

**EXAMINATION REPORT
of
ELEPHANT INSURANCE COMPANY
Glen Allen, Virginia
as of
December 31, 2021**

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, 2021, 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 2nd day of February 2023

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

Scott A. White
Commissioner of Insurance



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Richmond, Virginia
December 16, 2022

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

Dear Sir:

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, 2018. This examination covers the period from January 1, 2019, through December 31, 2021.

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, 2021.

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 ultimate 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 in September 2009 of which \$1,400,000 was used to purchase 140 shares of \$10,000 par value common stock and \$12,600,000 represented additional paid-in surplus.

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

	Additional Paid <u>In Capital</u>	Additional Paid <u>In Surplus</u>
2019	\$0	\$0
2020	\$0	\$0
2021	\$1,200,000	\$10,800,000

At December 31, 2021, the Company has 5,000 shares of \$10,000 par value common stock authorized and 2,095 shares issued and outstanding.

Effective March 1, 2021, the Company became a fully owned subsidiary of Elephant Holding Company, LLC. Admiral is the direct parent and full owner of Elephant Holding Company, LLC. The change in organizational structure had no impact on ultimate control of the Company.

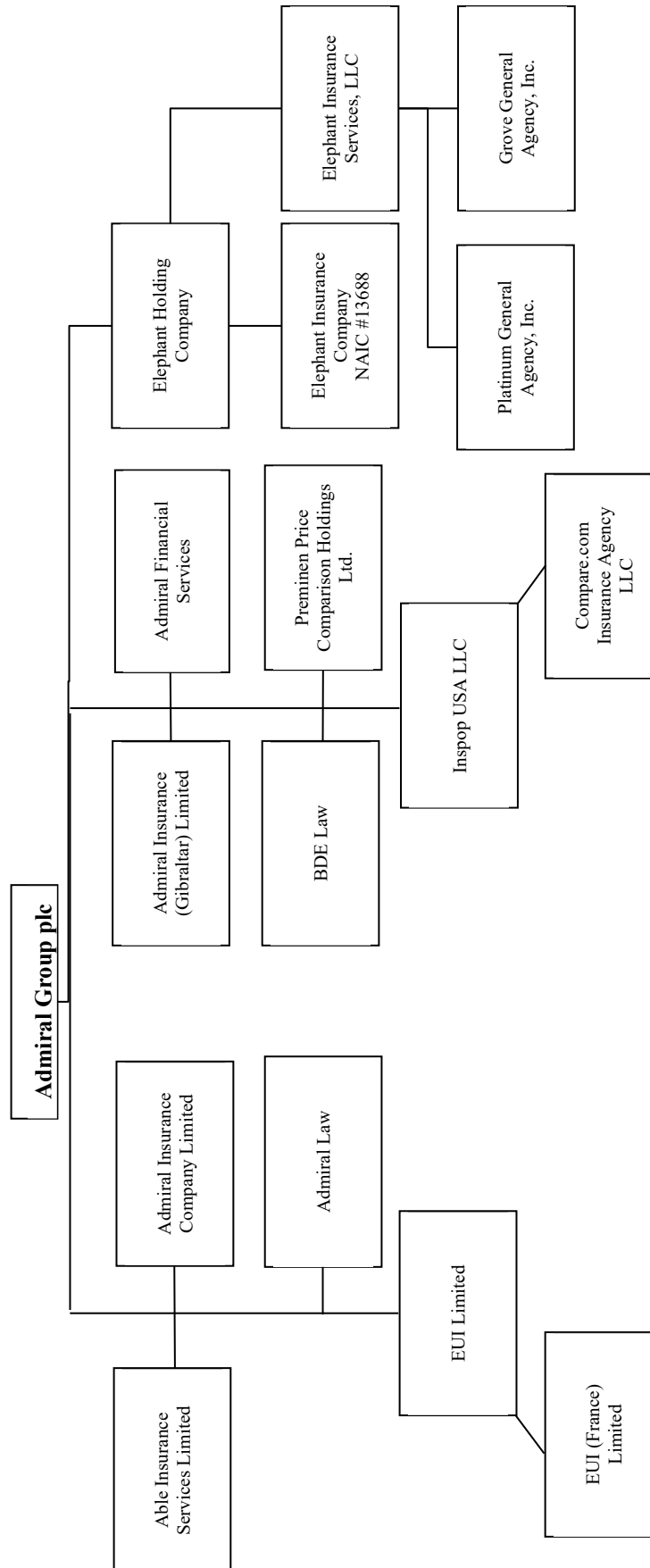
MANAGEMENT AND CONTROL

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, 2021, the directors and officers of the Company were as follows:

<u>Directors</u>	<u>Principal Business Affiliation</u>
Michael Lee Jones	Chairman, Elephant Insurance Co. President & CEO, Core Consulting Richmond, Virginia
Alberto Giuseppe Schiavon	Chief Executive Officer Elephant Insurance Services, LLC Glen Allen, Virginia
Steven Thomas Foster	President Foster Regulatory Consulting Glen Allen, Virginia
Gerald Alan Rett	Retired Providence Forge, Virginia
Constantino Moretti	Chief Executive Officer for International Insurance Admiral Group, plc Rome, Italy
<u>Elected Officers</u>	
Alberto Giuseppe Schiavon	President
Jason Lewis Baham	Treasurer
Bryan Henry Sponza	Secretary

The Company is a wholly owned subsidiary of Elephant Holding Company, LLC. The following chart illustrates this insurance holding company system at December 31, 2021:



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 \$112,716,534, \$108,583,938 and \$114,296,241, for 2019, 2020 and 2021, 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. There is no fee paid for the license.

Capital Maintenance Agreement

Effective January 1, 2021, 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 31, 2021. The maximum capital contributions required under the Capital Maintenance Agreement are subject to a cap of \$75 million. The agreement is renewed on an annual basis.

Consolidated Tax Sharing Agreement

The Company entered into a consolidated tax sharing agreement with Elephant Holding Company, LLC effective March 1, 2021. The Company is responsible for paying Elephant Holding Company, LLC its portion of the tax liability no later than the due date of the consolidated return. Other parties to the agreement are Elephant Insurance Services, LLC, Grove General Agency, Inc., and Platinum General Agency, Inc.

TERRITORY AND PLAN OF OPERATION

At December 31, 2021, 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, 2021, 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 primarily writes business on a direct basis to its policyholders, utilizing telephone and internet access. In addition, the Company also writes business through independent agents and shopping comparison sites. 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 ceded 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 shared in all expenses, claims and operations incurred by the Company, subject to combined ratio caps.

Effective January 1, 2020, the agreements with Hanover and Munich Re were amended. Under the agreements, the Company cedes 25% of premiums written to

Hannover and 25% of premiums written to Munich Re for policies incepted January 1, 2020 and thereafter. In addition, the Company entered into a multi-year quota-share agreement with an affiliate, Admiral Insurance (Gibraltar) Limited (AIGL). Under this agreement the Company ceded 25% of premiums written to AIGL. Under all these agreements, the reinsurers shall share in all expenses, claims and operations incurred by the Company, subject to combined ratio and expense ratio caps.

Effective January 1, 2021, under the terms of the reinsurance agreement, the amount ceded to AIGL increased from 25% to 30%. In addition, the Company entered into a multi-year quota-share reinsurance agreement with MAPFRE Re, Compania de Reaseguros, S.A. (MAPFRE). Under this agreement the Company will cede 5% of net written premiums to MAPFRE for policies incepted after January 1, 2021. This amount will increase to 20% on January 1, 2022 and continue through the end of 2023.

Effective January 1, 2021, 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> \$2,500,000	\$12,500,000 ultimate net loss in respect of each loss occurrence; \$25,000,000 ultimate net loss in respect of all loss occurrences during the term of the contract
		<u>Second Layer</u> \$15,000,000	\$5,000,000 ultimate net loss in respect of each loss occurrence; \$10,000,000 ultimate net loss in respect of all loss occurrences during the term of the contract

Assumed

On July 1, 2017, the Company entered into a reinsurance agreement with Redpoint County Mutual Insurance Company (Redpoint). Under the agreement, the Company assumes 100% of all business and obligations written by its affiliated entities, Grove General Agency Inc. and Platinum General Agency Inc., which are appointed managing general agents 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 for the ten-year period ending December 31, 2021:

<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>
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)
2019	240,033,825	201,113,351	19,750,000	177,750,000	(158,579,526)
2020	222,878,431	183,633,085	19,750,000	177,750,000	(158,254,654)
2021	216,400,366	179,390,626	20,950,000	188,550,000	(172,490,260)

<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>
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	70,737,927	61,982,176	23,346,028	(14,590,277)
2018	81,403,350	71,404,840	20,480,644	(10,482,134)
2019	93,655,306	84,365,577	24,479,879	(15,190,150)
2020	81,564,479	57,610,079	23,388,567	568,833
2021	54,977,333	41,257,553	27,190,669	(13,470,889)

FINANCIAL STATEMENTS

The following statutory financial statements present the financial condition of the company for the period ending December 31, 2021. No examination adjustments were made to the statutory financial statements filed by the Company with the Bureau for the period ending December 31, 2021.

ASSETS

	<u>Assets</u>	<u>Nonadmitted Assets</u>	<u>Net Admitted Assets</u>
Bonds	\$40,481,024		\$40,481,024
Cash and short-term investments	35,962,867		35,962,867
Investment income due and accrued	101,206		101,206
Receivable for securities	654		654
Uncollected premiums and agents' balances in the course of collection	5,970,973	3,408,048	2,562,925
Deferred premiums, agents' balances and installments booked but deferred and not yet due	95,096,788		95,096,788
Reinsurance:			
Amounts recoverable from reinsurers	32,410,165		32,410,165
Other amounts receivable under reinsurance contracts	9,611,155		9,611,155
Receivables from parent, subsidiaries and affiliates	<u>173,582</u>	<u></u>	<u>173,582</u>
Totals	<u>\$219,808,414</u>	<u>\$3,408,048</u>	<u>\$216,400,366</u>

LIABILITIES, SURPLUS AND OTHER FUNDS

Losses		\$26,378,060
Loss adjustment expenses		4,507,039
Other expenses		52,835
Taxes, licenses and fees		2,221,759
Unearned premiums		18,315,512
Advance premium		556,052
Ceded reinsurance premiums payable		<u>127,359,369</u>
 Total liabilities		 \$179,390,626
 Common capital stock	\$20,950,000	
Gross paid in and contributed surplus	188,550,000	
Unassigned funds (surplus)	<u>(172,490,260)</u>	
 Surplus as regards policyholders		 <u>37,009,740</u>
 Totals		 <u><u>\$216,400,366</u></u>

UNDERWRITING AND INVESTMENT EXHIBIT
STATEMENT OF INCOME

UNDERWRITING INCOME

Premiums earned	\$54,977,333
Deductions:	
Losses incurred	\$37,219,692
Loss expenses incurred	4,037,861
Other underwriting expenses incurred	27,190,669
Total underwriting deductions	\$68,448,222
Net underwriting loss	(\$13,470,889)

INVESTMENT INCOME

Net investment income earned	\$419,224
Net realized capital gains	2,062
Net investment gain	\$421,286

OTHER INCOME

Net loss from agents' or premium balances charged off	(\$914,302)
Finance and service charges not included in premiums	1,793,573
Expenses related to service charges	(1,793,573)
Total other income	(\$914,302)
Net income before federal income taxes	(\$13,963,905)
Net income	(\$13,963,905)

RECONCILIATION OF CAPITAL AND SURPLUS
FOR PERIOD UNDER REVIEW

	<u>2019</u>	<u>2020</u>	<u>2021</u>
Surplus as regards policyholders, December 31, previous year	<u>\$54,428,057</u>	<u>\$38,920,474</u>	<u>\$39,245,346</u>
Net income	(\$14,825,206)	(\$108,817)	(\$13,963,905)
Change in unrealized capital gains	2,232	1,099	327
Change in nonadmitted assets	(244,805)	(403,545)	(272,028)
Change in provision for reinsurance	(439,804)	836,135	
Capital paid in			1,200,000
Surplus paid in	<u> </u>	<u> </u>	<u>10,800,000</u>
Change in surplus as regards policyholders for the year	<u>(\$15,507,583)</u>	<u>\$324,872</u>	<u>(\$2,235,606)</u>
Surplus as regards policyholders, December 31, current year	<u><u>\$38,920,474</u></u>	<u><u>\$39,245,346</u></u>	<u><u>\$37,009,740</u></u>

CASH FLOW**Cash From Operations**

Premiums collected net of reinsurance	\$60,250,768
Net investment income	542,876
Total	<u>\$60,793,644</u>
Benefits and loss related payments	\$45,044,688
Commissions, expenses paid and aggregate write-ins for deductions	25,390,324
Total	<u>\$70,435,012</u>
Net cash from operations	<u>(\$9,641,368)</u>

Cash From Investments

Proceeds from investments sold:	
Bonds	\$13,395,576
Net gains on cash, cash equivalents, and short-term investments	473
Miscellaneous proceeds	572
Total	<u>\$13,396,621</u>
Cost of investments acquired:	
Bonds	<u>\$12,712,745</u>
Total	<u>\$12,712,745</u>
Net cash from investments	<u>\$683,876</u>

Cash From Financing And Miscellaneous Sources

Cash provided:	
Capital and paid in surplus, less treasury stock	<u>\$12,000,000</u>
Net cash from financing and miscellaneous sources	<u>\$12,000,000</u>
Net change in cash and short-term investments	<u>\$3,042,508</u>

RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS

Cash and short-term investments:	
Beginning of year	\$32,920,359
End of year	35,962,867
Net change in cash and short-term investments	<u>\$3,042,508</u>

SUBSEQUENT EVENTS

During 2022, Admiral contributed the following additional capital and surplus to the Company:

	Additional Paid <u>In Capital</u>	Additional Paid <u>In Surplus</u>
March	\$1,200,000	\$10,800,000
June	\$2,300,000	\$20,700,000
September	\$2,400,000	\$21,600,000
December	<u>\$2,100,000</u>	<u>\$18,900,000</u>
Total	<u>\$8,000,000</u>	<u>\$72,000,000</u>

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, Chris J. Collins, CFE, Benjamin B. MacKercher, CFE, and Alyssa G. Marinoble of the Bureau participated in the work of the examination.

Respectfully submitted,

Mario A Cuellar

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



January 25, 2023

Mr. David H. Smith
Chief Financial 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, 2023. 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,

Alberto Giuseppe Schiavon

Alberto Giuseppe Schiavon (Jan 26, 2023 14:49 EST)

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