REPORT ON EXAMINATION

OF

UTICA NATIONAL ASSURANCE COMPANY

AS OF

DECEMBER 31, 2019

DATE OF REPORT	JUNE 8, 2021
EXAMINER	WAYNE LONGMORE

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June 8, 2021

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 32057 dated March 27, 2020, attached hereto, I have made an examination into the condition and affairs of Utica National Assurance 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 Utica National Assurance 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 remotely due to the Governor's Executive Order of New York State on PAUSE regarding the COVID-19 pandemic.

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 five-year period from January 1, 2015, through December 31, 2019. Transactions occurring subsequent to this period were reviewed when deemed appropriate by the examiner.

New York was the lead state of the Utica National Insurance Group ("Group"). The examination was performed concurrently with the examinations of the following insurers:

Company	State of Domicile
Founders Insurance Company	Illinois
Founders Insurance Company of Michigan	Michigan
Graphic Arts Mutual Insurance Company	New York
Republic–Franklin Insurance Company	Ohio
Utica Lloyds of Texas	Texas
Utica Mutual Insurance Company	New York
Utica National Insurance Company of Ohio	Ohio
Utica National Insurance Company of Texas	Texas
Utica Specialty Risk Insurance Company	Texas

Other states participating in this examination were Illinois, Michigan, Ohio and Texas.

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

Affiliated group description
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 regarding the recommendations 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

Utica National Assurance Company was incorporated under the laws of the State of New York on June 7, 1995. Operations were conducted under the title Graphic Arts Insurance Company until June 24, 1997, when the current name was adopted. It became licensed on July 29, 1996 and commenced business on November 1, 1997.

The Company is wholly owned by and has management in common with Utica Mutual Insurance Company ("UMIC").

The Company also pools premiums, losses, and expenses with UMIC through a reinsurance pooling agreement.

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 21 persons. The board meets at least four times during each calendar year. At December 31, 2019, the board of directors was comprised of the following seven persons:

Name and Residence	Principal Business affiliation
John M. Anderson St. Charles, IL	Director of Production Innovation, Utica Mutual Insurance Company

Jolene M. Casatelli New Hartford, NY	Senior Vice President and Senior Claims Officer, Utica Mutual Insurance Company
Paul L. Cohen Utica, NY	Senior Vice President-Chief Actuary and Analytics Officer, Utica Mutual Insurance Company
Richard P. Creedon Vernon, NY	Chief Executive Officer, Utica Mutual Insurance Company
Steven P. Guzski Whitesboro, NY	Executive Vice President and Senior Officer of Human Resources and Facilities, Utica Mutual Insurance Company
Kristen H. Martin Clinton, NY	President and Chief Operating Officer, Utica Mutual Insurance Company
Louisa S. Ruffine Clinton, NY	Assistant Vice President, Associate General Counsel, Compliance Officer and Secretary, Utica Mutual Insurance Company

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

Name	Title
Richard P. Creedon	Chairman and Chief Executive Officer
Kristen H. Martin	President and Chief Operating Officer
Brian W. Miller, Jr.	Vice President, Chief Financial Officer and Treasurer
Louisa S. Ruffine	Secretary

B. Territory and Plan of Operation

As of December 31, 2019, the Company was licensed to write business in 13 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:

Paragraph	Line of Business
3	Accident and 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
16	Fidelity and surety
17	Credit
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine
21	Marine protection and indemnity
24	Credit unemployment
26	Gap
27	Prize indemnification
28	Service Contract reimbursement
29	Legal services insurance

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 $9,100,000.

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

Calendar Year	Direct Premiums	Assumed Premiums	Total Gross Premiums
2015	$ 66,222,280	$16,425,374	$ 82,647,654
2016	$ 78,386,509	$17,742,311	$ 96,128,820
2017	$ 84,524,437	$19,425,835	$103,950,272
2018	$ 91,962,288	$20,785,364	$112,747,652
2019	$103,859,048	$22,621,944	$126,480,992

The following lines of business represent the largest lines written by the Company (by percentage of total 2019 direct written premiums): commercial multiple peril, workers' compensation, commercial auto liability, auto physical damage, and homeowners multiple peril which accounted for 47.45%, 24.23%, 18.21%, 5.03% and 2.37%, respectively. The Company produced a majority of its 2019 direct written premium (95.26%) in the following states: New York (69.99%), Georgia (10.69%), Massachusetts (5.32%), Connecticut (4.83%), and Virginia (4.43%).

The Company utilizes independent agents to produce and distribute most of its business. Brokers produced less than 10% of total business.

Due to the pooling agreement described below, the net exposure of the Company was significantly different than its direct and assumed exposure.

C. Reinsurance Ceded

UMIC is the lead company in an inter-company reinsurance pooling agreement with the Company and four other property and casualty affiliates that cede 100% of their written premiums to UMIC. UMIC retroceded 16% of the pooled premiums, net of external reinsurance, to other pool members. As of December 31, 2019, the retrocession, which resulted in sharing of premium income, losses and expenses, was as follows:

Graphic Arts Mutual Insurance Company	5%
Founders Insurance Company	5%
Republic–Franklin Insurance Company	3%
Utica National Assurance Company	2%
Utica National Insurance Company of Texas	1%

Under the present agreement, all transactions and items related to the insurance and/or general operations of the companies are pooled. The only major items that remain exempt are those related to investments and inter-company accounts.

At December 31, 2019, the business written by three other affiliates, Utica Specialty Risk Insurance Company, Utica Lloyds of Texas, and Utica National Insurance Company of Ohio, is ceded 100% to UMIC and is shared with the pool members in accordance with the above-mentioned pooling percentages.

The Group’s 2019 reinsurance program included the following significant coverages:

Treaty Type	Cession
Property Per Risk 3 layers	$8,000,000 in excess of $2,000,000 with 6 reinstatements $15,000,000 in excess of $10,000,000 with 2 reinstatements $25,000,000 in excess of $25,000,000 with 2 reinstatements
Property Catastrophe 4 layers	$25,000,000 in excess of $25,000,000 with 1 reinstatement $50,000,000 in excess of $50,000000 with 1 reinstatement $200,000,000 in excess of $100,000,000 with 1 reinstatement $100,000,000 in excess of $300,000,000 with 1 reinstatement
Casualty 4 layers	$5,000,000 in excess of $5,000,000 with 3 reinstatements $10,000,000 in excess of $10,000,000 with 1 reinstatement $20,000,000 in excess of $20,000,000 with 1 reinstatement $60,000,000 in excess of $40,000,000 with 1 reinstatement

Most of the ceded business was to authorized reinsurers, and the amount in cessions to authorized companies has increased since the last exam. It is the Company's policy to obtain the appropriate collateral for its cessions to unauthorized reinsurers.

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.

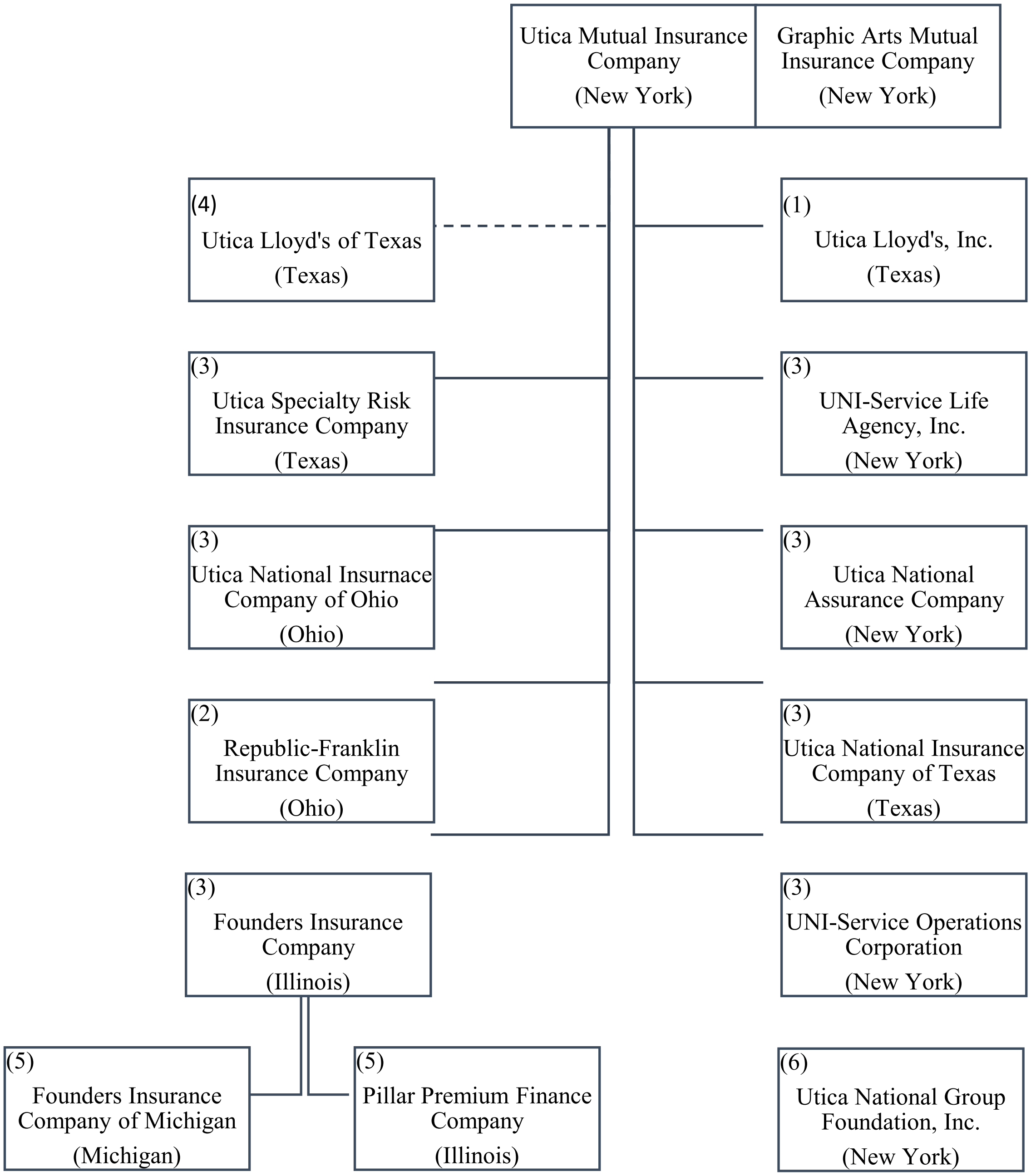
Examination review found that the Schedule F data reported by the Company in its filed annual statement accurately reflected its reinsurance transactions. Additionally, management has represented that all material ceded reinsurance agreements transfer both underwriting and timing risk as set forth in the NAIC Accounting Practices and Procedures Manual, Statement of Statutory Accounting Principles ("SSAP") No. 62R. Representations were supported by an attestation from the Company's Chief Executive Officer and Chief Financial Officer. 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. Affiliated Group

The Company is a member of the group of companies that operate under the trade name Utica National Insurance Group.

Pursuant to Section 1502(a) of the New York Insurance Law, the Company is exempt from the filing requirements of Article 15. However, pursuant to Department Circular Letter No. 10 (2010), domestic insurers are required to file with the superintendent copies of the insurance holding company system annual registration statement ("NAIC Form B") filed in another state by the insurer or its parent authorized insurer, and any amendments thereto, at the same time that the insurer files the statement and any amendments with another state. If an insurer is not required to file the NAIC Form B in another state, then the insurer should file the information contained in NAIC Form B with the Department within 120 days following the close of the ultimate holding company's fiscal year. The Company is noted to have made the required filings in a timely manner during the period covered by the examination.

The following is an organizational chart outlining the relationship between members of the affiliated group at December 31, 2019:



(1) Owned 100% by Utica Mutual Insurance Company; operates as attorney-in-fact for Utica Lloyd’s of Texas.
(2) Owned 94% by Utica Mutual Insurance Company and 6% by Graphic Arts Mutual Insurance Company.
(3) Owned 100% by Utica Mutual Insurance Company.
(4) A Texas Lloyd’s association of twelve underwriters under sponsorship of the Utica Mutual Insurance Company.
(5) Owned 100% by Founders Insurance Company.
(6) Shares common management with the Group.

At December 31, 2019, the Company was party to the following agreement with other affiliated entities:

Tax Allocation Agreement

This Tax Allocation Agreement was entered into July 1, 2010, by and between Utica Mutual Insurance Company, the Company and various other affiliates.

It was noted during the review of the agreement that some parties to the agreement were no longer in existence. It is recommended that the Company draft an updated tax allocation agreement, consisting of existing entities, and submit of the new agreement to the Department in accordance with Circular Letter No.33 (1979).

E. Significant Ratios

The Company's operating ratios, computed as of December 31, 2019, 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	67%
Adjusted liabilities to liquid assets	64%
Two-year overall operating	88%

Underwriting Ratios

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

	Amounts	Ratios
Losses and loss adjustment expenses incurred	$59,576,721	63.87%
Other underwriting expenses incurred	32,421,703	34.76
Net underwriting gain	1,279,038	1.37
Premiums earned	$93,277,462	100.00%

The Company's reported risk-based capital ("RBC") score was 1,138.9% as of December 31, 2019. The RBC score 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.

F. Accounts and Records

Compliance with Department Regulation 118

A review of the 2019 CPA engagement letter shows the following language, required by Department Regulation 118, were not included.

Department Regulation 118, Section 89.4(b) states:

> "The company shall obtain a letter from the CPA, and file a copy with the superintendent, stating that the CPA is aware of the provisions of the insurance law and the regulations thereunder of the state of domicile that relate to accounting and financial matters and affirming that the CPA will express his or her opinion on the financial statements in terms of their conformity to the statutory accounting practices prescribed or otherwise permitted by that insurance department, specifying such exceptions as the CPA may believe appropriate."

Department Regulation 118, Section 89.8(a) states, in part:

> "Every company required to furnish an annual audited financial report shall require the CPA to submit written notification 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…"

Department Regulation 118, Section 89.11 states:

> "Every company shall require the CPA to make available for review by Department examiners, all work papers prepared in the conduct of the CPA's audit and any communications related to the audit between the CPA and the company, at the offices of the company, at the Department, or at any other reasonable place designated by the superintendent. Every company shall require that the CPA retain the audit work papers and communications for six calendar years from the date of the audit report or until the filing of the report on examination covering the period of the audit, whichever is longer, as required by Part 243 of this Title (Regulation 152)."

It is recommended that the Company establish procedures to ensure that its engagement letter with its independent certified public accountant include all language required by Department Regulation 118, Sections 89.4(b), 89.8(a), and 89.11.

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.

Assets

	Assets	Assets Not Admitted	Net Admitted Assets
Bonds	$64,918,948	$ 0	$64,918,948
Cash, cash equivalents and short-term investments	621,959	0	621,959
Investment income due and accrued	493,418	0	493,418
Uncollected premiums and agents' balances in the course of collection	7,485,759	127,861	7,357,898
Deferred premiums, agents' balances and installments booked but deferred and not yet due	473,165	4,483	468,682
Amounts recoverable from reinsurers	171,217		171,217
Net deferred tax asset	1,157,515	104,878	1,052,637
Guaranty funds receivable or on deposit	162,754	0	162,754
Electronic data processing equipment and software	21,681	0	21,681
Furniture and equipment, including health care delivery assets	4,259	4,259	0
Receivables from parent, subsidiaries and affiliates	564,252	0	564,252
Accounts receivable-other	262,855	3,675	259,180
Equities and deposits in pools and associations	134,407	1,918	132,489
Clearing accounts	72,635	65,341	7,294
Miscellaneous office equipment	628,837	628,837	0
Prepaid expenses	480,599	480,599	0
Total assets	$77,654,260	$ 1,421,851	$76,232,409

Liabilities, surplus and other funds

Liabilities

Losses and Loss Adjustment Expenses		$28,140,952
Commissions payable, contingent commissions and other similar charges		717,332
Other expenses (excluding taxes, licenses and fees)		863,837
Taxes, licenses and fees (excluding federal and foreign income taxes)		83,604
Current federal and foreign income taxes		554,366
Unearned premiums		11,205,794
Advance premium		94,129
Policyholders (dividends declared and unpaid)		164,524
Ceded reinsurance premiums payable (net of ceding commissions)		153,716
Funds held by company under reinsurance treaties		36,934
Amounts withheld or retained by company for account of Others		778,231
Provision for reinsurance		48
Payable for securities		809
Contingent balance in safety groups		7,940
Liability for pension benefits		(155,340)
Total liabilities		$42,646,876
Surplus and other funds		
Reserve for undeclared dividends	$ 166,765	
Common capital stock	4,200,000	
Gross paid in and contributed surplus	13,000,000	
Unassigned funds (surplus)	16,218,768	
Surplus as regards policyholders		33,585,533
Total liabilities, surplus and other funds		$76,232,409

Note: The Internal Revenue Service did not audit any of the Company's federal income tax returns during the period under examination. 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 $7,036,124, as detailed below:

Underwriting Income		
Premiums earned		$93,277,462
Deductions:		
Losses and loss adjustment expenses incurred	$59,576,721	
Other underwriting expenses incurred	32,421,703	
Total underwriting deductions		91,998,424
Net underwriting gain or (loss)		$ 1,279,038
Investment Income		
Net investment income earned	$8,816,765	
Net realized capital gain	(153,666)	
Net investment gain or (loss)		8,663,099
Other Income		
Net gain or (loss) from agents' or premium balances charged off	$(287,802)	
Finance and service charges not included in premiums	969,971	
Gain or loss on sale of assets	(2,423)	
Miscellaneous income	(532,563)	
Total other income		147,183
Net income before dividends to policyholders and before federal and foreign income taxes		$10,089,320
Dividends to policyholders		1,083,158
Net income after dividends to policyholders but before federal and foreign income taxes		$ 9,006,162
Federal and foreign income taxes incurred		1,970,038
Net income		$ 7,036,124

C. Capital and Surplus

Surplus as regards policyholders increased $5,462,793 during the examination period January 1, 2015 through December 31, 2019 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			$28,122,740
Net income	$7,036,124		
Net unrealized capital gains or (losses)	8,980		
Change in net deferred income tax		$ 437,115	
Change in nonadmitted assets		824,615	
Change in provision for reinsurance		47	
Capital changes transferred from surplus (stock dividend)	1,200,000		
Capital changes transferred to surplus			
Surplus adjustments paid in		1,200,000	
Contingent balance in safety groups	11,600		
Pension benefit obligation		199,023	
Pension expense		134,437	
Miscellaneous surplus adjustment	1,326	0	
Total gains and losses	$8,258,030	$2,795,237	
Net increase (decrease) in surplus			5,462,793
Surplus as regards policyholders as reported by the Company as of December 31, 2019			$33,585,533

Capital paid in is $4,200,000, consisting of 50,000 shares of common stock at $84 par value per share. Gross paid in and contributed surplus was $13,000,000.

Gross paid in and contributed surplus decreased by $1,200,000 during the examination period, as follows:

Year	Description	Amount
2015	Beginning gross paid in and contributed surplus	$14,200,000
2019	Increased par value per share from $60 to $84 (50,000 shares @$24)	(1,200,000)
2019	Ending gross paid in and contributed surplus	$13,000,000

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

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of $28,140,952 is the same as that reported by the Company as of December 31, 2019. 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 reported reserves are concentrated in the commercial lines, which is consistent with the business written by the Company.

5. SUBSEQUENT EVENTS

On March 11, 2020, the World Health Organization declared an outbreak of a novel coronavirus (“COVID-19”) pandemic. The COVID-19 pandemic has continued to develop throughout 2020, with significant uncertainty remaining regarding the full effect of COVID-19 on the U.S. and global insurance and reinsurance industry. At the time of releasing this report, the examination’s review noted that there has not been a significant impact to the Company. The Department has been in communication with the Company regarding the impact of COVID-19 on the Company’s operations and financial position and will take necessary action if a solvency concern arises.

6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination contained the following recommendations (page number refers to the prior report):

ITEM			PAGE NO.
A.		Corporate Governance It was recommended that management correct the age requirement discrepancy noted between the Company's by-laws and charter. The Company has complied with this recommendation.	4
B.		Reinsurance	
	i.	It was recommended that the Company include specific language from Department Circular Letter No. 5 (1988) in all reinsurance contracts which make reference to a novation. The Company has complied with this recommendation.	10
	ii.	It was recommended that the offset provision of certain reinsurance agreements be amended to state that in the event of the insolvency of either party to the agreement then offsets shall only be allowed to the extent permitted by the provision of Section 7427 of the New York Insurance Law. The Company has complied with this recommendation.	10
	iii.	It was recommended that all future reinsurance agreements with an offset provision entered into by the Company include such required language. The Company has complied with this recommendation.	10
C.		Accounts and Records It was recommended that the Company ensure that future engagement letters with its independent certified public accountant include the five-day notice requirement called for in Section 89.8(a) of Department Regulation No. 118. The Company has not complied with this recommendation. A similar comment is made in this report.	13

7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

ITEM		PAGE NO.
A.	Holding Company	
	It is recommended that the Company draft an updated tax allocation agreement, consisting of existing entities, and submit the new agreement to the Department in accordance with Circular Letter No.33 (1979).	10
B.	Accounts and records	
	It is recommended that the Company establish procedures to ensure that its engagement letter with its independent certified public accountant include all language required by Department Regulation 118, Sections 89.4(b), 89.8(a), and 89.11.	12

Respectfully submitted,

____________/S/____________
Wayne Longmore
Associate Insurance Examiner

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

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

____________/S/____________
Wayne Longmore

Subscribed and sworn to before me

this__________ day of ____________________, 2021.

APPOINTMENT NO. 32057

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:*

Wayne Longmore

as a proper person to examine the affairs of the

Utica National Assurance 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 27th day of March, 2020

LINDA A. LACEWELL
Superintendent of Financial Services

By: Joan L. Riddell

Joan Riddell
Deputy Bureau Chief