REPORT ON EXAMINATION

OF

LANCER INDEMNITY COMPANY

AS OF

DECEMBER 31, 2017

DATE OF REPORT	APRIL 19, 2019
EXAMINER	TEENA JOSEPH

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April 19, 2019

Honorable Linda A. Lacewell
Acting Superintendent
New York State Department of Financial Services
Albany, New York 12257

Madam:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 31800 dated July 31, 2018, attached hereto, I have made an examination into the condition and affairs of Lancer Indemnity Company as of December 31, 2017, and submit the following report thereon.

Wherever the designation "the Company" appears herein without qualification, it should be understood to indicate Lancer Indemnity Company.

Wherever the term "Department" appears herein without qualification, it should be understood to mean the New York State Department of Financial Services.

The examination was conducted at the Company's home office located at 370 West Park Avenue, Long Beach, NY 11561.

1. SCOPE OF EXAMINATION

The Department has participated in a coordinated group examination of the Company, a multi-state insurer. The previous examination was conducted as of December 31, 2012. This examination covered the five-year period from January 1, 2013 through December 31, 2017. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

The examination was conducted in conjunction with the State of Illinois, which was the lead state of the Lancer Financial Group. The examination was performed concurrently with the examination of Lancer Insurance Company ("LIC"), an affiliated insurer domiciled in Illinois.

This examination was conducted in accordance with the National Association of Insurance Commissioners ("NAIC") Financial Condition Examiners Handbook ("Handbook"), which requires that we plan and perform the examination to evaluate the financial condition and identify current and prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company and evaluating system controls and procedures used to mitigate those risks. This 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 New York laws, statutory accounting principles, and annual statement instructions.

This examination report includes, but is not limited to, the following:

Company history
Management and control
Territory and plan of operation
Holding company description
Reinsurance
Financial statement presentation
Loss review and analysis
Significant subsequent events
Summary of recommendations

A review was also made to ascertain what action was taken by the Company with regard to the recommendation contained in the prior report on examination.

This report on examination is confined to financial statements and comments on those matters that involve departures from laws, regulations or rules, or that are deemed to require explanation or description.

2. DESCRIPTION OF COMPANY

Lancer Indemnity Company was incorporated under the laws of the State of New York on October 26, 1978 under the name North Sea Insurance Company. It became licensed and commenced business on December 31, 1979.

On January 1, 2009, Lancer Financial Group Inc. ("LFG") purchased North Sea Holdings Inc., the Company's parent. In 2012, North Sea Holdings Inc. gave as a dividend, the Company and its remaining assets to LFG. North Sea Holdings Inc. then dissolved.

Effective January 1, 2013, the Company changed its name to Lancer Indemnity Company.

A. Corporate Governance

Pursuant to the Company's charter and by-laws, management of the Company is vested in a board of directors consisting of not less than seven nor more than 13 members. The board meets three times during each calendar year. At December 31, 2017, the board of directors was comprised of the following eight members:

Name and Residence	Principal Business Affiliation
Robert F. Boyle Massapequa, NY	Executive Vice President and Chief Operating Officer, Lancer Indemnity Company
Leonard S. Caronia Park Ridge, IL	Retired
George N. Cochran Boca Grande, FL	Retired
David P. Delaney Jr. Ponte Vedra Beach, FL	President, Lancer Insurance Company
Timothy D. Delaney Islamorado, FL	Senior Executive Vice President, Lancer Insurance Company

Name and Residence	Principal Business Affiliation
Timothy H. Delaney Rockville Centre, NY	Senior Vice President, Lancer Insurance Company
Michael G. O'Rourke Chicago, IL	President and Chief Executive Officer, Signature Bank
John J. Waller Chicago, IL	Managing Director, Waller Helms Advisors

As of December 31, 2017, the principal officers of the Company were as follows:

Name	Title
David P. Delaney Jr.*	President
John A. Petrilli	Secretary
Alistair T. Lind**	Chief Financial Officer and Treasurer
Robert F. Boyle	Executive Vice President and Chief Operating Officer
Wayne S. Ricci	Executive Vice President
Gail W. Reilly	Senior Vice President
James M. Harinski	Vice President
Robert A. MacKenzie	Vice President
Shirley B. Ortego	Vice President
Edward M. Temkin	Vice President
Timothy R. O'Sullivan**	Vice President

*Subsequent to the examination date, Matthew T. Jenkins replaced David P. Delaney Jr. as President. David P. Delaney Jr. became the Chief Executive Officer.

**Subsequent to the examination date, Timothy R. O'Sullivan replaced Alistair T. Lind as Chief Financial Officer and Treasurer.

B. Territory and Plan of Operation

As of December 31, 2017, the Company was licensed to write business in 19 states. During the examination period, the Company wrote in four states: New York, New Jersey, Pennsylvania and Connecticut.

As of the examination date, the Company was authorized to transact the kinds of insurance as defined in the following numbered paragraphs of Section 1113(a) of the New York Insurance Law:

Paragraph	Line of Business
3	Accident & health
4	Fire
5	Miscellaneous property
6	Water damage
7	Burglary and theft
8	Glass
9	Boiler and machinery
10	Elevator
12	Collision
13	Personal injury liability
14	Property damage liability
15	Workers' compensation and employers' liability
16	Fidelity and surety
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine
21	Marine protection and indemnity

The Company is empowered to transact such workers’ compensation insurance as may be incident to coverages contemplated under paragraphs 20 and 21 of Section 1113(a), including insurances described in the Longshoremen’s and Harbor Workers’ Compensation Act (Public Law No. 803, 69 Cong. as amended; 33 USC Section 901 et seq. as amended). In addition, the Company is licensed to write special risk insurance pursuant to Article 63 of the New York Insurance Law.

Based upon the lines of business for which the Company is licensed and the Company’s current capital structure, and pursuant to the requirements of Articles 13 and 41 of the New York Insurance Law, the Company is required to maintain a minimum surplus to policyholders in the amount of $1,950,000. However, pursuant to Section 6302(c)(1) of the New York Insurance Law, in order to be licensed to write special risks, the Company is required to maintain surplus as regards policyholders of at least 250% of its authorized control level risk-based capital; therefore, the Company was required to maintain a minimum surplus to policyholders in the amount of $4,788,808 as of December 31, 2017.

The following schedule shows the premiums written by the Company for the period under examination:

Calendar Year	Direct Premiums	Total Gross Premiums
2013	$ 8,939,692	$ 8,939,692
2014	$12,404,489	$12,404,489
2015	$13,574,689	$13,574,689
2016	$12,785,823	$12,785,823
2017	$12,870,991	$12,870,991

The Company writes commercial multiple peril, general liability, fire and allied lines insurance for small to medium-sized businesses. The operations are geographically concentrated in New York City and Long Island. Business is produced through Lancer Management Company, Inc., an affiliate that works with licensed brokers on both a direct and wholesale basis.

C. Reinsurance Ceded

The Company has structured its ceded reinsurance program as follows:

Type of Coverage	Cession
Property & Casualty Excess of Loss – Commercial Property Package Business	
Property 2 Layers	$2,650,000 excess of $350,000 net loss for each risk; limit of $1,950,000 under first excess cover and $6,000,000 under second excess cover with respect to all net loss on all risks in one occurrence with an aggregate limit of $10,000,000 under second excess cover with respect to all net loss on all risks in all occurrences.
Casualty 3 Layers	$3,650,000 excess of $350,000 net loss for each occurrence with an aggregate limit of $4,000,000 under third excess cover with respect to all net loss for all occurrences.
Property Catastrophe Excess of Loss	$12,000,000 excess of $1,000,000 ultimate net loss for each loss occurrence with an aggregate limit of $24,000,000 in all during the term of the contract.
Equipment Breakdown Quota Share	100% quota share participation of the Company's net retained liability with a limit of liability of $10,000,000 on any one risk.

Casualty Clash Excess of Loss	Automobile and Other Liability Business including Commercial Multi-Peril liability coverage $5,000,000 excess of $5,000,000 per occurrence with an aggregate limit of $10,000,000 with respect to all net loss arising out of all occurrences per agreement year. Ontario Motor Coach Liability Business $3,000,000 excess of $5,000,000 per occurrence with an aggregate limit of $6,000,000 with respect to all net loss arising out of all occurrences per agreement year.
Whole Account Quota Share	100% quota share participation of the Company's ultimate net loss, after other reinsurance, as follows: A. On new and renewal policies starting on July 1, 2017, and policies in-force at July 1, 2017. B. On development of Company's net loss reserves reported at 6/30/17. C. On runoff (after termination of agreement) D. On lines of business written on July 1, 2017 only. Workers' Compensation added effective July 1, 2017.

The Whole Account Quota Share agreement listed above is with the Company's affiliate, LIC. Section B is a development cover reinsuring 100% of any net loss development subsequent to June 30, 2017, unfavorable or favorable, on net development of losses with dates of loss prior to July 1, 2017. In accordance with the NAIC Accounting Practices and Procedures Manual, Statement of Statutory Accounting Principle ("SSAP") No. 62R, paragraph 31(d), the Company accounts for this loss development coverage prospectively, in accordance with the exception noted regarding the treatment of retroactive reinsurance contracts. Under this agreement, the Company paid an initial consideration of $114,702 and reported a payable on retroactive reinsurance in the amount of $60,103 as of the examination date.

All reinsurance was ceded to authorized reinsurers. Reinsurance agreements with affiliates were reviewed for compliance with Article 15 of the New York Insurance Law. It was noted that all affiliated reinsurance agreements were filed with the Department pursuant to the provisions of Section 1505(d)(2) of the New York Insurance Law.

All significant ceded reinsurance agreements in effect as of the examination date were reviewed and found to contain the required clauses, including an insolvency clause meeting the requirements of Section 1308 of the New York Insurance Law.

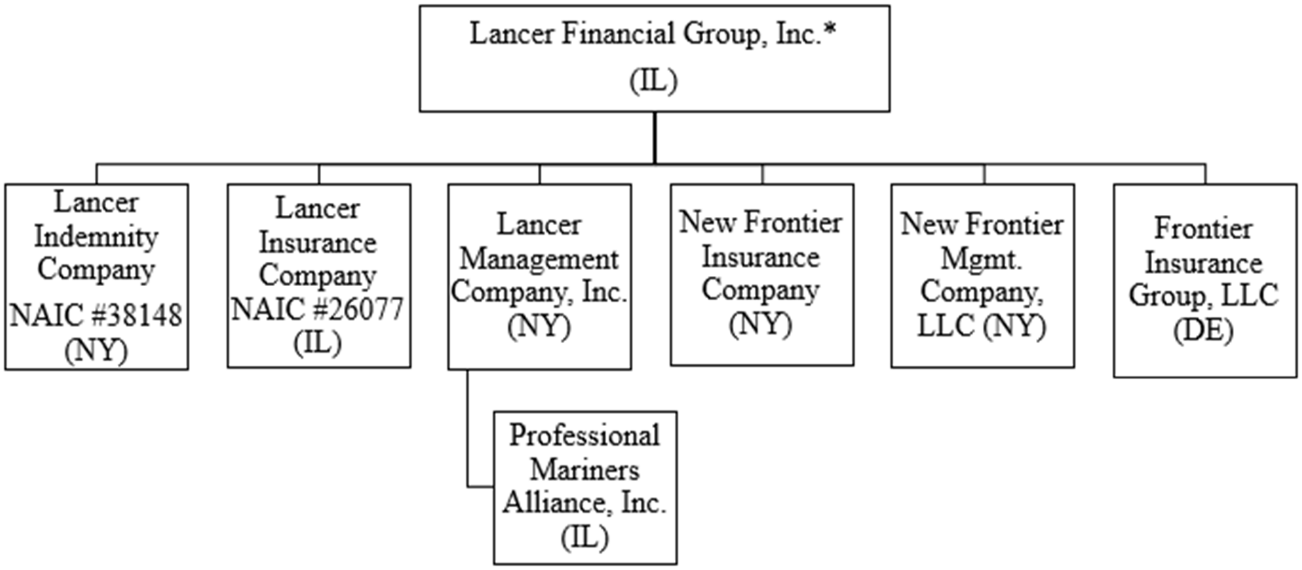
Examination review found that the Schedule F data reported by the Company in its filed annual statement accurately reflected its reinsurance transactions. Additionally, management has represented that all material ceded reinsurance agreements transfer both underwriting and timing risk as set forth in SSAP No. 62R. Representations were supported by appropriate risk transfer analyses and an attestation from the Company's chief executive officer and chief financial officer pursuant to the NAIC annual statement instructions. Additionally, examination review indicated that the Company was not a party to any finite reinsurance agreements. All ceded reinsurance agreements were accounted for utilizing reinsurance accounting as set forth in SSAP No. 62R.

D. Holding Company System

The Company is a member of the Lancer Financial Group (the “Group”) and is a wholly-owned subsidiary of LFG, a privately-held holding company. Timothy D. Delaney and David P. Delaney, Jr. are the ultimate controlling persons. The Group predominately writes commercial auto liability and physical damage coverages for the public transportation and long and short haul trucking industries. It also writes workers’ compensation business. As of December 31, 2017, New Frontier Insurance Company was not licensed or capitalized.

A review of the holding company registration statements filed with this Department indicated that such filings were complete and were filed in a timely manner pursuant to Article 15 of the New York Insurance Law and Department Regulation 52.

The following is an abridged chart of the holding company system at December 31, 2017:



* Ownership of Lancer Financial Group, Inc. is as follows:

Common Shares (62 shares issued and outstanding)
David P. Delaney, Jr., 11 shares (17.74%)
Timothy D. Delaney, 11 shares (17.74%)
Oxford Group, LLC, 6 shares (9.68%)
**David P. Delaney, Jr. 2010 Family Trust, 9 shares (14.52%)
**Timothy D. Delaney 2010 Family Trust, 9 shares (14.52%)
David P. Delaney, Jr. 2011 GST Trust, 8 shares (12.90%)
Timothy D. Delaney 2011 GST Trust, 8 shares (12.90%)

**Applications for a determination of non-control were requested by respective Trustees of David P. Delaney, Jr. 2010 Family Trust and Timothy D. Delaney 2010 Family Trust pursuant to Section 1501(c) of the New York Insurance Law, and a disclaimer of control was granted by the Department on September 6, 2017.

Holding Company Agreements

At December 31, 2017, the Company was party to the following agreements with other members of its holding company system:

Tax Allocation Agreement

Effective January 1, 2009, the Company participates in a tax allocation agreement with members of its holding company system. Under this agreement, the Company's federal income tax liability on a consolidated basis is not to exceed what the Company would have paid on a stand-alone basis. This agreement was filed with this Department pursuant to Section 1505 of the New York Insurance Law and Circular Letter No. 33 (1979).

Intercompany Expense Agreement

Effective January 1, 2009, the Company entered into an amended and restated intercompany expense agreement with affiliates LIC, an Illinois domestic insurance company and Lancer Management Company, Inc. ("LMC"), a New York corporation. The Company amended this agreement effective January 1, 2013 to reflect its current name.

The agreement provides for the purchasing of services and use of a facility related to the operation of the respective businesses. This includes, but is not limited to, office space, data processing, personnel, legal, and auditing. The intercompany expense agreement states the following with regard to intercompany settlements:

> "At the end of each calendar quarter, each party, as a provider, shall bill another party, as a user, for services rendered during the preceding calendar quarter and payment for such services shall be remitted by the user to the provider within thirty (30) days after the end of the calendar quarter."

The examiner noted that the intercompany settlements were not in accordance with the Company's intercompany expense agreement. The June 2017 intercompany settlements were not settled until August 2017, and the December 2017 intercompany settlements were not settled until March 2018. This was past the 30 days required pursuant to its expense agreement.

It is recommended that the Company settle intercompany expenses within 30 days in accordance with the intercompany expense agreement.

The agreement was filed with this Department pursuant to Section 1505 of the New York Insurance Law.

Underwriting Management Agreement

Effective July 1, 2012, the Company entered into an underwriting management agreement with its affiliate, LMC. The agreement grants LMC the authority to act as underwriting manager for the Company in the marketing, solicitation, binding and issuance of policies of insurance. The maximum direct premium written volume for which LMC is authorized to underwrite for the Company is $10,000,000 on an annual basis. Increases in direct premium written shall not exceed 25% per year without the prior approval of the Company. The Company agrees to pay the manager a commission at the rate of 25% of direct premium written, as defined in Article 1, paragraph 5 of the agreement. The Company paid $3,209,590 in management fees to LMC in 2017. The agreement was filed with this Department pursuant to Section 1505 of the New York Insurance Law.

E. Significant Ratios

The Company’s operating ratios, computed as of December 31, 2017, fall within the benchmark ranges set forth in the Insurance Regulatory Information System of the NAIC.

Operating Ratios	Result
Net premiums written to policyholders' surplus	41%
Adjusted liabilities to liquid assets	63%
Two-year overall operating	83%

Underwriting Ratios

The underwriting ratios presented below are on an earned/incurred basis and encompass the five-year period covered by this examination:

	Amounts	Ratio
Losses and loss adjustment expenses incurred	$21,740,345	65.16%
Other underwriting expenses incurred	11,088,805	33.24%
Net underwriting gain (loss)	534,999	1.60%
Premiums earned	$33,364,149	100.00%

The Company's reported risk-based capital score ("RBC") was 623% at December 31, 2017. The RBC is a measure of the minimum amount of capital appropriate for a reporting entity to support its overall business operations in consideration of its size and risk profile. An RBC of 200 or below can result in regulatory action. There were no financial adjustments in this report that impacted the Company's RBC score.

F. Accounts and Records

Audit Committee Members

The Company had a change in audit committee members since the last examination.

Part 89.12(e) of Department Regulation 118 states:

> "The Company shall submit written notification to the superintendent of the selection of its audit committee within 30 days of the effective date of this Part and within 30 days of any change in membership of the audit committee. The notice shall include a description of the reason for the change."

The Company did not notify the Department of the change in membership within the timeframe, as required. It is recommended that the Company provide written notification to the Superintendent within 30 days of any change in audit committee membership pursuant to Part 89.12(e) of Department Regulation 118.

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2017, as reported by the Company:

Assets	Assets	Not Admitted Assets	Net Admitted Assets
Bonds	$26,924,522	$ 0	$26,924,522
Cash, cash equivalents and short-term investments	1,930,080	0	1,930,080
Investment income due and accrued	189,821	0	189,821
Uncollected premiums and agents' balances in the course of collection	391,324	0	391,324
Deferred premiums, agents' balances and installments booked but deferred and not yet due	268,170	0	268,170
Amounts recoverable from reinsurers	183,775	0	183,775
Net deferred tax asset	334,149	17,626	316,523
Total assets	$30,221,841	$17,626	$30,204,215

Liabilities, Surplus and Other Funds

Liabilities

Losses and loss adjustment expenses		$10,078,751
Other expenses (excluding taxes, licenses and fees)		70,951
Taxes, licenses and fees (excluding federal and foreign income taxes)		157,489
Current federal and foreign income taxes		36,162
Unearned premiums		6,320,543
Ceded reinsurance premiums payable (net of ceding commissions)		1,781,138
Payable to parent, subsidiaries and affiliates		137,336
Payable on retroactive reinsurance		60,103
Total liabilities		$18,642,473
Surplus and Other Funds		
Special surplus funds from retroactive reinsurance	$ (539,443)	
Common capital stock	4,000,000	
Gross paid in and contributed surplus	2,800,000	
Unassigned funds (surplus)	5,301,185	
Surplus as regards policyholders		11,561,742
Total liabilities, surplus and other funds		$30,204,215

Note: The Internal Revenue Service is currently auditing the Company's 2016 consolidated federal income tax return. The examiner is unaware of any potential exposure of the Company to any tax assessment and no liability has been established herein relative to such contingency.

B. Statement of Income

The net income for the examination period as reported by the Company was $1,667,588 as detailed below:

Underwriting Income		
Premiums earned		$33,364,149
Deductions:		
Losses and loss adjustment expenses incurred	$21,740,345	
Other underwriting expenses incurred	11,088,805	
Total underwriting deductions		32,829,150
Net underwriting gain or (loss)		$ 534,999
Investment Income		
Net investment income earned	$2,587,341	
Net realized capital gains	253,921	
Net investment gain or (loss)		2,841,262
Other Income		
Gain or (loss) on retroactive reinsurance	$(539,443)	
Total other income		(539,443)
Net income before federal and foreign income taxes		$ 2,836,818
Federal and foreign income taxes incurred		1,169,230
Net income		$ 1,667,588

C. Capital and Surplus

Surplus as regards policyholders increased $1,740,832 during the five-year examination period January 1, 2013 through December 31, 2017, as reported by the Company, detailed as follows:

Surplus as regards policyholders as reported by the Company as of December 31, 2012		$ 9,820,910
	Gains in Surplus	
Net income	$1,667,588	
Change in net deferred income tax	35,522	
Change in nonadmitted assets	37,722	
Total gains	$1,740,832	
Net increase in surplus		1,740,832
Surplus as regards policyholders as reported by the Company as of December 31, 2017		$11,561,742

No adjustments were made to surplus as a result of this examination.

At December 31, 2017, capital paid in was $4,000,000 consisting of 500,000 shares of common stock with a par value of $8.00 per share. Gross paid in and contributed surplus was $2,800,000, which did not change during the examination period.

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of $10,078,751 is the same as reported by the Company as of December 31, 2017. The examination analysis of the loss and loss adjustment expense reserves was conducted in accordance with generally accepted actuarial principles and statutory accounting principles, including SSAP No. 55. The Company’s reserves are concentrated in commercial multiple peril.

5. SUBSEQUENT EVENTS

Effective January 1, 2018, the Company began writing workers' compensation. On February 1, 2018, all lines of business, other than workers' compensation and a few of the commercial property package plans in Connecticut, were renewed by its affiliate, LIC at policy expiration. The last policy, other than workers' compensation, was renewed on LIC's books on March 19, 2019.

The Company has a 90% quota share agreement in place for its workers' compensation business with a non-affiliated reinsurer. The remaining 10% is ceded to its affiliate, LIC.

6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination contained one recommendation as follows (page number refers to the prior report):

ITEM		PAGE NO.
A.	Management	
	It was recommended that the Company comply with Section 1201(a)(5)(B)(v) of the New York Insurance Law and Article III, Section 3.01 of its by-laws and maintain at least seven members on its board of directors.	4
	The Company has complied with this recommendation.	

7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

ITEM		PAGE NO.
A.	Holding Company System	
	It is recommended that the Company settle intercompany expenses within 30 days in accordance with the intercompany expense agreement.	11
B.	Accounts and Records	
	It is recommended that the Company provide written notification to the Superintendent within 30 days of any change in audit committee membership pursuant to Part 89.12(e) of Department Regulation 118.	12

Respectfully submitted,

____________/S/___________
Teena Joseph
Senior Insurance Examiner

STATE OF NEW YORK)
)ss:
COUNTY OF NEW YORK)

Teena Joseph, being duly sworn, deposes and says that the foregoing report, subscribed by her, is true to the best of her knowledge and belief.

____________/S/___________
Teena Joseph

Subscribed and sworn to before me

this_________ day of __________________, 2019.

APPOINTMENT NO. 31800

NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

*I, **Maria T. Vullo**, Superintendent of Financial Services of the State of New York, pursuant to the provisions of the Financial Services Law and the Insurance Law, do hereby appoint:*

Teena Joseph
as a proper person to examine the affairs of the

Lancer Indemnity Company

and to make a report to me in writing of the condition of said

COMPANY

with such other information as she shall deem requisite.

In Witness Whereof, I have hereunto subscribed by name
and affixed the official Seal of the Department
at the City of New York

this 31st day of July, 2018

MARIA T. VULLO
Superintendent of Financial Services

By: Joan P. Riddell

Joan Riddell
Deputy Bureau Chief