

STATE OF MISSOURI



DEPARTMENT OF COMMERCE & INSURANCE

P.O. Box 690, Jefferson City, Mo. 65102-0690


ORDER

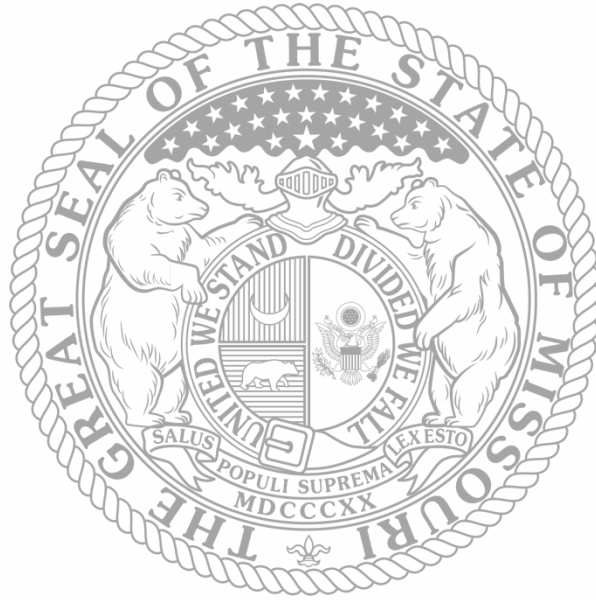
After full consideration and review of the report of the financial examination of Essentia Insurance Company for the period ended December 31, 2020, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, Chlora Lindley-Myers, Director of the Missouri Department of Commerce and Insurance pursuant to section 374.205.3(3)(a), RSMo, adopt such examination report. After my consideration and review of such report, workpapers, and written submissions or rebuttals, I hereby incorporate by reference and deem the following parts of such report to be my findings and conclusions to accompany this order pursuant to section 374.205.3(4), RSMo: summary of significant finding, company history, management and control, territory and plan of operation, growth of company and loss experience, reinsurance, accounts and records, financial statements, comments on financial statement items, financial statement changes resulting from examination, and summary of recommendations.

Based on such findings and conclusions, I hereby ORDER that the report of the financial examination of Essentia Insurance Company as of December 31, 2020 be and is hereby ADOPTED as filed and for Essentia Insurance Company to take the following action or actions, which I consider necessary to cure any violation of law, regulation or prior order of the Director revealed by such report: (1) account for its financial condition and affairs in a manner consistent with the Director's findings and conclusions.

So ordered, signed and official seal affixed this 10th day of June, 2022.




Chlora Lindley-Myers, Director
Department of Commerce and Insurance



REPORT OF
FINANCIAL EXAMINATION OF

ESSENTIA INSURANCE COMPANY

AS OF
DECEMBER 31, 2020

STATE OF MISSOURI
DEPARTMENT OF COMMERCE & INSURANCE

JEFFERSON CITY, MISSOURI

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Jefferson City, MO
May 26, 2022

Honorable Chlora Lindley-Myers, Director
Missouri Department of Commerce and Insurance
301 West High Street, Room 530
Jefferson City, Missouri 65101

Director Lindley-Myers:

In accordance with your financial examination warrant, a full-scope financial examination has been made of the records, affairs, and financial condition of

Essentia Insurance Company (NAIC #37915)

hereinafter referred to as such, as Essentia, or as the Company. Its administrative office is located at 4521 Highwoods Parkway, Glen Allen, VA, 23060, telephone number (847) 572-6387. The fieldwork for this examination began on January 4, 2021, and concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

The Missouri Department of Commerce and Insurance (Department) has performed a multi-state financial examination of Essentia Insurance Company. The last examination of the Company by the Department covered the period of January 1, 2012 through December 31, 2015. The current examination covers the period of January 1, 2016 through December 31, 2020, as well as a review of any material transactions and events occurring subsequent to the examination period through the date of this report.

Procedures

We conducted our examination in accordance with the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook (Handbook)*, except where practices, procedures, and applicable regulations of the Department or statutes of the state of Missouri prevailed. The *Handbook* requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company, and evaluate system controls and procedures used to mitigate those risks. An examination also includes the identification and evaluation of significant risks that could cause the Company's surplus to be materially misstated, both on a current and prospective basis.

This examination also included a review of significant estimates made by management and evaluation of management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. Those activities considered in the examination as key to Essentia included Investments, Premiums/Underwriting, Claims Handling, Reserves, Reinsurance – Assumed, Reinsurance – Ceded, and Intercompany/Expense Allocation. The examination also included a review and evaluation of information technology general controls.

This examination was conducted as part of a coordinated examination of the Markel Corporation Group, which consists of fourteen insurance companies domiciled in several states. The Illinois Department of Insurance is the lead state regulator for the Group. Delaware, Nebraska, Texas, and Virginia also participated in the coordinated examination.

This examination report includes significant findings of fact, as mentioned in Section 374.205 RSMo (Examination, director may conduct, when...) and general information about the Company and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but are separately communicated to other regulators and/or the Company.

SUMMARY OF SIGNIFICANT FINDINGS

There were no material adverse findings, significant non-compliance issues, or material changes to the financial statements noted during the examination.

COMPANY HISTORY

General

Essentia Insurance Company, formerly known as American Central Insurance Company, was incorporated on April 27, 1979, as a stock casualty insurance company, wholly-owned by Commercial Union Insurance Company. The Company was granted authority pursuant to the provisions of Chapter 379 RSMo (Insurance Other than Life) to commence the business of insurance effective January 1, 1983. In 1984, the common stock of Essentia was transferred to American Employers' Insurance Company, an affiliate domiciled in Massachusetts.

Effective June 1, 2001, Essentia's ultimate controlling entity changed when the shares of its parent company were acquired by White Mountains Insurance Group, Inc., a Bermuda-based holding company. The collection of acquired entities were renamed and collectively known as the OneBeacon Insurance Group, Ltd. Effective June 30, 2005, American Employers' Insurance Company paid an extraordinary dividend to its immediate parent company, Pennsylvania General Insurance Company (PGIC), consisting of all the common stock of Essentia. The Company's name was changed to its current name in 2007, without a change of ultimate ownership or control. During 2012, PGIC paid a dividend to its sole shareholder, OneBeacon Insurance Group, LLC (OBLLC), consisting of the common stock of Essentia.

As of January 1, 2013, Essentia was acquired by Markel Corporation (Markel). A year later, on January 1, 2014, The Hagerty Group, LLC (Hagerty) exercised its right to purchase 4,950 newly issued shares (9.9% ownership interest) of Essentia.

Mergers, Acquisitions, and Major Corporate Events

On March 22, 2017, Hagerty sold its 9.9% interest in Essentia back to Markel, with Markel now owning 100% of Essentia.

Dividends and Capital Contributions

There were no dividends or capital contributions during the examination period.

Surplus Notes

There were no surplus notes issued or outstanding during the examination period.

MANAGEMENT AND CONTROL

Board of Directors

The management of the Company is vested in a Board of Directors that is elected by the shareholders. The Company's Bylaws specify that there shall be not less than nine persons nor more than ten persons. At each annual meeting of the shareholders, nine Directors are elected to serve one-year terms. The Board of Directors elected and serving as of December 31, 2020, was as follows:

<u>Name and Address</u>	<u>Principal Occupation and Business Affiliation</u>
Robert C. Cox Basking Ridge, NJ	President, Chief Operating Officer Markel Corporation
Richard R. Grinnan Henrico, VA	Chairman, General Counsel Markel Corporation
Oscar Guerrero Collegeville, PA	Chief Accounting Officer Markel Corporation
Bradley J. Kiscaden Glen Allen, VA	Chief Corporate Actuary Markel Corporation
Jeffrey T. May Pewaukee, WI	Managing Executive, Markel Personal Lines Markel Corporation
Robin Russo Glen Allen, VA	Senior Vice President, Chief Underwriting Officer Markel Corporation
Bryan W. Sanders Moseley, VA	President, Wholesale Markel Corporation
Timothy J. Tompkins Traverse City, MI	Managing Executive, Marketing and Client Relationships Markel Corporation
Robert G. Whitt III Glen Allen, VA	Co-Chief Executive Officer Markel Corporation

Senior Officers

Essentia's Bylaws state that the officers of the Company shall consist of a president, one or more vice-presidents, a secretary, one or more assistant secretaries, a treasurer and one or more assistant treasurers who may be chosen by the Directors. The Board of Directors may also elect such other officers, agents, and factors as may be necessary. The offices of president and secretary may not be held by the same person. The officers elected and serving, as of December 31, 2020, were as follows:

<u>Name</u>	<u>Office</u>
Bradley J. Kiscaden	President
Kathleen A. Sturgeon	Secretary
April L. Duff	Treasurer
Timothy J. Tompkins	Senior Vice President
John D. Back	Vice President
Brian J. Costanzo	Vice President and Chief Financial Officer
Richard R. Grinnan	Vice President and Assistant Secretary
Oscar Guerrero	Vice President
Jeffrey T. May	Vice President
Robin Russo	Vice President
Justin P. Broussard	Assistant Treasurer
Ella Liberman	Assistant Secretary
Kelli S. Plusch	Assistant Secretary
Karl M. Strait	Assistant Secretary
Kristen M. Williamson	Assistant Secretary

Principal Committees

The Company's Articles of Incorporation and Bylaws do not require any committees, nor have any been designated by the Board of Directors as of December 31, 2020. Essentia relies on several key committees of Markel, which regularly review and approve actions or transactions that may directly or indirectly affect the operations of Essentia. These committees include the Audit Committee, Investment Committee, Nominating Corporate Governance Committee, Compensation Committee, and Risk Management Committee.

Corporate Records

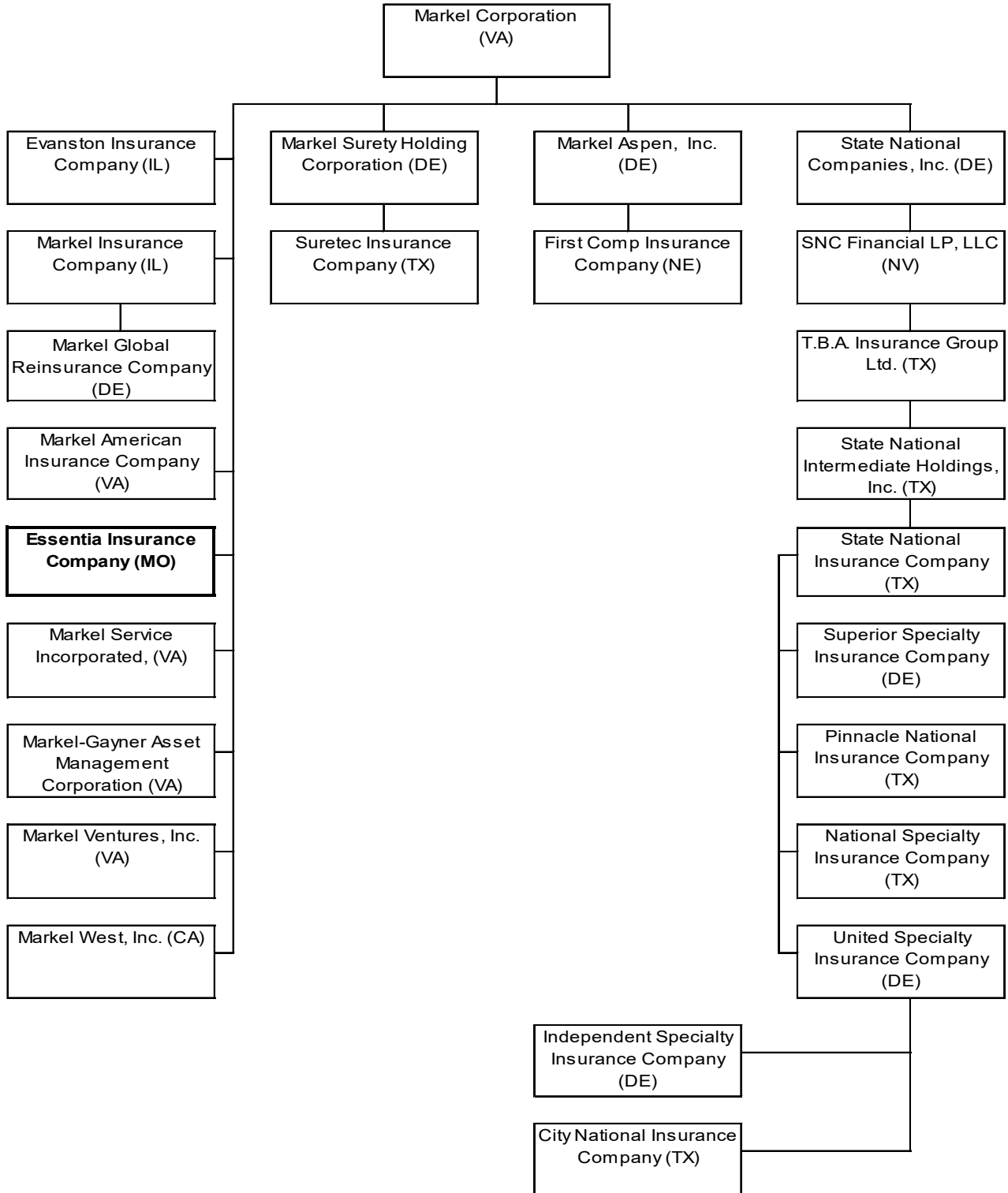
The Company's Articles of Incorporation and Bylaws were reviewed. There were no amendments to the Articles of Incorporation or Bylaws during the examination period. The minutes of the Board of Directors, stockholders, and committee meetings were reviewed for the period under examination.

Holding Company, Subsidiaries, and Affiliates

Essentia is a member of an Insurance Holding Company System, as defined by Section 382.010 RSMo (Definitions). As described in the Company History - General section of this report, Essentia's ownership transferred from PGIC to OBLIC during 2012, and then transferred to Markel during 2014. Markel is publicly traded on the NYSE, with no single stockholder owning 10% or more of its outstanding stock as of December 31, 2020. Markel has a large number of subsidiaries that include U.S. and alien insurers, as well as various other subsidiaries not doing business within the insurance sector.

Organizational Chart

The following abbreviated organizational chart depicts the applicable portion of the holding company group as of December 31, 2020:



Intercompany Transactions

The following is a brief description of significant agreements with affiliated entities that were in effect as of December 31, 2020:

Investment Advisory Agreement: This agreement, effective January 1, 2013, is between Essentia and Markel-Gayer Asset Management Corp. (Markel-Gayner). Under this agreement, Markel-Gayner provides investment services to Essentia, to include reviewing the portfolio, decisions of purchase and sale of securities, review of cash position to meet period needs, and directives to brokers to effectuate investment decisions.

Tax Allocation Agreement: This agreement, effective January 1, 2014, is between Essentia, Markel, and various other Markel affiliates. Under this agreement, Markel will ensure consolidated federal tax filings for the Group are completed. Individual company tax liability is computed and used as the basis of the tax amounts paid to/from Markel on a quarterly/annual basis.

Management Services Agreement: This agreement, effective January 1, 2013, is between Essentia and Markel Services Incorporated (MSI). Under this agreement, MSI provides various general and insurance business services to Essentia, to include accounting services, financial statement preparation, tax returns, accounts receivable/payable, maintenance of reports and records, etc. Essentia reimburses MSI's incurred costs. Costs associated with more than one affiliate are allocated based on gross written premium less affiliated reinsurance transactions.

The Company also has a quota share reinsurance agreement with affiliate Evanston Insurance Company that is described in the Ceded Reinsurance section of this report.

TERRITORY AND PLAN OF OPERATION

Essentia is licensed in Missouri under Chapter 379 RSMo (Insurance Other Than Life) to write the business of accident and health, fidelity and surety, liability, miscellaneous, and property insurance. As of December 31, 2020, the Company was licensed in all fifty states and the District of Columbia.

In April 2007, Essentia entered into a business relationship with Hagerty Insurance Agency (Hagerty Agency) of Traverse City, Michigan. Hagerty Agency sells property and liability insurance for classic and collectible automobiles and wooden boats throughout the United States. Under this arrangement, Essentia is the direct insurer for the policies sold by Hagerty Agency. During the examination period, 100% of Essentia's direct written premium was associated with this arrangement.

As part of the program, Essentia ceded a majority of its premiums, losses, loss adjustment expenses (LAE) to affiliate Evanston Insurance Company (Evanston) under a quota-share agreement. See the Ceded Reinsurance section below for additional information.

GROWTH OF COMPANY AND LOSS EXPERIENCE

As noted under the Territory and Plan of Operation section above, during the examination period, Essentia maintained quota share reinsurance agreements with an affiliate under which it ceded 90% of its direct written premiums in 2016 and 100% of its direct written premiums for 2017-2020. Essentia's direct premiums written increased from \$239.8 million in 2015 to \$505.0 million in 2020. Although the Company retained an immaterial amount of business during the examination period, its policyholder surplus increased overall during the examination period.

REINSURANCE

General

The Company's premium activity on a direct written, assumed, and ceded basis for the period under examination is detailed below:

(\$000s omitted)

Premium Type	2016	2017	2018	2019	2020
Direct Premiums Written	\$ 274,456	\$ 313,310	\$ 356,714	\$ 415,882	\$ 504,985
Reinsurance Assumed:					
Affiliates	-	-	-	-	-
Non-Affiliates	3,524	4,735	5,772	6,231	1,736
Reinsurance Ceded:					
Affiliates	245,404	320,107	347,938	404,680	478,498
Non-Affiliates	5,671	11,175	14,548	17,433	28,223
Net Premiums Written	\$ 26,904	\$ (13,237)	\$ -	\$ -	\$ -

Assumed Reinsurance

Since 2013, the Company has maintained a quota share reinsurance agreement with Nationwide Mutual Insurance Company (Nationwide Mutual) under which Essentia assumes 50% of the premiums and related losses and loss adjustment expenses. These premiums, losses, and loss adjustment expenses are then retroceded to Evanston, as described in the Ceded Reinsurance section below. Premiums assumed during the examination were immaterial.

Ceded Reinsurance

Following the sale of Essentia to Markel on January 1, 2013, the Company entered into a quota share reinsurance agreement with newly affiliated Evanston Insurance Company. Under this agreement, Essentia ceded to Evanston 100% of the business produced by the Hagerty Agency, as well as the business assumed from Nationwide Mutual. This quota share agreement was amended effective January 1, 2016 to reduce the quota share percentage from 100% to 90%. The agreement was replaced by a new 100% quota share agreement with Evanston, effective January 1, 2017. The Company amended the quota share agreement in 2019 to change the Terms and Cancellation section for the agreement to remain in force until December 31, 2027. All other provisions of the agreement remain unchanged.

The Company is contingently liable for all reinsurance losses ceded to others. This contingent liability would become an actual liability in the event that an assuming reinsurer fails to perform its obligations under the reinsurance contract.

ACCOUNTS AND RECORDS

Independent Auditor

The certified public accounting (CPA) firm, KPMG, LLP, in Richmond, Virginia, performed the statutory audit of the Company for all years under examination. Reliance was placed upon the CPA workpapers as deemed appropriate. Such reliance included, but was not limited to, fraud risk analysis, journal entry testing, internal control narratives, tests of internal controls, and substantive testing.

Actuarial Opinion

The Company's actuarial opinion regarding loss reserves, loss adjustment expense reserves, and other actuarial items was issued by G. Christopher Nyce, FCAS, MAAA, for all years of the examination period. Christopher Nyce is employed by KPMG, LLP in Radnor, Pennsylvania.

Consulting Actuary

Pursuant to a contract with the Illinois Department of Insurance, David Heppen, FCAS, MAAA and Scott Merkord, FCAS, MAAA, both actuarial specialists with Risk & Regulatory Consulting, LLC, performed a risk-focused examination of the reserving key functional activities of the Markel Group, including risk assessments, control evaluations, and detail examination procedures.

Information Systems

As part of the coordinated examination, James Coyle, CISA and Michael Morrissey, AES, CISA, CISSP, both Information Systems Financial Examiners with INS Regulatory Insurance Services, Inc., conducted a review of the Group's information systems.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the Department and present the financial condition of Essentia Insurance Company for the period ending December 31, 2020. The accompanying comments on financial statements reflect any examination adjustments to the amounts reported in the financial statements and should be considered an integral part of the financial statements. The failure of any column of numbers to add to its respective total is due to rounding or truncation.

There may have been additional differences found in the course of this examination, which are not shown in the "Comments on Financial Statement Items." These differences were determined to be immaterial concerning their effect on the financial statements, and therefore were only communicated to the Company and noted in the workpapers for each individual key activity.

ASSETS

As of December 31, 2020

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$ 9,772,258	\$ -	\$ 9,772,258
Cash, Cash Equivalents, and Short- Term Investments	26,393,645	-	26,393,645
Investment Income Due and Accrued Premiums and Considerations:	127,749	-	127,749
Uncollected Premiums and Agents' Balances in the Course of Collection	42,125,009	-	42,125,009
Reinsurance:			
Amounts Recoverable from Reinsurers	26,677,458	-	26,677,458
Other Amounts Receivable Under Reinsurance Contracts	2,628,321	-	2,628,321
Aggregate Write-Ins for Other-Than- Invested Assets	10,754,508	-	10,754,508
TOTAL ASSETS	\$ 118,478,948	\$ -	\$ 118,478,948

LIABILITIES, SURPLUS AND OTHER FUNDS

As of December 31, 2020

Losses	\$ -
Commissions Payable, Contingent Commissions, and Other Similar Charges	50,498,472
Other Expenses	633,073
Taxes, Licenses, and Fees	1,305,045
Current Federal and Foreign Income Taxes	55,088
Net Deferred Tax Liability	507
Ceded Reinsurance Premiums Payable (Net of Ceding Commissions)	32,599,170
Payable to Parent, Subsidiaries, and Affiliates	1,205,070
TOTAL LIABILITIES	\$ 86,296,425
Common Capital Stock	5,000,000
Gross Paid In and Contributed Surplus	30,730,000
Unassigned Funds (Surplus)	(3,547,477)
TOTAL CAPITAL AND SURPLUS	\$ 32,182,523
TOTAL LIABILITIES AND SURPLUS	\$ 118,478,948

STATEMENT OF INCOME
For the Year Ended December 31, 2020

Premiums Earned	\$	-
DEDUCTIONS:		
Other Underwriting Expenses Incurred		(4,072)
Net Underwriting Gain (Loss)	\$	4,072
Net Investment Income Earned		316,007
Net Investment Gain (Loss)	\$	316,007
Federal and Foreign Income Taxes Incurred		55,134
NET INCOME (LOSS)	\$	264,945

RECONCILIATION OF CAPITAL AND SURPLUS
Changes from January 1, 2016 to December 31, 2020

(\$000s omitted)

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Capital and Surplus, Beginning of Year	\$ 30,368	\$ 26,450	\$ 31,096	\$ 31,451	\$ 31,916
Net Income (Loss)	(4,855)	5,614	326	465	265
Change in Net Deferred Income Tax	941	(943)	-	-	1
Change in Nonadmitted Assets	(4)	4	-	-	-
Change in Provision for Reinsurance	-	(29)	29	-	-
Net Change in Capital and Surplus	\$ (3,917)	\$ 4,646	\$ 355	\$ 465	\$ 266
Capital and Surplus, End of Year	\$ 26,450	\$ 31,096	\$ 31,451	\$ 31,916	\$ 32,183

COMMENTS ON FINANCIAL STATEMENT ITEMS

None.

FINANCIAL STATEMENT CHANGES RESULTING FROM EXAMINATION

None.

SUMMARY OF RECOMMENDATIONS

None.

SUBSEQUENT EVENTS

The COVID-19 pandemic has continued to develop, with significant uncertainty remaining regarding the full effect of COVID-19 on the U.S. and global insurance and reinsurance industry. The Department has been in communication with the Company regarding the impact of COVID-19 on its business operations and financial position. The Department continues to closely monitor the impact of the pandemic on the Company and will take necessary action if a solvency concern arises.

ACKNOWLEDGMENT

The assistance and cooperation extended by the officers and the employees of Essentia Insurance Company during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Alicia Galm, CFE, examiner for the Missouri Department of Commerce and Insurance, also participated in this examination.

VERIFICATION

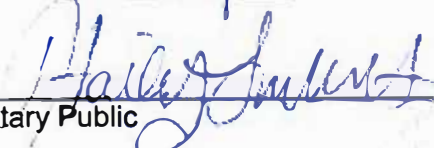
State of Missouri)
) ss
County of Cole)

I, Marc Peterson, CFE, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records, or other documents of Essentia Insurance Company, its agents or other persons examined, or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs, and such conclusions and recommendations as the examiners find reasonably warranted from the facts.



Marc Peterson, CFE
Examiner-In-Charge
Missouri Department of Commerce and
Insurance

Sworn to and subscribed before me this 26th day of May, 2022.

My commission expires: March 30, 2023 

Notary Public



HAILEY LUEBBERT
My Commission Expires
March 30, 2023
Osage County
Commission #15634366

SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the *Financial Condition Examiners Handbook* has been confirmed, except where practices, procedures, and applicable regulations of the Missouri Department of Commerce and Insurance and statutes of the state of Missouri prevailed.



Sara McNeely, CFE
Assistant Chief Financial Examiner
Missouri Department of Commerce and
Insurance