REPORT ON EXAMINATION

OF

JEFFERSON INSURANCE COMPANY

AS OF

DECEMBER 31, 2018

DATE OF REPORT	MARCH 11, 2020
EXAMINER	SUSAN WEIJOLA

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NEW YORK STATE OF OPPORTUNITY
Department of Financial Services

ANDREW M. CUOMO
Governor

LINDA A. LACEWELL
Superintendent

March 11, 2020

Honorable Linda A. Lacewell
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 31860 dated January 23, 2019, attached hereto, I have made an examination into the condition and affairs of Jefferson Insurance Company as of December 31, 2018 and submit the following report thereon.

Wherever the designations "the Company" or "JIC" appear herein without qualification, they should be understood to indicate Jefferson 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 home office located at 9950 Mayland Drive, Richmond, VA 23233.

1. SCOPE OF EXAMINATION

The Department has performed an examination of the Company, a multi-state insurer. The previous examination was conducted as of December 31, 2014. This examination covered the four-year period from January 1, 2015 through December 31, 2018. Transactions occurring subsequent to this period were reviewed when deemed appropriate by the examiner.

The examination was performed concurrently with the examinations of the following property and casualty insurance companies of the Allianz Insurance Group:

Insurer	Domicile	NAIC #
Allianz Global Risks US Insurance Company	Illinois	35300
AGCS Marine Insurance Company	Illinois	22837
Fireman's Fund Insurance Co	California	21873
Euler Hermes North America Insurance Company	Maryland	20516
National Surety Corporation	Illinois	21881
Interstate Fire & Casualty Company	Illinois	22829
American Automobile Insurance Company	Missouri	21849
The American Insurance Company	Ohio	21857
Allianz Underwriters Insurance Company	Illinois	36420
Associated Indemnity Corporation	California	21865
Chicago Insurance Company	Illinois	22810
Allianz Reinsurance America, Inc.	California	21911
Fireman's Fund Indemnity Corporation	New Jersey	11380

The lead state of the Allianz Insurance Group ("the Group") as of December 31, 2018 was Minnesota. The State of Illinois was the examination facilitator of the Allianz P&C Insurance Sub-Group. Because there was no overlap between the Company and the other companies in the Group, the review of JIC was performed as a stand-alone examination.

This examination was conducted in accordance with the National Association of Insurance Commissioners ("NAIC") Financial Condition Examiners 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
Reinsurance
Holding company description
Financial statement presentation
Loss review and analysis
Significant subsequent events
Summary of recommendations

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 on March 15, 1950 under the laws of the State of New York and commenced business on June 8, 1950 as the Jefferson Insurance Company. On February 1, 1952, the corporate name was changed to Jefferson Insurance Company of New York. On July 28, 1999, the corporate name was changed back to Jefferson Insurance Company.

On April 2, 2007, the Company was acquired by AWP USA Inc. (formerly known as AGA, Inc.) from its affiliate Allianz Global Risks US Insurance Company ("AGRUS"). There was no change to the ultimate controlling person as a result of the acquisition, as AWP USA Inc. is ultimately controlled by Allianz SE. In conjunction with acquisition by AWP USA Inc., the Company entered into two assumption agreements with AGRUS whereby the Company transferred all of its pre-closing loss and loss adjustment expense reserves to AGRUS.

After the Company was structurally repositioned within the Group, the Company began issuing travel, event ticket, and other specialty insurance policies in late 2007.

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 fifteen members. The board meets quarterly. At December 31, 2018 the board of directors was comprised of the following nine members:

Name and Residence	Principal Business Affiliation
Diane Babson* Chesterfield, VA	Vice President, Treasurer and Assistant Secretary, Jefferson Insurance Company
Charles Bowman Richmond, VA	Managing Partner, Cypress Advisors
Robert Cavaliere Chesterfield, VA	Vice President, Jefferson Insurance Company
Barbara Green New York, NY	Retired
Remi Grenier Paris, France	Chairman of the Board, Jefferson Insurance Company
Ulf Lange Munich, Germany	Chief Financial Officer, Allianz Partners
Peter Lefkin Washington, D.C.	Senior Vice President, Allianz of America Corporation
Michael Nelson Midlothian, VA	President, Jefferson Insurance Company
Jack Zemp Ashland, VA	General Counsel and Secretary, Jefferson Insurance Company

*During the fourth quarter of 2019, Diane Babson resigned and was replaced by Jeff Wright.

As of December 31, 2018, the principal officers of the Company were as follows:

Name	Title
Michael Nelson	President
Diane Babson*	Vice President, Treasurer and Assistant Secretary
Robert Cavaliere	Vice President
Jack Zemp	General Counsel and Secretary

The examiner obtained and reviewed the investment committee charter, which states, in part:

> "The Company will maintain an Investment Committee in accordance with regulatory requirements as promulgated by NY Code – Section 1411: Authorization of, and restrictions on, investments".

According to New York Insurance Law §1411(a):

> "No domestic insurer shall make any loan or investment, … unless authorized or approved by its board of directors or a committee thereof responsible for supervising or making such investment or loan. The committee's minutes shall be recorded, and a report submitted to the board of directors at its next meeting".

The examiner reviewed the investment committee meeting minutes to verify review and authorization of the Company's investment transactions. Although the minutes reflect discussion of the portfolio, there is no evidence that investment transactions were authorized by the committee. The examiner also reviewed the board meeting minutes and noted that they did not indicate approval of investment transactions. Therefore, it appears that the Company is not in compliance with its investment committee charter and Section 1411(a) of the New York Insurance Law. It is recommended that the Company ensure compliance with its investment committee charter and Section 1411(a) of the New York Insurance Law and have the board or committee thereof authorize its investment transactions.

B. Territory and Plan of Operation

As of December 31, 2018, the Company was licensed to write business in all 50 states of the United States of America 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:

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
12	Collision
13	Personal injury liability
14	Property damage liability

Paragraph	Line of Business
16	Fidelity and surety
17	Credit
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine
21	Marine protection and indemnity

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 $2,350,000.

The Company did not assume business during the examination period. The following schedule shows the direct premiums written by the Company for the period under examination:

Calendar Year	Direct Premiums Written
2015	$433,287,020
2016	$483,624,781
2017	$607,325,797
2018	$698,413,360

The Company offers a limited range of insurance products, most of which primarily focus on travel risks, and therefore are non-renewable and short-term in nature. The products include travel insurance, event ticket protection, registration and tuition reimbursement, group accident and health, auto physical damage, financial institution travel related (including collision damage insurance and warranty on products purchased with a credit card) and bankcard enhancement.

The Company's products are distributed through its affiliated company, AGA Service Company ("AGASC"), directly and through agreements with travel agencies, insurance agencies, airlines, other suppliers of travel, event ticket distributors and schools, either through in-person, phone or internet-based marketing channels. AGASC is a nationally licensed producer and a licensed administrator, where applicable. From AGASC, the Company receives administration, management, and producer services and support (including, for example, product, sales, marketing, claims, systems and personnel), as specified in management and producer agreements approved by the Department. Both the Company's and AGASC's principal offices are located in Richmond, Virginia. The majority of business written is in the states of California (14%); Florida (8%); Texas (7%); Pennsylvania (4.3%); Massachusetts (3.7%); Georgia (3.6%); Illinois (3.5%); North Carolina (3.4%); and Michigan (3.3%).

The Company has approximately 9,000 licensed/registered agents and 'business to customer' service associates. There is a licensing department on-site at JIC to ensure that all agents are properly licensed or registered in compliance with state regulations.

C. Reinsurance Ceded

A 50% quota-share reinsurance agreement, effective October 1, 2018, is in place between the Company and Allianz Reinsurance America, Inc. ("AZRA"), formerly known as San Francisco Reinsurance Co., an authorized affiliate domiciled in the State of California. The purpose of the treaty is to reinsure all of the Company's business: travel insurance, event ticket and registration fee risks underwritten by the Company. These risks include, but are not limited to baggage loss or delay, emergency medical or dental expenses, collision damage insurance, ticket insurance, personal effects, travel accident, travel delay, trip cancellation, inconvenience or interruption, vacation delay, missed connection, vehicle return, evacuation and repatriation coverages, as well as accident/health insurance and such other insurance coverages as the parties agree to on occasion. Coverage attaches at the first dollar of sale.

In addition, there is a catastrophe excess of loss treaty in place between the Company and AWP P&C S.A., an unauthorized affiliate domiciled in Paris, France. This agreement has an original effective date of January 1, 2012 and is subject to annual renewal.

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.

It is the Company's policy to obtain the appropriate collateral for its cessions to unauthorized reinsurers. Letters of credit and trust accounts obtained by the Company to take credit for cessions to unauthorized reinsurers were reviewed for compliance with Department Regulations 133 and 114, respectively. No exceptions were noted.

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 the NAIC Accounting Practices and Procedures Manual, Statement of Statutory Accounting Principles ("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.

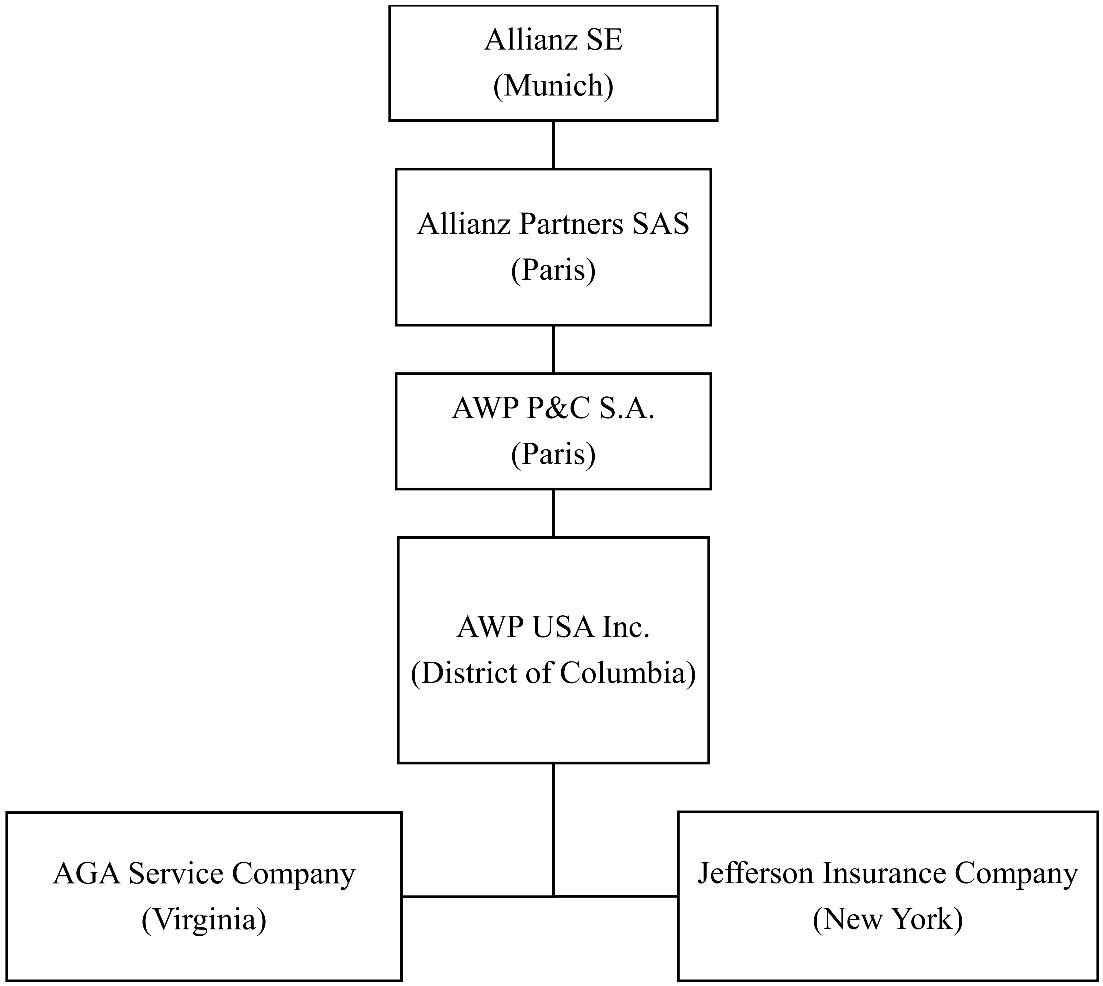
D. Holding Company System

The Company is a member of the Allianz Insurance Group. The Company is a wholly owned subsidiary of AWP USA Inc. The Company's ultimate parent is Allianz SE, based in Munich, Germany.

Allianz SE is a European multi-national financial services company. Its core businesses are insurance and asset management. JIC is a niche player in the United States, underwriting travel and other specialty insurance for the Allianz Insurance Group. The Company is strategically important to Allianz SE for access to the U.S. market and accounts for a significant part of the Group's revenue and earnings.

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, 2018:


Allianz SE
(Munich)
Allianz Partners SAS
(Paris)
AWP P&C S.A.
(Paris)
AWP USA Inc.
(District of Columbia)
AGA Service Company
(Virginia)
Jefferson Insurance Company
(New York)

Holding Company Agreements

At December 31, 2018, the Company was party to the following agreements with other members of its holding company system:

Administrative Services Agreement

Effective April 2, 2007, the Company entered into an administrative agreement with AGRUS, whereby AGRUS provides administrative services with respect to (i) any and all insurance policies effected, bound or issued by the Company prior to the effective date of the sale which are reinsured by AGRUS; (ii) any and all third party reinsurance agreements of the Company which are in force as of the closing date of the sale, applicable to the pre-sale insurance policies and (iii) any and all other liabilities or obligations of the Company arising prior to the closing date of the sale which have been assigned to and assumed by AGRUS pursuant to the assumption agreement.

Investment Management Agreement

Effective April 1, 2015, the Company entered into an agreement with Allianz Investment Management, LLC. ("AIM"), a Minnesota limited liability company. Pursuant to the agreement, AIM shall provide investment management services with respect to the assets of the account which may from time to time be designated by the Company in accordance with the terms of the agreement.

Amounts paid by the Company under the administrative services agreement and the investment management agreement were immaterial.

Business Services Agreement

Effective September 1, 2012, a business services agreement was executed between Fusion Company ("Fusion") and Allianz Worldwide Partners SAS ("APSAS") and all APSAS affiliates, including the Company, whereby Fusion provides its marketing optimization platform and related services to APSAS and affiliates to support the distribution of their products.

Management Services Agreement

Effective October 1, 2007, the Company entered into an Amended and Restated Management Services Agreement with AGA Service Company (formerly known as World Access Service Co.), whereby AGA Service Company provides certain administrative and management services for the Company, including but not limited to facilities, management, personnel, claim adjustment and services required for the conduct of business.

Producer Agreement

Effective November 1, 2017, the Company entered into a Third Amended and Restated Producer Agreement with AGA Service Company (formerly known as World Access Service Co.), whereby AGA Service Company provides all services required by the Company in the underwriting, issuance and administration of insurance products.

The expenses related to the management services and producer agreement at December 31, 2018 totaled $389,604,466.

Tax Allocation Agreement

Effective January 1, 2007, the Company entered into a tax allocation agreement with AGA, Inc. (now known as AWP USA Inc.) and its subsidiaries and affiliates. Pursuant to the terms of the agreement, the parties will file consolidated federal income tax returns. The agreement provides that the Company's tax liability on a consolidated basis will not exceed its liability had it been filed on a stand-alone basis.

All agreements subject to Section 1505(d) of the New York Insurance Law were submitted to the Department.

E. Significant Ratios

The Company's operating ratios, computed as of December 31, 2018, fall within the benchmark ranges set forth in the Insurance Regulatory Information System of the National Association of Insurance Commissioners.

Operating Ratios	Result
Net premiums written to policyholders' surplus	168%
Adjusted liabilities to liquid assets	31%
Two-year overall operating	94%

Underwriting Ratios

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

	Amount	Ratio
Losses and loss adjustment expenses incurred	$281,130,558	33.40%
Other underwriting expenses incurred	558,476,826	66.35
Net underwriting gain (loss)	2,053,167	0.25
Premiums earned	$841,660,551	100.00%

The Company's reported risk-based capital ("RBC") score was 384.1% at December 31, 2018. 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 score 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, 2018, as reported by the Company:

Assets	Assets	Assets Not Admitted	Net Admitted Assets
Bonds	$474,974,696	$0	$474,974,696
Cash, cash equivalents and short-term investments	31,978,535	0	31,978,535
Investment income due and accrued	2,431,219	0	2,431,219
Amounts recoverable from reinsurers	4,834,466	0	4,834,466
Other amounts receivable under reinsurance contracts	85,846	0	85,846
Net deferred tax asset	3,992,037	0	3,992,037
Receivables from parent, subsidiaries and affiliates	3,447,193	0	3,447,193
Total assets	$521,743,992	$0	$521,743,992

Liabilities, Surplus and Other Funds

Liabilities		
Losses and loss adjustment expenses		$ 42,155,942
Taxes, licenses and fees (excluding federal and foreign income taxes)		3,795,442
Current federal and foreign income taxes		390,411
Borrowed money and interest thereon		150,389
Unearned premiums		85,639,552
Ceded reinsurance premiums payable (net of ceding commissions)		53,777
Funds held by company under reinsurance treaties		21,716,792
Provision for reinsurance		21,697
Payable to parent, subsidiaries and affiliates		260,254
Accrued expenses		2,451,346
Uncashed drafts and checks pending escheatment to a state		200,000
Total liabilities		$156,835,602
Surplus and Other Funds		
Common capital stock	$ 4,181,500	
Gross paid in and contributed surplus	335,425,248	
Unassigned funds (surplus)	25,301,643	
Surplus as regards policyholders		364,908,391
Total liabilities, surplus and other funds		$521,743,993

Note: The Internal Revenue Service has not audited tax returns covering tax years 2015-2018. 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 $1,246,168 as detailed below:

Underwriting Income		
Premiums earned		$841,660,551
Deductions:		
Losses and loss adjustment expenses incurred	$281,130,558	
Other underwriting expenses incurred	558,476,826	
Total underwriting deductions		839,607,384
Net underwriting gain or (loss)		$ 2,053,167
Investment Income		
Net investment income earned	$ 14,303,297	
Net realized capital gains or (losses)	(941,424)	
Net investment gain or (loss)		13,361,873
Other Income		
Accrued litigation income (expense)	$ (403,149)	
Accrued estimated regulatory income (expense)	(150,389)	
Accrued regulatory income (penalties)	(2,095,696)	
Interest expense funds held	(995,111)	
Total other income or (loss)		(3,644,345)
Net income before federal and foreign income taxes		$ 11,770,695
Federal and foreign income taxes incurred		10,524,527
Net income		$ 1,246,168

C. Capital and Surplus

Surplus as regards policyholders increased $319,476,813 during the four-year examination period January 1, 2015 through December 31, 2018, as reported by the Company, detailed as follows:

	Gains in Surplus	Losses in Surplus	
Surplus as regards policyholders, as reported by the Company as of December 31, 2014			$ 45,431,578
Net income	$ 1,246,169	$0	
Change in net deferred income tax	3,167,510		
Change in nonadmitted assets			
Change in provision for reinsurance	63,134		
Surplus adjustments paid in	315,000,000	0	
Total gains and losses	$319,476,813	$0	
Net increase (decrease) in surplus			319,476,813
Surplus as regards policyholders, as reported by the Company as of December 31, 2018			$364,908,391

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

Capital paid in is $4,181,500 consisting of 41,815 shares of $100 par value per share of common stock. Gross paid in and contributed surplus is $335,425,248. Gross paid in and contributed surplus increased by $315,000,000 during the examination period, as follows:

Year	Description		Amount
2014	Beginning gross paid in and contributed surplus		$ 20,425,248
2018	Surplus contribution	$315,000,000	
	Total surplus contributions		315,000,000
2018	Ending gross paid in and contributed surplus		$335,425,248

On January 1, 2018, the Company terminated its quota share reinsurance agreement, effective June 1, 2007, with AWP P&C S.A. Due to this termination, which resulted in an increase in the Company's net written premium, the parent contributed $315,000,000 in order for the Company to maintain an appropriate capital position.

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of $42,155,942 is the same as reported by the Company as of December 31, 2018. 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 reserves are concentrated in the inland marine line of business.

5. SUBSEQUENT EVENTS

The outbreak of a novel coronavirus, COVID-19, began domestically in the first quarter of 2020. In its response to Department Circular Letter 5 (2020), the Company advised that, although the majority of its products exclude coverage for claims related to epidemic/pandemic scenarios, higher paid losses over the next few months are expected as well as volatility in reserve estimations.

The Company also expects to experience much lower written premium. Incurred losses and lower revenue will lead to lower profits and potential net losses. This impact could be pronounced and severe given its product portfolio and the impact COVID-19 is having on its distribution partners and the travel industry in general. However, the Company does not expect covered losses to have a material impact on its operations or create severe liquidity issues. The related financial impact cannot be reasonably estimated at this time.

6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination contained no comments or recommendations.

7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

ITEM		PAGE NO.
A.	Corporate Governance	
	i. It is recommended that the Company ensure compliance with its investment committee charter and Section 1411 (a) of the New York State Insurance Law and have the Board or a committee thereof authorize its investment transactions.	5

Respectfully submitted,

___________/S/_________
Susan Weijola, CPCU
Associate Insurance Examiner

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

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

____________/S/___________
Susan Weijola

Subscribed and sworn to before me

this_________ day of __________________, 2020.

APPOINTMENT NO. 31860

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:*

Susan Weijola

as a proper person to examine the affairs of the

Jefferson Insurance 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 23rd day of January, 2019

MARIA T. VULLO
Superintendent of Financial Services

By:

Joan Riddell
Deputy Bureau Chief