



**DEPARTMENT OF INSURANCE, FINANCIAL  
INSTITUTIONS AND PROFESSIONAL REGISTRATION**

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

RE: Examination Report of Essentia Insurance Company for the period ended December 31, 2011

**ORDER**

After full consideration and review of the report of the financial examination of Essentia Insurance Company for the period ended December 31, 2011, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, John M. Huff, Director, Missouri Department of Insurance, Financial Institutions and Professional Registration 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 findings, subsequent events, company history, corporate records, management and control, fidelity bond and other insurance, pension, stock ownership and insurance plans, territory and plan of operations, growth of the company and loss experience, reinsurance, accounts and records, statutory deposits, financial statements, financial statement changes resulting from examination, and comments on financial statement items.

Based on such findings and conclusions, I hereby ORDER, that the report of the Financial Examination of Essentia Insurance Company as of December 31, 2011, 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) implement, and verify compliance with each item, if any, mentioned in the Comments on Financial Statement Items and/or Summary of Recommendations section of such report; (2) 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 16th day of May, 2013.



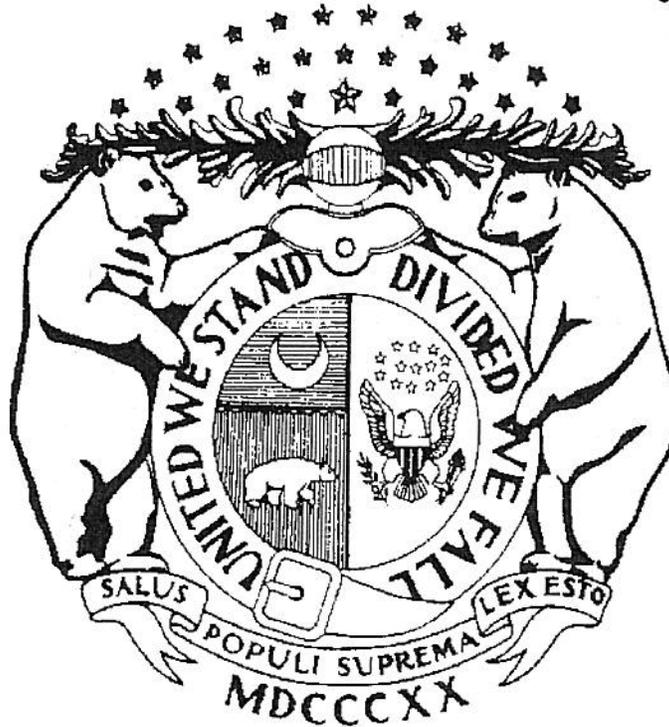
A handwritten signature in black ink, reading "John M. Huff", written over a horizontal line.

John M. Huff, Director  
Department of Insurance, Financial Institutions  
and Professional Registration

REPORT OF THE  
ASSOCIATION FINANCIAL EXAMINATION OF  
**ESSENTIA INSURANCE COMPANY**

AS OF  
DECEMBER 31, 2011

**FILED**  
MAY 26 2013  
DIRECTOR OF INSURANCE  
FINANCIAL INSTITUTIONS &  
PROFESSIONAL REGISTRATION



STATE OF MISSOURI  
DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS  
AND PROFESSIONAL REGISTRATION  
JEFFERSON CITY, MISSOURI

# TABLE OF CONTENTS

|   |          |
|---|----------|
| <b>SCOPE OF EXAMINATION .....</b>                         | <b>1</b> |
| PERIOD COVERED.....                                       | 1        |
| PROCEDURES.....   | 1        |
| <b>SUMMARY OF SIGNIFICANT FINDINGS .....</b>              | <b>2</b> |
| <b>SUBSEQUENT EVENTS .....</b>                            | <b>2</b> |
| <b>COMPANY HISTORY.....</b>                               | <b>2</b> |
| GENERAL .....   | 2        |
| CAPITAL CONTRIBUTION.....                                 | 3        |
| DIVIDENDS .....   | 3        |
| MERGERS AND ACQUISITIONS .....                            | 3        |
| <b>CORPORATE RECORDS.....</b>                             | <b>3</b> |
| <b>MANAGEMENT AND CONTROL .....</b>                       | <b>3</b> |
| BOARD OF DIRECTORS .....                                  | 3        |
| COMMITTEES.....   | 4        |
| OFFICERS .....  | 4        |
| HOLDING COMPANY, SUBSIDIARIES AND AFFILIATES .....        | 5        |
| ORGANIZATIONAL CHART.....                                 | 5        |
| INTERCOMPANY TRANSACTIONS .....                           | 6        |
| <b>FIDELITY BOND AND OTHER INSURANCE.....</b>             | <b>7</b> |
| <b>PENSION, STOCK OWNERSHIP AND INSURANCE PLANS .....</b> | <b>7</b> |
| <b>TERRITORY AND PLAN OF OPERATION.....</b>               | <b>8</b> |
| <b>GROWTH OF COMPANY AND LOSS EXPERIENCE.....</b>         | <b>8</b> |
| <b>REINSURANCE.....</b>                                   | <b>9</b> |
| GENERAL .....   | 9        |

|   |           |
|---|-----------|
| ASSUMED .....   | 9         |
| CEDED.....  | 9         |
| <b>ACCOUNTS AND RECORDS .....</b>                       | <b>10</b> |
| INDEPENDENT AUDITOR.....                                | 10        |
| APPOINTED ACTUARY .....                                 | 10        |
| INFORMATION SYSTEMS .....                               | 10        |
| <b>STATUTORY DEPOSITS .....</b>                         | <b>10</b> |
| DEPOSITS WITH THE STATE OF MISSOURI.....                | 10        |
| DEPOSITS WITH OTHER STATES.....                         | 11        |
| <b>FINANCIAL STATEMENTS .....</b>                       | <b>11</b> |
| ASSETS .....  | 12        |
| LIABILITIES, SURPLUS AND OTHER FUNDS.....               | 12        |
| STATEMENT OF INCOME .....                               | 13        |
| CAPITAL AND SURPLUS ACCOUNT .....                       | 13        |
| <b>ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS.....</b> | <b>14</b> |
| <b>COMMENTS ON FINANCIAL STATEMENT ITEMS.....</b>       | <b>14</b> |
| <b>SUMMARY OF RECOMMENDATIONS .....</b>                 | <b>14</b> |
| <b>ACKNOWLEDGMENT .....</b>                             | <b>15</b> |
| <b>VERIFICATION .....</b>                               | <b>15</b> |
| <b>SUPERVISION.....</b>                                 | <b>16</b> |

Canton, Massachusetts  
April 18, 2013

Honorable John M. Huff, Director  
Missouri Department of Insurance, Financial Institutions  
and Professional Registration  
301 West High Street, Room 530  
Jefferson City, Missouri 65101

Director Huff:

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

**Essentia Insurance Company**

hereinafter referred to as such, as Essentia, or as the Company. Its administrative office was located at 150 Royall Street, Canton, Massachusetts, 02021, telephone number (781) 331-7000. This examination concluded on the above date.

**SCOPE OF EXAMINATION**

**Period Covered**

Essentia was last examined as of December 31, 2006. This examination covers the period from January 1, 2007 through December 31, 2011. This was a coordinated multi-state examination of the OneBeacon Insurance Group (OneBeacon) led by the Pennsylvania Department of Insurance with participation from the insurance departments of Massachusetts, Missouri (MO DIFP), New Jersey, New York, and Wisconsin.

Companies within OneBeacon examined were:

|   |                                       |
|---|---------------------------------------|
| OneBeacon Insurance Company (OBIC)            | Potomac Insurance Company (PIC)       |
| Pennsylvania General Insurance Company (PGIC) | The Camden Fire Insurance Association |
| Essentia Insurance Company                    | OneBeacon Midwest Insurance Company   |
| Atlantic Specialty Insurance Company (ASIC)   | Homeland Insurance Company of NY      |
| AutoOne Insurance Company                     | AutoOne Select Insurance Company      |
| The Northern Assurance Company of America     | The Employers Fire Insurance Company  |
| OneBeacon America Insurance Company           |                                       |

This examination also included the material transactions and/or events occurring subsequent to the examination date which are noted in this report.

## **Procedures**

The examination was conducted in accordance with the NAIC Financial Condition Examiners Handbook. The Handbook required 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. The examination also included assessing the principals used and significant estimates made by management, as well as an evaluation of the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions, when applicable to Missouri domestic state regulations.

## **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.

## **SUBSEQUENT EVENTS**

Effective January 1, 2012, Essentia's 90% quota share reinsurance contract with OBIC was terminated and Essentia entered into a new 100% quota share reinsurance contract with ASIC (see the Intercompany Transactions section for additional detail).

Effective May 15, 2012, PGIC paid a dividend consisting of all Essentia common stock to OneBeacon Insurance Group, LLC (OBLLC), as approved by MO DIFP.

Effective January 1, 2013, Essentia was sold to Markel Corporation (Markel). As part of the sale process Essentia paid an \$18 million extraordinary dividend to OBLLC prior to the close of the sale, reducing its capital and surplus to \$8.4 million. Subsequent to the sale, Essentia plans to continue to write business through the Hagerty Insurance Agency, Inc. and the Hagerty Classic Marine Insurance Agency, Inc. (collectively Hagerty) and will then cede the business to Evanston Insurance Company (Evanston), a subsidiary of Markel under a 100% quota share reinsurance agreement.

## **COMPANY HISTORY**

### **General**

The Company was originally incorporated as American Central Insurance Company on April 27, 1979 as a stock casualty insurance company under the provision of Missouri Law at Chapter 379 RSMo (Insurance Other Than Life) and commenced business effective January 1, 1983. The Company's name was changed to Essentia Insurance Company on September 27, 2007. Essentia was originally owned by Commercial Union Insurance Company. In 2005 ownership was transferred to American Employers' Insurance Company and in 2007 it was dividended to PGIC. During 2012, Essentia was further dividended to OBLLC. Effective January 1, 2013 Essentia was sold to Markel.

**Capital Contribution**

No capital contributions were received by Essentia during the examination period.

**Dividends**

The following dividends were paid to PGIC during the examination period, as approved by the Board of Directors:

| <u>Year Paid</u> | <u>Amount Paid</u>   |
|------------------|--|
| 2007             | Stock dividend of 20,000 shares. No cash was transferred, the net effect was capital increased by \$2 million and surplus decreased by the same \$2 million. |
| 2010             | \$3,600,000  |

As noted in the Subsequent Events section above, Essentia paid an \$18 million dividend in 2012 to OBLLC in anticipation of its sale to Markel.

**Mergers and Acquisitions**

On or about May 15, 2012, PGIC paid a dividend consisting of all Essentia's common stock to OBLLC. The transaction was approved by the MO DIFP.

On October 18, 2012 Markel filed a Form A requesting authority to purchase 100% of Essentia from OBLLC. The action was approved by the MO DIFP and was effective January 1, 2013. The purchase is described in more detail in the Subsequent Events section of this report.

**CORPORATE RECORDS**

The Company's Articles of Incorporation and Bylaws were reviewed for any changes during the period under examination. On April 9, 2007, Article II was amended to change the Company's principal place of business to One Beacon Lane, Canton, Massachusetts, 02021, and Article IV was amended to increase the authorized number of common shares from 25,000 to 60,000. On July 24, 2007, Article 1 was amended changing the Company's name from American Central Insurance Company to Essentia Insurance Company. There were no amendments to the Bylaws during the period under examination.

The minutes of the Board of Directors' meetings and the shareholder's meetings were reviewed for proper approval of corporate transactions. In general, the minutes appear to properly reflect and approve the Company's major transactions and events for the period under examination.

**MANAGEMENT AND CONTROL****Board of Directors**

The management of the Company is vested in a Board of Directors comprised of ten directors elected by the shareholder. Essentia's Articles of Incorporation specify that the total number of

directors shall be not less than nine or more than twenty-one. The directors elected and serving as of December 31, 2011, were as follows:

| <u>Name</u>             | <u>Address</u>    | <u>Principal Occupation and Business Affiliation</u>                    |
|-------------------------|-------------------|---|
| T. Michael Miller       | Deephaven, MN     | Chairman, President and Chief Exec. Officer, OBLLC                      |
| Alexander C. Archimedes | Bridgewater, NJ   | Senior Vice President, OBIC   |
| Jane E. Freedman        | Newton Centre, MA | Secretary and Associate General Counsel, OneBeacon Insurance Group, LTD |
| Joan K. Geddes          | Hanover, MA       | Assistant Secretary, OBIC   |
| Dana P. Hendershott     | Milford, CT       | Senior Vice President and Chief Admin Officer, OBIC                     |
| Josette D. Kiel         | Boerne, TX        | Senior Vice President and Chief Underwriting Officer, OBIC              |
| Paul H. McDonough       | Wayzata, MN       | Senior VP and Chief Financial Officer, OBLLC                            |
| Brian D. Poole          | Wayzata, MN       | Senior Vice President and Chief Actuary, OBIC                           |
| Bradford W. Rich        | Tucson, AZ        | Senior VP and General Counsel, OBLLC                                    |
| Thomas N. Schmitt       | Greenwood, MN     | Senior VP and Chief Human Resources Officer, OBIC                       |

### Committees

Essentia'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, 2011. OneBeacon maintained such committees at the OBLLC level, with the appropriate actions reviewed and ratified by Essentia's Board of Directors.

### Officers

The Company's Bylaws stipulate that the Board of Directors shall elect a president, one or more vice presidents, a secretary, one or more assistant secretaries, a treasurer, and one or more assistant treasurers as officers of the Company. The officers elected and serving as of December 31, 2011 were as follows:

| <u>Officer</u>      | <u>Position</u>                                      |
|---------------------|--|
| T. Michael Miller   | Chairman of the Board                                |
| Bradford W. Rich    | President, CEO, and General Counsel                  |
| Alex C. Archimedes  | Senior Vice President                                |
| Sean W. Duffy       | Senior Vice President and Chief Claims Officer       |
| Dana P. Hendershott | Senior Vice President and Chief Admin. Officer       |
| Josette D. Kiel     | Senior Vice President and Chief Underwriting Officer |
| Scott W. McClintock | Senior Vice President and CIO                        |
| Paul H. McDonough   | Senior Vice President and Chief Financial Officer    |
| Brian D. Poole      | Senior Vice President and Chief Actuary              |
| Thomas N. Schmitt   | Senior VP and Chief Human Resources Officer          |

|                      |                              |
|----------------------|------------------------------|
| Philip A. Sibilis    | Senior Vice President        |
| Todd C. Mills        | Vice President and Treasurer |
| Virginia A. McCarthy | Secretary                    |
| Ricardo A. Baez      | Assistant Secretary          |
| Lisa B. Blessis      | Assistant Secretary          |
| Sarah E. Dubinsky    | Assistant Secretary          |
| Keith N. Firestone   | Assistant Secretary          |
| Joan K. Geddes       | Assistant Secretary          |
| Marie A. Piccoli     | Assistant Secretary          |
| Louis A Ricciuti     | Assistant Secretary          |
| Lisa M. Vumback      | Assistant Secretary          |
| David G. Clancy      | Assistant Treasurer          |

**Holding Company, Subsidiaries and Affiliates**

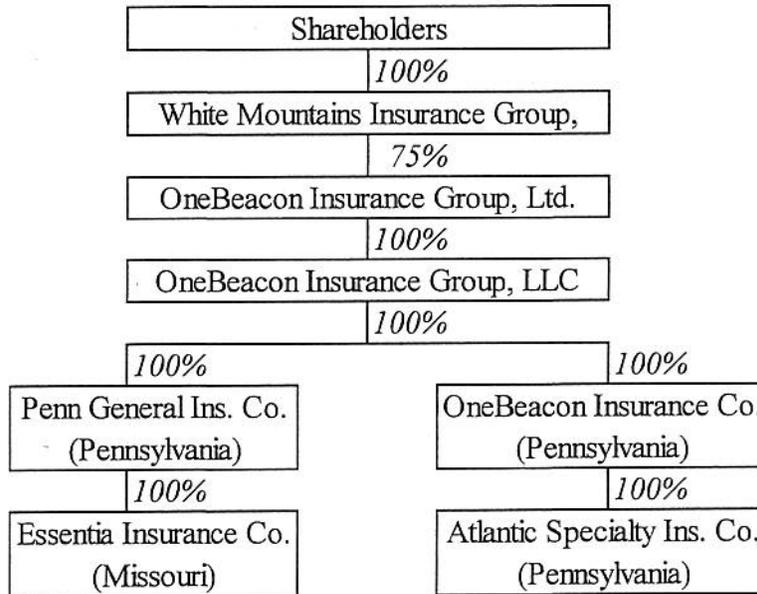
Essentia is a member of an Insurance Holding Company System as defined by 382.010 RSMo (Definitions) and was wholly owned by PGIC. PGIC, in turn, is a wholly owned subsidiary of OBLLC, an insurance holding company. On May 15, 2012, PGIC dividdened its ownership of Essentia to OBLLC.

OBLLC is held by a series of other holding companies, with the ultimate controlling entity being White Mountains Insurance Group, LTD (WM), a publicly traded entity listed on the New York Stock Exchange. No one shareholder owns ten percent (10%) or more of the issued and outstanding stock of WM.

Subsequent to a sale effective January 1, 2013, Essentia is owned directly by Markel. Markel is publicly traded on the NYSE, no single stockholder owning 10% or more of its outstanding stock. Markel has a large number of subsidiaries including U.S. and alien insurers as well as various other subsidiaries not doing business within the insurance sector.

**Organizational Chart**

The ultimate parent, WM, has a number of subsidiaries, which are too numerous to list in this report. Therefore, only entities that have a direct and indirect ownership of Essentia and entities that have significant transactions with Essentia are listed. The following organizational chart depicts the ownership of Essentia as of December 31, 2011. (Note that subsequently on or about May 15, 2012 Essentia, with MO DIFP approval, was dividdened up to OBLLC by PGIC.)



**Intercompany Transactions**

The Company’s intercompany agreements as of December 31, 2011 are outlined below:

**1. Investment Management Agreement**

- Parties: Essentia, White Mountains Advisors LLC (WMA), and other affiliates
- Effective: October 1, 2010
- Terms: Under this agreement, WMA provided administration and investment advice pertaining to the invested assets of Essentia, and in turn Essentia paid WMA fees that closely mirror those charged in the investment industry.
- Rate(s): Approved fees listed in Schedule A, fees determined based on invested value at end of each quarter.

**2. Federal Tax Allocation Agreement**

- Parties: Essentia, OneBeacon U.S. Financial Services, Inc. and other affiliates
- Effective: June 1, 2001
- Terms: Under this agreement, federal income taxes were allocated to Essentia on the same basis as if Essentia had filed a separate return.
- Rate(s): N/A

### 3. Administrative Services Agreement

Parties: Essentia and OBIC

Effective: July 1, 2008

Terms: Under this agreement, OBIC provided administrative services to the Company on an “at-cost” basis including but not limited to the following: policy development and administration, underwriting, loss settlement, purchasing, accounting, personnel, data processing, facilities management, market services, and collection and payment. The amendment as of December 31, 2008, added a collection and payment provision allowing OBIC to collect and receive premiums and take charge of, adjust, and pay all losses for Essentia.

Rate(s): Cost allocation basis in conformity with customary insurance accounting practices consistently applied.

Agreement #3 was terminated effective January 1, 2012. Agreements #1 and #2 were terminated effective January 1, 2013 with the sale to Markel.

The following is a table of amounts incurred/(earned) under the above described intercompany agreements:

| Agreement           | 2011                | 2010               | 2009               | 2008               | 2007             |
|---------------------|---------------------|--------------------|--------------------|--------------------|------------------|
| Federal Tax Sharing | \$454,491           | \$6,970            | (\$1,071,007)      | (\$181,023)        | \$578,352        |
| Investment Advisory | 46,543              | 50,179             | 53,688             | 42,992             | 39,725           |
| Admin Service       | 12,768,996          | 8,427,557          | 8,343,747          | 2,904,429          | 0                |
| Totals              | <u>\$13,270,030</u> | <u>\$8,484,706</u> | <u>\$7,326,428</u> | <u>\$2,766,398</u> | <u>\$618,077</u> |

#### FIDELITY BOND AND OTHER INSURANCE

The Company was a named insured, along with other subsidiaries of WM, on a financial institution bond that covers losses resulting from dishonest or fraudulent acts of employees. This bond had a liability limit of \$20,000,000 and a \$500,000 deductible, which exceeds the minimum coverage recommended by the NAIC.

Essentia was also a named insured on various insurance policies to include workers' compensation, employment practices liability, errors and omissions liability, property and general liability, directors' and officers' liability, umbrella liability, fiduciary liability, computer crime liability, and business automobile liability.

#### PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

Essentia had no direct employees. All services were provided to the Company by its affiliate, OBIC, in accordance with the provisions of an administrative services agreement that is explained in greater detail in the Intercompany Transactions section of this report. Note that this

agreement was terminated and replaced by the new reinsurance agreement with ASIC, effective January 1, 2012.

OBIC provides a variety of standard benefits to its employees, which include, but are not limited to, health coverage, life insurance, short and long-term disability insurance, vacation and sick leave, and a 401(k) profit sharing plan. The expenses for these benefits were charged to Essentia through intercompany service fees.

### **TERRITORY AND PLAN OF OPERATION**

Essentia is licensed as a property and casualty insurer by the MO DIFP under Chapter 379 RSMo (Insurance Other Than Life). As of December 31, 2011, the Company was licensed in all 50 states and the District of Columbia.

The Company's upstream parent, OBLLC, entered into a business relationship in April 2007 with Hagerty Insurance Agency of Traverse City, Michigan. Hagerty sells property and liability insurance for classic and collectible autos and wooden boats throughout the United States. Under this arrangement, Essentia was the direct insurer for the policies sold by Hagerty commencing at the end of the 1<sup>st</sup> quarter of 2008.

As part of the program, Essentia ceded 90% of premiums, losses, LAE, etc. to OBIC under a quota share agreement. Due to continued underwriting losses since inception, effective January 1, 2012, the agreement was terminated, and a new 100% quota share agreement was signed with ASIC (now known as OneBeacon Specialty Insurance Company). See the Reinsurance section below for additional information.

With the sale of Essentia to Markel as described in the Subsequent Events section of this report, there are no immediate material changes to operations. For 2013 Essentia will continue to write the Hagerty business and cede 100% to an affiliate, Evanston. Future plans indicate Essentia will decrease the 100% ceding and begin retaining some of the risk beginning in 2014.

### **GROWTH OF COMPANY AND LOSS EXPERIENCE**

The Company's capital and surplus decreased during the examination period, by \$11.3 million from December 31, 2006's balance of \$38.8 million. Net premiums earned increased from \$0 in 2007 to \$16.0 million during the examination period with corresponding increases in expense categories. Note that effective January 1, 2012, all business is being ceded to ASIC. This 2012 change in ceding resulted in 2012 net income as compared to the net losses for 2008 through 2011 when ceding commissions did not fully cover operating expenses.

The growth and loss experience of the Company is summarized in the following schedule:

|   | 2011          | 2010          | 2009          | 2008          | 2007       |
|---|---------------|---------------|---------------|---------------|------------|
| Direct Written Business                 | \$170,367,048 | \$158,119,789 | \$148,766,180 | \$108,351,900 | \$0        |
| Net Written Premiums                    | 16,601,879    | 15,403,303    | 14,527,816    | 10,523,643    | 0          |
| Net Underwriting Gain                   | (6,945,716)   | (3,387,164)   | (4,789,881)   | (3,347,024)   | (120,755)  |
| Net Income (Loss)                       | (5,080,969)   | (1,507,989)   | (2,497,436)   | (1,544,554)   | 1,142,377  |
| Net Loss & LAE                          | 3,385,473     | 3,826,141     | 3,006,103     | 1,492,993     | 0          |
| Reserves                                |               |               |               |               |            |
| Total Capital & Surplus                 | 27,452,137    | 31,560,637    | 36,261,063    | 38,954,448    | 39,980,603 |
| Direct Written Premium to Surplus       | 620.6%        | 501.0%        | 410.3%        | 278.2%        | 0.0%       |
| Net Written Premium to Surplus          | 60.5%         | 48.8%         | 40.1%         | 27.0%         | 0.0%       |
| Net Loss & LAE Reserves to Surplus      | 12.3%         | 12.1%         | 8.3%          | 3.8%          | 0.0%       |
| Loss and LAE Incurred to Premium Earned | 36.1%         | 35.6%         | 38.7%         | 43.9%         | 0.0%       |

## REINSURANCE

### General

The Company's reinsurance and premium activity during the period under examination was as follows:

| <u>Premiums Written</u> | 2011          | 2010          | 2009          | 2008          | 2007 |
|-------------------------|---------------|---------------|---------------|---------------|------|
| Direct                  | \$170,367,048 | \$158,119,789 | \$148,766,180 | \$108,351,900 | \$0  |
| Assumed                 | 0             | 0             | 0             | 0             | 0    |
| Ceded:                  |               |               |               |               |      |
| Affiliates              | 149,345,390   | 138,629,380   | 130,750,028   | 97,827,957    | 0    |
| Non-Affiliates          | 4,419,779     | 4,087,106     | 3,488,336     |               | 0    |
| Net Premiums Written    | \$16,601,879  | \$15,403,303  | \$14,527,816  | \$10,523,943  | \$0  |

### Assumed

Essentia did not assume any premiums during the examination period.

### Ceded

The Company entered into a Transfer and Assumption Agreement with its direct parent, PGIC, effective June 30, 2006, to transfer all existing liabilities to PGIC. In addition all assets less an \$11 million retention were transferred as well.

Essentia entered into a 90% quota share agreement with OBIC, effective May 1, 2007. Under the agreement 90% of the Hagerty business (premiums, losses, LAE, etc.) were ceded to OBIC,

with Essentia retaining the remaining 10%. Effective January 1, 2012, this agreement was replaced with a 100% quota share agreement, ceding all the Hagerty business to ASIC.

Essentia also ceded a small portion of the business to the Michigan Catastrophic Claims Association, a mandatory pool.

Effective the date of the sale, January 1, 2013, a new 100% quota share reinsurance agreement with Evanston took effect. Per the Form A filing, it is expected that the agreement will be altered beginning in 2014 with cessions being reduced from 100% to an amount compatible with Essentia's then current capital and surplus level.

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 agreement.

## ACCOUNTS AND RECORDS

### **Independent Auditor**

The CPA firm, PricewaterhouseCoopers, of Boston, Massachusetts audited the statutory financial statements of the Company for all years in the examination period.

### **Appointed Actuary**

The actuarial opinion regarding the Company's reserves for losses and loss adjustment expenses was issued by Brian D. Poole, FCAS, MAAA, Senior Vice President and Chief Actuary for OneBeacon for all years in the examination period.

### **Information Systems**

The accounts and records of the Company were generated and maintained through an electronic data processing system. The system generated a general ledger, cash receipts and disbursements information, as well as subsidiary records common to the property and casualty industry. The internal control structure was reviewed through management interviews, review and testing of Company prepared process narratives and through a review of the Sarbanes-Oxley documentation and work prepared by the Company's independent certified public accountants.

The examination relied on the services of Risk & Regulatory Consulting, LLC to perform an assessment of the IT environment.

## STATUTORY DEPOSITS

### **Deposits with the State of Missouri**

The funds on deposit with the MO DIFP as of December 31, 2011, as reflected below, were sufficient in par and fair value to meet the deposit requirement for the State of Missouri in

accordance with RSMo Section 379.098, (Securities to be deposited by all companies, kind and amount).

| <u>Type of Security</u> | <u>Par Value</u> | <u>Fair Value</u> | <u>Stmt Value</u> |
|-------------------------|------------------|-------------------|-------------------|
| U.S. Treasury Notes     | \$2,510,000      | \$2,522,256       | \$2,509,840       |

### **Deposits with Other States**

The Company also has funds on deposit with other states. Those funds on deposit as of December 31, 2011 were as follows:

| <u>State or Territory</u> | <u>Type of Security</u> | <u>Par Value</u>   | <u>Fair Value</u>  | <u>Stmt Value</u>  |
|---------------------------|-------------------------|--------------------|--------------------|--------------------|
| Florida                   | U.S. Treasury Notes     | \$210,000          | \$211,025          | \$209,987          |
| Georgia                   | U.S. Treasury Notes     | 100,000            | 100,488            | 99,994             |
| Massachusetts             | U.S. Treasury Notes     | 100,000            | 100,488            | 99,994             |
| New Hampshire             | U.S. Treasury Notes     | 500,000            | 502,442            | 499,968            |
| New Mexico                | U.S. Treasury Notes     | 335,000            | 336,636            | 334,979            |
| North Carolina            | U.S. Treasury Notes     | 300,000            | 301,465            | 299,981            |
| South Carolina            | U.S. Treasury Notes     | 150,000            | 150,732            | 149,990            |
| Virginia                  | U.S. Treasury Notes     | <u>210,000</u>     | <u>211,025</u>     | <u>209,987</u>     |
| <b>Totals</b>             |                         | <u>\$1,905,000</u> | <u>\$1,914,301</u> | <u>\$1,904,880</u> |

## **FINANCIAL STATEMENTS**

The following financial statements, with supporting exhibits, present the financial condition of Essentia for the period ending December 31, 2011. Any examination adjustments to the amounts reported in the financial statements and/or comments regarding such are made in the Comments on Financial Statement Items section of the report. 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 section. 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 key activity.

Assets

|  | <u>Assets</u>              | Non-<br>Admitted<br><u>Assets</u> | Net<br>Admitted<br><u>Assets</u> |
|--|----------------------------|-----------------------------------|----------------------------------|
| Bonds  | \$31,920,245               |                                   | \$31,920,245                     |
| Cash, Cash Equivalents and Short-term<br>Investments | 12,492,714                 |                                   | 12,492,714                       |
| Investment Income Due and Accrued                    | 83,618                     |                                   | 83,618                           |
| Federal Income Tax Recoverable                       | 182,509                    |                                   | 182,509                          |
| Net Deferred Tax Asset                               | 3,375,998                  | \$1,342,580                       | 2,033,418                        |
| Guaranty Funds Receivable or on Deposit              | 63                         |                                   | 63                               |
| Aggregate Write-Ins for other than Invested Assets   | <u>41,704</u>              | <u>91</u>                         | <u>41,613</u>                    |
| <b>TOTAL ASSETS</b>                                  | <b><u>\$48,096,851</u></b> | <b><u>\$1,342,671</u></b>         | <b><u>\$46,754,180</u></b>       |

Liabilities, Surplus and Other Funds

|   |                            |
|---|----------------------------|
| Losses  | \$2,250,740                |
| Loss Adjustment Expenses                        | 1,134,733                  |
| Other Expenses                                  | 12,112                     |
| Taxes, Licenses and Fees                        | 1,600,014                  |
| Unearned Premium                                | 8,144,568                  |
| Payable to Parent, Subsidiaries and Affiliates  | 1,183,808                  |
| Payable for Securities                          | 4,913,234                  |
| Aggregate Write-in for Liabilities:             |                            |
| NY AIP Liability                                | <u>62,834</u>              |
| <b>TOTAL LIABILITIES</b>                        | <b><u>\$19,302,043</u></b> |
| Common Capital Stock                            | 4,500,000                  |
| Aggregate Write-in for Other than Surplus Funds | 1,857,789                  |
| Gross Paid-In and Contributed Surplus           | 27,255,000                 |
| Unassigned Funds (Surplus)                      | <u>(6,160,652)</u>         |
| <b>SURPLUS AS REGARDS POLICYHOLDERS</b>         | <b><u>\$27,452,137</u></b> |
| <b>TOTAL LIABILITIES AND SURPLUS</b>            | <b><u>\$46,754,180</u></b> |

**Statement of Income**

| <b>Underwriting Income</b>                    |                             |
|---|-----------------------------|
| Premiums Earned                               | \$15,970,099                |
| Losses Incurred                               | 5,902,747                   |
| Loss Expenses Incurred                        | 3,792,566                   |
| Other Underwriting Expenses Incurred          | <u>13,220,502</u>           |
| Total Underwriting Deductions                 | <u>\$22,915,815</u>         |
| <b>Net Underwriting Gain/(Loss)</b>           | <b><u>(\$6,945,716)</u></b> |
| <b>Investment Income</b>                      |                             |
| Net Investment Income Earned                  | 988,469                     |
| Net Realized Capital Gains or (Losses)        | <u>1,358,274</u>            |
| <b>Net Investment Gain or (Loss)</b>          | <b><u>\$2,346,743</u></b>   |
| <b>Other Income</b>                           |                             |
| Miscellaneous Other Income                    | <u>(27,505)</u>             |
| <b>Total Other Income</b>                     | <b><u>(\$27,505)</u></b>    |
| <b>Net Income Before Federal Income Taxes</b> | <b>(4,626,478)</b>          |
| Federal and Foreign Income Taxes Incurred     | <u>454,491</u>              |
| <b>Net Income</b>                             | <b><u>(\$5,080,969)</u></b> |

**Capital and Surplus Account**

|  |                             |
|--|-----------------------------|
| <b>Surplus as Regards Policyholders, December 31, 2010</b>         | \$31,560,637                |
| Net Income   | (5,080,969)                 |
| Change in Net Unrealized Capital Gains or (Losses)                 | (10,936)                    |
| Change in Net Deferred Income Tax                                  | 215,970                     |
| Change in Nonadmitted Assets                                       | (1,090,354)                 |
| Aggregate Write-ins for Gains and Losses in Surplus:               |                             |
| Effect of Implementation of SSAP #10R                              | <u>1,857,789</u>            |
| <b>Net Change in Surplus as Regards Policyholders for the Year</b> | <b><u>(\$4,108,500)</u></b> |
| <b>Surplus as Regards Policyholders, December 31, 2011</b>         | <b><u>\$27,452,137</u></b>  |

**ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS**

None

**COMMENTS ON FINANCIAL STATEMENT ITEMS**

None

**SUMMARY OF RECOMMENDATIONS**

None

**ACKNOWLEDGMENT**

The assistance and cooperation extended by the officers and the employees of Essentia Insurance Company and OneBeacon Insurance Group during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Bernie Troop, CFE, examiner for the Missouri DIFP also participated in this examination. As a coordinated examination, a material amount of the examination was performed by the various other participating states, led by the Pennsylvania Department of Insurance. Patrick Glenn, ASA, ACAS, MAAA, and Gregory Wilson, FCAS, MAAA of Lewis & Ellis, also participated as consulting actuaries.

**VERIFICATION**

State of Missouri            )  
  )  
County of                    )

I, Vicki L. Denton, 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.

*Vicki L. Denton*

Vicki L. Denton, CFE  
Examiner-In-Charge  
Missouri DIFP

Sworn to and subscribed before me this 25<sup>th</sup> day of April, 2013.

My commission expires; 04-14-2016

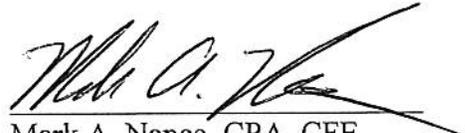
*Beverly M. Webb*  
Notary Public



BEVERLY M. WEBB  
My Commission Expires  
April 14, 2016  
Clay County  
Commission #12464070

## 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.



Mark A. Nance, CPA, CFE  
Audit Manager  
Missouri DIFP



May 9, 2013

Via email: [tammy.rodieck@insurance.mo.gov](mailto:tammy.rodieck@insurance.mo.gov)

Ms. Tammy Rodieck, Exam Coordinator  
Department of Insurance Financial Institutions and Professional Registration  
Division of Insurance Company Regulation  
301 West High Street, Room 530  
P. O. Box 690  
Jefferson City, MO 65102

**Essentia Insurance Company Exam Report  
For period ending December 31, 2011**

Dear Ms. Rodieck,

We acknowledge receipt of the cover letter and Examination Report ("Exam Report") of Essentia Insurance Company dated May 2, 2013 addressed to Mr. Francis M. Crowley. Because the Exam Report indicated "None" in the General Comments and/or Recommendations section, we have no further comments as it relates to the contents of the Exam Report.

Please include this response as part of the public document

Thank you.

Sincerely,

A handwritten signature in black ink, appearing to read "Kathleen A. Sturgeon".

Kathleen A. Sturgeon  
Assistant Secretary