

REPORT ON EXAMINATION

OF

ATLANTA INTERNATIONAL INSURANCE COMPANY

AS OF

DECEMBER 31, 2016

DATE OF REPORT

APRIL 13, 2018

EXAMINER

JOSEPH REVERS

## TABLE OF CONTENTS

<u>ITEM</u>	<u>PAGE NO.</u>
1. Scope of examination	2
2. Description of Company	3
A. Corporate governance	3
B. Territory and plan of operation	4
C. Reinsurance ceded	5
D. Holding company system	5
E. Significant operating ratios	8
F. Accounts and records	8
3. Financial statements	9
A. Balance sheet	9
B. Statement of income	10
C. Capital and surplus account	11
4. Losses and loss adjustment expenses	12
5. Subsequent events	12
6. Compliance with prior report on examination	14
7. Summary of comments and recommendations	14



NEW YORK STATE  
DEPARTMENT *of*  
FINANCIAL SERVICES

Andrew M. Cuomo  
Governor

Maria T. Vullo  
Superintendent

April 13, 2018

Honorable Maria T. Vullo  
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 31665 dated August 22, 2017, attached hereto, I have made an examination into the condition and affairs of Atlanta International Insurance Company as of December 31, 2016, and submit the following report thereon.

Wherever the designation “the Company” appears herein without qualification, it should be understood to indicate Atlanta International 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 at the Company’s administrative office located at 100 First Stamford Place, Stamford, CT 06902.

## **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, 2011. This examination covered the five-year period from January 1, 2012 through December 31, 2016. 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 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
- Holding company description
- Reinsurance
- Loss review and analysis
- Financial statement presentation
- Significant subsequent events
- Summary of recommendations

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

Atlanta International Insurance Company was incorporated under the laws of the State of New York on January 21, 1929. It became licensed and commenced business on January 22, 1929. Operations of the Company were conducted under the title Seaboard Fire and Marine Insurance Company of New York from organization until October 1, 1975, and as Drake Insurance Company of New York from that date until January 1, 1980 when the name Atlanta International Insurance Company was adopted.

The Company ceased its underwriting operations in March 1985, and since that time, management has directed the run-off of the Company's inventory of claims.

Effective August 7, 2009, all the outstanding shares of common stock of the Company were acquired by National Indemnity Company ("NICO"), a subsidiary of Berkshire Hathaway Inc., from Aon Services Group, Inc., as subsidiary of Aon Corporation ("Aon").

On January 1, 2017, NICO sold all the common shares of the Company to Columbia Insurance Company ("Columbia"), an affiliate. Immediately after the purchase, Columbia contributed all the common shares of the Company to its affiliate MedPro Group, 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 at least once during each calendar year. At December 31, 2016, the board of directors was comprised of the following seven members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Brian Gerard Snover Stamford, CT	Senior Vice President & General Counsel, Berkshire Hathaway Reinsurance Division
Kevin Donald Lewis Westport, CT	Vice President, National Indemnity Company
Dale David Geistkemper Omaha, NE	Treasurer & Controller, National Indemnity Company
Bruce John Byrnes New City, NY	Vice President & Senior Counsel, Berkshire Hathaway Reinsurance Division

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
John Duane Arendt Stamford, CT	Vice President, Berkshire Hathaway Reinsurance Division
Raj Ramesh Mehta Stamford, CT	Vice President, National Indemnity Company
Carmel Mary O'Sullivan New York, NY	Vice President & Controller, Resolute Management, Inc.

As of December 31, 2016, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Raj Ramesh Mehta	President
Bruce John Byrnes	Vice President & Secretary
Dale David Geistkemper	Treasurer
Carmel Mary O'Sullivan	Controller

B. Territory and Plan of Operation

As of December 31, 2016, the Company was licensed to write business in forty-seven states as listed in Schedule T of the annual statement.

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
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine
21	Marine protection and indemnity

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 \$2,200,000.

C. Reinsurance Ceded

Effective March 1985, the Company voluntarily ceased writing new and renewal business. Prior to that date, the Company wrote multiple line property and casualty reinsurance covers. Effective December 31, 2016, through a 100% quota share reinsurance agreement, the Company ceded its gross policy liabilities for policies incepting prior to the effective date to Finial Reinsurance Company ("Finial"), a Connecticut affiliate. The Company simultaneously assigned the rights to its reinsurance to Finial. At December 31, 2016 the Company recorded a premium payable due Finial of \$17,458,000 which was equal to the net loss and loss adjustment expense reserves ceded.

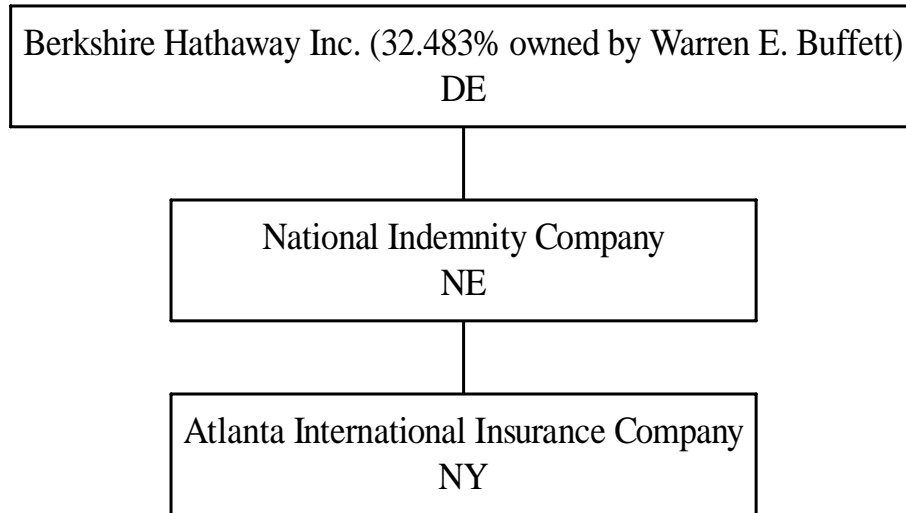
The quota share reinsurance agreement with Finial was reviewed for compliance with Article 15 of the New York Insurance Law. It is noted that the affiliated reinsurance agreement was filed with the Department pursuant to the provisions of Section 1505(d)(2) of the New York Insurance Law.

D. Holding Company System

The Company is a member of the Berkshire Hathaway Group. The Company is 100% owned by National Indemnity Company, a Nebraska domiciled Company, which is ultimately controlled by Berkshire Hathaway Inc. (32.483% owned by Warren E. Buffett).

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, 2016:



#### Holding Company Agreements

At December 31, 2016, the Company was party to the following agreements with other members of its holding company system:

#### Tax Allocation Agreement

Effective August 8, 2009, the Company entered into a tax allocation agreement with various affiliates and its ultimate parent, Berkshire Hathaway, Inc. Pursuant to the terms of the agreement, the parties will file consolidated federal income tax returns. Said agreement stipulates that the Company's tax liability on a consolidated basis will not exceed the Company's liability had the Company filed its tax return on a standalone basis.

National Indemnity Company ("NICO") filed the agreement with the Department as part of its application for acquisition of control of the Company pursuant to Section 1506 of the New York Insurance Law.

#### Investment Services Agreement

Effective September 1, 2009, the Company and NICO entered into an investment services agreement. Pursuant to the agreement, NICO will act as the Company's investment manager.

The agreement was filed with the Department as part of NICO's application for acquisition of control of the Company, pursuant to Section 1506 of the New York Insurance Law.



### Inter-Company Services Agreement

Effective August 2, 2009, the Company and FlightSafety International (“FlightSafety”) entered into an intercompany services agreement. Pursuant to the agreement, FlightSafety may perform certain administrative and special services for AIIC and make available for AIIC certain property, equipment and facilities.

Effective September 28, 2009, the Company, NICO and National Liability & Fire Insurance Company (“NL&F”) entered into an intercompany service agreement. Pursuant to the agreement, both NICO and NL&F agree to perform certain administrative, claims handling and other services on behalf of the Company and make available certain property, equipment and facilities.

The agreement was filed with the Department as part of NICO’s application for acquisition of control of the Company, pursuant to Section 1506 of the New York Insurance Law.

### Inter-Company Service Agreement

Effective October 30, 2014, the Company and Resolute Management, Inc. (“Resolute”) entered into an intercompany service agreement. Pursuant to the agreement, Resolute will provide certain administrative and special services to the Company and make available certain property, equipment and facilities.

The Agreement was submitted and non-disapproved by the Department on October 30, 2014.

### Administrative Services Agreement

Effective December 8, 2016, the Company and Consolidated Health Plans, Inc. (“CHP”) entered into an Administrative Services Agreement. Pursuant to the agreement, CHP will provide certain administrative and claims handling services to the Company.

The Department non-objected to the implementation of the agreement on January 12, 2017.

E. Significant Ratios

The Company's operating ratios, computed as of December 31, 2016, fall within the benchmark ranges set forth in the Insurance Regulatory Information System of the National Association of Insurance Commissioners.

<u>Operating Ratios</u>	<u>Result</u>
Net premiums written to surplus as regards policyholders	0%
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	50%
Two-year overall operating ratio	0%

Both the 'Net premiums written to surplus as regards policyholders' and 'Two-year overall operating' ratios are zero due to the Company's run-off status.

The Company's reported risk based capital score (RBC) was 1,552% at 12/31/16. The RBC is a measure of the minimum amount of capital appropriate for a reporting entity to support its overall business operations in consideration of its size and risk profile. An RBC of 200 or below can result in regulatory action.

F. Accounts and Records

It was noted that New England Asset Management ("NEAM"), an affiliate, was providing the Company with investment services as of June 30, 2017. NEAM and the Company did not file a written agreement with the Department governing the provision of such services. Berkshire Hathaway, Inc., the Company's ultimate parent, entered into an agreement with the Company that would cover the services provided by NEAM. However, the agreement was submitted to the Department for approval in December 2017. Per Section 1505(d)(3) of the New York Insurance Law, agreements between affiliates must be submitted to the Department and not be disapproved thirty days prior their application.

It is therefore recommended that, in the future, the Company submit all agreements with its affiliates to the Department at least thirty days prior to application as required by Section 1505(d)(3) of the New York Insurance Law.

### 3. FINANCIAL STATEMENTS

#### A Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2016 as reported by the Company:

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$4,094,526	\$0	\$4,094,526
Preferred stocks	3,200,000	1,964,496	1,235,504
Common stocks	10,818,870	4,713,317	6,105,553
Cash, cash equivalents and short-term investments	27,992,087	0	27,992,087
Receivables for securities	13,720	0	13,720
Investment income due and accrued	64,862	0	64,862
Amounts recoverable from reinsurers	<u>2,731,392</u>	<u>0</u>	<u>2,731,392</u>
Totals	<u>\$48,915,457</u>	<u>\$6,677,813</u>	<u>\$42,237,644</u>

#### Liabilities, surplus and other funds

##### Liabilities

Losses and Loss Adjustment Expenses	\$0
Reinsurance payable on paid losses and loss adjustment expenses	10,537
Current federal and foreign income taxes	3,655
Net deferred tax liability	133,107
Ceded reinsurance premiums payable (net of ceding commissions)	18,133,352
Funds held by company under reinsurance treaties	274,595
Provision for reinsurance	1,182,670
Payable to parent, subsidiaries and affiliates	<u>184,489</u>
Total liabilities	19,922,405

##### Surplus and Other Funds

Common capital stock	\$3,001,981
Gross paid in and contributed surplus	64,900,003
Unassigned funds (surplus)	<u>(45,586,745)</u>
Surplus as regards policyholders	<u>22,315,239</u>
Totals	<u>\$42,237,644</u>

Note: The Internal Revenue Service is auditing the Berkshire Hathaway Inc. consolidated federal income tax return for the years ended 2010 through 2013. The Company joined in the filing of the Berkshire Hathaway Inc. federal income tax return on August 7, 2009. No adjustments affecting the taxable income of the Company have been proposed in the audit of those years. 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 \$1,575,872 as detailed below. The negative premiums earned and the negative expenses reflect the result of the retroactive 100% quota share agreement with Finial.

Underwriting Income

Premiums earned		(\$17,454,229)
Deductions:		
Losses and loss adjustment expenses incurred	(16,182,606)	
Other underwriting expenses incurred	<u>31,495</u>	
Total underwriting deductions		<u>(16,151,111)</u>
Net underwriting gain or (loss)		(1,303,118)

Investment Income

Net investment income earned	1,767,236	
Net realized capital gain	<u>0</u>	
Net investment gain or (loss)		1,767,236

Other Income

Miscellaneous income (Expense)	<u>40,381</u>	
Total other income		<u>40,381</u>
Net income before federal and foreign income taxes		504,499
Federal and foreign income taxes incurred		<u>(1,071,373)</u>
Net Income		<u>\$1,575,872</u>

C. Capital and Surplus Account

Surplus as regards policyholders increased \$1,448,248 during the five-year examination period January 1, 2011 through December 31, 2016 as reported by the Company, detailed as follows:

Surplus as regards policyholders per report on examination as of December 31, 2011			\$19,166,990
	<u>Gains in</u> <u>Surplus</u>	<u>Losses in</u> <u>Surplus</u>	
Net income	\$1,575,872		
Net unrealized capital gains or (losses)	4,677,023		
Change in net deferred income tax	2,385,288		
Change in nonadmitted assets		6,677,813	
Change in provision for reinsurance		512,122	
Capital changes paid in	441,049		
Surplus adjustments paid in	<u>0</u>	<u>441,049</u>	
Net increase (decrease) in surplus	\$9,079,232	\$7,630,984	<u>\$1,448,248</u>
Reversal of prior examination loss reserve changes			1,700,000
Surplus as regards policyholders per report on examination as of December 31, 2016			<u>\$22,315,238</u>

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

Capital paid in is \$3,001,981 consisting of 142,274 shares of \$21.10 par value per share common stock. Gross paid in and contributed surplus is \$64,900,003. The Company increased the par value per share of common stock from \$18 to \$21.10. As a result, gross paid in and contributed surplus decreased by \$441,049 during the examination period, as follows:

<u>Year</u>	<u>Description</u>	<u>Amount</u>
2011	Beginning gross paid in and contributed surplus	\$65,341,052
2014	Par value per share increased from \$18 to \$21.10	(441,049)
2016	Ending gross paid in and contributed surplus	<u>\$64,900,003</u>

#### 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, 2016. This reflects the retroactive 100% quota share agreement with affiliate Finial, effective December 31, 2016, under which the Company ceded out 100% of its gross loss reserves for policies incepting prior to the effective date.

#### 5. SUBSEQUENT EVENTS

As previously mentioned above, on January 1, 2017, 100% of the stock of the Company was acquired by Columbia. Immediately after the purchase, Columbia contributed all of the common shares of the Company to its affiliate MedPro Group, Inc. As a result, subsequent to the acquisition, the directors, officers and holding company chart have changed. Additionally, the Company has entered into a series of affiliated agreements with members of the BHI group.

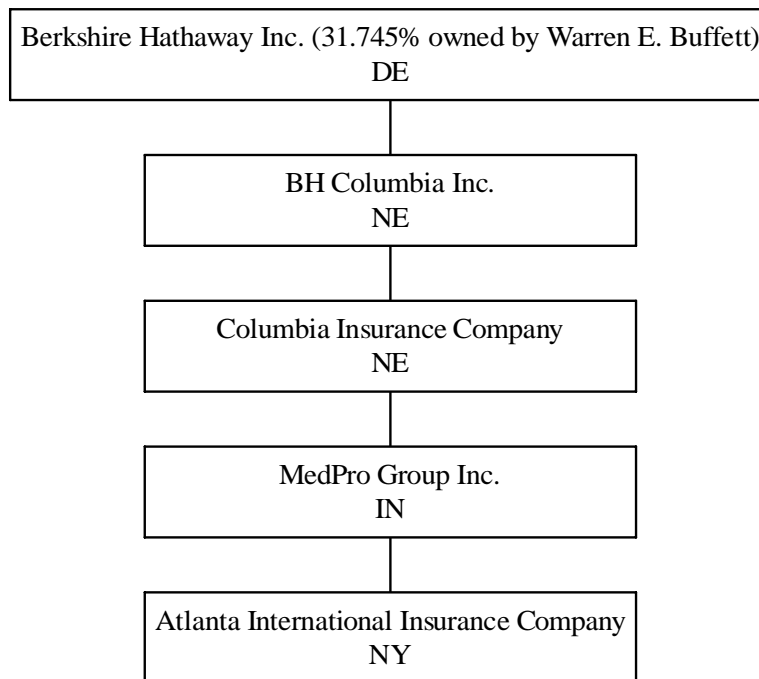
At September 30, 2017, the board of directors was comprised of the following seven members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Timothy J. Kenesey Fort Wayne, IN	President and Chief Executive Officer, The Medical Protective Company
Daniel J. Landrigan Fort Wayne, IN	Executive Vice President & Chief Financial Officer, The Medical Protective Company
Andrew M. DiGiorgio Monson, MA	President and Chief Executive Officer, Consolidated Health Plans, Inc.
Bruce John Byrnes New City, NY	Vice President & Senior Counsel, Berkshire Hathaway Reinsurance Division
Dr. Graham T. Billingham Auburn, CA	Chief Medical Officer, The Medical Protective Company
Dr. Carl T. Hook Norman, OK	Medical Director, President & Chief Executive Officer, PLICO, Inc.
Charles W. Lefevre Hamilton Square, NJ	Chief Executive Officer, Princeton Insurance Company

As of September 30, 2017, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Andrew M. DiGiorgio	President
Jean-Paul A. Rebillard	Vice President
Anthony A. Bowser	Vice President and Treasurer
Angela M. Adams	Secretary
Stephen M. Pennie	Assistant Treasurer

The following is an abridged chart of the holding company system at September 30, 2017:



In 2017, the Company recommenced underwriting operations with a focus on blanket accident and student health products. The student health insurance program provides one-year term coverage to college and university students, while participant accident policies are issued on a blanket basis and renewable after a one-year term.

In 2017, the Company wrote \$71,704,868 in group accident and health policies and ceded \$57,363,894 of this business resulting in \$14,340,974 in net written premiums for 2017. The cession took place under an 80% quota share agreement with the Company's affiliate The Medical Protective Company ('TMPC'). Under the agreement, effective January 1, 2017, TMPC assumes 80% of the premiums and losses associated with the accident and health policies written by the Company. The agreement was non-disapproved by the Department on January 12, 2017.

6. **COMPLIANCE WITH PRIOR REPORT ON EXAMINATION**

The prior report on examination contained no comments or recommendations.

7. **SUMMARY OF COMMENTS AND RECOMMENDATIONS**

PAGE NO.

Accounts and Records

- i It is recommended that, in the future, the Company submit any agreement with its affiliates to the Department for approval at least thirty days prior its application as required by Section 1505(d)(3) of the New York Insurance Law.

8



Respectfully submitted,

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Joseph Revers, CFE  
Associate Insurance Examiner/

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

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

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Joseph Revers

Subscribed and sworn to before me  
this \_\_\_\_\_ day of \_\_\_\_\_, 2018.

NEW YORK STATE

**DEPARTMENT OF FINANCIAL SERVICES**

I, Maria T. Vullo, 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:

**Joseph Revers**

as a proper person to examine the affairs of the

**Atlanta International 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 22th day of August, 2017

MARIA T. VULLO  
Superintendent of Financial Services



By:

*Joan P. Riddell*

Joan Riddell  
Deputy Bureau Chief