Examination Warrant Number 19-04234-22705-R1

Report of Examination of

R&Q Reinsurance Company
Philadelphia, Pennsylvania

As of December 31, 2019

For Informational Purposes Only

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Harrisburg, Pennsylvania
May 28, 2021

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

Dear Madam:

In accordance with instructions contained in Examination Warrant Number 19-04234-22705-R1, dated July 15, 2019, an examination was made of

R&Q Reinsurance Company, NAIC Code: 22705

a Pennsylvania domiciled, multi-state, property and casualty company, hereinafter referred to as the "Company." The examination was conducted at the Company's home office, located at Two Logan Square, Suite 600, Philadelphia, Pennsylvania.

A report of this examination is hereby respectfully submitted.

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SCOPE OF EXAMINATION

The Pennsylvania Insurance Department ("Department") has performed an examination of the Company, which was last examined as of December 31, 2014. This examination covered the five-year period from January 1, 2015 through December 31, 2019.

Work programs employed in the performance of this examination were designed to comply with the standards promulgated by the Department and the National Association of Insurance Commissioners ("NAIC") *Financial Condition Examiners Handbook* ("Handbook").

The Handbook requires that the Department plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company, evaluate system controls and procedures used to mitigate those risks, and review subsequent events. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating 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.

This examination report includes significant findings of fact, in accordance with

40 P.S. § 323.5(a), 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 separately communicated to other regulators and/or the Company.

For each year of the examination period, the certified public accounting firm of Marks Paneth LLP ("CPA") provided an unmodified audit opinion on the Company's year-end financial statements based on statutory accounting principles. Relevant work performed by the CPA, during its annual audit of the Company, was reviewed during the examination and incorporated into the examination workpapers.

The following affiliated companies were examined at the same time during the above examination with the Florida Office of Insurance Regulation acting as the lead state:

Name of Company	State of Domicile	NAIC Code
Accredited Surety and Casualty Company, Inc.	Florida	26379
GLOBAL Reinsurance Corporation of America	New York	21032
Transport Insurance Company	Ohio	33014
R&Q RI Insurance Company	Rhode Island	16206
National Legacy Insurance Company	Oklahoma	16660

HISTORY

The Company was incorporated on February 26, 1971 and commenced business on June 7, 1971.

The Company is currently authorized to transact those classes of insurance described in 40 P.S. § 382 (b)(1) Property and Allied Lines, (b)(2) Inland Marine and Physical Damage, (b)(3) Ocean Marine, (c)(1) Fidelity and Surety, (c)(2) Accident and Health, (c)(3) Glass, (c)(4) Other Liability, (c)(5) Boiler and Machinery, (c)(6) Burglary and Theft, (c)(7) Credit, (c)(8) Water Damage, (c)(9) Elevator, (c)(10) Livestock, (c)(11) Auto Liability, (c)(12) Mine and Machinery, (c)(13) Personal Property Floater, and (c)(14) Worker's Compensation.

MANAGEMENT AND CONTROL

CAPITALIZATION

As of the December 31, 2019, the Company's total capital was $25,623,513, consisting of 4,250 capital shares of issued and outstanding common stock with a par value of $2,000 per share, amounting to $8,500,000; $20,204,443 in paid in and contributed surplus; ($24,307,043) in unassigned funds (surplus); and $21,226,113 in aggregate write-ins for special surplus funds relating to retroactive reinsurance.

The Company's minimum capital and surplus requirements for the types of business for which it is licensed, pursuant to 40 P.S. § 386, is $2,350,000 in capital and $1,175,000 in surplus. The Company has met all governing requirements throughout the examination period.

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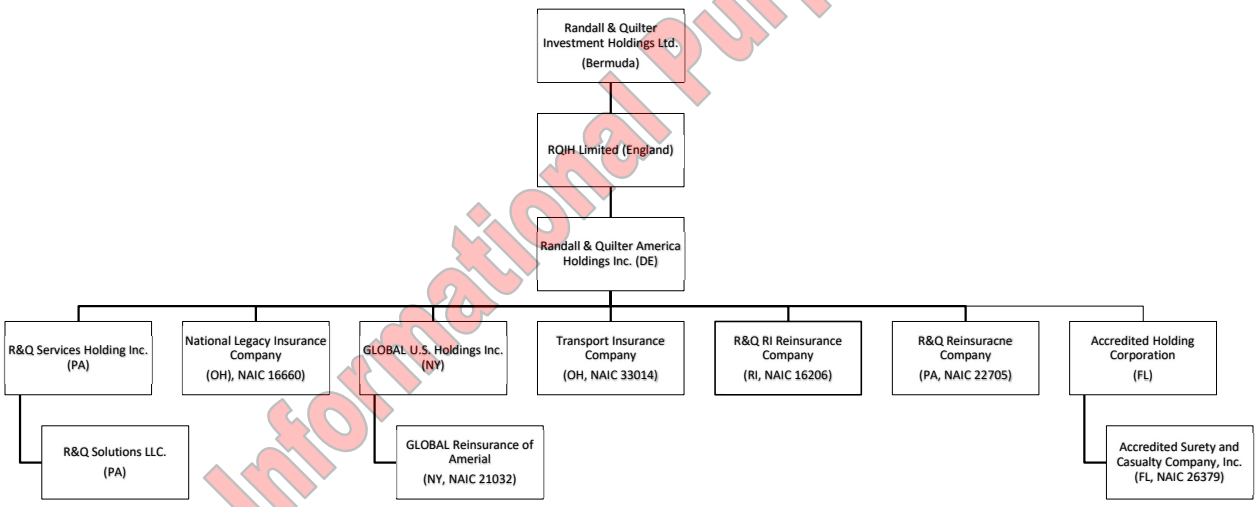
STOCKHOLDER

The Company is a wholly owned subsidiary of Randall & Quilter America Holdings Inc. ("RQAH"). The Company did not pay any dividends to its shareholders during the examination period.

INSURANCE HOLDING COMPANY SYSTEM

The Company meets the requirements for filing an insurance holding company system registration statement in accordance with 40 P.S. § 991.1404. An annual insurance holding company system registration statement was filed by the Company for each of the years under examination.

The following chart is an abbreviated organizational chart that provides an overview of the ultimate ownership of the Company, its relationship to other U.S. insurance legal entities and to affiliates that complete services on its behalf as of December 31, 2019. All entities are wholly owned by its parent company unless noted.



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The Company's Ultimate Controlling Person is Randall & Quilter Investment Holdings Ltd (Bermuda) ("RQIH").

- RQIH is 19.87% owned by Phoenix Asset Management Partner Limited (UK).
- Phoenix Asset Management Partner Limited (UK) is 92% owned by Channon Holdings Limited (UK).
- Channon Holdings Limited (UK) is 62.64% owned by Gary Channon and 36.8% owned by Sedef Channon.

ACCREDITED SURETY AND CASUALTY COMPANY, INC

Accredited Surety and Casualty Company, Inc. ("ASC") is a Florida domiciled insurance company and affiliate of the Company. ASC is the only company within the Group actively writing business and additionally has certain runoff legacy business.

TRANSPORT INSURANCE COMPANY

Transport Insurance Company ("Transport") is an Ohio domiciled insurance company and affiliate of the Company. Transport is in runoff with legacy business only. In 2018, Transport's subsidiary Goldstreet Insurance Company merged into ASC and was dissolved.

GLOBAL REINSURANCE CORPORATION OF AMERICA

GLOBAL Reinsurance Corporation of America ("GLOBAL") is a New York domiciled insurance company. In 2019, AXA Liabilities Managers sold GLOBAL U.S. Holdings, Incorporated and its wholly owned subsidiary, GLOBAL to RQAH. RQAH transferred the management of GLOBAL's runoff operations to R&Q Solutions staff in Philadelphia, Pennsylvania. GLOBAL is in runoff with legacy business only.

R&Q RI INSURANCE COMPANY

R&Q RI Insurance Company ("R&Q RI") was incorporated under the laws of state of Rhode Island in 2017 and is an affiliate of the Company. To date, R&Q RI has not written any business and is managed by R&Q Solutions LLC ("R&Q Solutions") staff in Philadelphia, Pennsylvania.

NATIONAL LEGACY INSURANCE COMPANY

National Legacy Insurance Company ("National") was incorporated under the laws of the state of Oklahoma in 2019. National has not written any business to date. It is managed by R&Q Solutions staff in Philadelphia, Pennsylvania.

BOARD OF DIRECTORS

Management of the Company is vested in its Board of Directors ("Board"), which was comprised of the following members as of December 31, 2019:

Name and Address	Principal Occupation
Kenneth E. Randall Canterbury, United Kingdom	President RQIH
Pamela S. Sellers-Hoelsken Philadelphia, Pennsylvania	Treasurer R&Q Solutions, LLC
Gerald J. Caldwell Libertyville, Illinois	President & CEO Caring Communities Shared Services, LTD
John W. Fischer Fayette, Maine	Non-Executive Director R&Q Reinsurance Company

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Mark A. Langridge Kent, United Kingdom	Vice President Randall & Quilter Investment Holdings LLC
William E. Lape Lake Bluff, Illinois	Non-Executive Director R&Q Reinsurance Company
Alan C. Pollard Hampshire, United Kingdom	Non-Executive Director R&Q Reinsurance Company
Christopher W. Reichow Gladwyne, Pennsylvania	US General Counsel R&Q Solutions, LLC
Ian J. Rigaudbarrett Isle of Wight, United Kingdom	Non-Executive Director R&Q Reinsurance Company

Directors of the Company are elected at the annual meeting of the shareholder and serve for a term of one (1) year. The Board was not in compliance with its by-laws and 15 PA C.S.A. 31 § 3131, which required at least two-third of the directors be citizens and reside in the United States. Effective March 31, 2021, the Company rectified this compliance issue when Mark Langridge replaced Ken Randall as President and Board member.

The Company has a conflict of interest policy. The employees and directors are annually required to verify receipt and understanding of the conflict of interest policies and procedures.

COMMITTEES

As of December 31, 2019, the following committees were appointed by the Board and served in accordance with the Company's by-laws:

Audit Committee	**Nominations Committee**
John W. Fischer	Gerald J. Caldwell
Alan C. Pollard	Ian J. Rigaudbarrett
Gerald J. Caldwell	Alan C. Pollard
Ian J. Rigaudbarrett	

The Company's Investment Committee duties were reassigned in 2016 and its responsibilities are now completed by the RQIH Investment Committee and the Company's Board.

OFFICERS

As of December 31, 2019, the following officers were appointed and serving in accordance with the Company's by-laws:

Name	**Title**
Kenneth E. Randall	President
Pamela S. Sellers-Hoelsken	Treasurer
Michael L. Glover	Secretary

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CORPORATE RECORDS

MINUTES

A compliance review of corporate minutes revealed the following:

- The Annual Meetings of the Company's stockholder were held in compliance with its by-laws.
- The stockholder elects directors at the annual meetings in compliance with its by-laws.
- The stockholder ratified the prior year's actions of the officers and directors.
- Quorums were present at all directors' meetings.
- The Company's investment transactions are approved quarterly by the Board.
- After the termination of the Investment Committee in 2016, the Company did not document the annual review and approval of the investment guidelines as required by 40 P.S. § 653b(b). (See Investments, page 17)
- All directors attend Board meetings regularly.
- The Company's Board approves its reinsurance contracts.

ARTICLES OF INCORPORATION

There were no amendments to the Company's Articles of Incorporation during the period under examination.

BY-LAWS

There were no amendments to the Company's by-laws during the period under examination.

SERVICE AND OPERATING AGREEMENTS

Shared Services and Joint Cost Allocation Agreement

Effective April 1, 2011, the Company became a party to a cost sharing agreement with its direct and indirect subsidiaries and affiliates. Pursuant to the terms of the agreement, services provided to various parties can include a number of operational services, including but not limited to: accounting; data processing services; payroll and human resources; compliance and corporate secretarial services; and other necessary operational services.

Costs associated with the services shall be allocated based on standard allocation techniques and procedures that shall conform to NAIC statutory accounting principles. Intercompany expenses shall be settled within 45 days of the end of the month in which the benefit has been delivered.

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Effective October 1, 2014, the parties amended the above agreement to include new affiliates.

The agreement was determined to be fair and reasonable and meets the requirements of 40 P.S. § 991.1405(a)(1). The Company's Board approved the agreement in accordance with 40 P.S. § 991.1405(a)(1)(iii). The agreement was submitted and approved by the Department in accordance with 40 P.S. § 991.1405(a)(2)(v).

Tax Sharing Agreement

The Company entered into a written tax sharing agreement ("TSA") in December 2010 with RQAH and other direct and indirect subsidiaries and affiliates. The TSA sets forth the manner in which the total combined federal income tax is allocated to each party subject to the TSA. The method of allocation is based upon a percentage method with the intent that the parties will be promptly compensated for the use of their tax attributes.

Effective January 1, 2014, the parties amended the agreement to include new affiliates.

REINSURANCE

CEDED

The Company is party to various reinsurance agreements with a pool of reinsurers each assuming a certain percentage of risk. There are four main components to the reinsurance ceded program that cover the various types of reinsurance contracts issued by the Company:

- USA Treaty
- USA Facultative
- 1792 Company
- Aggregate Reinsurance

Retrocessional Program Overview

USA Treaty

The retrocessional program covering this business consists of both quota share and excess of loss ("XOL") treaties that work to limit the net loss to the Company.

The quota share contracts cover pro-rata, excess of loss and stop loss of treaty reinsurance. The limit of each of these contracts is $500,000 with no retention. The ceded amounts for these contracts are calculated by the Company's reinsurance system and are billed annually.

The limits/retentions of the XOL program are $3,000,000 excess of $400,000 from1976 – 1977, $3,000,000 excess of $450,000 from 1978 – 1980, $2,000,000 excess of $1,000,000 from 1981 – 1986, and $2,000,000 excess of $1,500,000 for 1987. This treaty acts as a Clash cover, i.e. when multiple insureds are involved in the same "accident" or "loss occurrence", they can be combined for presentation to retrocessionaires. In the case of non-asbestos claims, there should

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be a single retention applied against the retrocessional claim. For asbestos losses, ceding reinsurers were given an option of 1) all asbestos losses, regardless of ceding company or insured, being presented as a single occurrence or 2) all asbestos losses for each insured, regardless of ceding company, being presented as separate occurrences under the treaty.

USA Facultative

The retrocessional program covering this book of business consists primarily of XOL treaties. The treaties provide coverage of $4,500,000 excess of $500,000 and run from 1976 through 1986. The treaties provide coverage for all claims paid for each insured regardless of the number of ceding companies involved. Additionally from 1980 through 1986, on certain certificates, there is a quota share treaty that covers the net retention from the XOL treaties.

1792 Company

There are five individual retrocessional programs covering this business: 1) a Quota Share treaty effective for two years only (1986 and 1987) to comply with New York Insurance Exchange guidelines; 2) a First and Second Comprehensive XOL; 3) a Second and Third Casualty XOL; 4) Five layers of Domestic Catastrophe XOL; and 5) a Catastrophe Accident XOL. There is also a two layered International XOL contract covering reinsurance contracts written that were classified as International Reinsurance, including the London Markets covering losses anywhere in the world.

Aggregate Reinsurance Overview

Surplus Maintenance Agreement ("Agreement")

As a condition of the closing under the Stock Purchase Agreement entered into between Ace International Holdings and Century Indemnity Company ("CIC")(the sellers) and RQIH (the buyer) effective at the Purchase date, the Company entered into a Surplus Maintenance Agreement with ACE American Insurance Company ("ACE"). The Agreement stipulated that ACE shall indemnify the Company in respect of aggregate paid losses in excess of the stated retention of $348,500,000, but only if at the end of any calendar quarter the Company's surplus is below $25,000,000. The contract provided $50,000,000 of coverage above the Company's retention, for which ACE's participation was 70%, or $35,000,000, with the remaining 30%, or $15,000,000, not placed and therefore retained by the Company. Losses could be ceded to the contract only when the dual triggers were met, that is paid cumulative losses and allocated loss adjustment expenses exceed the stated retention dollar amount, and surplus as reported in a quarterly or annual statement falls below $25,000,000. During 2013, as settlement of a legal dispute with ACE, the Company secured a second layer to the ACE agreement (Excess Surplus Maintenance Reinsurance Agreement) of 70% of $10,000,000, or an additional $7,000,000 in coverage above the Surplus Maintenance Agreement. The Company paid a $10,000,000 premium to ACE at the inception of the contract. The Agreements were properly recorded as retroactive reinsurances agreements.

Effective December 31, 2015, the Company entered into a commutation of the ACE Surplus Treaties with settlement occurring in January 2016. Per terms of the commutation agreement of the ACE treaties, a $5,000,000 capital contribution was made to the Company from parent RQAH that was paid in January 2016.

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Excess of Loss Reinsurance Agreement - Artex

Effective December 31, 2015, the Company entered into an XOL Reinsurance Agreement with Kane SAC Limited (now known as Artex SAC Ltd ("Artex")) with respect of the Penn Segregated Account, with a limit of $46 million and collateralized with investments permitted pursuant to Pennsylvania insurance law of $37 million. Effective December 31, 2018, the Company negotiated a replacement agreement with Artex and Arch Reinsurance Company ("Arch") to increase the layer of coverage to $42.6 million excess of loss $304.3 million. Effective December 31, 2020, the Company negotiated a replacement agreement with Artex and Arch to increase the upper layer to $60 million excess of loss $346.9 million. These agreements were properly recorded as retroactive reinsurance agreements.

Aggregate High Layer XOL Reinsurance Agreement - Arch

Effective December 31, 2015, the Company entered into an Aggregate High Layer XOL Reinsurance Agreement with Arch, who is a Certified Pennsylvania reinsurer, which enables the Company to take credit for the $9 million underwritten by Arch. A premium of $9 million was paid in February 2016. Effective December 31, 2018, the Company negotiated a replacement agreement with Artex and Arch to increase the layer from $46 million excess of loss $346 million to $51 million excess of loss $346 million. Effective December 31, 2020, the Company negotiated a replacement agreement with Artex and Arch to increase the upper or high layer with Artex to $60 million excess of loss $346.9 million. The agreements were properly recorded as retroactive reinsurance agreements.

Excess of Loss Reinsurance Agreement - Roebling/Artex

Effective December 31, 2016, the Company entered into a Retroactive Reinsurance Agreement with Roebling Re Ltd. The agreement sits below the existing retroactive layer with a limit of $42.6 million. The agreement is collateralized with funds held in a New York Regulation 114 Trust. Effective December 31, 2018, the Roebling Re Reinsurance Agreement was commuted and assigned to Artex on behalf of the Penn Segregated Account ($42.6 million excess of loss $304.3 million layer).

INTERMEDIARIES

The Company's reinsurance intermediaries are Guy Carpenter & Company, LLC, Citadel Risk Management, Inc. and Aon Benfield.

The Company does not have reinsurance intermediary agreements in place with these intermediaries, which is required by Pennsylvania 40 P.S. § 321.3.

It is recommended that the Company enter into reinsurance intermediary agreements with Guy Carpenter & Company, LLC, Citadel Risk Management, Inc. and Aon Benfield. Inc. as required by Pennsylvania 40 P.S. § 321.3.

As of December 31, 2019, Citadel Risk Management, Inc. was not licensed in Pennsylvania as required by 40 P.S. § 321.2(a).

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It is recommended that the Company take steps to ensure its reinsurance intermediary - Citadel Risk Management, Inc. is licensed in Pennsylvania as required by 40 P.S.§ 321.2(a).

ASSUMED

The Company's assumed reinsurance program was acquired in the acquisition from CIC and consists of hundreds of mainly excess of loss agreements and facultative treaties. The Company has not written any new agreements during the examination period.

TERRITORY AND PLAN OF OPERATION

The Company was licensed in the following jurisdictions as of December 31, 2019: Alabama, Alaska, Arizona, California, Connecticut, Delaware, District of Columbia, Georgia, Illinois, Indiana, Kentucky, Maine, Michigan, Minnesota, Nebraska, New Jersey, New York, North Dakota, Ohio, Oklahoma, Oregon, Pennsylvania, Rhode Island, South Dakota, Texas, Washington, and Wisconsin.

The Company was a qualified reinsurer in the following jurisdictions as of December 31, 2019: Hawaii, Kansas, Massachusetts, Missouri, Nevada, New Hampshire, North Carolina, South Carolina, Vermont and Wyoming.

Since the last period of examination, the Company license was terminated in the following jurisdictions: Colorado, Florida, Maryland, Mississippi, Montana, New Mexico, Tennessee and Utah.

The Company has been in runoff since 1995. The last underwriting year with new exposures was 1994. The Company's strategy is to work toward commutation of its outward retrocessions to maximize the assets of the Company. In addition, the Company also seeks complete and final settlements of its assuming obligations through buyback agreements with some of its facultative insureds, as well as its various treaty obligations.

The Company's remaining exposures are primarily asbestos-related facultative and treaty business. In addition, there are workers compensation, pollution, and other mass tort liability claims, including sexual molestation. All of these exposures continue to have very long emergence periods and the Company continues to experience adverse development.

Following is a breakdown of net premiums written as of December 31, 2019:

Line of Business	Direct and Assumed Premium	Ceded Premium	Net Written Premium	Percentage of Total
December 31, 2019				
Group accident and health	$ 77	$ -	$ 77	0.2%
Workers' compensation	$ 31,528	$ -	$ 31,528	91.4%
Other liability - occurrence	$ 3,123	$ -	$ 3,123	9.1%
Surety	$ 5,900	$ 2,581	$ 3,319	9.6%
Credit	$ -	$ 3,566	$ (3,566)	-10.3%
Totals	$ 40,628	$ 6,147	$ 34,481	100.0%

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SIGNIFICANT OPERATING RATIOS AND TRENDS

The underwriting ratios summarized below are shown on an earned/incurred basis, and encompass the five-year period covered by this examination.

	Amount	Percentage
Premiums earned	$ 240,509	100.0 %
Losses incurred	$ (45,078,110)	(18742.8)%
Loss expenses incurred	$ 52,454,061	21809.6 %
Other underwriting expenses incurred	$ 20,742,680	8624.5 %
Net underwriting gain or (loss)	$ (27,878,122)	(11591.3)%
Totals	$ 240,509	100.0 %

The Company reported the following net underwriting, investment, and other gains or losses during the period under examination:

	2019	2018	2017	2016	2015
Admitted assets	$ 160,288,475	$ 179,164,991	$ 203,482,880	$ 227,845,220	$ 138,744,256
Liabilities	$ 134,664,962	$ 148,754,434	$ 168,596,013	$ 189,241,507	$ 120,701,681
Surplus as regards policyholders	$ 25,623,513	$ 30,410,557	$ 34,886,867	$ 38,603,713	$ 18,042,575
Gross premium written	$ 40,628	$ (125,656)	$ 256,312	$ 3,677	$ 71,695
Net premium written	$ 34,481	$ (125,656)	$ 256,312	$ 3,677	$ 71,695
Underwriting gain/(loss)	$ (10,802,183)	$ (15,817,926)	$ (8,931,543)	$ 16,433,813	$ (8,760,283)
Investment gain/(loss)	$ 1,660,957	$ 6,113,814	$ 1,998,534	$ 1,593,131	$ 2,861,156
Other gain/(loss)	$ 3,573,915	$ (15,203,741)	$ 2,203,908	$ 18,665,735	$ 11,025,804
Net income	$ (5,186,704)	$ (24,906,440)	$ (4,644,890)	$ 36,348,455	$ 5,126,677

The Company has been in runoff since 1995. Changes in the Company's financials are primarily due to its Plan of Operation as noted below:

- Commutation of its outwards retrocessions to maximize the assets of the Company.
- Completing final settlements of its assuming obligations through buyback agreements with some of its facultative insureds, as well as its various treaty obligations.
- Adverse development on claims as the Company's exposures are primarily asbestos-related facultative and treaty business, workers compensation, pollution, and other mass tort liability claims, including sexual molestation. All of these exposures continue to have very long emergence periods and the Company continues to experience adverse development.

In 2019 and 2017, the net losses were primarily due to claims losses and reserve strengthening. In 2018, the net loss was primarily due to changes in the Artex SAC Ltd/Arch retroactive reinsurance agreements, claim payments and reserve strengethening.

PENDING LITIGATION

As of the date of this examination report, Management of the Company attested that the Company was not involved in any litigation and was not aware of any threatened litigation which will have a material adverse effect on the Company's financial condition.

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FINANCIAL STATEMENTS

The financial condition of the Company, as of December 31, 2019, and the results of its operations for the five-year period under examination, are reflected in the following statements*:

Comparative Statement of Assets, Liabilities, Surplus and Other Funds;
Comparative Statement of Income;
Comparative Statement of Capital and Surplus; and
Comparative Statement of Cash Flow

*Note: Some financials shown in this report may contain immaterial differences to those reported in the Company's filed Annual Statements due to rounding errors.

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Comparative Statement of Assets, Liabilities, Surplus and Other Funds
As of December 31,

	2019	2018	2017	2016	2015
Bonds	$ 141,691,204	$ 127,980,349	$ 162,082,953	$ 185,266,930	$ 103,299,339
Cash, cash equivalents, and short term investments	4,175,267	32,822,232	17,009,257	6,292,607	8,425,027
Subtotals, cash and invested assets	145,866,471	160,802,581	179,097,351	191,559,537	111,724,366
Investment income due and accrued	916,652	694,738	849,892	772,306	420,018
Amounts recoverable from reinsurers	11,520,119	15,850,144	14,607,295	16,175,873	15,691,727
Funds held by or deposited with reinsured companies	1,985,233	1,808,629	2,122,342	2,017,982	2,063,266
Current federal and foreign income tax recoverable and interest thereon	0	0	0	0	3,844,879
Receivable from parent, subsidiaries and affiliates	0	8,899	0	2,645	5,000,000
Aggregate write-ins for other than invested assets	0	0	6,806,000	17,316,877	0
Total	$ 160,288,475	$ 179,164,991	$ 203,482,880	$ 227,845,220	$ 138,744,256
Losses	$ 101,761,426	$ 109,397,552	$ 121,561,246	$ 129,382,963	$ 84,353,958
Reinsurance payable on paid loss and loss adjustment expenses	2,559,401	2,077,382	1,367,854	2,027,391	7,181,271
Loss adjustment expenses	37,256,553	40,176,239	41,567,233	46,908,607	52,374,538
Other expenses	396,905	322,765	267,606	603,706	668,473
Funds held by company under reinsurance treaties	1,000,103	1,007,056	1,115,293	1,239,776	1,446,232
Remittances and items not allocated	286,459	372,833	607,904	179,229	229,123
Provision for reinsurance	7,398,050	7,773,857	8,218,642	8,540,740	9,753,575
Payable to parent, subsidiaries and affiliates	87,831	200,885	115,109	80,753	90,873
Payable for securities	0	6,084	0	0	0
Aggregate write-ins for liabilities	(16,081,766)	(12,580,219)	(6,224,874)	278,342	(35,396,362)
Total liabilities	134,664,962	148,754,434	168,596,013	189,241,507	120,701,681
Aggregate write-ins for special surplus funds	21,226,113	17,330,113	17,213,113	17,213,113	7,630,000
Common capital stock	8,500,000	8,500,000	8,500,000	8,500,000	8,500,000
Gross paid in and contributed surplus	20,204,443	20,204,443	20,204,443	20,204,443	20,204,443
Unassigned funds (surplus)	(24,307,043)	(15,623,999)	(11,030,689)	(7,313,843)	(18,291,868)
Surplus as regards policyholders	25,623,513	30,410,557	34,886,867	38,603,713	18,042,575
Totals	$ 160,288,475	$ 179,164,991	$ 203,482,880	$ 227,845,220	$ 138,744,256

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Comparative Statement of Income
For the Year Ended December 31,

Underwriting Income	2019	2018	2017	2016	2015
Premiums earned	$ 34,481	$ (125,656)	$ 256,312	$ 3,677	$ 71,695
Deductions:					
Losses incurred	5,089,671	8,209,840	4,647,839	(25,742,056)	(37,283,404)
Loss expenses incurred	2,099,750	4,340,350	1,093,119	3,075,991	41,844,851
Other underwriting expenses incurred	3,647,243	3,142,080	3,446,897	6,235,929	4,270,531
Total underwriting deductions	10,836,664	15,692,270	9,187,855	(16,430,136)	8,831,978
Net underwriting gain or (loss)	(10,802,183)	(15,817,926)	(8,931,543)	16,433,813	(8,760,283)
Investment Income					
Net investment income earned	1,465,637	2,928,921	1,902,247	1,652,358	2,249,367
Net realized capital gains or (losses)	195,320	3,184,893	96,287	(59,227)	611,789
Net investment gain or (loss)	1,660,957	6,113,814	1,998,534	1,593,131	2,861,156
Other Income					
Aggregate write-ins for miscellaneous income	3,573,915	(15,203,741)	2,203,908	18,665,735	11,025,804
Total other income	3,573,915	(15,203,741)	2,203,908	18,665,735	11,025,804
Net income before dividends to policyholders and before federal and foreign income taxes	(5,567,311)	(24,907,853)	(4,729,101)	36,692,679	5,126,677
Federal and foreign income taxes incurred	(380,607)	(1,413)	(84,211)	344,224	0
Net income	$ (5,186,704)	$ (24,906,440)	$ (4,644,890)	$ 36,348,455	$ 5,126,677

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Comparative Statement of Capital and Surplus
For the Year Ended December 31,

	2019	2018	2017	2016	2015
Surplus as regards policyholders, December 31, previous year	$ 30,410,557	$ 34,886,867	$ 38,603,713	$ 18,042,575	$ 8,477,680
Net income	(5,186,704)	(24,906,440)	(4,644,890)	36,348,455	5,126,677
Net unrealized capital gains or (losses)	0	0	1,847	(1,847)	0
Change in net unrealized foreign exchange capital gain or (loss)	3,736	(26,000)	92,221	(9,094)	(128,126)
Change in net deferred income tax	627,547	573,729	644,414	(6,261,222)	(457,156)
Change in nonadmitted assets	(607,429)	17,905,606	(2,678,326)	(6,650,188)	(3,255,649)
Change in provision for reinsurance	375,807	444,785	322,097	1,212,835	3,279,150
Surplus adjustments:					
Paid in	0	0	0	0	5,000,000
Aggregate write-ins for gains and losses in surplus	0	1,532,010	2,545,790	(4,077,801)	0
Change in surplus as regards policyholder for the year	(4,787,044)	(4,476,310)	(3,716,846)	20,561,138	9,564,895
Surplus as regards policyholders, December 31, current year	$ 25,623,513	$ 30,410,557	$ 34,886,867	$ 38,603,713	$ 18,042,575

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Comparative Statement of Cash Flow
For the Year Ended December 31,

	2019	2018	2017	2016	2015
Cash from Operations					
Premiums collected net of reinsurance	$ 34,481	$ (125,656)	$ 256,312	$ 3,677	$ 71,695
Net investment income	554,402	2,621,611	759,413	2,067,354	1,889,618
Miscellaneous income	3,518,916	(15,203,742)	(2,534,686)	18,665,736	7,305,334
Total income	4,107,799	(12,707,787)	(1,518,961)	20,736,767	9,266,647
Benefit and loss related payments	8,090,356	20,593,142	11,664,872	(65,178,319)	8,052,676
Commissions, expenses paid and aggregate write-ins for deductions	8,639,239	8,886,064	9,843,154	15,316,454	11,998,663
Federal and foreign income taxes paid (recovered)	(400,724)	(3,638,328)	62,698	204,478	0
Total deductions	16,328,871	25,840,878	21,570,724	(49,657,387)	20,051,339
Net cash from operations	(12,221,072)	(38,548,665)	(23,089,685)	70,394,154	(10,784,692)
Cash from Investments					
Proceeds from investments sold, matured or repaid:					
Bonds	230,464,014	97,806,907	83,911,868	87,953,605	102,914,097
Net gain or (loss) on cash and short-term investments	0	0	0	1,352	(20)
Miscellaneous proceeds	0	11,225	0	0	178,817
Total investment proceeds	230,464,014	97,818,132	83,911,868	87,954,957	103,092,894
Cost of investments acquired (long-term only):					
Bonds	245,717,104	59,964,557	59,949,105	170,274,142	81,961,937
Miscellaneous applications	6,084	0	5,141	0	0
Total investments acquired	245,723,188	59,964,557	59,954,246	170,274,142	81,961,937
Net cash from investments	(15,259,174)	37,853,575	23,957,622	(82,319,185)	21,130,957
Cash from Financing and Miscellaneous Services					
Other cash provided (applied):					
Other cash provided or (applied)	(1,166,719)	16,508,065	9,848,713	9,792,611	(7,228,287)
Net cash from financing and miscellaneous sources	(1,166,719)	16,508,065	9,848,713	9,792,611	(7,228,287)
Reconciliation of cash and short-term investments:					
Net change in cash and short-term investments	(28,646,965)	15,812,975	10,716,650	(2,132,420)	3,117,978
Cash and short-term investments:					
Beginning of the year	32,822,232	17,009,257	6,292,607	8,425,027	5,307,049
End of the year	$ 4,175,267	$ 32,822,232	$ 17,009,257	$ 6,292,607	$ 8,425,027

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SUMMARY OF EXAMINATION CHANGES

There were no examination changes to the preceding financial statements as filed with regulatory authorities over the review period.

NOTES TO FINANCIAL STATEMENTS

ASSETS

INVESTMENTS

As of December 31, 2019, the Company's invested assets were distributed as follows:

		Amount	Percentage
Bonds	$	141,691,204	97.2 %
Cash	$	2,527,271	1.7 %
Cash equivalents	$	1,647,996	1.1 %
Totals	$	145,866,471	100.0 %

The Company's bond and short-term investment portfolio had the following quality and maturity profiles:

NAIC Designation		Amount	Percentage
1 - highest quality	$	114,452,702	79.8 %
2 - high quality	$	28,886,497	20.2 %
Totals	$	143,339,200	100.0 %

Years to Maturity		Amount	Percentage
1 year or less	$	13,252,958	9.2 %
2 to 5 years	$	79,681,176	55.6 %
6 to 10 years	$	42,188,362	29.4 %
11 to 20 years	$	7,672,215	5.4 %
over 20 years	$	544,489	0.4 %
Totals	$	143,339,200	100.0 %

The Company has a written investment policy as required by 40 P.S. § 653b(b). After the termination of the Investment Committee in 2016, the Company did not document the annual review and approval of the investment guidelines as required by 40 P.S. § 653b(b).

It is recommended the Company's Board or designated representative document the annual review and approval of the investment guidelines as required by 40 P.S. § 653b(b).

The Company was following its investment policy at December 31, 2019. The Board of Directors is approving the investment activity quarterly.

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The Company has executed custodial agreement with its custodian, BNY Mellon Corporation that is in compliance with 31 PA Code §148.a.3.

The Company utilizes its Investment Managers and a third party service provider, Clearwater Analytics, to assist with investment valuation and financial reporting.

LIABILITIES

LOSS AND LOSS ADJUSTMENT EXPENSE RESERVES

The Company reported reserves in the amount of $101,761,426 for losses and $37,256,553 for loss adjustment expenses ("LAE") on the December 31, 2019 Annual Statement.

For 2015, the Company's appointed actuary was Christina L. Gwilliam, FCAS, MAAA, of Willis Towers Watson. For years 2016 through 2019, the Company's appointed actuary was Lisa Slotznick, FCAS, MAAA, of PriceWaterhouseCoopers, LLP. The Department was notified of the change of actuaries in accordance with 31 PA Code § 118a.4.

For each year in the examination period, the appointed actuary ("AA") provided a Statement of Actuarial Opinion ("Opinion") stating that the Company's loss and LAE reserve amounts made a reasonable provision for the adequacy of the Company's loss and LAE reserves under the terms of its contracts and agreements.

In order for the Department to gain an adequate comfort level with the Company's loss and LAE reserve estimates, the Department retained the actuarial services of Risk and Regulatory Consulting, LLC ("RRC") to perform a risk-focused review of the Company's reserving estimates, assumptions and methodologies. Additionally, the Department's own actuarial examiner reviewed the work of both RRC and the Company. Based on the procedures performed and the results obtained, RRC obtained sufficient documentation to support the conclusion that the Company's carried Loss and LAE reserve amounts are reasonably stated as of December 31, 2019.

SUBSEQUENT EVENTS

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.

Effective January 1, 2020, Kenneth Portner replaced Michael Glover as Secretary.

Effective January 1, 2020, a new Tax Sharing Agreement was executed to include new affiliates within the Group.

Effective May 4, 2020, a new Shared Services and Joint Cost Allocation Agreement was executed to include new affiliates within the Group.

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Effective June 2, 2020, Marney Emel replaced Pamela Sellers-Hoelsken on the Board and as Treasurer.

In June 2020, Alan Pollard retired from the Board and the Nominations Committee.

Effective December 31, 2020, the Company commuted the Aggregate High Layer XOL Reinsurance Agreement with Arch and entered into a separate Excess of Loss Reinsurance Agreement in order to increase the upper or high layer of overage from $51 million to $60 million excess of loss $346.9 million.

Effective March 31, 2021, Ken Randall retired as President and from the Board. Mark Langridge was appointed as President and the Board's membership decreased from eight to seven members. After the changes in the Board in 2020 and 2021, the Board was in compliance with its By-Laws and 15 PA C.S.A. 31 § 3131.

Effective April 14, 2021, John Fischer was appointed to the Nominations Committee. The Nominations Committee was brought into compliance with the Company's by-laws as membership increased to three directors.

RECOMMENDATIONS

PRIOR EXAMINATION

The prior examination report contained the following recommendations:

1. It is recommended that the Company comply with the requirements of 40 P.S. § 991.1405(c)(3)(i) and establish a Board with not less than one-third of its directors being persons who are not officers or employees of the Company or its affiliates.

   The Company has complied with this recommendation.

2. It is recommended that the Company comply with the requirements of 40 P.S. § 991.1405(c)(4.1) and only appoint directors to its Nominations Committee who are not officers or employees of the Company or its affiliates.

   The Company has complied with this recommendation.

3. It is recommended that the Company's Board or Investment Committee regularly approve investment transactions of the Company.

   The Company has complied with this recommendation.

4. It is recommended that the Company settle any amounts due or recoverable as a result of its tax sharing agreement in accordance with the time frame required within its tax sharing agreement and Requirement #7 of the Commissioner's July 2006 Order.

   The Company has complied with this recommendation.

5. It is recommended that the Company improve the effectiveness of controls that identify concentrations of asset holdings within the Company's investment portfolio.

   The Company has complied with this recommendation.

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CURRENT EXAMINATION

As a result of the current examination, the following recommendations are being made:

1. ***It is recommended that the Company enter into reinsurance intermediary agreements with Guy Carpenter & Company, LLC, Citadel Risk Management, Inc. and Aon Benfield. Inc. as required by Pennsylvania 40 P.S. § 321.3.*** (See "Intermediaries", Page 9)
2. ***It is recommended that the Company take steps to ensure its reinsurance intermediary - Citadel Risk Management, Inc. is licensed in Pennsylvania as required by 40 P.S.§ 321.2(a).*** (See "Intermediaries", Page 9)
3. ***It is recommended the Company's Board or designated representative document the annual review and approval of the investment guidelines as required by 40 P.S. § 653b(b).*** (See "Investments", Page 17)

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CONCLUSION

As a result of this examination, the financial condition of R&Q Reinsurance Company, as of December 31, 2019, was determined to be as follows:

		Amount	Percentage
Admitted assets	$	160,288,475	100.0 %
Liabilities	$	134,664,962	84.0 %
Surplus as regards policyholders	$	25,623,513	16.0 %
Total liabilities and surplus	$	160,288,475	100.0 %

Since the previous examination, made as of December 31, 2014, the Company's assets increased by $12,159,297, its liabilities decreased by $4,986,537 and its surplus increased by $17,145,833.

This examination was conducted by the following staff of the Pennsylvania Insurance Department: James DiSanto, Gary Greenaway, Jr., CFE and Robert W. Smith, CFE and the following contract examiners from RRC: Darin Benck, CFE, LeeAnne Creevy, CFE, Dave Heppen, FCAS, MAAA, Daniel Judge, CFE, Rebecca Sheppard, FSA, MAAA, and Sara Schumacher, CFE, with the latter in charge.

Respectfully,

Matthew C. Milford, CFE
Director
Bureau of Financial Examinations

Robert Woronko

Robert Woronko, CFE
Examination Manager
Bureau of Financial Examinations

Sara Jean Schumacher

Sara Schumacher, CFE
Examiner-in-Charge
Risk and Regulatory Consulting, LLC.

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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