REPORT ON EXAMINATION

OF THE

JEFFERSON INSURANCE COMPANY

AS OF

DECEMBER 31, 2014

DATE OF REPORT	FEBRUARY 5, 2016
EXAMINER	ADEBOLA AWOFESO

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Andrew M. Cuomo
Governor

Maria T. Vullo
Acting Superintendent

February 5, 2016

Honorable Maria T. Vullo
Acting Superintendent 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 31229 dated October 1, 2014, attached hereto, I have made an examination into the condition and affairs of Jefferson Insurance Company as of December 31, 2014, and submit the following report thereon.

Wherever the designation "the Company" appears herein without qualification, it should be understood to indicate Jefferson Insurance Company.

Wherever the designation "AGA, Inc." appears herein without qualification, it should be understood to indicate AGA, Inc.

Wherever the designation "AGASC" appears herein without qualification, it should be understood to indicate AGA Service Company.

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

The examination was conducted at the Company's administrative office located at 9950 Mayland Drive, Richmond, Virginia 23233.

1. SCOPE OF EXAMINATION

The Department has performed a multi-state examination of Jefferson Insurance Company. The previous examination was conducted as of December 31, 2009. This examination covered the five-year period from January 1, 2010 through December 31, 2014. 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 ("Handbook"), which requires that we plan and perform the examination to evaluate the financial condition and identify 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 Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All financially significant accounts and activities of the company were considered in accordance with the risk-focused examination process. This examination also included a review and evaluation of the Company's own control environment. The examiners relied upon audit work performed by the Company's independent public accountants when appropriate.

This examination report includes a summary of significant findings for the following items as called for in the Handbook:

Significant subsequent events
Company history
Corporate records
Management and control
Fidelity bonds and other insurance
Pensions, stock ownership and insurance plans
Territory and plan of operation
Growth of Company
Loss experience
Reinsurance
Accounts and records
Statutory deposits
Financial statements
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 established under the laws of the State of New York on March 15, 1950, under the name, Jefferson Insurance Company. On February 1, 1952, the corporate name was changed to Jefferson Insurance Company of New York. On July 28, 1999, the corporate name was changed back to Jefferson Insurance Company.

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

At December 31, 2014, capital paid in was $4,181,500 consisting of 41,815 shares of common stock at $100 par value per share and gross paid in and contributed surplus was $20,425,248. Gross paid in and contributed surplus increased by $12,700,000 during the examination period, as follows:

Date	Description		Amount
2010	Beginning gross paid in and contributed surplus		$ 7,725,248
2010	Surplus Contribution	$5,000,000	
2012	Surplus Contribution	7,700,000	
	Total Surplus Contributions		$12,700,000
12/31/14	Ending balance		$20,425,248

A. Management

Pursuant to the Company's charter and by-laws, management of the Company is vested in a board of directors consisting of not less than seven nor more than fifteen members. The board meets four times during each calendar year. At December 31, 2014, the board of directors was comprised of the following eleven members:

Name and Residence	Principal Business Affiliation
Charles Bowman Richmond, VA	Managing Partner, Cypress Advisor
Robert Cavaliere Chesterfield, VA	Vice President and Chief Product Officer, AGA, Inc.
Frederick Faett Glen Allen, VA	Vice President, Chief Legal & Compliance Officer, AGA, Inc.
Remi Grenier Paris, France	President and Chief Executive Officer of Executive Committee, Allianz Global Assistance Group. Chairman of the Board, AGA, Inc. and Jefferson Insurance Company
Peter Lefkin Washington, DC	Senior Vice President, Allianz of America Corporation
Norbert Lommer Milano, Italy	Chief Audit Executive, Allianz S.p.A.
Laurence Maurice Paris, France	Chief Financial Officer, Allianz Global Assistance Group
Arthur Moossmann New York, NY	Chief Regions & Markets Officer, Allianz Global Corporate & Specialty, North America
Michael Nelson Midlothian, VA	President & Chief Executive Officer, AGA, Inc. and AGASC President, Jefferson Insurance Company
Carsten Scheffel London, United Kingdom	Chief Executive Officer, Regional Unit London Allianz Global Corporate & Specialty
Frank Wilson Richmond, VA	Controller and Treasurer, AGA, Inc.

A review of the minutes of the board of directors' meetings held during the examination period indicated that the meetings were generally well attended and each board member had an acceptable record of attendance

As of December 31, 2014, the principal officers of the Company were as follows:

Name	Title
Michael Nelson	President
Frederick M. Faett	Secretary and General Counsel
Frank Wilson	Treasurer
Remi Grenier	Chairman of the Board
Robert Cavaliere	Vice President

B. Territory and Plan of Operation

As of December 31, 2014, the Company was licensed to write business in all fifty states and the District of Columbia.

As of the examination date, the Company was authorized to transact the kinds of insurance as defined in the following numbered paragraphs of Section 1113(a) of the New York Insurance Law:

Paragraph	Line of Business
3	Accident & health
4	Fire
5	Miscellaneous property
6	Water damage
7	Burglary and theft
8	Glass
9	Boiler and machinery
12	Collision
13	Personal injury liability
14	Property damage liability
16	Fidelity and surety
17	Credit
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine
21	Marine protection and indemnity

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 and 41 of the New York Insurance Law, the Company is required to maintain a minimum surplus to policyholders in the amount of $4,181,500.

The following schedule shows the direct premiums written by the Company both in total and in New York for the period under examination:

DIRECT WRITTEN PREMIUMS

Calendar Year	New York State	Total Premiums	Premiums Written in New York State as a Percentage of Total Premium
2010	$ 0	$ 200,438,935	0.00%
2011	$ 0	$ 227,156,126	0.00%
2012	$ 0	$ 262,011,661	0.00%
2013	$ 0	$ 313,809,767	0.00%
2014	$ 0	$ 378,278,734	0.00%

The Company offers a wide range of insurance products and services, including travel insurance and financial institution travel-related and bank card enhancement coverages, event ticket protection coverages, and such other coverages as mutually agreed, included on policies, including but not limited to: baggage loss or delay, emergency medical or dental expenses, collision damage insurance, ticket insurance, personal effects, travel accident, travel delay, trip cancellation, inconvenience or interruption, vacation delay, purchase/security insurance, extended warranty, missed connection, vehicle return, evacuation and repatriation coverages, as well as accident/health insurance and such other insurance coverages as the parties agree to from time to time. The Company products are distributed through travel agencies, airlines, resorts and other suppliers of travel, using traditional (mail, telephone, facsimile) and online channels.

C. Reinsurance

Assumed

The Company assumed no business during the examination period

Ceded

The Company structured its ceded reinsurance program on its direct business to limit its maximum exposure through various quota share reinsurance treaties and catastrophe excess of loss reinsurance.

The following is a description of the Company's ceded reinsurance program in effect at December 31, 2014:

Type of treaty	Cession
Travel/Casualty: Quota Share 80% Unauthorized	80% quota share of the travel insurance, event ticket and registration fee risks underwritten by the Company.
Travel/Casualty: Catastrophe Excess of Loss 5 Layers. Layers (in (€) Euros) 100% Unauthorized	€4,500,000 excess of €500,000 1st layer, €5,000,000 excess of €5,000,000 2nd layer €10,000,000 excess of €10,000,000 3rd layer. €10,000,000 excess of €20,000,000 4th layer and €12,000,000 excess of €30,000,000 5th layer.

Reinsurance agreements and amendments with affiliates were reviewed for compliance with Article 15 of the New York Insurance Law. It was noted that all affiliated reinsurance agreements were filed with the Department pursuant to the provisions of Section 1505(d)(2) of the New York Insurance Law.

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.

At December 31, 2014 the Company reported approximately $77.9 million in reinsurance recoverables. Approximately $65 million of these recoverables represent reserve credits taken in association with the reinsurance treaties with AGA International SA ("AGA International"). These reinsurance recoverables are the Company's most significant financial item. Ultimately, the Company's most significant financial risk is its ability to collect on the reinsurance recoverables. This risk is offset by a $70 million letter of credit issued on behalf of AGA International, naming the Company as beneficiary.

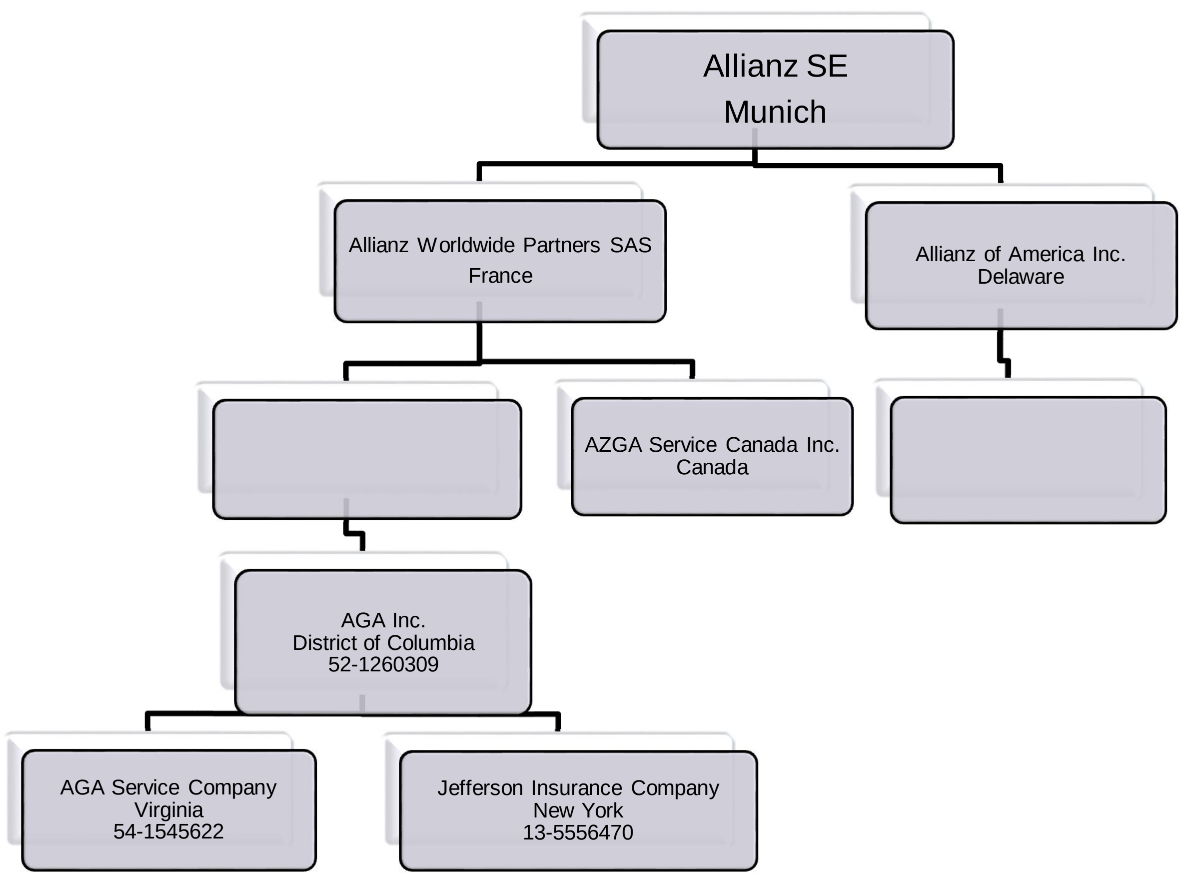
Examination review found that the Schedule F data reported by the Company in its filed annual statement accurately reflected its reinsurance transactions. Additionally, management has represented that all material ceded reinsurance agreements transfer both underwriting and timing risk as set forth in the NAIC Accounting Practices & Procedures Manual, Statement of Statutory Accounting Principle ("SSAP") No. 62R. Representations were supported by appropriate risk transfer analyses and an attestation from the Company's Chief Executive Officer and Chief Financial Officer pursuant to the NAIC Annual Statement Instructions. Additionally, the 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 paragraphs 18 through 27 of SSAP No. 62R.

D. Holding Company System

The Company is a member of the Allianz Group. The Company is a 100% wholly-owned subsidiary of AGA Inc. (formerly known as World Access, Inc. ("WAI"), a District of Columbia holding company, which is ultimately controlled by Allianz SE, a European Company.

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, 2014:



At December 31, 2014, the Company was a party to the following agreements with other members of its holding company system. Any reference to “the sale” refers to the sale of the Company to AGA, Inc. as noted in Item 2 of this report:

Administrative Service Agreement

Effective April 2, 2007, the Company entered into an administrative agreement with Allianz Global Risk US Insurance Company (“AGRUS”), whereby AGRUS provides administrative services with respect to (i) any and all insurance policies effected, bound or issued by the Company prior to the effective date of the sale which are reinsured by AGRUS; (ii) any and all third party reinsurance agreements of the Company which are in force as of the closing date of the sale, applicable to the pre-sale insurance policies and (iii) any and all other liabilities or obligations of the Company arising prior to the closing date of the sale which have been assigned to and assumed by AGRUS pursuant to the assumption agreement. The agreement was filed with this Department pursuant to Section 1505(d) of the New York Insurance Law.

Management Service Agreement

Effective June 1, 2007, the Company entered into a management service agreement with AGASC, whereby AGASC provides certain administrative and management services for the Company, including but not limited to facilities, management, personnel, claim adjustment and services required for the conduct of business. This agreement was amended and restated effective October 1, 2007. The amended agreement supersedes the original in its entirety. The agreement was filed with this Department pursuant to Section 1505(d) of the New York Insurance Law.

Investment Management Agreement

Effective November 4, 2011, the Company entered into an investment management agreement with Pacific Investment Management Company, LLC (“PIMCO”), whereby PIMCO will provide investment management services with respect to the Company’s invested assets, in accordance with the terms specified in the agreement. The agreement was filed with this Department pursuant to Section 1505(d) of the New York Insurance Law.

Investment Advisory Agreement

Effective March 1, 2012, the Company entered into an investment advisory agreement with Allianz Investment Management LLC ("AIM"), whereby AIM will provide investment advisory services and investment operations services and support to the Company. The parties agree that no fees shall be paid in consideration for the service provided. The agreement was filed with this Department pursuant to Section 1505(d) of the New York Insurance Law.

Producer Agreement

Effective June 1, 2007, the Company entered into a producer agreement with AGASC, whereby AGASC provides certain services for the Company, including but not limited to, the underwriting, issuance and administration of insurance products. This agreement was amended and restated effective July 1, 2008 and May 1, 2013. The amended agreement supersedes the original in its entirety. The agreement was filed with this Department pursuant to Section 1505(d) of the New York Insurance Law.

Tax Allocation Agreement

Effective January 1, 2007, the Company entered into a tax allocation agreement with AGA, Inc. and its subsidiaries and affiliates. Pursuant to the terms of the agreement, the parties will file consolidated federal income tax returns. The agreement provides that the Company's tax liability on a consolidated basis will not exceed its liability had it been filed on a stand-alone basis. The agreement was filed with this Department pursuant to Section 1505(d) of the New York Insurance Law.

The following affiliated reinsurance agreements are also included in the description of the Company's ceded reinsurance program in Item 2C of this report:

Quota Share Reinsurance Agreement

Effective June 1, 2007, the Company entered into a quota share reinsurance agreement with Mondial Assistance, Inc. ("MAI"), now known as AGA International SA, whereby the Company cedes a 90% quota share interest of its liabilities of the Company relating to its travel and casualty insurance, financial institution travel-related and bankcard enhancement lines of business. This agreement was amended on January 1, 2011, changing the ceding percentage to 80%. The agreement was filed with this Department pursuant to Section 1505(d) of the New York Insurance Law.

Catastrophe Excess of Loss Agreement

Effective January 1, 2014, the Company entered into an annual excess of loss reinsurance agreement with AGA International SA, whereby the Company is protected against an aggregation of losses and/or catastrophic events for a portion of any insurance contract risk that the Company retains for its own account. The agreement was filed with this Department pursuant to Section 1505(d) of the New York Insurance Law.

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2014, based upon the results of this examination:

Net premiums written to surplus as regards policyholders	166%
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	34%
Premiums in course of collection to surplus as regards policyholders	0%

All of the above ratios fall within the benchmark ranges set forth in the Insurance Regulatory Information System of the National Association of Insurance Commissioners.

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	$ 82,759,035	33.53%
Other underwriting expenses incurred	136,763,632	55.42
Net underwriting gain	27,275,775	11.05
Premiums earned	$246,798,442	100.00%

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2014 as determined by this examination and as reported by the Company:

Assets	Assets	Assets Not Admitted	Net Admitted Assets
Bonds	$60,973,599	$ 0	$60,973,599
Cash, cash equivalents and short-term investments	1,939,946		1,939,946
Investment income due and accrued	302,784		302,784
Amounts recoverable from reinsurers	1,207,624		1,207,624
Other amounts receivable under reinsurance contracts	1,663,503		1,663,503
Net deferred tax asset	824,527	0	824,527
Total assets	$66,911,983	$ 0	$66,911,983

Liabilities, Surplus and Other Funds

Liabilities		
Losses and loss adjustment expenses		$ 5,197,472
Taxes, licenses and fees (excluding federal and foreign income taxes)		2,023,632
Current federal and foreign income taxes		938,878
Unearned premiums		10,934,951
Ceded reinsurance premiums payable (net of ceding commissions)		184,009
Provision for reinsurance		84,832
Payable to parent, subsidiaries and affiliates		1,323,647
Accrued expenses		284,597
Uncashed drafts and checks that are pending escheatment to a state		508,387
Total liabilities		$21,480,405
Surplus and Other Funds		
Common capital stock	$ 4,181,500	
Gross paid in and contributed surplus	20,425,248	
Unassigned funds (surplus)	20,824,830	
Surplus as regards policyholders		45,431,578
Total liabilities, surplus and other funds		$66,911,983

Note: The Internal Revenue Service audits of the Company's consolidated Federal Income Tax returns covering tax years 2012 and 2013 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 five-year examination period, was $19,695,182 as detailed below:

Underwriting Income		
Premiums earned		$246,798,442
Deductions:		
Losses and loss adjustment expenses incurred	$ 82,759,035	
Other underwriting expenses incurred	136,763,632	
Total underwriting deductions		219,522,667
Net underwriting gain		$ 27,275,775
Investment Income		
Net investment income earned	$ 3,918,947	
Net realized capital gain	139,663	
Net investment gain		4,058,610
Other Income		
Interest expense fines	(404)	
Total other income		(404)
Net income before federal and foreign income taxes		$ 31,333,981
Federal and foreign income taxes incurred		11,638,799
Net income		$ 19,695,182

C. Capital and Surplus Account

Surplus as regards policyholders increased $32,952,428 during the five-year examination period January 1, 2010 through December 31, 2014, detailed as follows:

	Gains in Surplus	Losses in Surplus	
Surplus as regards policyholders per report on examination as of December 31, 2009			$12,479,150
Net income	$19,695,182		
Change in net deferred income tax	642,078		
Change in provision for reinsurance		$84,832	
Surplus adjustments paid in	12,700,000		
Total gains and losses	$33,037,260	$8,4832	
Net increase (decrease) in surplus			32,952,428
Surplus as regards policyholders per report on examination as of December 31, 2014			$45,431,578

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of $5,197,472 is the same as reported by the Company as of December 31, 2014. 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.

5. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

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

ITEM		PAGE NO.
A.	Catastrophe Excess of Loss Agreement	
	It was recommended that the Company file the group catastrophe excess of loss agreement with the Department pursuant to Section 1505(d)(2) of New York Insurance Law.	12
	The Company has complied with this recommendation.	
B	Accounts and Records	
i.	IRIS Ratio It was recommended that the Company take action that will cause its gross premium written to surplus ratio (IRIS Ratio 1) to not exceed 9 to 1.	13
	The Company has complied with this recommendation.	
ii.	Investment It was recommended that the Company comply with Section 1409(a) of the New York Insurance Law.	13
	The Company has complied with this recommendation.	

6. SUMMARY OF COMMENTS AND RECOMMENDATIONS

This report contains no comments or recommendations.

APPOINTMENT NO. 31229

NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

*I, **BENJAMIN M. LAWSKY**, 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:*

Adebola Awofeso

as a proper person to examine the affairs of the

Jefferson Insurance Company

and to make a report to me in writing of the condition of said

COMPANY

with such other information as 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 1st day of October, 2014

BENJAMIN M. LAWSKY
Superintendent of Financial Services

By:

Rolf Kaumann
Deputy Chief Examiner