

ASSOCIATION EXAMINATION REPORT
on
PENN-PATRIOT INSURANCE COMPANY
Bala Cynwyd, Pennsylvania
as of
December 31, 2017

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE

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 Penn-Patriot Insurance Company as of December 31, 2017, 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 24th day of May 2019

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
January 22, 2019

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

Dear Sir:

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

Penn-Patriot Insurance Company

Bala Cynwyd, Pennsylvania

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

SCOPE OF THE EXAMINATION

This is a full scope financial condition examination initiated and conducted under the provisions of Article 4, Chapter 13 of Title 38.2 of the Code of Virginia. The examination covers the period from January 1, 2013 through December 31, 2017. Assets were verified and liabilities were established at December 31, 2017.

This 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 and identify prospective risks of the Company, assess corporate governance, identify and assess inherent risks within the Company and evaluate system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles, and annual statement instructions when applicable to domestic state regulations.

The Examination was conducted by the Pennsylvania Department of Insurance with Pennsylvania acting as the lead state. The examination of the Company was conducted concurrently with the examination of the following insurers:

Insurer

United National Insurance Company
 Penn-America Insurance Company
 Penn-Star Insurance Company
 Diamond State Insurance Company
 American Reliable Insurance Company

Domiciliary State

Pennsylvania
 Pennsylvania
 Pennsylvania
 Indiana
 Arizona

The services of Merlino & Associates, Inc. were employed to provide an actuarial report as to the reasonableness of the Company's loss and loss adjustment expense reserves as of December 31, 2017.

The services of The Thomas Consulting Group, Inc. were employed to provide a report on the evaluation of the information systems controls as of December 31, 2017.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

HISTORY

The Company is a stock property and casualty insurer and is licensed under and subject to the general insurance laws contained in Title 38.2 of the Code of Virginia.

The Company was incorporated in Virginia by the State Corporation Commission (Commission) on February 20, 2003. Initial capitalization was provided by the Company's immediate parent, Penn-America Insurance Company, on March 1, 2005 and consisted of 1,000,000 shares of common stock with a par value of \$1 per share and additional paid in capital of \$19,000,000. The Company was licensed as a property and casualty insurance company by the Commission's Bureau of Insurance on April 6, 2005.

Dividends

In December 2013, the Company requested and received approval from the Bureau of an extraordinary dividend of \$19,500,000. Of this amount, \$14,000,000 was a return of capital and \$5,500,000 was a reduction in unassigned funds.

In March 2014, Penn-America contributed \$12,000,000 of additional paid in capital to the Company. This transaction was approved by the Bureau.

MANAGEMENT AND CONTROL

Management is vested in a board of directors, which shall consist of no less than seven members and no more than the maximum allowed by statute. Each director shall be elected to hold office until the next succeeding annual meeting of the shareholders or until his successor shall have been elected and qualified.

The bylaws provide for a president, a secretary and a treasurer. The board of directors or the president may appoint one or more vice presidents or other officers and assistant officers as deemed necessary. The president must be a member of the board of directors.

Directors and officers at December 31, 2017 were as follows:

<u>Director:</u>	<u>Principal Business Affiliation:</u>
Raphael L. Balmann	Portfolio Manager Bretton Capital Management San Rafael, California
David C. Elliott	Senior Vice President, Claims Global Indemnity Group, Inc. Wenonah, New Jersey
Seth J. Gersch	Co-Owner, Eclipse Assets, LLC Manager, Foundation BOD, LLC San Francisco, California
Bruce R. Lederman	Managing Member, Palisades INV GRP, LLC Member, Fowler Radio Group, LLC General Partner, ZHL Investments, L.P. Pacific Palisades, California
Michael P. Loftus	Vice President and General Auditor Global Indemnity Limited Phoenixville, Pennsylvania
Thomas M. McGeehan	Executive Vice President and Chief Financial Officer Global Indemnity Limited King of Prussia, Pennsylvania

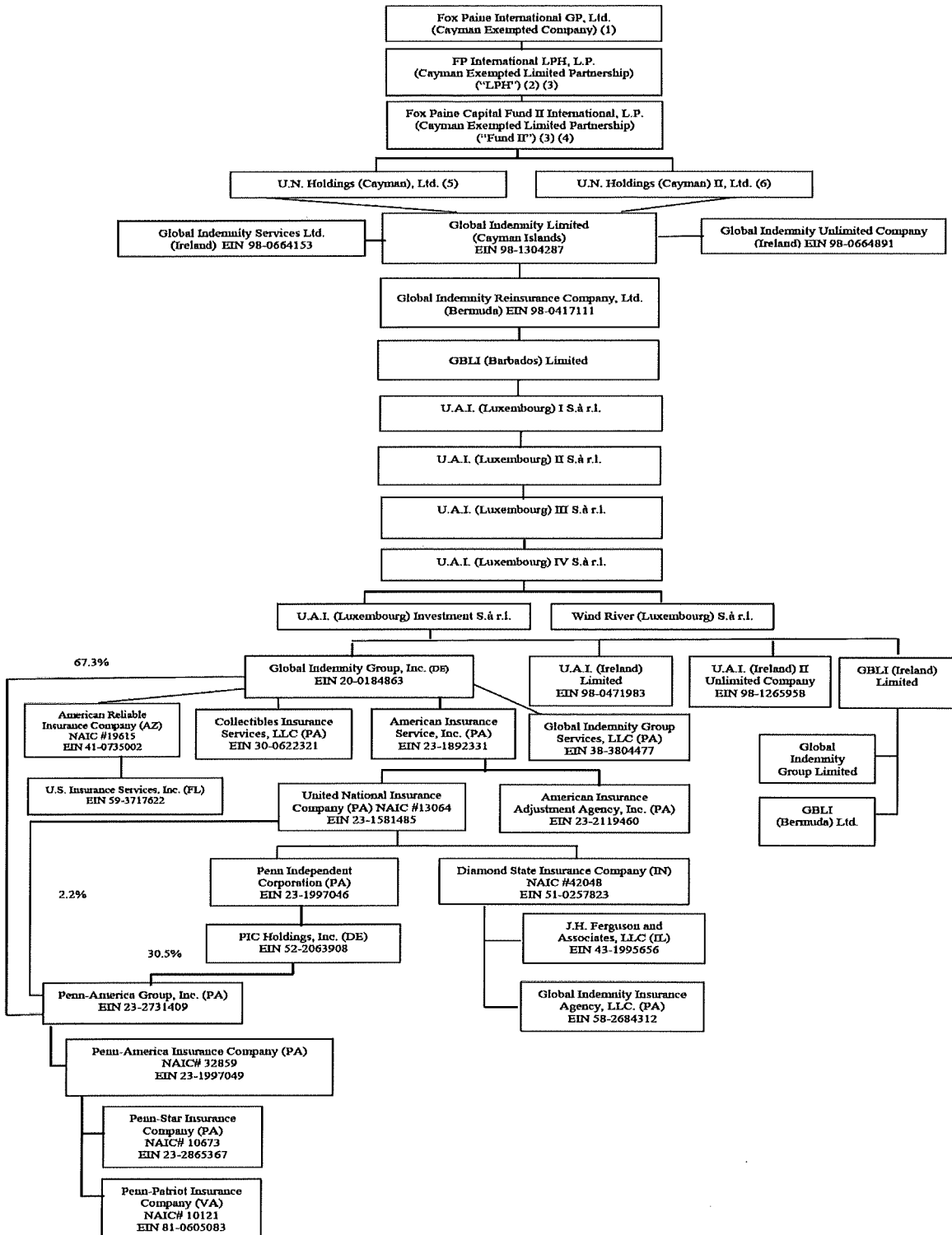
Matthew B. Scott Executive Vice President – Commercial Lines
Global Indemnity Group, Inc.
Berwyn, Pennsylvania

Cynthia Y. Valko Chief Executive Officer
Global Indemnity Limited
Collegeville, Pennsylvania

Officers:

Matthew B. Scott	Executive Vice President, Commercial Lines
Thomas M. McGeehan	Chief Financial Officer and Treasurer
Stephen W. Ries	Assistant Vice President, Senior Corporate Counsel and Secretary
William J. Devlin, Jr.	Executive Vice President
David C. Elliott	Senior Vice President
Caroline M. Tate	Senior Vice President
Brian J. Riley	Vice President
Thomas P. Gibbons	Chief Actuary

The Company is a member of the Global Indemnity Group, Inc. (“GIGI”) insurance holding company, which is comprised of six U.S. insurance companies, American Reliable Insurance Company, United National Insurance Company (“UNIC”) and its wholly owned subsidiaries, Diamond State Insurance Company (“DSIC”), and Penn-America Insurance Company, and its wholly owned subsidiaries, Penn-Star Insurance Company and the Company. The U.S. insurance subsidiaries comprising GIGI are indirectly owned by Global Indemnity Limited, a publicly-traded (NASDAQ:GBLI) specialty property and casualty insurance holding company formed under the laws of the Cayman Islands. Fox Paine International GP, Ltd., a Cayman exempted company, is named as the ultimate controlling person in the holding company system. However, Fox Paine Capital Fund II International L.P. was formed to be the beneficial owner of the holding company and is named as an intermediate controlling person and the financially responsible person. The following organizational chart illustrates the holding company at December 31, 2017:



RELATED PARTY TRANSACTIONS

Cost Allocation Agreement

The insurers within the GIGI holding company, including the Company, participate in a cost allocation agreement amongst themselves and with the non-insurance affiliates of GIGI, including: American Insurance Service, Inc., Global Indemnity Group Services, LLC, American Insurance Adjustment Agency, Inc., Global Indemnity Insurance Agency, LLC, J.H. Ferguson & Associates, LLC, Penn-America Group, Inc., Penn Independent Corporation, Collectibles Insurance Services, LLC, PIC Holdings, Inc., and U.S. Insurance Holdings, Inc. The parties have agreed to share in the purchase of certain goods and services from third parties and to allocate such expenses in a fair and equitable manner. Each affiliate shall pay all amounts due to each party, as reflected in such affiliate's books as of the end of each calendar quarter reporting period, within sixty (60) days after the end of each calendar quarter. Effective December 1, 2015, the cost allocation agreement was amended and restated to bring the agreement into compliance with new Pennsylvania and Indiana requirements. Effective September 30, 2016, United National Specialty Insurance Company was removed from the agreement upon its sale.

This agreement was approved by the Commission.

Tax Sharing Agreement

The Company is party to a Tax Sharing Agreement dated January 25, 2005, and amended on August 12, 2010, by and among the affiliates of GIGI. Under this Tax Sharing Agreement, the federal tax liability determined at the end of the taxable year of any individual insurer member of the affiliated group will not be more than it would have paid if it had filed on a separate return basis. Intercompany tax balances are settled with payments made within thirty days of the filing of the affiliated groups' return and refunds are paid within thirty (30) days after receipt of any tax refund. Effective December 1, 2015, the tax sharing agreement was amended and restated to bring the agreement into compliance with new Pennsylvania and Indiana requirements.

This agreement was approved by the Commission.

TERRITORY AND PLAN OF OPERATION

The Company is domiciled and licensed only in the Commonwealth of Virginia. As of December 31, 2017, the Company was approved to write the following lines of business in Virginia:

Fire	Automobile Liability
Miscellaneous Property and Casualty	Automobile Physical Damage
Farmowners Multiple Peril	Fidelity
Homeowners Multiple Peril	Surety
Commercial Multiple Peril	Glass
Ocean Marine	Burglary and Theft
Inland Marine	Boiler and Machinery
Workers Compensation-Employers Liability	Credit
Liability Other Than Auto	Water Damage

The Company is an admitted insurance company in Virginia and is an eligible surplus lines company in Pennsylvania.

In Virginia, the Company writes standard lines such as preferred dwellings, apartments less than 25 years old with maximum height of four stories, restaurants with 40% or less liquor sales, main street retail stores, and garden apartments less than 25 years old with maximum height of four stories.

The Company uses a limited number of select general agents to distribute its products. The general agents issue the policies and work with retail brokers who represent potential insureds. The general agents are required to remit premium to the Company within 45 days. Claims are adjusted by internal insurance company adjusters.

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 for the period from inception to December 31, 2017:

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Aggregate Write ins For Special Surplus Funds</u>	<u>Common Capital Stock</u>	<u>Gross Paid In and Contributed Surplus</u>	<u>Unassigned Funds</u>
2008	\$73,029,766	\$43,549,968		\$1,000,000	\$19,000,000	\$9,479,798
2009	56,805,110	27,345,902	319,675	1,000,000	19,000,000	9,139,533
2010	52,342,432	23,145,327		1,000,000	19,000,000	9,197,105
2011	47,868,726	20,145,918		1,000,000	19,000,000	7,722,808
2012	45,697,217	18,114,916		1,000,000	19,000,000	7,582,301
2013*	41,820,419	37,138,685		1,000,000	5,000,000	(1,318,266)
2014*	37,494,468	16,879,698		1,000,000	17,000,000	2,614,770
2015	21,554,217	507,168		1,000,000	17,000,000	3,047,049
2016	51,268,587	32,700,427		1,000,000	17,000,000	568,160
2017	49,955,952	33,317,039		1,000,000	17,000,000	(1,361,087)

*In 2013 paid extraordinary dividend of \$19,500,000. \$14,000,000 was a return of capital and \$5,500,000 was a reduction in assigned funds. In 2014, Penn-America contributed \$12,000,000 of additional paid in capital to the Company.

<u>Year</u>	<u>Premiums Earned</u>	<u>Losses and Loss Adjustment Expenses Incurred</u>	<u>Other Underwriting Expenses</u>	<u>Net Underwriting Gain or (Loss)</u>
2008	\$13,996,225	\$8,509,922	\$4,039,592	\$1,446,711
2009	5,810,184	3,654,158	2,181,798	(25,772)
2010	4,602,682	1,521,971	2,075,473	1,005,238
2011	5,201,926	3,695,636	2,051,109	(544,819)
2012	4,278,961	3,233,151	1,709,025	(663,215)
2013	4,686,730	3,383,290	2,004,199	(700,759)
2014	4,988,779	3,727,546	2,009,746	(748,513)
2015**	0	0	0	0
2016	8,759,560	5,964,264	6,885,888	(4,090,592)
2017	16,580,727	13,556,908	6,578,950	(3,555,131)

**For the 2015 year, the Company's intercompany pooling percentage participation was changed from 5% to 0%. In 2016, the participation returned to 7%.

REINSURANCE

The Company had the following reinsurance coverage in force at December 31, 2017:

Ceded to Non-Affiliated Reinsurers

<u>Type of Agreement</u>	<u>Class of Business</u>	<u>Company Retention</u>	<u>Reinsurer's Limits</u>	
Excess of Loss	Casualty and Professional Liability	\$1,000,000 per occurrence	50% of \$2,000,000 excess of \$1,000,000 per occurrence for general liability	
			50% of 4,000,000 excess of \$1,000,000 per occurrence for professional liability	
Excess of Loss	Property	\$1,000,000 each and every risk	80% of \$4,000,000 excess of \$1,000,000 per risk (all business except property brokerage business and American Reliable)	
			\$2,000,000 each and every risk	75% of \$8,000,000 excess of \$2,000,000 per risk (property brokerage)
			\$1,000,000 each and every risk	100% of \$4,000,000 excess of \$1,000,000 for American Reliable business
			\$10,000,000 each and every risk	100% of \$20,000,000 excess of \$10,000,000 per risk (property brokerage)

<u>Type of Agreement</u>	<u>Class of Business</u>	<u>Company Retention</u>	<u>Reinsurer's Limits</u>
		\$30,000,000 each and every risk	100% of \$20,000,000 excess of \$30,000,000 per risk (property brokerage)
Excess of Loss	Casualty Clash	\$3,000,000 per occurrence	\$10,000,000 excess of \$3,000,000 per occurrence
Surplus Share	Umbrella	\$500,000 retained line	Nine times retained line (\$4,500,000 maximum cession)
Excess of Loss	Property (Auto-Facultative)	\$15,000,000 per occurrence	\$15,000,000 excess of \$15,000,000 per occurrence
Quota Share	Property Catastrophe	<u>First Layer</u> 50% of all catastrophe losses;	\$40,000,000 per occurrence; \$120,000,000 aggregate cap
Excess of Loss	Property Catastrophe	<u>Second Layer</u> \$40,000,000 per occurrence	\$60,000,000 excess of \$40,000,000 per occurrence
		<u>Third Layer</u> \$100,000,000 per occurrence	\$200,000,000 excess of \$100,000,000
Quota Share	Equipment Breakdown	0% retention	100% ceded to reinsurer

The Company is named with its affiliates on various other reinsurance agreements, but no significant transactions occurred under these agreements.

Reinsurance-Related Parties

Intercompany Pooling

Effective January 1, 2009, each of the GIGI insurance companies participate in a single intercompany pool whereby UNIC is the lead insurer. Under the terms of the Reinsurance Pooling Agreement, each of the insurers cedes 100% of their premiums and liabilities to UNIC net of unaffiliated and affiliated third party reinsurance. UNIC then retrocedes net retained premiums and net retained liabilities to the pool members in the following participation percentages:

United National Insurance Company	30%
American Reliable Insurance Company	25%
Penn-Star Insurance Company	16%
Diamond State Insurance Company	12%
Penn-America Insurance Company	10%
Penn-Patriot Insurance Company	<u>7%</u>
Total	<u>100%</u>

For the 2015 year, the Company's intercompany pooling percentage participation was changed from 5% to 0%. The percentage returned to 7% in 2016.

Global Indemnity Reinsurance Company Quota Share Reinsurance Contract

Effective January 1, 2012 the Company renewed its quota share reinsurance contract with Global Indemnity Reinsurance Company (GIRe). Under this contract the Company cedes 40% of its net retained business to GIRe. For this contract, "Net Retained Insurance Liability" is defined as that portion of the amount insured which the Company retains net for its own account, after cessions to any other reinsurance agreements. The contract has exclusions for Workers Compensation policies and losses arising from Named Storms. This agreement was terminated January 1, 2018.

The Company maintains trust agreements with its affiliated reinsurers in order to secure reinsurance recoverables from these entities.

All of the above reinsurance agreements contain an insolvency clause.

FINANCIAL STATEMENTS

The following statutory financial statements present the financial condition of the Company for the period ending December 31, 2017. No examination adjustments were made to the statutory financial statements filed by the Company with the Bureau for the period ending December 31, 2017.

ASSETS

	<u>Assets</u>	<u>Nonadmitted Assets</u>	<u>Net Admitted Assets</u>
Bonds	\$42,697,866		\$42,697,866
Cash, cash equivalents and short-term investments	2,235,356		2,235,356
Investment income due and accrued	267,768		267,768
Uncollected premiums and agents' balances in course of collection	3,860,751	44,861	3,815,890
Deferred premiums, agents' balances and installments booked but deferred and not yet due	9,816		9,816
Amounts recoverable from reinsurers	29,637		29,637
Funds held or deposited with reinsured companies	38,533		38,533
Current federal income tax recoverable and interest thereon	228,720		228,720
Net deferred tax asset	640,045	7,679	632,366
Totals	<u>\$50,008,492</u>	<u>\$52,540</u>	<u>\$49,955,952</u>

LIABILITIES, SURPLUS AND OTHER FUNDS

Losses		\$13,683,993
Reinsurance payable on paid losses and loss adjustment expenses		3,104,953
Loss adjustment expenses		6,033,491
Commissions payable, contingent commissions and other similar charges		39,753
Other expenses		10,995
Taxes, licenses and fees		4,193
Unearned premiums		8,863,821
Ceded reinsurance premiums payable		8,115
Remittances and items not allocated		78,203
Payable to parent, subsidiaries and affiliates		1,470,337
Aggregate write-ins for liabilities		<u>19,185</u>
 Total liabilities		 \$33,317,039
 Common capital stock	 \$1,000,000	
Surplus notes	17,000,000	
Unassigned funds	<u>(1,361,087)</u>	
 Surplus as regards policyholders		 <u>16,638,913</u>
 Totals		 <u><u>\$49,955,952</u></u>

UNDERWRITING AND INVESTMENT EXHIBIT
STATEMENT OF INCOME

UNDERWRITING INCOME

Premiums earned	\$16,580,727
Deductions:	
Losses incurred	\$11,378,749
Loss adjustment expenses incurred	2,178,159
Other underwriting expenses incurred	6,578,950
Total underwriting deductions	\$20,135,858
Net underwriting gain	(\$3,555,131)

INVESTMENT INCOME

Net investment income earned	\$966,336
Net realized capital gains	3,221
Net investment gain	\$969,557

OTHER INCOME

Net loss from agents' or premium balances charged off	\$9,422
Aggregate write-ins for miscellaneous income	360
Total other income	\$9,782
Net income before federal income taxes	(\$2,575,792)
Federal income taxes incurred	(1,008,467)
Net income	(\$1,567,325)

RECONCILIATION OF CAPITAL AND SURPLUS
FOR PERIOD UNDER REVIEW

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Surplus as regards policyholders, December 31, previous year	\$27,582,301	\$4,681,735	\$20,614,770	\$21,047,049	\$18,568,160
Net income	\$349,074	\$299,568	\$871,493	(\$3,483,986)	(\$1,567,325)
Change in net unrealized capital gains or (losses)					(2,086)
Change in net deferred income tax	1,170,067	(1,346,411)	(484,742)	1,153,304	(535,376)
Change in nonadmitted assets	(4,919,707)	4,979,878	45,528	(148,207)	175,540
Dividends to stockholders	(19,500,000)	12,000,000			
Change in surplus as regards policyholders for the year	<u>(\$22,900,566)</u>	<u>\$15,933,035</u>	<u>\$432,279</u>	<u>(\$2,478,889)</u>	<u>(\$1,929,247)</u>
Surplus as regards policyholders, December 31, current year	<u>\$4,681,735</u>	<u>\$20,614,770</u>	<u>\$21,047,049</u>	<u>\$18,568,160</u>	<u>\$16,638,913</u>

CASH FLOW**Cash From Operations**

Premiums collected net of reinsurance	\$15,876,556
Net investment income	1,144,939
Miscellaneous income	9,782
Total	<u>\$17,031,277</u>
Benefit and loss related payments	\$11,077,094
Commissions, expenses paid and aggregate write-ins for deductions	9,027,164
Federal income taxes paid (recovered)	(807,313)
Total	<u>\$19,296,945</u>
Net cash from operations	<u>(\$2,265,668)</u>

Cash From Investments

Proceeds from investments sold, matured or repaid:	
Bonds	\$34,019,688
Miscellaneous proceeds	(564)
Total investment proceeds	<u>\$34,019,124</u>
Cost of investments acquired (long-term only):	
Bonds	\$38,501,620
Total investments acquired	<u>\$38,501,620</u>
Net cash from investments	<u>(\$4,482,496)</u>

Cash From Financing and Miscellaneous Sources

Cash provided (applied):	
Other cash provided	\$7,265,111
Net cash from financing and miscellaneous sources	<u>\$7,265,111</u>
Net change in cash and short-term investments	<u>\$516,947</u>

RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS

Cash and short-term investments:	
Beginning of year	\$1,718,409
End of year	2,235,356
Net change in cash and short-term investments	<u>\$516,947</u>

SUBSEQUENT EVENTS

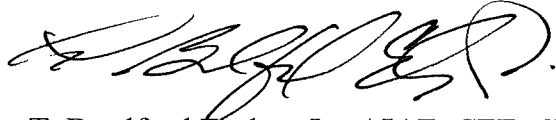
1. The tax allocation agreement was amended effective December 31, 2018.
2. The Company received a \$5,000,000 capital contribution from its parent, Penn-America on December 31, 2018.
3. The Company's Executive Vice President of Commercial Lines, Matthew B. Scott, passed away on January 3, 2019. On February 4, 2019, Jonathan Oltman was appointed as the Company's Executive Vice President of Commercial Lines.
4. Effective December 31, 2018, the pooling percentages were amended. American Reliable increased from 25% to 30% and Penn-America was reduced from 10% to 5%. The Company's percentage remained the same at 7%.

ACKNOWLEDGMENT

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

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

Respectfully submitted,

A handwritten signature in black ink, appearing to read "T. Bradford Earley, Jr.", written in a cursive style.

T. Bradford Earley, Jr., AIAF, CFE, CPCU
BOI Manager



GLOBAL INDEMNITY
GROUP, INC.

American Reliable Insurance Company[®]
Diamond State Insurance Company[®]
Penn-America Insurance Company[®]
Penn-Patriot Insurance Company[®]
Penn-Star Insurance Company[®]
United National Insurance Company[®]

May 9, 2019

David H. Smith, CFE, CPA, CPCU
Chief Examiner
Commonwealth of Virginia
Bureau of Insurance
1300 E. Main Street
Richmond, VA 23219

Re: Penn-Patriot Insurance Company Report of Examination

Dear Mr. Smith:

This letter acknowledges the Company's acceptance of the Report of Examination of Penn-Patriot Insurance Company ("the Report"), made of the close of business December 31, 2017.

Sincerely,

Thomas M. McGeehan
Chief Financial Officer and Treasurer

Date 5/9/19

William J. Devlin, Jr.
Executive Vice President
Personal Lines and Agriculture

Date 5/9/19