

**REPORT ON EXAMINATION AS TO THE CONDITION OF
ALLEGHENY CASUALTY COMPANY
NEWARK, NEW JERSEY 07102-5207
AS OF DECEMBER 31, 2019
NAIC GROUP CODE 4705
NAIC COMPANY CODE 13285**

**FILED
JUNE 17, 2021
COMMISSIONER
DEPARTMENT
OF
BANKING AND INSURANCE**

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PHIL MURPHY
Governor

State of New Jersey
DEPARTMENT OF BANKING AND INSURANCE
OFFICE OF SOLVENCY REGULATION

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April 16, 2021

Honorable Marlene Caride
Commissioner of Banking and Insurance
State of New Jersey
20 West State Street
Trenton, New Jersey 08625

Commissioner:

A financial examination has been made of the condition and affairs of the:

Allegheny Casualty Company
One Newark Center
Newark, New Jersey 07102-5207
NAIC Group Code 4705
NAIC Company Code 13285

a property and casualty insurance organization authorized to transact business in the State of New Jersey and hereinafter referred to in this report as the "Company" or "ACC."

SCOPE OF EXAMINATION

The New Jersey Commissioner of Banking and Insurance called this examination in compliance with the requirements of N.J.S.A. 17:23-22. The examination was a full-scope comprehensive examination.

The examination was conducted using the risk-focused examination approach and addressed the four-year period from December 31, 2015, the date of the last Financial Condition Examination. During this four-year period under examination, the Company's net admitted assets decreased from \$34,944,159 to \$33,226,106. Liabilities decreased from \$12,100,181 to \$7,448,742 and surplus as regards policyholders increased from \$22,843,978 to \$25,777,364.

The conduct of the examination was governed in accordance with the procedures of the National Association of Insurance Commissioners (NAIC) and followed regulatory procedures prescribed or permitted by the New Jersey Department of Banking and Insurance (NJDOBI). The scope of this examination focused on certain specific key risk areas as determined by a risk assessment analysis through the use of control testing. Risks were assessed based upon its impact to the Company's financial condition and its future results. An assessment of the Company's management, corporate governance and information systems was utilized to identify, control, assess and manage its business and financial reporting risks. The overall objectives of this examination are indicated below:

- Perform an examination utilizing business risk assessment activities, focusing examination procedures on those areas considered to have greater risk in order to identify significant operating issues and/or deviations from Statutory Accounting Practices that affect solvency assessment.
- Identify significant deviations from New Jersey insurance laws, regulations and NJDOBI directives.
- Conduct the examination in accordance with standards prescribed in the NAIC *Financial Condition Examiners Handbook*, NAIC Accreditation Standards and NJDOBI policy.
- Identify and report on significant operational and internal control deficiencies.
- Assess the governance structure, corporate culture and management processes in order to assess management's (including Board of Directors) ability to identify, evaluate and control its business risks.
- Identify and report any prospective risks for continued monitoring and surveillance by the NJDOBI.

In addition to the items hereinafter incorporated as part of the written report, the following items were reviewed and made part of the examination workpapers:

Commitments and Contingencies
Fraud
Treatment of Policyholders
Advertising
Policy Forms and Underwriting Practices

COMPLIANCE WITH PRIOR REPORT RECOMMENDATIONS

Corporate Records

Recommendation: It is recommended the Company maintain comprehensive minutes of its Board of Directors and committee meetings and maintain minutes of all shareholder meetings.

Compliance: A review of the Company's minutes confirmed the Company's compliance with the above recommendation.

HISTORY OF THE COMPANY

The Company is the successor to the Allegheny Mutual Casualty Company, which was incorporated under the mutual insurance laws of the State of Pennsylvania on April 15, 1936. On January 1, 1998, the Company was demutualized and all eligible policyholders received stock in the newly formed ACC. Immediately these shares were exchanged for the shares of The Chestnut Group, Inc., which resulting in The Chestnut Group, Inc. owning 100% of ACC stock. In 2009, International Fidelity Insurance Company (IFIC), a New Jersey domiciled insurance company, purchased all shares of The Chestnut Group, Inc. In 2015, IFIC Surety Group, Inc. was incorporated in the State of New Jersey to hold all of the stock in IFIC. On August 31, 2015, the owners of IFIC exchanged 100% ownership in IFIC for 100% ownership in IFIC Surety Group, Inc. Additionally in 2015, ACC was redomesticated from Pennsylvania to New Jersey.

In 2018, TransGuard Insurance Company of American (TGIA), an Illinois-domiciled insurance company, purchased 100% of IFIC Surety Group, Inc., the former direct parent of IFIC. TGIA and IFIC are part of the IAT Insurance Group, Inc. (IIG), an insurance holding company. IAT Reinsurance Company Ltd. (IAT), a Cayman Island-based reinsurance company, owns the outstanding common stock of IIG. IAT is ultimately controlled by Goose Creek Capital, Inc., a Wyoming-based holding company.

In 2019, IIG acquired 100% of TGIC and ACC from IFIC. IIG paid cash consideration of \$24,800,000, which was the statutory carrying value of ACC and unamortized goodwill as of December 31, 2018.

Capitalization of the Company consists of \$2,500,000, consisting of 30,000 shares of series A common stock with a par value of \$1.00 each and 2,500,000 shares of series B common stock of which 1,500,000 shares are issued and outstanding with a par value of \$1.67 each.

The Company is authorized to transact the kind of business specified in paragraph “e” or “g” of N.J.S.A. 17:17-1. The Company’s main administrative office is located at One Newark Center, Newark, New Jersey 07102.

TERRITORY AND PLAN OF OPERATION

The Company is authorized to write business in all 50 states, the District of Columbia, and Puerto Rico. The Company is a provider of specialty (non-standard civil surety) and bail bonds. Specialty surety allows contractors with unsecured business to meet qualified levels through increased levels of collateral. All of the Company’s specialty business is assumed by IFIC through an internal reinsurance agreement.

The Company is an authorized surety in all federal courts and is treasury listed by the United States Treasury Department.

ACC has a managing general agent agreement with AIA Holdings, Inc. (AIA) to manage and process the Company’s bail business. AIA was previously an affiliate of the Company.

The Company generates business through the use of over 700 independent agents nationwide. Agents are granted powers of attorney with business written subject to underwriting approval or through a granted account line of authority. Marketing and underwriting strategies are generally developed by the Home Office located in Newark, New Jersey with the execution of marketing and underwriting strategies occurring through 16 field office networks located in the following areas:

Birmingham, Alabama	Baltimore, Maryland
Anaheim, California	Newark, New Jersey
Walnut Creek, California	Charlotte, North Carolina
Denver, Colorado	Columbus, Ohio
Hartford, Connecticut	Philadelphia, Pennsylvania
Orlando, Florida	Dallas, Texas
Atlanta, Georgia	Houston, Texas
Chicago, Illinois	Seattle, Washington

In addition to the field offices listed above, the Company maintains claim and legal field offices throughout the country, which provides Company representations in specific areas. A list of these offices follows:

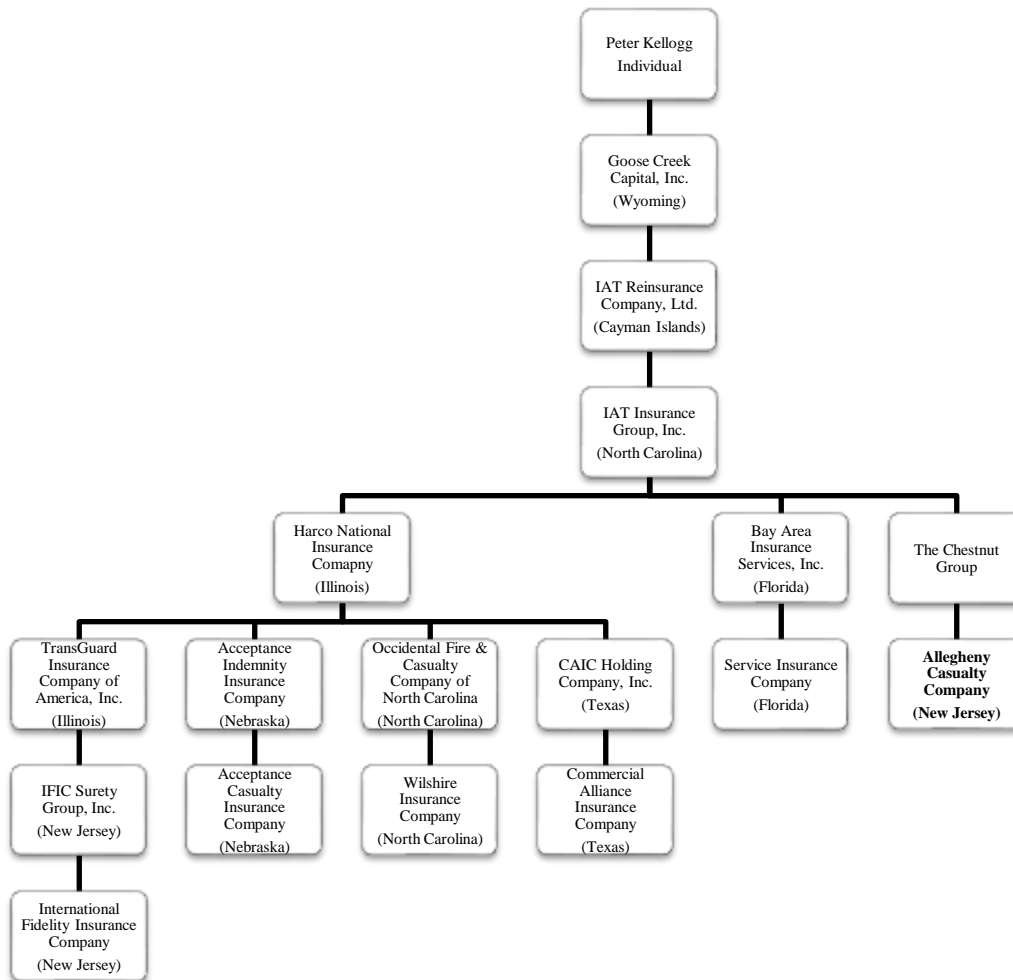
Anaheim, California	Newark, New Jersey
Chicago, Illinois	Dallas, Texas
Baltimore, Maryland	Seattle, Washington

REINSURANCE AND RETENTION

See *Holding Company Section* below, which details the Company's affiliated reinsurance agreements.

HOLDING COMPANY SYSTEM

The Company is a member of a holding company system as defined within N.J.S.A. 17:27A. The following is a summarized organizational chart as of December 31, 2019:



The Company has entered into a number of affiliated agreements as described below:

- On January 1, 2010, the Company entered into an expense sharing agreement with its affiliate, IFIC. The Company reimburses IFIC for operational expenses incurred on behalf of the Company.

- Effective January 1, 2010, the Company entered into a quota share reinsurance agreement with IFIC to cede 100% of the Company's surety business excluding bail business. The Company receives a 3% ceding commission on the gross premium attributable to any and all ceded bonds and cedes all premium and losses related to this business.
- On October 1, 2018, the Company entered into a Tax Allocation Agreement by and among IAT and its subsidiaries. The provision for Federal income tax is computed as if the insurance companies were filing a separate income tax return. Benefits, which arise from tax credits and net operating losses, are allocated to the company producing such results to the extent they are utilized in the consolidated income tax provision.
- Effective January 1, 2019, the Company entered into a quota share reinsurance agreement with IFIC. Under the agreement, the Company assumes 100% of the bail business written by IFIC.

CORPORATE RECORDS

The Bylaws stipulate the Board of Directors (Board) manage the business and affairs of the Company. Elected Directors shall hold office until the next annual meeting of stockholders and until their successors have been elected and qualified. A majority of the entire Board shall constitute a quorum. A review of the corporate minutes indicated the Board held annual meetings in accordance with the Bylaws, for the purpose of nominating officers and transacting business.

A special meeting of the Board was held on January 24, 2018, where the Board approved an amendment to the Bylaws. Whereas Article II, Section 7 of the Bylaws was amended to allow removal of any one or more directors with or without cause, any vacancy among directors shall be filled by the vote of a majority of the remaining directors or by the vote of a majority of the stockholders.

MANAGEMENT AND CONTROL

The Bylaws stipulate an annual meeting of the shareholders shall be held at a place and time as determined by Board. A majority of voting shareholders shall constitute a quorum. A review of the corporate minutes indicated the shareholders held annual meetings in accordance with the Bylaws, for the purpose of electing Board members and transacting business.

The duly elected members of the Board serving at December 31, 2019, were as follows:

<u>Name</u>	<u>Principal Occupation</u>
Todd E. Bateson	Vice President and Chief Underwriting Officer, IAT
Michael D. Blinson	Senior Vice President and Corporate Secretary, McM Corporation
Kenneth C. Coon	Senior Vice President, IAT
William E. Cunningham, Jr.	Chief Executive Officer, IAT
Gregory M. Even	Director of ACC and IFIC
Alisa L. Miller	Chief Human Resources Officer, IAT

David G. Pirrung Chief Financial Officer, IAT

The Bylaws provide for the appointment of one or more committees, each committee to consist of two or more directors of the Board. At December 31, 2019, the Company had one committee consisting of the following members:

Executive Committee

Todd E. Bateson
Michael D. Blinson
William E. Cunningham, Jr.
David G. Pirrung

In accordance with the Bylaws, the Board held annual meetings for the purpose of nominating officers. The elected officers of the Company serving at December 31, 2019, were as follows:

Michael D. Blinson	Senior Vice President and Corporate Secretary
Kenneth S. Chapman	Executive Vice President
George R. James	Senior Vice President
John M. Mruk	Treasurer
Adrian Oddi	Senior Vice President
David G. Pirrung	President
Frank J. Tanzola, Jr.	Senior Vice President and Assistant Secretary

POLICY OF CONFLICT OF INTEREST

The Company has established a procedure for disclosure in advance of engaging in any activity or employment that poses any conflict of interest or apparent or potential conflict of interest.

On an annual basis, officers, directors and key employees are required to complete a conflict of interest statement. The Corporate Secretary directs the distribution of the annual conflict of interest statements. The Chief Human Resources Officer maintains oversight over employee compliance with the corporate ethics policies.

FIDELITY BOND AND OTHER INSURANCE COVERAGES

The Company is insured under a Bond Form C. The assured is IAT including its subsidiaries. The Bond Form C has an aggregate limit of liability of \$2,250,000. The coverage is deemed adequate to satisfy the minimum amount of fidelity insurance coverage as suggested by the NAIC exposure index amount.

The Company also maintains additional insurance coverage for the protection of its assets on the various policies in effect at December 31, 2019, as follows:

- Business Automobile Policy
- Excess-Umbrella Policy
- Financial Institutions Package Policy
- Fiduciary Liability Policy
- Foreign Package Policy
- Workers' Compensation Policy

ACCOUNTS AND RECORDS

The Company utilizes the IBM iSeries as its book of record for new business, accounts payable, accounts receivable, and general ledger. The Company's IBM iSeries server infrastructure is located at the Company's home office data center in Newark, New Jersey.

In 2019, the Company transitioned to the StoneRiver general ledger system that is utilized by the parent company and all of the other entities in the IAT Insurance Group. Premium and loss transactions are manually entered into the system through journal entries.

Investments are managed by U.S. Bank National Association under investment guidelines established by the Company. Securities market value is obtained from ICE Pricing & Reference Data LLC and uploaded to the Company's investment system.

The Company has its own programming group that maintains the administrative system for the Company that feed the IAT Insurance Group's general ledger and financial reporting system. The systems currently used at IAT Insurance Group are summarized below:

Underwriting Database – An internally-developed application to monitor performance (both financially and job specific) of its principals/contractors.

Lines of Credit – An internally-developed application that utilizes SharePoint to track bond dollar amounts that are granted to principals/contractors.

Bond Approval System – An internally-developed application used to track approvals greater than \$1,000,000.

Claims Workflow – The claim systems that manages paperwork and claim files.

FINANCIAL STATEMENTS AND OTHER EXHIBITS

Financial statements are presented in the following pages as listed below:

Exhibit A: Statement of Financial Position
As of December 31, 2019

Exhibit B: Statement of Operating Results
For the Four-Year Period Ending December 31, 2019

Exhibit C: Changes in Capital and Surplus
For the Four-Year Period Ending December 31, 2019

Allegheny Casualty Company
EXHIBIT A: Statement of Financial Position

As of December 31, 2019

<u>ASSETS</u>	<u>Balance</u> <u>per Examination</u> <u>@ 12/31/19</u>	<u>Balance</u> <u>per Company</u> <u>@ 12/31/19</u>	<u>Examination</u> <u>Change</u>	<u>Note</u>
Bonds	\$ 27,527,382	\$ 27,527,382	\$ -	1
Cash and Cash Equivalents	4,672,641	4,672,641		1
Subtotal Cash and Invested Assets	32,200,023	32,200,023	-	
		-		
Investment Income Due and Accrued	210,036	210,036		
Uncollected Premiums	932,097	932,097		
Amounts Recoverable from Reinsurers	(164,338)	(164,338)		
Net Deferred Tax Asset	47,739	47,739		
Aggregate Write-ins	549	549		
Total Net Admitted Assets	\$ 33,226,106	\$ 33,226,106	\$ -	
 <u>LIABILITIES</u>				
Losses	\$ 177	\$ 177	\$ -	2
Loss Adjustment Expenses	1,485	1,485		2
Commissions Payable	131,485	131,485		
Other Expenses	24,695	24,695		
Taxes, Licenses and Fees	26,503	26,503		
Current Federal and Foreign Income Taxes	380,697	380,697		
Unearned Premiums	175,614	175,614		
Ceded Reinsurance Premiums Payable	555,367	555,367		
Amounts Withheld or Retained by Company	5,847,585	5,847,585		
Payable to Parent, Subsidiaries and Affiliates	198,324	198,324		
Aggregate write-ins for liabilities	106,810	106,810		
Total Liabilities	\$ 7,448,742	\$ 7,448,742	\$ -	
 <u>CAPITAL AND SURPLUS</u>				
Common Capital Stock	\$ 1,500,000	\$ 1,500,000	\$ -	
Preferred Capital Stock	3,200,000	3,200,000		
Gross Paid-in and Contributed Surplus	1,669,529	1,669,529		
Unassigned Funds (surplus)	22,607,835	22,607,835		
Less Treasury Stock, as Cost Share Common	3,200,000	3,200,000		
		-		
Surplus as Regards Policyholders	\$ 25,777,364	\$ 25,777,364	\$ -	
Total Liabilities, Capital and Surplus	\$ 33,226,106	\$ 33,226,106	\$ -	

Allegheny Casualty Company

EXHIBIT B: Statement of Operating Results

For the Four-Year Period Ended December 31, 2019

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
<u>UNDERWRITING INCOME</u>				
Premiums Earned	\$42,730,738	\$30,254,743	\$ 29,393,531	\$ 31,874,171
Deductions:				
Losses Incurred	(42)	34	(729)	(30,051)
Loss Adjustment Expenses Incurred	4,346	3,881	3,154	3,977
Other Underwriting Expenses Incurred	40,921,626	29,622,067	28,784,853	31,318,222
Total Deductions	40,925,930	29,625,982	28,787,278	31,292,148
Net Underwriting Gain or (Loss)	1,804,808	628,761	606,253	582,023
<u>INVESTMENT INCOME</u>				
Net Investment Income Earned	622,360	385,828	295,041	183,882
Net Realized Capital Gains (Losses)	94,930	(53,734)	6,196	46,211
Net Investment Gain or (Loss)	717,290	332,094	301,237	230,093
<u>OTHER INCOME</u>				
Net Gain (Loss) from Agents' Balances Charged Off	(10,784)	697	1,045	(88,962)
Aggregate Write-ins for Misc. Income	-	-	13	-
Total Other Income	(10,784)	697	1,058	(88,962)
Net Income Before Dividends to Policyholders, and Other Federal and Foreign Income Taxes	2,511,314	961,552	908,548	723,154
Dividends to Policyholders	-	-	-	-
Federal and Foreign Income Taxes	354,546	198,635	295,948	226,382
Net Income	\$ 2,156,768	\$ 762,917	\$ 612,600	\$ 496,772

Allegheny Casualty Company

EXHIBIT C: Changes in Capital and Surplus

For the Four-Year Period Ended December 31, 2019

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Capital and Surplus				
December 31, Previous Year	\$ 23,652,027	\$ 22,640,999	\$ 22,843,977	\$ 22,601,732
Net Income	2,156,768	762,917	612,600	496,772
Change in Net Unrealized Capital Gains or (Losses)	(28,598)	-	-	-
Change in Net Deferred Income Tax	(3,732)	(92,163)	(44,867)	(122,083)
Change in Non-admitted Assets	898	340,274	(270,711)	367,556
Transferred from Capital	-	-	(60,000)	-
Change in Provision for Reinsurance	-	-	-	-
Change in Treasury Stock	-	-	(440,000)	(500,000)
Total Adjustments	(31,432)	248,111	(815,578)	(254,527)
Net Change in Capital and Surplus for the Year	2,125,336	1,011,028	(202,978)	242,245
Capital and Surplus				
December 31, Current Year	\$ 25,777,363	\$ 23,652,027	\$ 22,640,999	\$ 22,843,977

NOTES TO FINANCIAL STATEMENTS

Note 1 – Special Deposits

The following securities were held on deposit by states on behalf of the Company as of December 31, 2019:

<u>State</u>	<u>Book Value</u>	<u>Fair Value</u>
Arkansas	\$ 118,000	\$ 118,044
California	100,000	100,000
Delaware	109,929	112,142
Florida	557,557	556,924
Georgia	35,093	35,093
Massachusetts	100,027	101,320
Nevada	200,000	200,000
New Hampshire	551,682	548,084
New Jersey	1,588,861	1,590,695
New Mexico	439,290	443,630
North Carolina	1,224,950	1,226,654
Oklahoma	2,395,635	2,414,442
Oregon	263,027	265,217
Pennsylvania	400,000	400,000
Rhode Island	100,130	100,130
Tennessee	205,232	205,232
Texas	5,680,000	5,680,000
Virginia	224,702	224,702
Wyoming	174,569	176,921

United States Treasury Notes with a book value of \$1,588,861 were held for the benefit of policyholders as statutory deposits on behalf of the State of New Jersey in accordance with N.J.S.A. 17:20-1.

Note 2 – Loss and Loss Adjustment Expense Reserves

The Company reported net loss and loss adjustment expense reserves of \$1,662 at December 31, 2019. The NJDOBI, Office of Solvency Regulation, Property and Casualty Actuarial Unit performed a review of both the gross and net loss and loss adjustment expense reserves. On the basis of this review, the Company's net loss and loss adjustment expenses reserves were found to be reasonably stated and were accepted without adjustment.

Actuarial findings as stated above and in this examination report are the sole responsibility of the NJDOBI's Property and Casualty Actuarial Unit.

SUBSEQUENT EVENTS

On March 11, 2020, the World Health Organization declared coronavirus disease a pandemic. As of the date of this report, significant uncertainty remains on the effect that the pandemic will have on the insurance industry, economy and the Company at large. The examination's review of the impact to the Company through the date of this report noted that there has not been a significant impact to the Company overall; however, due to the various uncertainties with the pandemic, it is unclear whether this will continue to have a minimal impact to the Company or if it will escalate. The NJDOBI continues to closely monitor the impact of the pandemic on the Company and will take necessary action if warranted.

CONCLUSION

The examination of the Allegheny Casualty Company was conducted by the undersigned remotely from the Company's main administrative office.

The courteous cooperation extended to the examination staff by the officers and employees of the Company is acknowledged.

Respectfully submitted,



Robin Brown, CFE
Examiner-in-Charge
Representing the State of New Jersey
Risk & Regulatory Consulting, LLC

Under the supervision of:



Nancy Chice, CFE
CFE Reviewer – Supervising Examiner
New Jersey Department of Banking and Insurance

AFFIDAVIT

I, Robin Brown, the undersigned, hereby certify that the foregoing Report of Examination accurately discloses, to the best of my knowledge, all material and relevant information related to the financial condition of Allegheny Casualty Company in accordance with the NAIC *Financial Condition Examiners Handbook* and New Jersey State Regulations.

Respectfully submitted,

JRBrown

Robin Brown, CFE
Examiner-in-Charge
Representing the State of New Jersey
Risk & Regulatory Consulting, LLC

Under the supervision of:

Nancy Lee Chice

Nancy Chice, CFE
CFE Reviewer – Supervising Examiner
New Jersey Department of Banking and Insurance

State of New Jersey
County of Mercer

Subscribed and sworn to before me, Sheila M. Tkacs, on this
28th day of May, 2021.

Sheila M. Tkacs
Notary Public of New Jersey

My commission expires: July 2025