

**EXAMINATION REPORT**  
**of**  
**ELEPHANT INSURANCE COMPANY**  
**Glen Allen, Virginia**  
**as of**  
**December 31, 2018**

COMMONWEALTH OF VIRGINIA



SCOTT A. WHITE  
COMMISSIONER OF INSURANCE  
STATE CORPORATION COMMISSION  
BUREAU OF INSURANCE

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I, Scott A. White, Commissioner of Insurance of the Commonwealth of Virginia, do hereby certify that the annexed copy of the Examination Report of Elephant Insurance Company as of December 31, 2018, is a true copy of the original report on file with this Bureau.

IN WITNESS WHEREOF, I have hereunto set my hand  
and affixed to the original the seal of the Bureau at the City  
of Richmond, Virginia this 31<sup>st</sup> day of March 2020

A handwritten signature in black ink, appearing to read 'Scott A. White', written over a horizontal line.

Scott A. White  
Commissioner of Insurance

(SEAL)

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Richmond, Virginia  
December 20, 2019

Honorable Scott A. White  
Commissioner of Insurance  
Commonwealth of Virginia  
Richmond, Virginia

Dear Madam:

Pursuant to your instructions and by authority of § 38.2 - 1317 of the Code of Virginia, a financial condition examination of the records and affairs of the

**ELEPHANT INSURANCE COMPANY**

Glen Allen, Virginia

hereinafter referred to as the Company, has been completed. The report thereon is submitted for your consideration.

**SCOPE OF THE EXAMINATION**

The Company was last examined by representatives of the State Corporation Commission Bureau of Insurance (Bureau) as of December 31, 2015. This examination covers the period from January 1, 2016 through December 31, 2018.

The examination was conducted in accordance with the NAIC *Financial Condition Examiners Handbook* (Handbook). The Handbook requires that the Bureau plan and perform the examination to evaluate the Company's financial condition, assess corporate governance, identify current and prospective risks of the Company, 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.

Oliver Wyman Actuarial Consulting, Inc. (Oliver Wyman) provided an actuarial report as to the reasonableness of the Company's loss and loss adjustment expense reserves at December 31, 2018.

Baker Tilly Virchow Krause, LLP (Baker Tilly) performed a general assessment of the internal controls of the Company's information systems and significant business processes.

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

### HISTORY

The Company is a stock property and casualty insurer. The Company was incorporated under the laws of the Commonwealth of Virginia on June 5, 2009, under the name of AIUS Insurance Company. The name of the Company was subsequently changed to Elephant Insurance Company on September 16, 2009. The Virginia State Corporation Commission licensed the Company on September 24, 2009 and the Company commenced business on October 2, 2009.

The Company's parent, Admiral Group plc (Admiral), a publicly-traded insurance-industry holding company headquartered in Cardiff, Wales, U.K, provided initial capital. The Company received a capital contribution of \$14,000,000, \$1,400,000 used to purchase 140 shares of \$10,000 par value common stock and \$12,600,000 used as additional paid-in surplus.

During the period of this examination, Admiral contributed the following capital and surplus to the Company:

	<u>Additional Paid In Capital</u>	<u>Additional Paid In Surplus</u>
2016	\$2,000,000	\$18,000,000
2017	\$2,000,000	\$18,000,000
2018	\$800,000	\$7,200,000

At December 31, 2018, the Company has 5,000 shares of \$10,000 par value common stock authorized and 1,975 shares issued and outstanding.

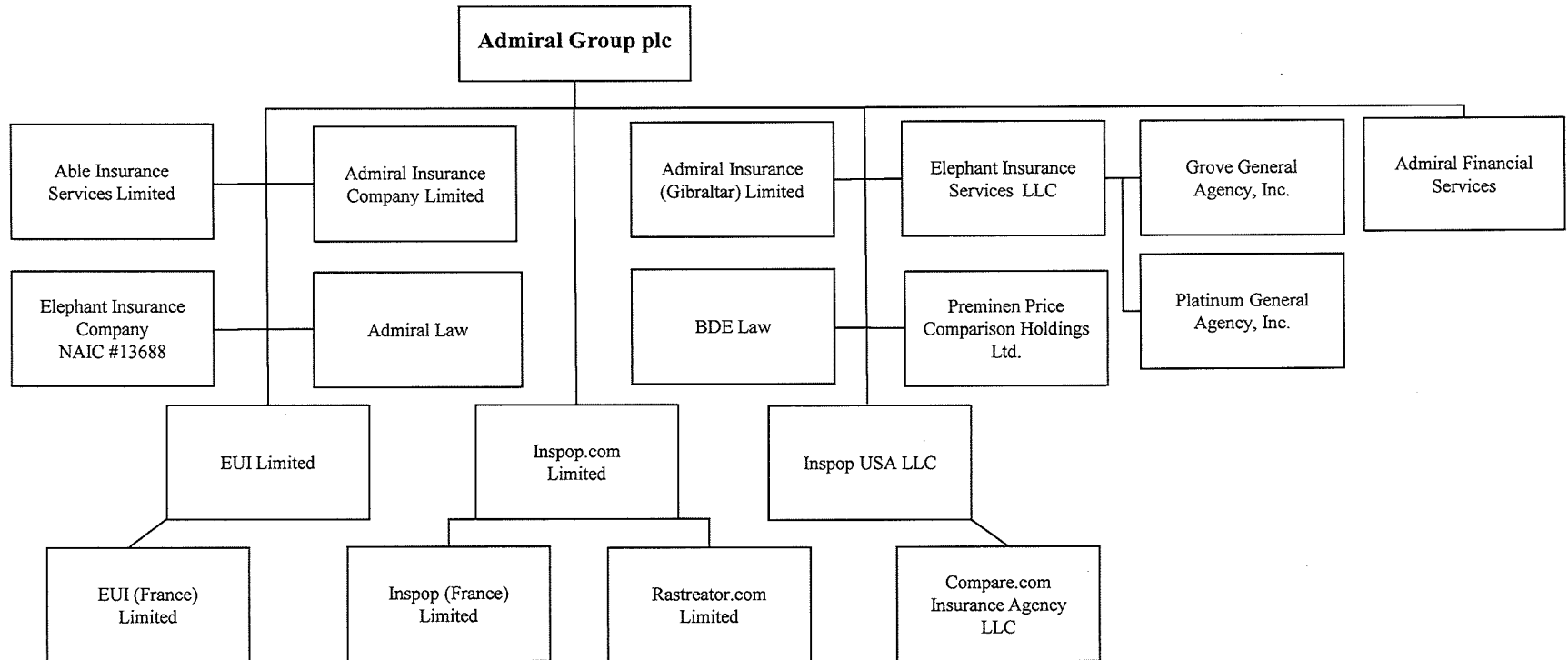
## MANAGEMENT AND CONTROL

The board of directors consists of at least five and no more than nine directors. Except as otherwise required by law, not less than one-third of the directors elected must be persons who are not officers or employees of the Company. A quorum shall consist of a majority of the directors and must include at least one independent director. The bylaws provide that the board shall elect a president, a secretary, and a treasurer. The board may elect other officers as needed.

At December 31, 2018, the directors and officers of the Company were as follows:

<u>Directors</u>	<u>Principal Business Affiliation</u>
Michael L. Jones	Chairman, Elephant Insurance Co. President & CEO, Core Consulting Richmond, VA
Alberto G. Schiavon	Chief Executive Officer Elephant Insurance Services, LLC Glen Allen, Virginia
Robyn D. Zacharias	President & CEO Barber Martin Agency Richmond, VA
Steven T. Foster	President Foster Regulatory Consulting Glen Allen, VA
Gerald A. Rett	Retired Providence Forge, Virginia
 <u>Elected Officers</u>	
Alberto G. Schiavon	President
Jason L. Baham	Treasurer
Bryan H. Sponza	Secretary

The Company is a wholly owned subsidiary of Admiral. The following chart illustrates this insurance holding company system at December 31, 2018:



## RELATED PARTY TRANSACTIONS

### General Agent and Shared Services and Expenses Agreements

The Company has a General Agent Agreement and a Shared Services and Expenses Agreement with its affiliate, Elephant Insurance Services, LLC, a Delaware Limited Liability Company (EIS). EIS provides marketing, sales, pricing, product management, underwriting, claims handling, financial, administrative, and other services to the Company.

In exchange for these services, the Company reimburses EIS on an actual cost basis within 30 days after the end of each month. For the period under review, the Company paid \$83,296,628, \$96,058,747 and \$101,120,751, for 2016, 2017 and 2018, respectively.

### Trade Mark and Domain Name License Agreement

The Company has a Trade Mark and Domain Name License Agreement with its affiliate, EUI Limited (EUI), a company incorporated in England and Wales. EUI provides the Company with a non-exclusive, non-transferable license to use certain intellectual property used to produce and service private passenger auto insurance business in the United States. Effective January 1, 2014, EUI is compensated \$10,000 per month for this license.

### Capital Maintenance Agreement

Effective January 2015, the Company entered into a Capital Maintenance Agreement with Admiral. The agreement requires Admiral to maintain in the Company a capital level greater than 300% of the Authorized Control Level RBC, as defined by Virginia law, through December 2018.



## TERRITORY AND PLAN OF OPERATION

At December 31, 2018, the Company is licensed to transact the following lines of business of insurance in Virginia.

Animal	Home Protection
Auto Liability	Homeowners Multi-Peril
Auto Physical Damage	Inland Marine
Burglary & Theft	Legal Services
Commercial Multi-Peril	Liability Other Than Auto
Credit Involuntary Unemployment	Misc Property & Casualty
Farmowners Multi-Peril	Ocean Marine
Fire	Water Damage

At December 31, 2018, the Company is also licensed in the District of Columbia, Georgia, Illinois, Indiana, Iowa, Maryland, Mississippi, Missouri, Montana, Nebraska, New Mexico, North Dakota, Ohio, Oklahoma, Oregon, Pennsylvania Tennessee, Texas and Utah. The Company's business is still written primarily in Texas and Virginia.

The Company writes business on a direct basis to its policyholders, utilizing telephone and internet access. The Company does not use a traditional underwriting approach, but relies instead on an automated rating and underwriting process.

Control over underwriting and settlement of claims is maintained at the Company's home office.

### REINSURANCE

#### Ceded

Effective January 1, 2010, the Company entered into long-term reinsurance agreements with Hannover Reinsurance (Ireland) LTD (Hannover) and Münchener Rückversicherungs-Gesellschaft (Munich Re). Under the agreements, the Company cedes 33.3% of premiums written to Hannover and 33.33% of premiums written to Munich Re for policies incepted January 1, 2010 and thereafter. Under these agreements, both reinsurers shall share in all expenses, claims and operations incurred by the Company.

Effective January 1, 2018, the Company entered into a catastrophe aggregate reinsurance agreement. Under this agreement, the Company will cede business as follows:

<u>Type of Agreement</u>	<u>Business Covered</u>	<u>Company's Retention</u>	<u>Reinsurers' Limit of Liability</u>
Catastrophe Excess of Loss	Property	<u>First Layer</u> \$2,000,000	\$8,000,000 ultimate net loss in respect of each loss occurrence; \$16,000,000 ultimate net loss in respect of all loss occurrences during the term of the contract
		<u>Second Layer</u> \$10,000,000	\$10,000,000 ultimate net loss in respect of each loss occurrence; \$20,000,000 ultimate net loss in respect of all loss occurrences during the term of the contract

At December 31, 2018, Hannover participated in the first layer of the catastrophe excess of loss reinsurance agreement at 33.3%.

Assumed

On July 1, 2017 the Company entered into a reinsurance agreement with Redpoint County Mutual Insurance Company (Redpoint). Under this agreement, the Company assumes 100% of all business and obligations written by the general agent for Redpoint.

The Company has provided to Redpoint a Letter of Credit to secure its obligations under its reinsurance agreement.

### GROWTH OF THE COMPANY

The following data, obtained from Annual Statements filed with the Bureau and from examination reports, indicates the growth of the Company since inception:

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Common Capital Stock</u>	<u>Gross Paid In and Contributed Surplus</u>	<u>Unassigned Funds (Surplus)</u>
2009	\$14,116,865	\$140,398	\$1,400,000	\$12,600,000	(\$23,533)
2010	18,586,741	5,563,212	2,000,000	18,000,000	(6,976,471)
2011	43,020,673	18,000,042	3,700,000	33,300,000	(11,979,369)
2012	82,402,616	36,005,021	7,950,000	71,550,000	(33,102,405)
2013	93,898,856	42,685,560	9,950,000	89,550,000	(48,286,704)
2014	116,199,168	65,430,902	11,950,000	107,550,000	(68,731,734)
2015	155,100,185	98,494,794	14,950,000	134,550,000	(92,894,609)
2016	202,970,124	149,040,427	16,950,000	152,550,000	(115,570,303)
2017	215,864,333	158,941,122	18,950,000	170,550,000	(132,576,789)
2018	237,175,320	182,747,263	19,750,000	177,750,000	(143,071,943)

<u>Year</u>	<u>Premiums Earned</u>	<u>Loss and Loss Adjustment Expenses Incurred</u>	<u>Other Underwriting Expenses</u>	<u>Net Underwriting Gains or (Loss)</u>
2009	\$14,558	\$6,997	\$4,047	\$3,514
2010	1,156,538	937,739	6,675,668	(6,456,869)
2011	3,563,708	3,122,283	6,768,514	(6,327,089)
2012	11,142,842	11,314,964	23,285,715	(23,457,837)
2013	17,203,941	16,563,365	22,094,371	(21,453,795)
2014	26,823,993	27,011,355	18,683,408	(18,870,770)
2015	38,058,866	37,367,264	20,983,040	(20,291,438)
2016	55,391,801	52,652,242	23,143,547	(20,403,988)
2017	70,737,972	61,982,176	23,346,028	(14,590,277)
2018	81,403,350	71,404,840	20,480,644	(10,482,134)

**FINANCIAL STATEMENTS**

The following statutory financial statements present the financial condition of the company for the period ending December 31, 2018. No examination adjustments were made to the statutory financial statements filed by the Company with the Bureau for the period ending December 31, 2018.

**ASSETS**

	<u>Assets</u>	<u>Nonadmitted Assets</u>	<u>Net Admitted Assets</u>
Bonds	\$41,046,279		\$41,046,279
Cash and cash equivalents	52,733,783		52,733,783
Investment income due and accrued	327,355		327,355
Uncollected premiums and agents' balances in the course of collection	6,052,330	2,487,670	3,564,660
Deferred premiums, agents' balances and installments booked but deferred and not yet due	123,581,140		123,581,140
Amounts recoverable from reinsurers	10,373,165		10,373,165
Other amounts receivable under reinsurance contracts	3,760,226		3,760,226
Receivables from parent, subsidiaries and affiliates	1,788,712		1,788,712
Totals	<u>\$239,662,990</u>	<u>\$2,487,670</u>	<u>\$237,175,320</u>

**LIABILITIES, SURPLUS AND OTHER FUNDS**

Losses		\$33,629,394
Loss adjustment expenses		5,384,570
Other expenses		30,783
Taxes, licenses and fees		1,866,730
Unearned premiums		48,922,649
Advance premium		1,658,490
Ceded reinsurance premiums payable		90,858,315
Provision for reinsurance		<u>396,332</u>
Total liabilities		\$182,747,263
Common capital stock	\$19,750,000	
Gross paid in and contributed surplus	177,750,000	
Unassigned funds (surplus)	<u>(143,071,943)</u>	
Surplus as regards policyholders		<u>54,428,057</u>
Totals		<u><u>\$237,175,320</u></u>

**UNDERWRITING AND INVESTMENT EXHIBIT**  
**STATEMENT OF INCOME**

UNDERWRITING INCOME

Premiums earned	\$81,403,350
Deductions:	
Losses incurred	\$62,663,403
Loss expenses incurred	8,741,437
Other underwriting expenses incurred	20,480,644
Total underwriting deductions	\$91,885,484
Net underwriting loss	(\$10,482,134)

INVESTMENT INCOME

Net investment income earned	\$1,469,598
Net realized capital gains (losses)	(6,577)
Net investment gain	\$1,463,021

OTHER INCOME

Net loss from agents' or premium balances charged off	(\$1,350,379)
Finance and service charges not included in premiums	2,998,117
Expenses related to service charges	(2,998,117)
Total other income	(\$1,350,379)
Net income before federal income taxes	(\$10,369,492)
Net income	(\$10,369,492)

**RECONCILIATION OF CAPITAL AND SURPLUS**  
**FOR PERIOD UNDER REVIEW**

	<u>2016</u>	<u>2017</u>	<u>2018</u>
Surplus as regards policyholders, December 31, previous year	<u>\$56,605,391</u>	<u>\$53,929,697</u>	<u>\$56,923,211</u>
Net income	(\$21,879,342)	(\$16,109,946)	(\$10,369,492)
Change in unrealized capital losses		(2,019)	(212)
Change in nonadmitted assets	(796,352)	(444,521)	(179,118)
Change in provision for reinsurance		(450,000)	53,668
Capital paid in	2,000,000	2,000,000	800,000
Surplus paid in	<u>18,000,000</u>	<u>18,000,000</u>	<u>7,200,000</u>
Change in surplus as regards policyholders for the year	<u>(\$2,675,694)</u>	<u>\$2,993,514</u>	<u>(\$2,495,154)</u>
Surplus as regards policyholders, December 31, current year	<u><u>\$53,929,697</u></u>	<u><u>\$56,923,211</u></u>	<u><u>\$54,428,057</u></u>



**CASH FLOW****Cash From Operations**

Premiums collected net of reinsurance	\$72,957,916
Net investment income	1,553,290
Total	<u>\$74,511,206</u>
Benefits and loss related payments	\$46,521,108
Commissions, expenses paid and aggregate write-ins for deductions	28,228,386
Total	<u>\$74,749,494</u>
Net cash from operations	<u>(\$238,288)</u>

**Cash From Investments**

Proceeds from investments sold:	
Bonds	\$14,358,993
Net losses on cash and cash equivalents	(213)
Total investment proceeds	<u>\$14,358,780</u>
Cost of investments acquired:	
Bonds	\$15,044,296
Total investments acquired	<u>\$15,044,296</u>
Net cash from investments	<u>(\$685,516)</u>

**Cash From Financing And Miscellaneous Sources**

Cash provided:	
Capital and paid in surplus	\$8,000,000
Net cash from financing and miscellaneous sources	<u>\$8,000,000</u>
Net change in cash and cash equivalents	<u>\$7,076,196</u>

**RECONCILIATION OF CASH AND CASH EQUIVALENTS**

Cash and cash equivalents:	
Beginning of year	\$45,657,587
End of year	52,733,783
Net change in cash and cash equivalents	<u>\$7,076,196</u>

**SUBSEQUENT EVENTS**

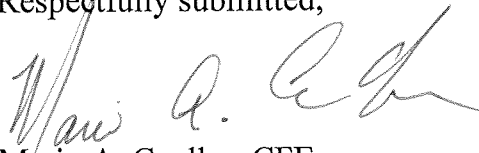
Effective January 2019, the Company entered into a new Capital Maintenance Agreement with Admiral Group, Plc. The agreement requires Admiral to maintain in the Company a capital level greater than 300% of the Authorized Control Level RBC, as defined by Virginia law, through December 2019. The agreement limits any necessary capital contributions to \$100 million in total.

**ACKNOWLEDGMENT**

The courteous cooperation extended by the Company's officers and employees during the course of the examination is gratefully acknowledged.

In addition to the undersigned, Jennifer K. Blizzard, CFE, and T. Bradford Earley, CFE of the Bureau participated in the work of the examination.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Mario A. Cuellar".

Mario A. Cuellar, CFE  
Principal Insurance Financial Analyst  
Commonwealth of Virginia

PO Box 5005  
Glen Allen, VA 23058  
www.elephant.com



STATE CORP COMMISSION  
BUREAU OF INSURANCE

20 MAR 17 AM 8:45

March 12, 2020

Mr. David H. Smith  
Chief Examiner  
State Corporation Commission  
Bureau of Insurance  
P.O. Box 1157  
Richmond, Virginia 23218

Mr. Smith:

As requested, this letter acknowledges the receipt of the Elephant Insurance Company Examination Report as of December 31, 2018. We take no issue with any matter contained in the Examination Report and will not be submitting a request for a hearing before the Commission.

Elephant Insurance Company gratefully appreciates the Bureau of Insurance's diligence and counsel in conducting the examination.

Should any question or concerns arise, please feel free to contact me at any time.

Sincerely,

A handwritten signature in cursive script that reads "Alberto G. Schiavon".

Alberto G. Schiavon  
President  
804-955-1700  
Alberto.Schiavon@elephant.com