

REPORT ON EXAMINATION

OF

EMPIRE INSURANCE COMPANY
(now known as EmPRO INSURANCE COMPANY)

AS OF

DECEMBER 31, 2019

DATE OF REPORT

OCTOBER 2, 2020

EXAMINER

JUSTIN MATHEW

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Department of Financial Services

ANDREW M. CUOMO
Governor

LINDA A. LACEWELL
Superintendent

October 2, 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 32024 dated January 3, 2020, attached hereto, I have made an examination into the condition and affairs of Empire Insurance Company as of December 31, 2019, and submit the following report thereon.

Wherever the designation “the Company” appears herein without qualification, it should be understood to indicate Empire Insurance Company.

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

Due to the Governor’s Executive Order of New York State on PAUSE regarding the COVID-19 pandemic, the examination was conducted remotely.

1. SCOPE OF EXAMINATION

The Department has performed a group examination of the Company, a multi-state insurer. The previous examination was conducted as of December 31, 2016. This examination covered the three-year period from January 1, 2017 through December 31, 2019. 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, 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 under the laws of the State of New York on February 6, 1925 as the Red Cab Mutual Casualty Company of New York. It became licensed on February 25, 1925 and commenced business on March 1, 1925.

The Company's name was changed to Empire Mutual Casualty Company in 1938, and then to Empire Mutual Insurance Company in 1953. Under a plan of demutualization, adopted on December 20, 1985, the stock company was formed on January 1, 1988 under its present name. The Company merged with its wholly owned subsidiary, Centurion Insurance Company, effective December 31, 2001, and with another wholly owned subsidiary, Allcity Insurance Company, on December 31, 2003, with the Company as the surviving company in both instances.

Effective December 31, 2001, the Company commenced a voluntary run-off of all of its operations. Except for the run-off of its claims, the Company does not currently engage in any other business activities.

On October 15, 2013, the Company was purchased by Sirius Global Solutions Holding Company (formerly, White Mountains Solutions Holding Company).

On April 18, 2016, China Minsheng Investment Group Corp., Ltd. ("CMIG", formerly China Minsheng Investment Co., Ltd.) through its direct wholly owned subsidiary, CM International Holding Pte. Ltd., purchased all the issued and outstanding shares of the Company's parent, Sirius International Insurance Group, Ltd. ("SIIG"), which included Sirius Global Solutions Holding Company ("SGSHC"), from Lone Tree Holdings Ltd. and White Mountains Group, Ltd., thereby becoming the ultimate parent of the Company. On June 19, 2018, an affiliate of the Company, Sirius America Insurance Company ("SAIC"), a New York domiciled property and casualty insurer, acquired 100% of the outstanding voting shares of the Company from SGSHC. SAIC is also an indirect wholly owned subsidiary of SIIG.

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 twelve members. The board meets three times during each calendar year. At December 31, 2019, the board of directors was comprised of the following seven members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Jeffrey Wayne Davis Miami, FL	Chief Actuary and Chief Risk Officer, Sirius America Insurance Company
Robert Peter Kuehn Manhasset, NY	General Counsel, Sirius America Insurance Company

Name and ResidencePrincipal Business Affiliation

Lori M. Powers
West Hartford, CT

Vice President, Secretary and Compliance Officer,
Sirius Global Solutions, Inc.

Andrew Jonathon Roth
Farmington, CT

Senior Vice President,
Sirius Global Solutions, Inc.

Peter Everett Sarne
Forest Hills, NY

Senior Vice President and Group Controller,
Sirius America Insurance Company

Michael Raymond Terelmes
Cheshire, CT

Senior Vice President, Treasurer and Chief Financial
Officer,
Sirius Global Solutions, Inc.

Walter Neal Wasserman
West Hartford, CT

President,
Sirius Global Solutions, Inc.

As of December 31, 2019, the principal officers of the Company were as follows:

NameTitle

Walter Neal Wasserman
Michael Raymond Terelmes

President and Chief Executive Officer
Senior Vice President, Chief Financial Officer and
Treasurer

Lori M. Powers

Vice President, Compliance Officer and Secretary

B. Territory and Plan of Operation

As of December 31, 2019, the Company was licensed to write business in six states: Connecticut, Massachusetts, Missouri, New Hampshire, New Jersey and New York. Historically, the Company specialized in commercial and personal property and casualty insurance primarily in the New York metropolitan area. The Company offered insurance products for automobile insurance coverage, general liability coverage, property coverage and workers' compensation to commercial accounts and private passenger automobile and homeowners' products to individuals.

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
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 (inland only)

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 \$3,400,000.

C. Reinsurance Ceded

Due to the Company's run-off status, the last reinsurance contract was non-renewed in 2001.

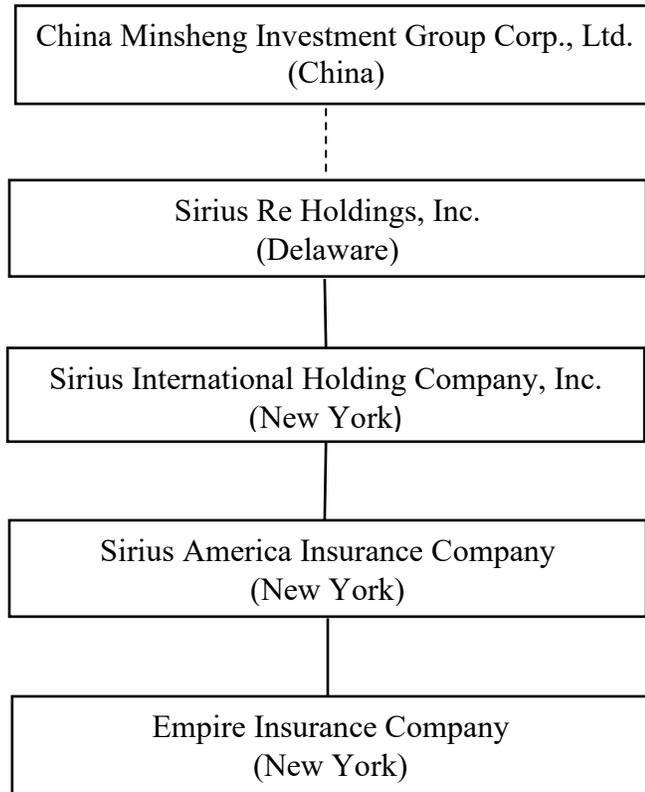
Examination review found that the Schedule F data reported by the Company in its filed annual statement accurately reflected its reinsurance transactions.

D. Holding Company System

The Company is a member of the China Minsheng Group. The Company is a wholly owned subsidiary of SAIC, which is an indirect subsidiary of China Minsheng Investment Group Corp., Ltd. ("CMIG"). CMIG is an international private investment group based in China. It was founded in 2014 by 59 private companies.

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, 2019:



Holding Company Agreements

As of December 31, 2019, the Company was party to the following agreements with other members of its holding company system:

Expense Allocation Agreement

The Company and various affiliates are parties to an Amended and Restated Expense Allocation Agreement, effective February 23, 2015, and subsequently amended multiple times. Pursuant to the terms of the agreement, SAIC provides human resources support, IT and network support, office space, and other services such as internal audit services to specified affiliates. Sirius Global Solutions, Inc. provides services such as bookkeeping, financial and regulatory reporting services, administrative, claims management, and actuarial services to specified affiliates. Pursuant to the terms of the agreement, reimbursement is made by the Company on a cost basis in accordance with the requirements of Department Regulation 30. This agreement replaced the expense allocation agreement dated January 1, 1997.

Investment Management Agreement

Effective September 16, 2016 and amended as of August 17, 2018, the Company is party to an investment management agreement with Sirius Investment Advisors LLC (“SIA”). Per the terms of the agreement, SIA manages, on a discretionary basis, the Company’s portfolio. The Company pays SIA an investment management fee and is responsible for all costs and expenses directly incurred by SIA on behalf of the Company, including custodial fees, accounting and performance measurement service fees, brokerage commissions, and other expenses reasonably related to the research, purchase, monitoring, sale or transfer of assets

Tax Allocation Agreement

The Company and various affiliates are parties to a tax allocation agreement, effective December 1, 2004, and subsequently amended on numerous occasions. The parties to the agreement file with SRH a consolidated federal income tax return under the provisions of the Internal Revenue Code of 1986. The agreement stipulates that the Company’s tax liability on a consolidated basis would not exceed the liability had the Company filed its tax return on a stand-alone basis.

All agreements subject to Section 1505 of the New York Insurance Law were filed with the Department.

E. Significant Ratios

The following operating ratios, computed as of December 31, 2019, 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	*
Adjusted liabilities to liquid assets	49%
Two-year overall operating	*

*Ratio is not applicable due to the Company's run-off status.

The underwriting ratios are not included as they are not applicable due to the Company's run-off status.

The Company's reported risk-based capital ("RBC") score was 1,500% at December 31, 2019. 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, 2019, as reported by the Company:

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$ 5,021,038	\$ 0	\$ 5,021,038
Cash	44,025	0	44,025
Cash equivalents	1,249	0	1,249
Short-term investments	14,461,594	0	14,461,594
Investment income due and accrued	39,465	0	39,465
Amounts recoverable from reinsurers	249,281	0	249,281
Net deferred tax asset	246,729	170,461	76,268
Cash advance	<u>595,778</u>	<u>0</u>	<u>595,778</u>
Total assets	<u>\$20,659,160</u>	<u>\$170,461</u>	<u>\$20,488,699</u>

Liabilities, Surplus and Other FundsLiabilities

Losses and loss adjustment expenses	\$ 9,280,454
Other expenses (excluding taxes, licenses and fees)	35,146
Current federal and foreign income taxes	26,634
Provision for reinsurance	252,200
Payable to parent, subsidiaries and affiliates	<u>54,637</u>
 Total liabilities	 \$ 9,649,071

Surplus and Other Funds

Common capital stock	\$3,610,275
Unassigned funds (surplus)	<u>7,229,353</u>
 Surplus as regards policyholders	 <u>10,839,628</u>
 Total liabilities, surplus and other funds	 <u>\$20,488,699</u>

Note: During the examination period, the Company was not subject to audit by the Internal Revenue Service. 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 loss for the examination period as reported by the Company was \$18,246, as detailed below:

Underwriting Income

Premiums earned		\$ (62,868)
Deductions:		
Losses incurred	670,321	
Loss adjustment expenses incurred	(670,321)	
Other underwriting expenses incurred	<u>1,050,068</u>	
Total underwriting deductions		<u>1,050,068</u>
Net underwriting gain or (loss)		\$(1,112,936)

Investment Income

Net investment income earned	\$1,257,112	
Net realized capital gain	<u>(108)</u>	
Net investment gain or (loss)		1,257,004

Other Income

Other income	\$ 84,053	
Total other income or (loss)		<u>84,053</u>
Net income after dividends to policyholders but before federal and foreign income taxes		\$ 228,121
Federal and foreign income taxes incurred		<u>246,367</u>
Net income		\$ <u>(18,246)</u>

C. Capital and Surplus

Surplus as regards policyholders increased \$158,488 during the examination period January 1, 2017 through December 31, 2019, as reported by the Company, detailed as follows:

Surplus as regards policyholders, as reported by the Company as of December 31, 2016			\$10,681,139
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income		\$ 18,246	
Change in net deferred income tax		28,564	
Change in non-admitted assets	\$182,002		
Change in provision for reinsurance	<u>23,296</u>	_____	
Total gains and losses	\$205,298	\$46,810	
Net increase in surplus			<u>158,488</u>
Surplus as regards policyholders, as reported by the Company as of December 31, 2019			<u>\$10,839,628*</u>

*rounding adjustment of \$1

As of December 31, 2019, capital paid in is \$3,610,275 consisting of 19,515 shares of \$185 par value per share common stock. No adjustments were made to surplus as a result of this examination.

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

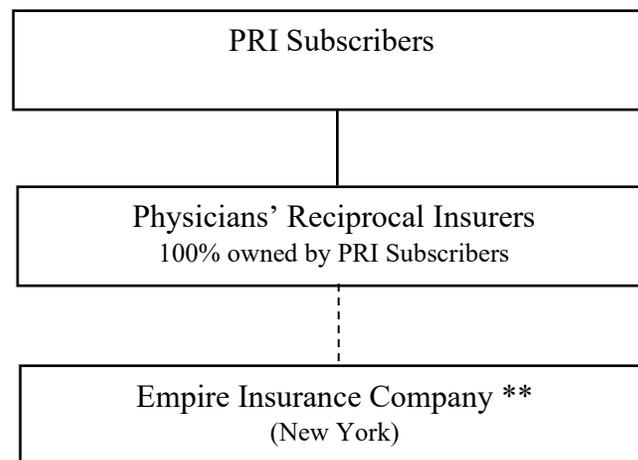
As of December 31, 2019, the Company reported net loss and loss adjustment expense reserves of \$9,280,454.

As described in section 5 of this report, on June 26, 2020, the Department approved the sale of the Company to Physicians' Reciprocal Insurers ("PRI"), an unaffiliated third party. To facilitate the sale, the Company entered into a Transfer and Assumption Agreement with SAIC, whereby SAIC assumed all of the insurance and non-insurance liabilities of the Company. As such, upon acquisition by PRI, the Company will have a \$0 net reserve liability.

5. SUBSEQUENT EVENTS

Effective June 26, 2020, the Department approved the acquisition of the Company by PRI, a New York domestic reciprocal insurance company. The acquisition closed on July 7, 2020. The Company is being acquired to enhance PRI's ability to sell medical liability insurance policies in New York State through an adequately capitalized admitted insurer. PRI currently provides professional liability coverage to physicians, chiropractors, dentists, hospitals, healthcare facilities, and other health care professionals in the State of New York, as well as excess coverage provided through participation in the New York State Hospital Excess Liability Pool. Additionally, PRI offers general liability coverage to its insured hospitals, healthcare facilities and nursing homes. In accordance with the requirements of a licensed reciprocal insurer, each policyholder must also be a subscriber of the reciprocal exchange.

Total consideration for the acquisition is \$1 million plus the Company's capital and surplus (approximately \$10.8 million as of December 31, 2019) as of the date of closing. The capitalization of the Company will be primarily accomplished through the purchase of a \$100 million surplus note by PRI from the Company. Subsequent to the acquisition, the abridged holding company chart is as follows:



**Effective July 22, 2020, the Department approved the Company's name change to EmPRO Insurance Company.

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/_____
Justin Mathew
Senior Insurance Examiner

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

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

_____/S/_____
Justin Mathew

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:

Justin Mathew

as a proper person to examine the affairs of the

Empire 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 3rd day of January, 2020

LINDA A. LACEWELL
Superintendent of Financial Services



By:

Joan P. Riddell

Joan Riddell
Deputy Bureau Chief