

Examination Warrant Number: 18-03678-13455-T1

**Report of Limited-Scope Examination of  
Bankers Independent Insurance Company,  
Blue Bell, Pennsylvania**

**As of June 30, 2018**

**For Informational Purposes Only**

**Bankers Independent Insurance Company**

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Harrisburg, Pennsylvania  
April 22, 2019

Honorable Joseph DiMemmo, CPA  
Deputy Insurance Commissioner  
Commonwealth of Pennsylvania  
Insurance Department  
Harrisburg, Pennsylvania

Dear Sir:

In accordance with instructions contained in Examination Warrant Number 18-03678-13455-T1, dated August 10, 2018, an examination was made of

**Bankers Independent Insurance Company, A Good2Go Auto Insurance Company, NAIC Code: 13455**

a Pennsylvania domiciled multi-state, property and casualty insurance company, hereinafter referred to as "BIIC" or the "Company". The Company primarily provides nonstandard personal automobile liability and personal automobile physical damage insurance coverage. The examination was conducted primarily at the offices of the Pennsylvania Insurance Department ("Department") located in Harrisburg, Pennsylvania and the Farmington offices of Risk & Regulatory Consulting, LLC ("RRC").

The last full-scope examination of the Company was conducted by the Department as of December 31, 2016. In that examination, the Department utilized the examination services of RRC, including, but not limited to, an actuarial evaluation of the Company's carried reserves.

The Company reports reserves held in accordance with the terms of the Inter-Company Pooling Agreement. The actuarial analyses for the Company are prepared on a Group basis ("Group") for all seven companies in the Inter-Company Pooling Agreement whereby each entity receives its respective share of the underwriting results, net of external reinsurance.

The Company retains 8.4% of the Pool. The other companies of the Group, their states of domicile, and respective pooling percentages are:

Company	State	NAIC Code	Pool Percentage
American Independent Insurance Company	PA	17957	12.3%
Personal Service Insurance Company	PA	12289	10.2%
Apollo Casualty Company	IL	10343	6.3%
Delphi Casualty Company	IL	11862	0.0%
Omni Indemnity Company	IL	34940	25.0%
Omni Insurance Company	IL	39098	37.8%

During the December 31, 2016 full-scope financial examination, the Department recognized that there was considerable uncertainty about the loss and loss adjustment expense reserve ("LAE") results of the 2016 accident year due to several operational changes cited by the

## **Bankers Independent Insurance Company**

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Company. The Department concluded that the December 31, 2016 carried loss and LAE reserves may or may not be reasonable. The Company performed an internal evaluation of the Group's loss and LAE reserves in 2017. The Group's management increased the Group's 2016 accident year and prior reserves by \$13.6 million as of September 30, 2017 and an additional \$9.1 million during the fourth quarter of 2017.

The Department initiated this limited-scope examination with the assistance of a consulting actuary to examine the adequacy of the loss and LAE reserves reported by the Company as of June 30, 2018.

As this examination is limited in scope, this examination report is not intended to communicate all matters of importance for an understanding of the Company's financial condition. The format of this report is consistent with the current practices of the Department and the examination format prescribed by the National Association of Insurance Commissioners.

This report is limited to a brief description of the Company, 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 Report of Examination of the Company as of December 31, 2016, dated April 20, 2018, 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 has performed a limited-scope examination to independently evaluate loss and LAE reserves and related actuarial processes for the Group through June 30, 2018.

Bruce D. Fell, FCAS, MAAA, CERA, CFA, of Deloitte Consulting LLP ("Deloitte") has served as the appointed actuary ("AA") for the Company since 2016. Mr. Fell prepared the Statement of Actuarial Opinion for the Company.

The Department engaged the actuarial examination assistance of RRC. David Heppen, FCAS, MAAA, of RRC was the primary actuary performing the analysis, referred to as "Consulting Actuary".

The Consulting Actuary performed the following procedures:

- a. Interview key personnel to gain an understanding of the reserving process and changes within the Group that could affect reserves.
- b. Review internal actuarial workpapers.
- c. Review management's supporting documentation for carried reserves.
- d. Review the actuarial report supporting the Statement of Actuarial Opinion.
- e. Conduct an independent analysis of the gross and net unpaid losses and LAE for specific lines of business.
- f. Review external actuarial workpapers and reserve indications.

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- g. Review and evaluate subsequent loss activity.
- h. Follow-up on actuarial issues identified during the December 31, 2016 examination.
- i. Submit a report of actuarial findings and conclusions.

### FINDINGS AND RECOMMENDATIONS

The Company reported net reserves in the amount of \$4,974,959 for losses and \$1,504,751 for LAE on its June 30, 2018 Quarterly Statement.

The Consulting Actuary documented their findings, conclusions and recommendations in a report to the Department issued April 22, 2019.

Specifically, RRC found that:

1. The Company's net recorded loss and LAE reserves as of June 30, 2018 are reasonable, though slightly (less than 2%) of RRC's central estimate.
2. The Company updated its case reserve factors during the third quarter of 2018, consistent with the Department's 2016 examination recommendation. This change in case reserving factors creates significant uncertainty in the evaluation of the Company's loss activity subsequent to the change. The Company adjusted for the factor changes by restating case reserves at prior points in time, including June 30, 2018, using the new case reserving factors.
3. The review of subsequent loss activity through December 31, 2018 did not raise any additional regulatory concerns by the Department.
4. The Company has addressed the actuarial recommendations reported in the 2016 examination report.
5. The Company should consider separating ALAE from losses in the internal actuarial analysis.
6. The Company should consider improvements to its process for reconciling recorded gross and net loss reserves with the internal actuarially indicated loss reserves.

The Department reviewed and accepted the work of the Consulting Actuary. Upon the Department's acceptance, the detailed findings were presented to and discussed with Company management, certain Board members and their actuarial consultants in a meeting led by the Department and the Consulting Actuary.

### CONCLUSION

The Department is making no recommendation to change the financial statement at this time.

The next regularly scheduled financial condition examination of the Company will cover the five-year period ending December 31, 2021.

**Bankers Independent Insurance Company**

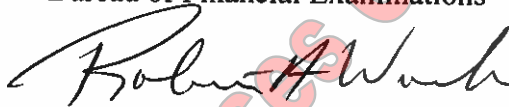
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This examination was managed by Robert Woronko, CFE, with actuarial examination support provided by Chantel Long, Illinois Department of Insurance, and David Heppen, FCAS, MAAA from RRC.

Respectfully,



Melissa L. Greiner  
Director  
Bureau of Financial Examinations



Robert A. Woronko, CFE  
Examination 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.

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