

Examination Warrant Numbers 18-00012-19445-T1
18-00012-19402-T1
18-00012-10651-T1

Report of Target Examination of
National Union Fire Insurance Company of Pittsburgh, Pa.
AIG Property Casualty Company
Eaglestone Reinsurance Company
Harrisburg, Pennsylvania

As of December 31, 2018

For Informational Purposes Only

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Harrisburg, Pennsylvania
July 31, 2020

Honorable Melissa L. Greiner
Acting Deputy Insurance Commissioner
Commonwealth of Pennsylvania
Insurance Department
Harrisburg, Pennsylvania

Dear Madam:

In accordance with instructions contained in Examination Warrant Numbers 18-00012-19445-T1, 18-00012-19402-T1, and 18-00012-10651-T1, dated August 10, 2018, an examination was made of

**National Union Fire Insurance Company of Pittsburgh, Pa., NAIC Code:
19445**

a Pennsylvania domiciled multi-state, property and casualty insurance company, hereinafter referred to as “NUFIC.”

AIG Property Casualty Company, NAIC Code: 19402

a Pennsylvania domiciled multi-state, property and casualty insurance company, hereinafter referred to as “APCC.”

Eaglestone Reinsurance Company, NAIC Code: 10651

a Pennsylvania domiciled property and casualty company, hereinafter referred to as “Eaglestone.”

The companies listed above are part of the AIG, Inc. insurance holding company. The examination was conducted primarily at the Philadelphia, Pennsylvania and New York City, New York offices of Oliver Wyman Actuarial Consulting, Inc. (“Oliver Wyman”).

The last full-scope examination of NUFIC, APCC, and Eaglestone (collectively, “Companies”) was conducted by the Pennsylvania Insurance Department (“Department”) as of December 31, 2015 as part of a group, coordinated examination with New York, Delaware, Illinois, and Puerto Rico. There were fourteen insurance companies examined, twelve of which participate in an intercompany pooling agreement (“Pooling Agreement”) which was effective January 1, 2014 and subsequently amended effective January 1, 2017.

AIG P&C Companies

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The pool members (“Pooled Companies”), state of domicile, the National Association of Insurance Commissioners (“NAIC”) company code, and pooling percentages as of December 31, 2018, are as follows:

<u>Company</u>	<u>State of Domicile</u>	<u>NAIC Code</u>	<u>Percentage</u>
NUFIC	PA	19445	35%
APCC	PA	19402	0%
America Home Assurance Company	NY	19380	35%
Commerce and Industry Insurance Company	NY	19410	0%
AIU Insurance Company	NY	19399	0%
Lexington Insurance Company	DE	19437	30%
The Insurance Company of the State of Pennsylvania	IL	19429	0%
New Hampshire Insurance Company	IL	23841	0%
AIG Specialty Insurance Company	IL	26883	0%
AIG Assurance Company	IL	40258	0%
Granite State Insurance Company	IL	23809	0%
Illinois National Insurance Company	IL	23817	0%

The two property casualty companies that do not participate in the Pooling Agreement are Eaglestone and AIG Insurance Company Puerto Rico.

Since the last full-scope examination as of December 31, 2015, AIG, Inc. has acquired the following property casualty companies which also do not participate in the Pooling Agreement as of December 31, 2018:

<u>Company</u>	<u>State of Domicile</u>	<u>NAIC Code</u>
Blackboard Insurance Company	DE	26611
Blackboard Specialty Insurance Company	DE	13551
Stratford Insurance Company	NH	40436
Tudor Insurance Company	NH	37982
Western World Insurance Company	NH	13196

Under the Pooling Agreement, pool members cede 100% of their losses, loss adjustment expenses and unearned premiums on pooled business; underwriting and operating expenses with respect to insurance written or reinsurance assumed; and premiums written and other related income, to NUFIC. NUFIC, as lead pool member, will assume all of such risk, expense, premium and other related income, pool it with its own insurance and reinsurance business, and cede (or retrocede in the case of assumed business) to each member of the pool their respective participation percentage, if any, of the insurance or reinsurance risk, expenses, and related premium and income.

During the last full-scope examination of as December 31, 2015, the Department retained the services of Oliver Wyman to conduct substantive procedures to support the residual risk assessments for the Pooled Companies’ reserving activities, including independent reserve analysis. As a result of this review, the Pooled Companies’ carried reserves were found to be inadequate for its non-life business. Because the Pooled Companies booked material reserve

strengthening as of December 31, 2016, the Department decided that no financial statement adjustments would be required.

The Department initiated this limited-scope examination to examine the adequacy of the loss and loss adjustment expenses (“LAE”) reported by the Pooled Companies as of December 31, 2018.

As this examination is limited scope, this examination report is not intended to communicate all matters of importance for an understanding of the Companies’ financial condition. The format of this report is consistent with the current practices of the Department and the examination format prescribed by the NAIC.

This report is limited to a brief description of the Companies, a discussion of financial items that are of specific regulatory concern, and a factual disclosure of other significant regulatory information related to the loss and LAE reserves. The Reports of Examination of NUFIC, APCC, and Eaglestone as of December 31, 2015, dated May 26, 2017, should be referred to for additional historical and background information.

A report of this limited-scope examination is hereby respectfully submitted.

SCOPE OF EXAMINATION

The Department engaged Oliver Wyman to provide actuarial examination assistance in evaluating the loss and LAE reserves of the Companies. Rajesh Sahasrabuddhe, FCAS, MAAA and Steven Symon, FCAS, MAAA of Oliver Wyman led their actuarial team in performing the analysis for the target exam.

Oliver Wyman was tasked with performing the following procedures:

- a. Gain an understanding on how the Companies reconcile data between the claims and reserves systems to ensure that reserve data is both complete and accurate.
- b. Reconcile reserve analysis data with Schedule P per NAIC requirements.
- c. Determine reasonableness of carried loss and LAE reserves.
- d. Validate the Companies’ response to the actuarial issues noted as a result of the last full-scope examination conducted as of December 31, 2015.

FINDINGS AND RECOMMENDATIONS

The following chart depicts the Companies’ reported reserves for losses and LAE on the December 31, 2018 Annual Statements.

<u>Company</u>	<u>Losses</u>	<u>LAE</u>
NUFIC	\$9,704,045,699	\$901,961,491
APCC	\$0	\$0
Eaglestone	\$1,734,781,409	\$83,408,824

Richard A. Brassington, ACAS, MAAA, Senior Vice President and Actuary served as the appointed actuary (“AA”) for both NUFIC and APCC and prepared the Statement of Actuarial Opinion for the year ending 2018.

Chris E. Nelson, FCAS, MAAA, Vice President and Associate Actuary served as the AA for Eaglestone and prepared the Statement of Actuarial Opinion for the year ending 2018.

The above appointed actuaries issued an Opinion for each of the respective companies stating that the reserves “make a reasonable provision in the aggregate for all unpaid loss and loss expense obligations of the Company under the terms of its contracts and agreements.”

Oliver Wyman communicated their findings and conclusions to the Department. Specifically, Oliver Wyman found the following:

- The current data reconciliation process to be cumbersome noting that it required multiple levels of manual adjustments; however, the various controls implemented by the Company over this process and testing of these controls were reviewed and demonstrated that these controls mitigate any risk that the Companies’ reserve data is not accurate or complete. The Chief Actuary also advised that there are multiple initiatives in place to improve processes and controls.
- The Companies’ 2018 Schedule P reconciliation to be generally consistent with regulatory guidance; however, it did not provide a complete comparison between the actuarial data and the data from Schedule P. Oliver Wyman did require supplemental information to balance the amounts from the Detailed Valuation Review data to the amounts reported in Schedule P.
- A review of the Companies’ loss and LAE reserves appeared to be reasonable and no adjustment was recommended.
- All actuarial recommendations from the prior examination were reviewed and Oliver Wyman confirmed that the Companies have taken action consistent with their responses given to the Department at the conclusion of the December 31, 2015 examination.

SUBSEQUENT EVENTS

Effective December 31, 2019, AIG Property Casualty Company re-domesticated to Illinois.

The Department is monitoring the impact of the COVID-19 global pandemic. The Department recognizes that COVID-19 could have a significant financial and operational impact on all of its domestic insurers, including the Company. As such, the Department will continue to monitor and share information with the Company as appropriate related to COVID-19 developments.

CONCLUSION

Since the work performed by Oliver Wyman resulted in no material findings, the Department is making no recommendations. The Department will continue to monitor the Companies' financial condition and operating results.

The next regularly scheduled financial condition examination of the Companies will cover the five-year period ending December 31, 2020.

This examination was managed by Shannon Hopkins, CFE, with actuarial support provided by Oliver Wyman, under the primary oversight of Rajesh Sahasrabudhe, FCAS, MAAA.

Respectfully submitted,



Matthew C. Milford, CFE
Acting Director
Bureau of Financial Examinations



[Shannon Hopkins \(Sep 1, 2020 09:01 EDT\)](#)

Shannon Hopkins, CFE
Exam Manager

The CFE designation has been conferred by an organization not affiliated with the federal or any state government. However, the CFE designation is the only designation recognized by the NAIC for the purposes of directing statutory Association examinations of insurance companies.