

REPORT ON EXAMINATION

OF

VIGILANT INSURANCE COMPANY

AS OF

DECEMBER 31, 2019

DATE OF REPORT

MAY 5, 2021

EXAMINER

SHEIK H. MOHAMED

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Department of Financial Services

ANDREW M. CUOMO
Governor

LINDA A. LACEWELL
Superintendent

May 5, 2021

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 32050 dated February 25, 2020, attached hereto, I have made an examination into the condition and affairs of Vigilant 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 Vigilant 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 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 Vigilant Insurance 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 when deemed appropriate by the examiner.

The examination was conducted in conjunction with the Commonwealth of Pennsylvania, which was the lead state of the Chubb Limited Group. The examination was performed concurrently with the examinations of the following insurers:

<u>Company</u>	<u>Domicile</u>
ACE American Insurance Company	Pennsylvania
ACE Capital Title Reinsurance Company	New York
ACE Fire Underwriters Insurance Company	Pennsylvania
ACE Insurance Company of the Midwest	Indiana
ACE Property and Casualty Insurance Company	Pennsylvania
Agri General Insurance Company	Iowa
Atlantic Employers Insurance Company	New Jersey
Bankers Standard Insurance Company	Pennsylvania
Century Indemnity Company	Pennsylvania
Chubb Custom Insurance Company	New Jersey
Chubb Indemnity Insurance Company	New York
Chubb Insurance Company of New Jersey	New Jersey
Chubb National Insurance Company	Indiana
Chubb Lloyds Insurance Company of Texas	Texas
Executive Risk Indemnity Inc.	Delaware
Executive Risk Specialty Insurance Company	Connecticut
Federal Insurance Company	Indiana
Great Northern Insurance Company	Indiana
Illinois Union Insurance Company	Illinois
Indemnity Insurance Company of North America	Pennsylvania
Insurance Company of North America	Pennsylvania
Pacific Employers Insurance Company	Pennsylvania
Pacific Indemnity Company	Wisconsin
Penn Millers Insurance Company	Pennsylvania
Westchester Fire Insurance Company	Pennsylvania
Westchester Surplus Lines Insurance Company	Georgia

Other states participating in this examination were California, Connecticut, Delaware, Georgia, Illinois, Indiana, Iowa, New Jersey, Texas and Wisconsin.

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

A review was also made to ascertain what action was taken by the Company with regard to 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

Vigilant Insurance Company was incorporated under the laws of the State of New York on July 17, 1939, as Reserve Insurance Company. The present name was adopted on May 1, 1941. It became licensed on October 18, 1939 and commenced business the same day.

The Company is wholly owned by Federal Insurance Company (“FIC”). FIC was wholly owned by The Chubb Corporation (“Chubb Corp.”), a New Jersey domiciled holding company. On June 30, 2015, Chubb Corp. entered into an agreement and plan of merger with ACE Limited (“ACE”), a company organized under the laws of Switzerland, and William Investment Holdings Corporation, a New Jersey corporation and wholly owned indirect subsidiary of ACE, which provided for the acquisition of Chubb

Corp. and various subsidiaries, including the Company, by ACE. On January 14, 2016, ACE completed the acquisition of Chubb Corp., and on January 15, 2016, Chubb Corp. merged with and into ACE INA Holdings Inc., a wholly owned indirect subsidiary of ACE. ACE Limited changed its name to Chubb Limited and ACE INA Holdings Inc. changed its name to Chubb INA Holdings Inc. FIC is now a wholly owned subsidiary of Chubb INA Holdings Inc.

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 twenty-one members. The board meets four times during each calendar year. At December 31, 2019, the board of directors was comprised of the following ten members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Scott Edward Henck Lebanon, New Jersey	Executive Vice President, ACE American Insurance Company
Latrell Johnson Robbinsville, New Jersey	Director, ACE American Insurance Company
Christopher John Kearns New York, New York	Deputy General Counsel, Chubb Group Holdings, Inc.
Paul Joseph Krump Mendham, New Jersey	Executive Vice President, Chubb Group Holdings, Inc.
John Joseph Lupica Newtown, Pennsylvania	Vice Chairman, Chubb Limited
Michelle McLaughlin Monroe Township, New Jersey	Director, ACE American Insurance Company
Frances Dugan O'Brien Basking Ridge, New Jersey	Executive Vice President, ACE American Insurance Company
Kevin Michael Rampe New Hope, Pennsylvania	Deputy General Counsel, Chubb Group Holdings, Inc.
Drew Kiehn Spitzer Summit, New Jersey	Executive Vice President and Treasurer, ACE American Insurance Company

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Edward Dominic Zaccaria New Hope, Pennsylvania	Executive Vice President and Chief Underwriting Officer, ACE American Insurance Company

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

<u>Name</u>	<u>Title</u>
Paul Joseph Krump	President
Brandon Michael Peene	Secretary
Drew Kiehn Spitzer	Treasurer
John Joseph Lupica	Executive Vice President
Paul Gerard O'Connell	Senior Vice President and Chief Actuary
Christopher Anthony Maleno	Executive Vice President
John Paul Taylor	Senior Vice President

B. Territory and Plan of Operation

As of December 31, 2019, the Company was licensed to write business in all 50 states as well as District of Columbia and the U.S. Virgin Islands.

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
16	Fidelity and surety
17	Credit

<u>Paragraph</u>	<u>Line of Business</u>
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine
21	Marine protection and indemnity
26 (A)(B)(C)(D)	Gap
27	Prize indemnification
29	Legal services

The Company is also authorized to transact such workers' compensation insurance as may be incident to coverages contemplated under paragraphs 20 and 21 of Section 1113(a), including insurances described in the Longshoremen's 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), insurance of every kind or description outside of the United States and reinsurance 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 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, 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>
2017	439,904,564	47,189,395	487,093,959
2018	430,569,710	(23,856,765)	406,712,945
2019	433,163,866	0	433,163,866

Approximately 27.05% of the Company's direct writings in 2019 were concentrated in New York and Connecticut. Major product lines written in 2019 were in homeowners' multiple peril (46.79%), workers' compensation (15.97%), commercial multiple peril (13.47%) and inland marine (7.31%).

The Company's products and services are distributed through brokers, independent agents and various forms of direct marketing. The Company has a substantial presence in the United States with a broad variety of coverages serving large corporate and upper middle market accounts, middle market and small commercial accounts, and personal lines.

In 2017, the Company's assumed written premiums were due solely to its participation in the former FIC intercompany pooling arrangement ("Federal Pool"). Effective January 1, 2018, with the Department's non-disapproval, the Company terminated its participation in the Federal Pool and entered into a 100% gross quota share reinsurance agreement with FIC. As a result of these changes, effective January 1, 2018, the Company no longer assumes any written premium; the negative assumed written premiums reported in 2018 are a result of the Company "unwinding" its participation in the Federal Pool.

C. Reinsurance Ceded

Effective January 1, 2016, the Company and other affiliated participants of the Federal Pool entered into a net liabilities quota share reinsurance agreement with ACE Property and Casualty Insurance Company, an affiliate, to reinsure 20% of the Federal Pool's current accident year results, excluding unallocated loss adjustment expenses ("legacy Chubb net liabilities QS agreement"). Effective January 1, 2017, this agreement was amended to reinsure 35% of the Federal Pool's current accident year underwriting results beginning January 1, 2017. Effective January 1, 2018, the Federal Pool's net liabilities QS agreement was terminated with development on subject losses continuing to be reinsured.

Effective January 1, 2018, the Company terminated its participation in the Federal Pool and entered into a 100% quota share reinsurance agreement with an affiliate, FIC, that reinsures the Company's gross underwriting exposure. FIC will collateralize the Company's recoverable balances to the extent such balances exceed three times the Company's surplus as regards policyholders reported in its most recently filed quarterly statutory statement. No collateral is required as of the examination date.

The above reinsurance agreement was reviewed for compliance with Article 15 of the New York Insurance Law. The agreement was filed with the Department pursuant to the provisions of Section 1505(d)(2) of the New York Insurance Law. It was also reviewed and found to contain the required clauses, including an insolvency clause meeting the requirements of Section 1308 of the New York Insurance Law.

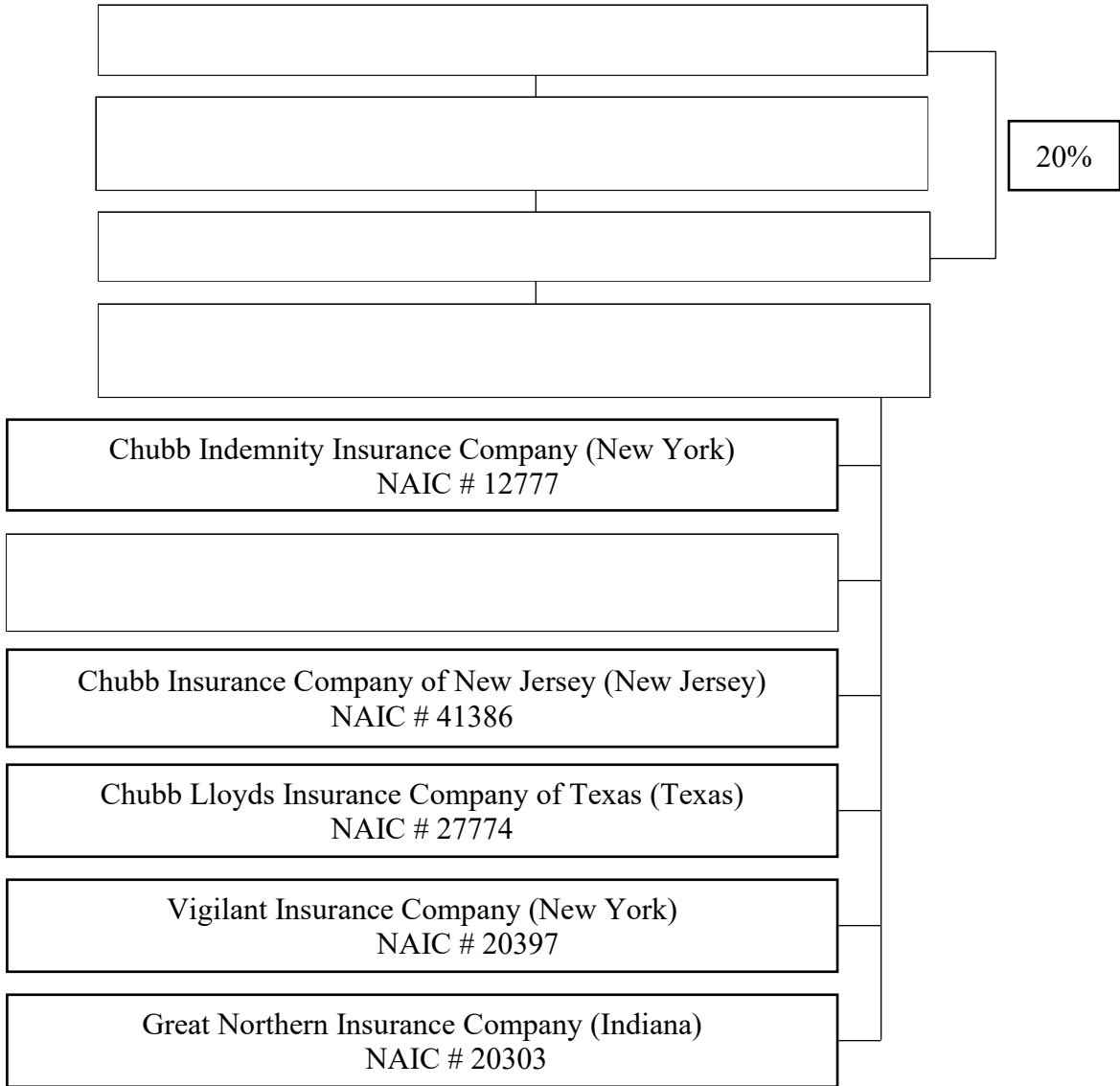
Examination review found that the Schedule F data reported by the Company in its filed annual statement accurately reflected its reinsurance transactions. Additionally, examination review indicated that the Company was not a party to any finite reinsurance agreements. The ceded reinsurance agreement in place was accounted for utilizing reinsurance accounting as set forth in the NAIC Accounting Practices and Procedures Manual, Statement of Statutory Accounting Principles ("SSAP") No. 62R.

D. Holding Company System

Vigilant Insurance Company is a member of the Chubb Group. The Company is a wholly owned subsidiary of FIC, an Indiana domiciled insurer, which is wholly owned by Chubb INA Holdings, Inc. (“Chubb INA”), which is ultimately controlled by Chubb Limited. Chubb Limited is a Swiss-incorporated holding company; its direct and indirect subsidiaries (collectively known as the Chubb Group of Companies) comprise a global insurance and reinsurance organization. Subsidiaries of Chubb INA operate through three business segments in North America: North America Commercial Property and Casualty Insurance, North America Personal Property and Casualty Insurance, and North America Agricultural Insurance. North America Commercial Property and Casualty Insurance comprise operations that provide property and casualty insurance and services to large, middle market, and small commercial businesses. North America Personal Property and Casualty Insurance operation includes the business written by Chubb Personal Risk Services division, which includes high net worth personal lines business, with operations in the United States and Canada. The North America Agricultural Insurance operation provides coverages including crop insurance as well as farm and ranch, and specialty property and casualty insurance products and services.

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

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

Service Agreement

Effective January 1, 2018, the Company entered into a service agreement with ACE American Insurance Company (“ACE American”) and FIC whereas ACE American provides services including administration, underwriting, claims, and actuarial support. In 2019, the Company paid \$42,020,202 under this agreement. The agreement was filed with this Department pursuant to Section 1505 of the New York Insurance Law.

Management Agreement

Effective January 1, 1998, the Company engaged FIC to act as the manager for the Company’s insurance business and provide financial advisory services. In 2019, the Company paid a management fee to FIC in the amount of \$25,771,601. The agreement was filed with this Department pursuant to Section 1505 of the New York Insurance Law.

Intercompany Tax Allocation Agreement

Effective January 15, 2016, the Company is included in a U.S. consolidated federal income tax return with direct and indirect subsidiaries of Chubb Group Holdings, Inc. The agreement provides that any subsidiary having taxable income will pay a tax liability equivalent to what that subsidiary would have paid if it had filed a separate federal income tax return for the year. If the separately calculated federal income tax return for any subsidiary results in a tax loss, the current tax benefit resulting from such loss, to the extent utilizable on a separate return basis, will be paid to that subsidiary. The agreement was filed with this Department pursuant to Section 1505 of the New York Insurance Law and New York Regulation 52.

The Company is also participating in the following immaterial management and service contracts:

1. Investment advisory services agreement with Chubb Asset Management, Inc.
2. Investment services agreement with Chubb Investment Services Limited.
3. SIU service and support agreement with ESIS, Inc.
4. Amended and restated inter-company allocation agreement with ACE American and ACE Property and Casualty Insurance Company
5. Accounts receivable sale agreement with Recovery Services International, Inc.

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	\$269,982,177	\$ 0	\$269,982,177
Common stocks (stocks)	14,296,461	14,296,461	0
Cash, cash equivalents and short-term investments	6,058,847	0	6,058,847
Investment income due and accrued	1,556,950	0	1,556,950
Uncollected premiums and agents' balances in the course of collection	28,118,084	0	28,118,084
Deferred premiums, agents' balances and installments booked but deferred and not yet due	57,984,530	0	57,984,530
Accrued retrospective premiums	(218,750)	0	(218,750)
Amounts recoverable from reinsurers	109,582,266	0	109,582,266
Net deferred tax asset	1,301,856	1,301,856	0
Equities and deposits in pools and associations	5,038,844	0	5,038,844
Other miscellaneous assets	104,404	0	104,404
State surcharges receivable	<u>1,177,709</u>	<u>0</u>	<u>1,177,709</u>
Total assets	<u>\$494,983,378</u>	<u>\$15,598,317</u>	<u>\$479,385,061</u>

Liabilities, Surplus and Other FundsLiabilities

Current federal and foreign income taxes	\$ 1,151,510
Ceded reinsurance premiums payable (net of ceding commissions)	97,449,911
Payable to parent, subsidiaries and affiliates	30,500,932
Commissions payable	8,692,229
Other miscellaneous liabilities	<u>300,759</u>
 Total liabilities	 \$138,095,341

Surplus and Other Funds

Common capital stock	\$ 4,500,000
Gross paid in and contributed surplus	25,168,845
Unassigned funds (surplus)	<u>311,620,875</u>
 Surplus as regards policyholders	 <u>341,289,720</u>
 Total liabilities, surplus and other funds	 <u>\$479,385,061</u>

Note: The Internal Revenue Service has completed its audits of the Company's consolidated federal income tax returns through tax year 2015. All material adjustments, if any, made subsequent to the date of examination and arising from said audits, are reflected in the financial statements included in this report. Audits covering tax years 2016 through 2018 are currently 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 \$27,657,301, as detailed below:

Underwriting Income

Premiums earned		\$29,381,617
Deductions:		
Losses and loss adjustment expenses incurred	\$18,379,845	
Other underwriting expenses incurred	<u>6,449,884</u>	
Total underwriting deductions		<u>24,829,729</u>
Net underwriting gain or (loss)		\$ 4,551,888

Investment Income

Net investment income earned	\$29,024,004	
Net realized capital gain	<u>(1,078,586)</u>	
Net investment gain or (loss)		\$27,945,418

Other Income

Net gain or (loss) from agents' or premium balances charged off	\$ (60)	
Total other income		<u>(60)</u>
Net income before dividends to policyholders and before federal and foreign income taxes		\$32,497,246
Dividends to policyholders		<u>277,065</u>
Net income after dividends to policyholders but before federal and foreign income taxes		\$32,220,181
Federal and foreign income taxes incurred		<u>4,562,880</u>
Net income		<u>\$27,657,301</u>

C. Capital and Surplus

Surplus as regards policyholders increased \$21,784,966 during the three-year 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			\$319,504,754
	<u>Gains in</u> <u>Surplus</u>	<u>Losses in</u> <u>Surplus</u>	
Net income	\$27,657,301		
Net unrealized capital gains or (losses)		\$14,756,012	
Change in net unrealized foreign exchange capital gain (loss)	190,554		
Change in net deferred income tax		18,127,829	
Change in nonadmitted assets	26,795,391		
Change in provision for reinsurance	130,099		
Prior period adjustment	<u>0</u>	<u>104,538</u>	
Total gains and losses	<u>\$54,773,345</u>	<u>\$32,988,379</u>	
Net increase (decrease) in surplus			<u>21,784,966</u>
Surplus as regards policyholders as reported by the Company as of December 31, 2019			<u>\$341,289,720</u>

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

Capital paid in is \$4,500,000 consisting of 200,000 shares of \$22.50 par value per share common stock. Gross paid in and contributed surplus is \$25,168,845. Gross paid in and contributed surplus did not change during the examination period.

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of \$0 is the same as 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.

All of the Company's reserves were ceded to its affiliate, FIC, through a 100% quota share agreement (refer to section 2C for further detail). FIC was examined concurrently with the Company and there were no examination changes that affected FIC's balance sheet or income statement.

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 been an impact to the Chubb Group of Companies ("Chubb Group"), which includes the Company. Specifically, in 2020, Chubb Group reported a COVID-19 charge of \$1,396 million pre-tax (\$1,193 million after-tax). Chubb Group also reported a decline in global net written premiums in certain lines, but an increase in operating cash flows and overall stability in its operations, solvency and liquidity positions.

The Department has been in communication with the Company regarding the impact of COVID-19 on its business operations and financial position, including its pandemic preparedness plan, material third-party vendors' business continuity plans, etc. In this regard, on April 9, 2020, the Company submitted, at the Department's request, a response to the Department describing its plans of preparedness to manage the risk of disruption to its operations and the financial risk arising from COVID-19.

The Department continues to closely monitor the impact of the pandemic on Chubb and will take necessary action if a solvency concern arises.

6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

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

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Accounts and Records</u>	
i. It was recommended that the Company comply with Section 312(b) of the New York Insurance Law by submitting the report on examination to its board of directors and having each director sign a statement and retain a copy that such member has received and read the report.	14
<p>The Company has complied with this recommendation.</p>	
ii. It was recommended that the Company require all of its officers, directors and key employees to complete a conflict of interest questionnaire on an annual basis and ensure that all questionnaires are completed accurately and signed. Additionally, it was recommended that the Company ensure that all completed questionnaires are maintained and available for inspection.	14
<p>The Company has complied with this recommendation.</p>	

7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

This report on examination contains no comments or recommendations.

Respectfully submitted,

_____/S/_____
Sheik H. Mohamed, CPCU
Associate Insurance Examiner

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

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

_____/S/_____
Sheik H. Mohamed

Subscribed and sworn to before me

this _____ day of _____, 2021.

APPOINTMENT NO. 32050

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:

Sheik Mohamed

as a proper person to examine the affairs of the

Vigilant 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 25th day of February, 2020

LINDA A. LACEWELL
Superintendent of Financial Services



By:

Joan P. Riddell

Joan Riddell
Deputy Bureau Chief