

REPORT ON EXAMINATION

OF

PARTNERRE INSURANCE COMPANY OF NEW YORK
(NOW KNOWN AS CERITY INSURANCE COMPANY)

AS OF

DECEMBER 31, 2018

DATE OF REPORT

MAY 19, 2020

EXAMINER

KEVIN MCNAMEE

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Department of Financial Services

ANDREW M. CUOMO
Governor

LINDA A. LACEWELL
Superintendent

May 19, 2020

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 32034 dated January 20, 2020, attached hereto, I have made an examination into the condition and affairs of PartnerRe Insurance Company of New York as of December 31, 2018, and submit the following report thereon.

Wherever the designation “the Company” appears herein without qualification, it should be understood to indicate PartnerRe Insurance Company of New York.

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

1. SCOPE OF EXAMINATION

The Department has performed an examination of PartnerRe Insurance Company of New York, a multi-state insurer. The previous examination was conducted as of December 31, 2015. This examination covered the three-year period from January 1, 2016 through December 31, 2018. 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 Handbook, which requires that we plan and perform the examination to evaluate the financial condition of the Company. This examination 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
- 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 originally entered the United States in 1936 as the United States Branch (“Branch”) of the Winterthur Swiss Insurance Company of Winterthur, Switzerland (“Winterthur”). Winterthur, founded in 1875, was one of the largest insurance companies in Switzerland. On September 8, 1989, the Branch was domesticated under the laws of New York with the transfer of all assets and liabilities of the former Branch to the newly formed insurer, Winterthur Reinsurance Corporation of America. In 1997, Winterthur and its worldwide affiliates were acquired by the Credit Suisse Group.

In October 1998, the Company's common stock was acquired by PartnerRe U.S. Corporation ("PRUSC"), a Delaware domiciled holding company, which was ultimately owned by PartnerRe Ltd. ("PreLtd"). Subsequent to the acquisition, PRUSC contributed the capital stock of the Company to Partner Reinsurance Company of the U.S. ("PRUS"). Effective March 1, 1999, the name of the Company was changed to PartnerRe Insurance Company of New York.

In January 2012, PRUSC was contributed to PartnerRe Holding Europe Limited ("PreHEuro") by PReLtd. As a result, the Company became an indirect, wholly owned subsidiary of PReHEuro.

In April 2015, PReLtd announced the receipt of an unsolicited proposal from Exor N.V. and its controlling persons to acquire 100% of the outstanding common stock of PReLtd. After further negotiations, effective March 18, 2016, the Company became an indirect wholly owned subsidiary of Exor N.V. and its controlling persons.

On July 31, 2019, the Company became an indirect subsidiary of the Employers Holdings Inc., and subsequently changed its name to Cerity Insurance Company (refer to section 5 of this report for further information).

A. Corporate Governance

At December 31, 2018, the board of directors was comprised of the following eight members:

<u>Name</u>	<u>Principal Business Affiliation</u>
Anthony Frank Albano	Vice President, Chief Financial Officer and Treasurer, PartnerRe Insurance Company of New York
Thomas Lester Forsyth	Executive Vice President, General Counsel and Corporate Secretary, PartnerRe Insurance Company of New York
Kenneth John Graham	Senior Vice President, Head of Worldwide Reinsurance Claims, PartnerRe Ltd.
Mohammad Abu Turab Hussain	Chief Risk and Actuarial Officer, PartnerRe Ltd.
Liberatore John Iannarone	General Counsel and Chief Compliance Officer, Partner Reinsurance Company

<u>Name</u>	<u>Principal Business Affiliation</u>
Dominic Thomas Leone	Head of Public Fixed Income, PartnerRe Ltd.
Richard Newell Sanford	Chairman and President, PartnerRe Insurance Company of New York
Marta Juliana Shevchik	Senior Vice President, Director Financial Planning and Analysis, PartnerRe Insurance Company of New York

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

<u>Name</u>	<u>Title</u>
Richard Newell Sanford	Chairman and President
Anthony Frank Albano	Vice President, Chief Financial Officer and Treasurer
Thomas Lester Forsyth	Executive Vice President, General Counsel and Corporate Secretary

B. Territory and Plan of Operation

As of December 31, 2018, the Company was licensed to write business in 41 states and the District of Columbia. It is a qualified or accredited reinsurer in an additional nine states.

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

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

The Company is also authorized to transact workers' compensation insurance as may be incidental to coverages contemplated under paragraphs 20 and 21 of Section 1113(a) of the New York Insurance Law, including insurances described in the Longshore and Harbor Workers' Compensation Act (Public Law No. 803, 69th Congress, as amended; 33 USC Section 901 et seq. as amended) and as authorized by Section 4102(c) of the New York Insurance Law to reinsurance risks of every kind or description. In addition, the Company is licensed to do within this State the business of special risk insurance pursuant to Article 63 of the New York Insurance Law.

Based on 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, 41 and 63 of the New York Insurance Law, the Company is required to maintain a minimum surplus to policyholders in the amount of \$35,000,000.

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

<u>Calendar Year</u>	<u>Direct Premiums</u>	<u>Assumed Premiums</u>	<u>Total Gross Premiums</u>
2016	\$ 5,158,959	\$1,912,248	\$ 7,071,207
2017	\$ 3,446,781	\$ 18,235	\$ 3,465,016
2018	\$(4,403,712)	\$ 363,424	\$(4,040,288)

From 1999 through 2003, the Company's operations consisted mainly of a small volume of assumed property and casualty reinsurance, which was ceded 100% to PRUS. From 2004 through 2009, the Company did not write any new business. In 2010, the Company began writing satellite (aircraft – all perils) business on a direct basis, which had previously been written by affiliate PARIS RE America Insurance Company (now known as PRAIC). Satellite coverage provides protection for large commercial satellites from ground to orbit and during the first year in orbit. The Company expanded its writings as an insurer and reinsurer of satellite business. All satellite risk premiums were from non-US territories.

During the examination period, gross premiums reported by the Company reflect renewal premiums on certain products and premium adjustments on assumed business. The Company wound-down its

operations during the latter part of the examination period. This was accelerated in 2018 as the Company was prepared for sale.

C. Reinsurance Ceded

Loss Portfolio Transfer

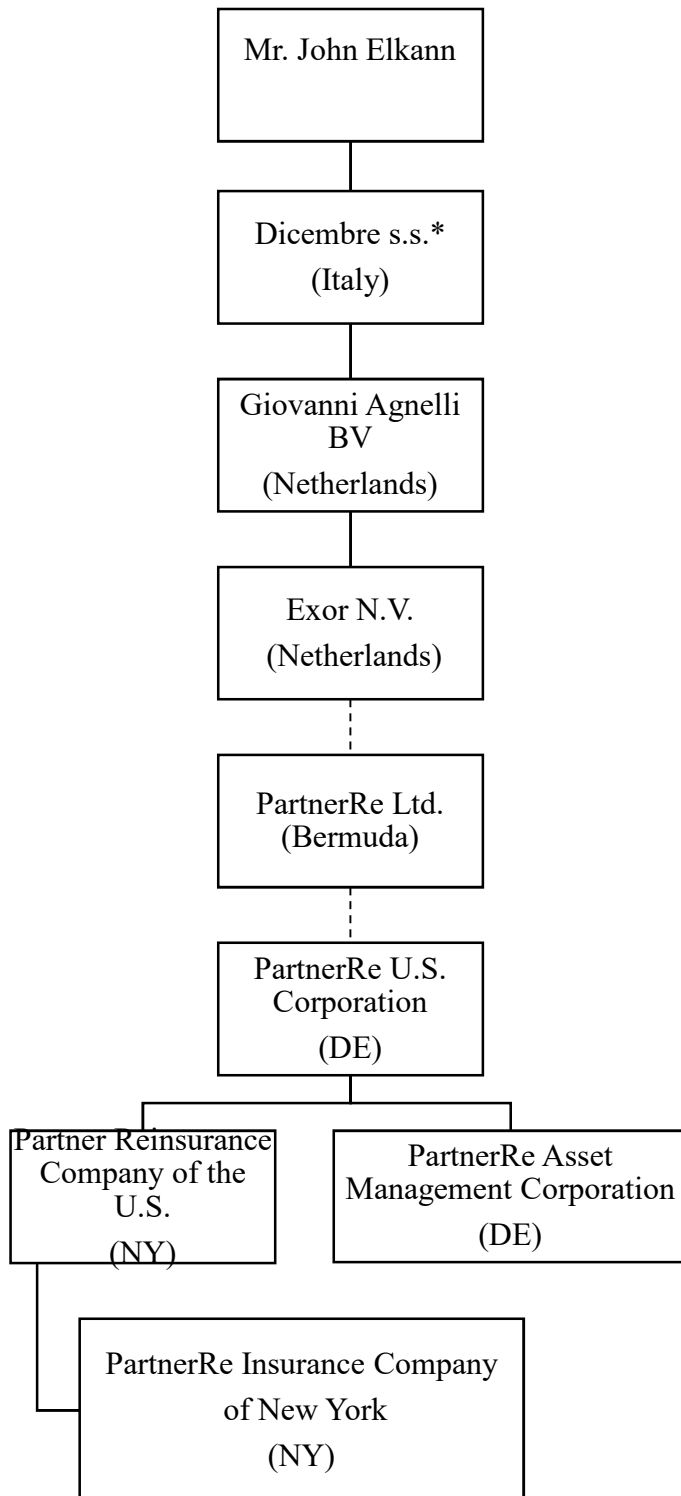
On December 31, 1998, the Company entered into a ceded loss portfolio transfer agreement with PartnerRe Bermuda, whereby the reinsurer agreed to assume 100% of the Company's loss and allocated loss adjustment expense reserves outstanding as of December 31, 1998 and relating to accident years 1998 and prior, excluding the business written by its then Canadian branch. This agreement was approved by the Department.

Effective July 31, 2019, the Company and PartnerRe Bermuda entered into a Recapture and Termination Agreement pursuant to which the Company recaptured all liabilities ceded to PartnerRe Bermuda under the existing loss portfolio transfer agreement. As a result, the loss portfolio transfer previously included in special surplus funds was retroceded. A new loss portfolio transfer agreement was established at the same time with PRUS, in which the Company ceded, or retroceded, to PRUS, 100% quota share of all liabilities recaptured by the Company pursuant to the Recapture and Termination Agreement.

D. Holding Company System

The Company is a wholly owned subsidiary of PRUS, a New York domiciled reinsurance company. Effective March 18, 2016, the Company was acquired by Exor N.V. (f/k/a EXOR S.p.A.) and its controlling persons. Exor N.V. is a European investment company that is publicly traded in Italy. Its shares are majority-held by the Agnelli family. As of December 31, 2018, the ultimate controlling party of the Company is Mr. John Elkann.

The following is an abridged chart of the holding company system at December 31, 2018:



*Dicembre s.s. holds 34.74% of the voting interest of Giovanni Agnelli BV as of November 31, 2018.

Holding Company Agreements

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

Service Agreements

Effective January 1, 2005, and as amended on March 5, 2010, the Company entered into a service agreement with PRUS. Pursuant to the terms of the agreement, PRUS provides the Company certain executive and administrative support services and other resources as required to conduct its corporate insurance and reinsurance business including, but not limited to, personnel, tax, administrative and office functions, legal, internal audit, claims, underwriting, accounting, information technology, and overall corporate management as needed and required by the Company.

Amended and Restated Advisement and Investment Management Agreement

Effective March 1, 2017, the Company, appointed PartnerRe Asset Management Corporation (“PRAM”) as their investment manager and attorney-in-fact to provide investment management, investment advice and recommendations with respect to those assets which comprise the Company’s investment portfolios and externally managed fund investments, or similar assets (“PRNY Assets”). PRAM was granted full discretionary authority with respect to the investment and reinvestment of PRNY Assets, subject to specified terms and conditions and in accordance with the respective investment guidelines. This agreement replaced the Amended and Restated Advisement and Investment Management Agreement effective March 1, 2012 with PRUS and PRAM.

Tax Allocation Agreement

Effective March 25, 1988, and subsequently amended on numerous occasions, the Company is party to a tax allocation agreement with PRUSC and PRUSC’s subsidiaries. The agreement was submitted to the Department pursuant to the provisions of Department Circular Letter No. 33 (1979).

All agreements subject to Section 1505(d) of the New York Insurance Law were filed with 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 NAIC.

<u>Operating Ratios</u>	<u>Result</u>
Net premiums written to policyholders' surplus	1%
Adjusted liabilities to liquid assets	6%
Two-year overall operating	0%

Underwriting Ratios

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

	<u>Amount</u>	<u>Ratio</u>
Losses and loss adjustment expenses incurred	\$1,981,141	235.39%
Other underwriting expenses incurred	767,240	91.16
Net underwriting gain (loss)	<u>(1,906,727)</u>	<u>(226.55)</u>
Premiums earned	\$ <u>841,654</u>	<u>100.00%</u>

The Company's reported risk-based capital ("RBC") score was 1,253.9% 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 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:

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$104,767,029	\$ 0	\$104,767,029
Cash, cash equivalents and short-term investments	5,520,252	0	5,520,252
Investment income due and accrued	851,979	0	851,979
Uncollected premiums and agents' balances in the course of collection	105	0	105
Amounts recoverable from reinsurers	277,973	0	277,973
Funds held by or deposited with reinsured companies	5,975,864	0	5,975,864
Net deferred tax asset	153,755	98,273	55,482
Paid loss recoverable from loss portfolio transfer	484,553	0	484,553
Other assets	<u>2,036</u>	<u>0</u>	<u>2,036</u>
Total assets	<u>\$118,033,546</u>	<u>\$98,273</u>	<u>\$117,935,273</u>

Liabilities, surplus and other fundsLiabilities

Losses and Loss Adjustment Expenses	\$49,600,320
Reinsurance payable on paid losses and loss adjustment expenses	(2,300)
Current federal and foreign income taxes	42,515
Ceded reinsurance premiums payable (net of ceding commissions)	(102,032)
Remittances and items not allocated	(624,559)
Provision for reinsurance	2,223,059
Payable to parent, subsidiaries and affiliates	335,002
Loss portfolio transfer	<u>(44,297,276)</u>
Total liabilities	\$ 7,174,729

Surplus and other funds

Aggregate write-ins for special surplus funds	\$47,586,420
Common capital stock	6,000,000
Gross paid in and contributed surplus	13,000,000
Unassigned funds (surplus)	<u>44,174,124</u>
Surplus as regards policyholders	<u>\$110,760,544</u>
Total liabilities, surplus and other funds	<u>\$117,935,273</u>

Note: The Internal Revenue Service has not audited tax returns covering tax years 2016 through 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 \$4,012,880, as detailed below:

Underwriting Income

Premiums earned		\$ 841,654
Deductions:		
Losses and loss adjustment expenses incurred	\$ 1,981,141	
Other underwriting expenses incurred	<u>67,240</u>	
Total underwriting deductions		<u>2,748,381</u>
Net underwriting gain or (loss)		\$(1,906,727)

Investment Income

Net investment income earned	\$ 8,604,181	
Net realized capital gain	<u>(247,372)</u>	
Net investment gain or (loss)		8,356,809

Other Income

Net gain or (loss) from agents' or premium balances charged off	\$ 507,213	
Loss portfolio transfer	(1,681,784)	
Assumed and ceded tech bad debt	98,872	
Miscellaneous income	<u>(311,589)</u>	
Total other income		<u>(1,287,288)</u>
Net income after dividends to policyholders but before federal and foreign income taxes		\$5,162,794
Federal and foreign income taxes incurred		<u>1,149,914</u>
Net income		<u>\$4,012,880</u>

C. Capital and Surplus

Surplus as regards policyholders increased \$1,387,647 during the three-year examination period January 1, 2016 through December 31, 2018, as reported by the Company, detailed as follows:

Surplus as regards policyholders, as reported by the Company as of December 31, 2015			\$109,372,897
	<u>Gains in</u>	<u>Losses in</u>	
	<u>Surplus</u>	<u>Surplus</u>	
Net income	\$4,012,880		
Net unrealized capital gains or (losses)	32,527		
Change in net unrealized foreign exchange capital gain	89,067		
Change in net deferred income tax		\$ 454,484	
Change in nonadmitted assets	207,657		
Dividends to stockholders	<u>0</u>	<u>2,500,000</u>	
Total gains and losses	\$4,342,131	\$2,954,484	
Net increase (decrease) in surplus			<u>1,387,647</u>
Surplus as regards policyholders, as reported by the Company as of December 31, 2018			<u>\$110,760,544</u>

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

As of December 31, 2018, capital paid in was \$6,000,000 consisting of 300,000 shares of \$20 par value per share common stock. Gross paid in and contributed surplus was \$13,000,000. Gross paid in and contributed surplus remained the same during the examination period.

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

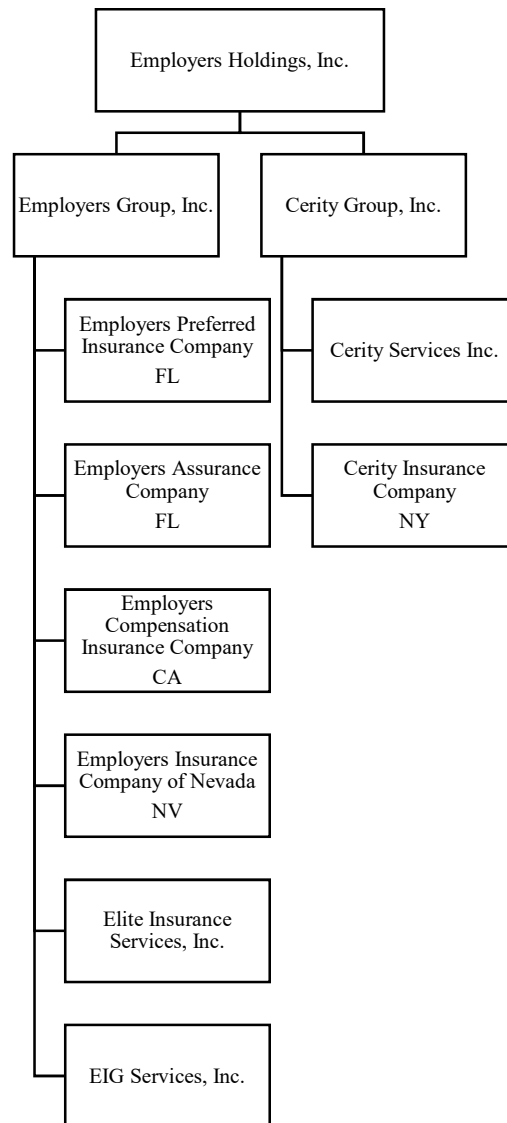
As of December 31, 2018, the Company reported net loss and loss adjustment expense reserves of \$5,303,044. Subsequent to the examination date, as previously noted in section 2C of this report, the Company entered into a loss portfolio transfer with PRUS, thereby reducing its net reserves to \$0.

Additionally, as discussed in section 5 of this report, the Company became part of the pooling agreement within the Employers Holdings Group. The Employers Holdings Group was subject to examination as of December 31, 2018 and no reserve change was noted.

5. SUBSEQUENT EVENTS

1) On July 31, 2019, Cerity Group, Inc. a wholly owned subsidiary of Employers Holdings, Inc., a holding company incorporated in Nevada, acquired the outstanding shares of capital stock of the Company, through a stock purchase agreement with PRUS. Subsequent to completing the acquisition, the Company became a workers' compensation writer and was renamed Cerity Insurance Company.

Following the acquisition, the holding company chart is as follows:



Effective August 1, 2019, the insurance companies of the Certity Group and the Employers Group entered into a pooling agreement (“Employers Holding Group pooling agreement”) which began on October 1, 2019. All pool participants are workers’ compensation writers, and they pool all of their expired, in-force, new and renewal workers’ compensation business and assumed reinsurance, as well as all of their reported and incurred but not reported claims and losses, unearned premium, underwriting expenses and miscellaneous income, all net of business ceded through reinsurance. Employers Preferred Insurance Company (EPIC) is the lead company of the pool. Employers Insurance Company of Nevada (EICN), Employers Compensation Insurance Company (ECIC), Employers Assurance Company (EAC) and Certity Insurance Company (CIC) cede all business, net of inuring reinsurance, to EPIC. EPIC then retrocedes to EICN, ECIC, EAC and CIC their shares of the pool. The pool percentages are as follows: EPIC (40%),

EAC (30%), ECIC (20%), ECIN (5%) and CIC (5%). The pooling agreement has been approved by the Department.

2) On March 11, 2020, the World Health Organization declared an outbreak of a novel coronavirus (“COVID-19”) pandemic. The risks and uncertainties surrounding the COVID-19 pandemic may impact the Company’s, and its competitors’, operational and financial performance. The extent of the impact of the COVID-19 pandemic on the Company’s operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, regulatory decisions, and the impact on the financial markets. All of these developments are uncertain and cannot be predicted. 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

This report on examination contains no comments or recommendations.

Respectfully submitted,

_____/S/_____
Kevin McNamee
Associate Insurance Examiner

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

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

_____/S/_____
Kevin McNamee

Subscribed and sworn to before me

this _____ day of _____, 2020.

NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

I, Linda A. Lacewell, 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:

Kevin McNamee

as a proper person to examine the affairs of the

***PartnerRe Insurance Company of New York
(n/k/a Cerity 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 22nd day of January, 2020

*LINDA A. LACEWELL
Superintendent of Financial Services*

By:

Joan L. Riddell

*Joan Riddell
Deputy Bureau Chief*

