Account

(In thousands)

	2003	2004	2005	2006	2007
Capital and surplus December 31, previous year	\$ 39,323	\$ 67,330	\$ 80,002	\$ 86,840	\$ 100,126
Net income	4,583	9,119	8,134	5,966	6,385
Change in net unrealized capital gains or (losses)	7,490	2,252	(3,518)	5,619	1,051
Change in net deferred income tax	4,230	581	1,895	1,716	425
Change in nonadmitted assets	(317)	720	327	(15)	85
Change in provision for reinsurance	6	-	-	-	-
Changes to capital paid in	12,015	-	-	-	(1,700)
Net change in capital and surplus	<u>28,007</u>	<u>12,672</u>	<u>6,838</u>	<u>13,286</u>	<u>6,246</u>
Capital and surplus December 31, current year	<u>\$ 67,330</u>	<u>\$ 80,002</u>	<u>\$ 86,840</u>	<u>\$ 100,126</u>	<u>\$ 106,372</u>

### Summary of Examination Changes

There were no changes made as a result of this examination.

### Notes to Financial Statements

#### Investments

At December 31, 2007, the Company's investments, as measured by statement valuations, were composed of:

<u>Invested Assets</u>	<u>Ratio to Total</u>	
	<u>Investments</u>	<u>Assets</u>
Bonds	75.9%	63.2%
Common stocks	22.0%	18.3%
Other invested assets	1.5%	1.2%
Cash and Short-term investments	<u>0.6%</u>	<u>0.5%</u>
Totals	<u>100.0%</u>	<u>83.2%</u>

The bond portfolio included 50.6% of federal, state, and local government issues, 18.5% special revenue and public utilities and 30.8% industrial and miscellaneous. The NAIC Securities Valuation Office (SVO) had rated 93.0% of the bond portfolio as Class 1 and 7.0% Class 2. Cash includes demand deposits.

The Company's investments were in compliance with Section 3925.08 of the ORC.

## Loss and Loss Adjustment Expense Reserves

The Company actuaries, Frank Tresco, FCAS, certified the total reserves as of December 31, 2007, Kevin McAllister, FCAS, certified the total reserves for years 2004-2006 and Robert H. Wainscott, FCAS, FCIA, MAAA, certified the total reserves for year 2003. The Department's actuary, Mary D. Miller, FCAS, MAAA, reviewed the detailed calculations for the reserves of the major lines of business as of December 31, 2007.

On the basis of the above-mentioned analysis, it was determined that the loss and loss adjustment expense reserves were reasonable as of December 31, 2007.

## Conclusion

The balance sheet contained in this Report of Examination reflects the financial condition of the Company as of December 31, 2007, and is summarized as follows:

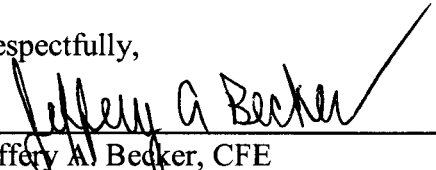
Total Admitted Assets	<u>\$308,169,558</u>
Liabilities	\$201,797,766
Surplus as Regards Policyholders	<u>106,371,792</u>
Total Liabilities and Surplus as Regards Policyholders	<u>\$308,169,558</u>


## Acknowledgement

Appreciation is expressed for the assistance extended by the officers and employees of the Company during the course of this examination.

In addition to the undersigned, the following representatives of the Department participated in this examination: David T. Finkler, CPA; Methuselah E. Nyangoro, CPA; Rick J. Mack, CFE; Vicky L. Hugo, CPA; Vernard V. Howard, CFE; C. Cameron Piatt, CPA, CFE; Brad Schroer; Mary D. Miller, FCAS, MAAA; William H. Ward, CPA, CFE; Floyd D Meeks, AES; and Dominik Ilc, AES.

Respectfully,

  
\_\_\_\_\_  
Jeffery A. Becker, CFE  
Examiner-In-Charge  
Ohio Department of Insurance

  
\_\_\_\_\_  
William C. Harrington, CFE, CPA (inactive)  
Chief Examiner  
Ohio Department of Insurance

**Verification**

As required by Section 3901.07 of the Ohio Revised Code, the undersigned hereby attest to the best of their knowledge and belief that the attached is a true Report of Examination as of December 31, 2007.

Jeffery A. Becker  
Examiner-in-Charge

8/07/2008  
Date

William C. Harrington  
Chief Examiner

8/7/2008  
Date

State of Ohio  
County of Franklin

Personally appeared before me the above named, Jeffery A. Becker, personally known to me, who executed the above instrument and that the statements and answers contained therein are true and correct to the best of his/her knowledge and belief.

Subscribed and sworn to before me this 7 day of August, 2008.

Elizabeth Chase  
(Notary Public)  
**ELIZABETH CHASE**  
NOTARY PUBLIC, STATE OF OHIO  
~~MY COMMISSION EXPIRES MAY 22, 2012~~  
My Commission Expires

State of Ohio  
County of Franklin

Personally appeared before me the above named, William C. Harrington, personally known to me, who executed the above instrument and that the statements and answers contained therein are true and correct to the best of his/her knowledge and belief.

Subscribed and sworn to before me this 7 day of August, 2008.

Elizabeth Chase  
(Notary Public)  
**ELIZABETH CHASE**  
NOTARY PUBLIC, STATE OF OHIO  
~~MY COMMISSION EXPIRES MAY 22, 2012~~  
My Commission Expires