

REPORT ON EXAMINATION

OF

RAMPART INSURANCE COMPANY

AS OF

DECEMBER 31, 2017

DATE OF REPORT

MAY 13, 2019

EXAMINER

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Department of Financial Services

ANDREW M. CUOMO
Governor

LINDA A. LACEWELL
Superintendent

June 26, 2019

Honorable Linda A. Laceywell
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 31827 dated September 26, 2018, attached hereto, I have made an examination into the condition and affairs of Rampart Insurance 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 Rampart Insurance 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 administrative office located at 1880 JFK Boulevard, Suite 801, Philadelphia, Pennsylvania 19103.

1. SCOPE OF EXAMINATION

The Department has performed an individual 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.

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
- Loss review and analysis
- Financial statement presentation
- 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

The Company was incorporated under the laws of the State of New York as the GAN Anglo-American Insurance Company on September 13, 1979 and commenced writing business on May 30, 1980. On October 16, 1992, the Company's name was changed to GAN National Insurance Company. In 1998 the Company ceased writing business.

On August 2, 1999, Sorema North America Reinsurance Company ("Sorema") acquired 100% of the stock of the Company from GAN International. On August 25, 1999 the Company's name was changed to Rampart Insurance Company. The Company resumed writing business in the 3rd quarter of 2000.

On July 31, 2001, Groupama International SA ("Groupama") acquired 100% of the Company's stock from Sorema (now known as General Security National Insurance Company). Upon acquisition by Groupama, the Company ceased writing new business and all business written in 2000 and subsequent was ceded 100% to General Security National Insurance Company.

Effective October 1, 2002, the Company entered into a Loss Portfolio Transfer and Assumption Reinsurance Agreement with its subsidiary, Western Continental Insurance Company ("Western Continental") whereby the Company assumed all of the liabilities of Western Continental for underwriting years 1999 and prior. This agreement was entered into as part of the sale of Western Continental, which took place in February of 2003.

On March 4, 2016, ILS Property and Casualty Re. Limited, a Bermuda incorporated limited liability company, acquired 100% of the Company's stock from Groupama. At the same time, the Company entered into a service agreement with Armour Risk Services, Ltd., a wholly-owned subsidiary of Armour Group Limited ("Armour Group"), to manage the run-off operations of the 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 four times during each calendar year. At December 31, 2017, the board of directors was comprised of the following seven members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Brad Scott Huntington St. George's Parish, Bermuda	Director, Armour Group Holdings
John Caldicott Williams Paget, Bermuda	Director, Armour Group Holdings
Sarah Hayes Lawhorne Middletown, Delaware	Retired
Gary Joseph Orndorff York, Pennsylvania	Self-employed Consultant
Stephen Jay Greenberg Merion Station, Pennsylvania	Retired
Richard Charles Milazzo Staten Island, New York	Partner, Mendes & Mount, LLP
Jonathan Marcus Doran Huntingdon Valley, Pennsylvania	Director, Armour Risk Management, Inc.

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

<u>Name</u>	<u>Title</u>
Jonathan Marcus Doran	President
Terri Renee Weaver	Secretary
Brian Sean Schleider	Treasurer
Doreen Pauline Elizabeth Richards	Assistant Secretary

The Company's CPA engagement letter for the 2017 audit did not contain wording that is compliant with Department Regulation 118.

Section 89.8(a) of Regulation 118 states:

“Every company required to furnish an annual audited financial report shall require the CPA to report, in writing, to the superintendent, the board of directors and the company's audit committee within five business days of any determination by the CPA that the company has materially misstated its financial condition as reported to the superintendent as of the balance sheet date currently under audit or that the company does not meet the minimum capital or surplus requirement of the insurance law as of that date, including

for applicable managed care organization, the contingent reserve requirement of 10NYCRR 98-1.11(e).”

It is recommended that the Company ensure that its CPA engagement letter complies with Section 89.8 (a) of Department Regulation 118, for all future engagement letters.

B. Territory and Plan of Operation

As of December 31, 2017, the Company was licensed to write business in 41 states and the District of Columbia.

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:

<u>Paragraph</u>	<u>Line of Business</u>
3	Accident & health
4	Fire
5	Miscellaneous property
6	Water damage
7	Burglary and theft
8	Glass
9	Boiler and machinery
10	Elevator
11	Animal
12	Collision
13	Personal injury liability
14	Property damage liability
15	Workers' compensation and employers' liability (excluding workers' compensation)
16	Fidelity and Surety
17	Credit
19	Motor vehicle and aircraft physical damage (excluding aircraft physical damage)
20	Marine and inland marine (Inland only)
21	Marine protection and indemnity
29	Legal services

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 \$2,200,000.

During 1998, the Company stopped writing business and went into run-off. The Company briefly began writing business again in 2000, but ceased writing business again concurrent with its sale to Groupama on July 31, 2001. All new business written in 2000 and subsequent has been ceded 100% to General Security National Insurance Company.

C. Reinsurance Ceded

The Company has been in run-off since 2001. All reinsurance in place relates to legacy business.

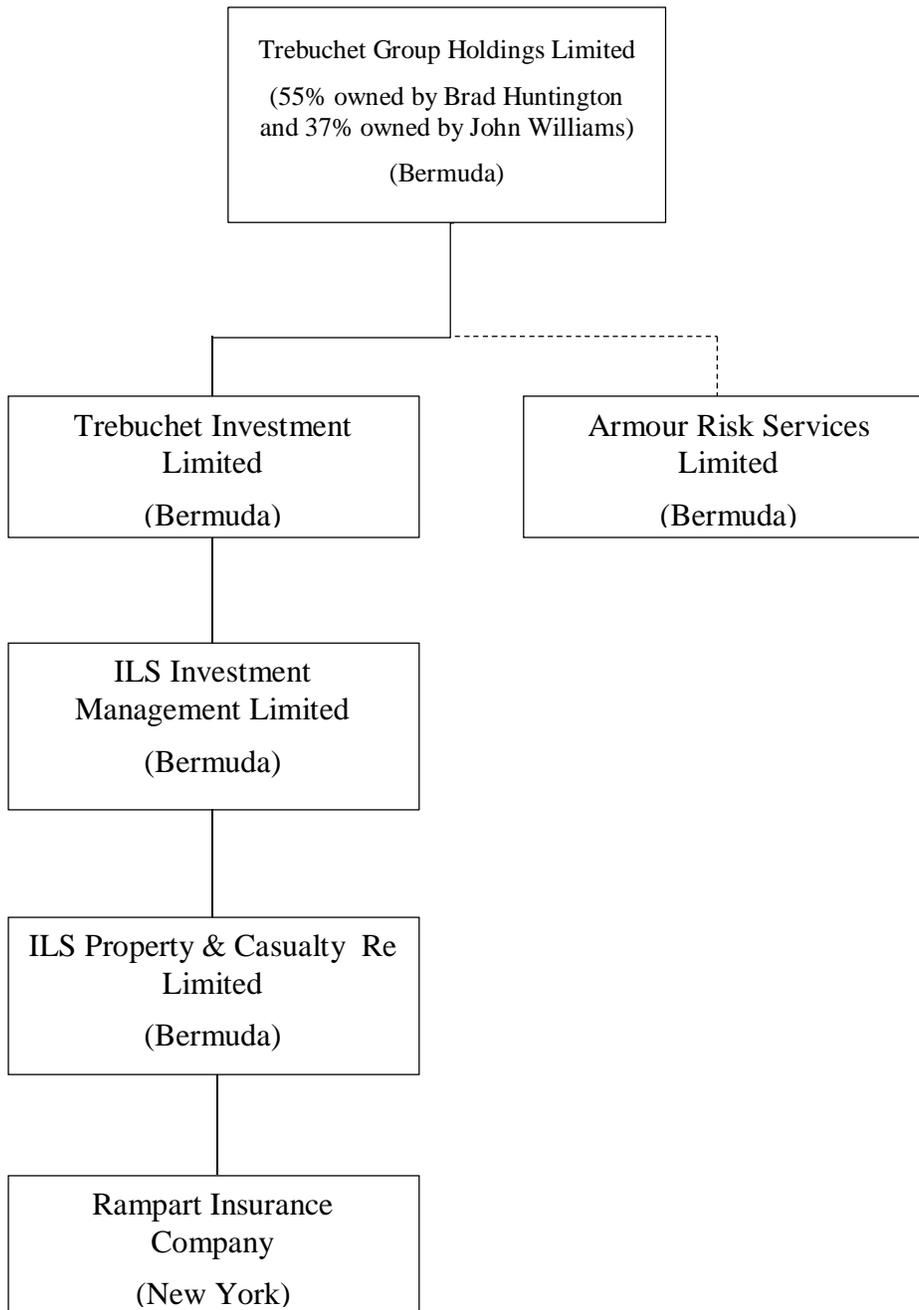
D. Holding Company System

The Company is a member of the Trebuchet Insurance Group and is an indirect subsidiary of Trebuchet Group Holdings Limited (“Trebuchet”) (formerly known as Armour Group Holdings Limited). The Company is a wholly-owned subsidiary of ILS Property and Casualty Re Limited (“ILS”), an incorporated limited liability company organized under the laws of Bermuda and is managed by Armour Risk Management Limited. Trebuchet operates a group of insurance, reinsurance, investment management and service companies that specialize in the creation and implementation of solutions, services, and acquisitions in distressed, discontinued and other specialty sectors of the global insurance and reinsurance marketplace. Messrs. Brad Huntington and John Williams are the ultimate controlling parties of the Company.

Pursuant to Part 80-1.4 of Department Regulation 52, all controlled insurers are required to file an annual holding company registration statement (Form HC1) within 120 days following the end of its ultimate holding company’s fiscal year. A review of the holding company registration statements filed with this Department indicated that such filings were not made in a timely manner for the years 2016 and 2017.

It is recommended that the Company file its annual holding company registration statements in a timely manner pursuant to the provisions of Part 80-1.4 of Department Regulation 52.

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



Holding Company Agreements

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

Service Agreement

Effective March 1, 2016, the Company entered into a service agreement with Armour Risk Services (Bermuda) Ltd., which covers the reinsurance, actuarial, accounting, financial, claims, compliance, administrative and information technology services. The terms of the agreement establish that Armour Risk Services (Bermuda) Ltd., will be entitled to remuneration plus 10% of the total fees charged not to exceed the average annual cost of running the Company in the prior three fiscal years. 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 normally contained herein are not applicable due to the Company's run-off status.

Underwriting Ratios

The underwriting financial information presented below is on an earned/incurred basis and encompass the five-year period covered by this examination (ratios are not presented because they do not represent meaningful information):

	<u>Amounts</u>
Losses and loss adjustment expenses incurred	\$5,119,765
Other underwriting expenses incurred	3,072,509
Net underwriting gain	<u>(8,151,848)</u>
 Premiums earned	 \$ <u>40,426</u>

The Company's reported risk-based capital score ("RBC") was 344.7% as of 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.

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:

<u>Assets</u>		Assets Not	Net Admitted
	<u>Assets</u>	<u>Admitted</u>	<u>Assets</u>
Bonds	\$6,781,931	\$ 0	\$6,781,931
Common stocks (stocks)	2,014,063	0	2,014,063
Cash, cash equivalents and short-term investments	4,869,797	0	4,869,797
Investment income due and accrued	70,097	0	70,097
Amounts recoverable from reinsurers	2,674	0	2,674
Funds held by or deposited with reinsured companies	10,852,097	0	10,852,097
Net deferred tax asset	<u>340,512</u>	<u>170,256</u>	<u>170,256</u>
Totals	<u>\$24,931,171</u>	<u>\$170,256</u>	<u>\$24,760,915</u>

Liabilities, Surplus and Other Funds

Liabilities

Losses and loss adjustment expenses		\$15,863,185
Reinsurance payable on paid losses and loss adjustment expenses		212,369
Other expenses (excluding taxes, licenses and fees)		53,200
Funds held by company under reinsurance treaties		24,027
Provision for reinsurance		45,000
Drafts outstanding		34,939
Payable to parent, subsidiaries and affiliates		<u>500,000</u>
Total liabilities		\$16,732,720

Surplus and Other Funds

Common capital stock	\$ 5,000,000	
Gross paid in and contributed surplus	109,721,294	
Unassigned funds (surplus)	<u>(106,693,098)</u>	
Surplus as regards policyholders		<u>8,028,196</u>
Total liabilities, surplus and other funds		<u>\$24,760,916</u>

Note: The Internal Revenue Service has not performed any audits of the examination years. 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 (loss) for the examination period as reported by the Company was \$(6,162,642) as detailed below:

Underwriting income

Premiums earned		\$ 40,426
Deductions:		
Losses and loss adjustment expenses incurred	\$5,119,765	
Other underwriting expenses incurred	<u>3,072,509</u>	
Total underwriting deductions		<u>8,192,274</u>
Net underwriting gain or (loss)		\$(8,151,848)

Investment income

Net investment income earned	\$1,674,380	
Net realized capital gain or (loss)	<u>71,131</u>	
Net investment gain		1,745,511

Other income

Aggregate write-ins for miscellaneous income	\$ <u>243,695</u>	
Total other income		<u>243,695</u>
Net income (loss)		<u>\$(6,162,642)</u>

C. Capital and Surplus

Surplus as regards policyholders decreased \$6,132,295 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			\$ 14,160,491
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income		\$6,162,642	
Net unrealized capital gains or (losses)	\$ 38,889		
Change in net deferred income tax	350,849		
Change in non-admitted assets		372,740	
Change in provision for reinsurance	<u>13,349</u>	<u>0</u>	
Total gains and losses	<u>\$403,087</u>	<u>\$6,535,383</u>	
Net increase (decrease) in surplus			<u>\$(6,132,295)</u>
Surplus as regards policyholders as reported by the Company as of December 31, 2017			<u>\$8,028,196</u>

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

D. Analysis of Changes to Income

Net income for the examination period, as reported by the Company		\$(6,162,642)
Prior examination change in losses and loss adjustment expenses		<u>2,800,000</u>
Net income (loss) for the examination period, after examination adjustments		<u>\$(3,362,642)</u>

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of \$15,863,185 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 the NAIC Accounting Practices & Procedures Manual, Statement of Statutory Accounting Principle No. 55 (“SSAP No. 55”).

5. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

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

<u>ITEM</u>	<u>PAGE NO.</u>
<p>A. <u>Holding company</u> It is recommended that the Company file its annual holding company registration statements in a timely manner pursuant to the provisions of Part 80-1.4 of Department Regulation 52.</p> <p>The Company has not complied with this recommendation. A similar comment is made in this report.</p>	7

6. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>	<u>PAGE NO.</u>
<p>A. <u>Corporate governance</u> It is recommended that the Company ensure that its CPA engagement letter complies with Section 89.8 (a) of Department Regulation 118, for all future engagement letters.</p>	5
<p>B. <u>Holding company</u> It is recommended that the Company file its annual holding company registration statements in a timely manner pursuant to the provisions of Part 80-1.4 of Department Regulation 52.</p>	6

Respectfully submitted,

_____/S/_____
Sabu Cherian
Senior Insurance Examiner

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

Sabu Cherian, being duly sworn, deposes and says that the foregoing report, subscribed by him, is true to the best of his knowledge and belief.

_____/S/_____
Sabu Cherian

Subscribed and sworn to before me

this _____ day of _____, 2019.

APPOINTMENT NO. 31827

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:

Sabu Cherian

as a proper person to examine the affairs of the

Rampart Insurance Company

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

COMPANY

with such other information as he 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 26th day of September, 2018

MARIA T. VULLO
Superintendent of Financial Services



By:

Joan P. Riddell

*Joan Riddell
Deputy Bureau Chief*