Examination Warrant Number 15-00640-17752-R1

Report of Examination of

Select Risk Insurance Company
Huntingdon, Pennsylvania

As of December 31, 2015

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Harrisburg, Pennsylvania
February 7, 2017

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 15-00640-17752-R1, dated March 6, 2015, an examination was made of

Select Risk Insurance Company, NAIC Code: 17752

a Pennsylvania domiciled multi-state, property and casualty company, hereinafter referred to as "Company" or "Select Risk." The examination was conducted at the Company's home office, located at 409 - 411 Penn Street, Huntingdon, Pennsylvania 16652.

A report of this examination is hereby respectfully submitted.

SCOPE OF EXAMINATION

The Pennsylvania Insurance Department ("Department") has performed an examination of the Company, which was last examined as of December 31, 2010. This examination covered the five-year period from January 1, 2011 through December 31, 2015.

Work programs employed in the performance of this examination were designed to comply with the standards promulgated by the Pennsylvania Insurance 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 during the period under examination, the certified public accounting firm of Brown, Schultz, Sheridan & Fritz ("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 company was examined at the same time during the above examination:

Company	**NAIC Code**
Mutual Benefit Insurance Company ("Mutual Benefit")	14664

HISTORY

The Company was incorporated on September 13, 1905, and 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, (c)(3) Glass, (c)(4) Other Liability, (c)(6) Burglary and Theft, (c)(8) Water Damage, (c)(9) Elevator, (c)(10) Livestock, (c)(11) Auto Liability, (c)(13) Personal Property Floater, and (c)(14) Workers' Compensation.

MANAGEMENT AND CONTROL

CAPITALIZATION

As of the examination date, December 31, 2015, the Company's total capital and surplus was $15,260,595, consisting of 1,800,000 shares of issued and outstanding common stock with a par value of $1.00 per share amounting to $1,800,000 in common capital stock; $1,000,000 in gross paid in and contributed surplus; and $12,460,595 in unassigned funds (surplus).

The Company's minimum capital and minimum surplus requirements for the types of business for which it is licensed, pursuant to 40 P.S. § 386, is $1,800,000 in capital and $900,000 in surplus. The Company has met all governing requirements throughout the examination period.

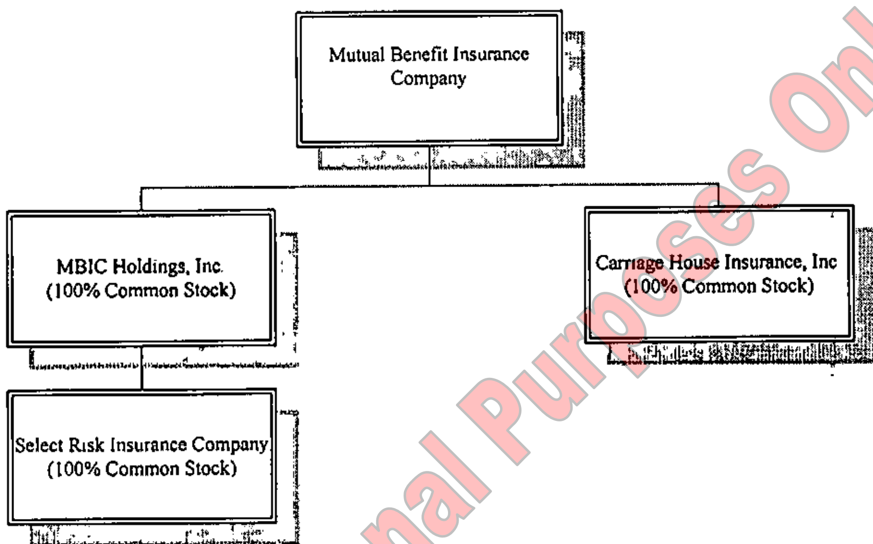
STOCKHOLDER

The Company's stock register indicates that all authorized shares are owned by Mutual Benefit Insurance Company Holdings, Inc. ("MBIC"), a Pennsylvania insurance holding company. Mutual Benefit owns 100% of the outstanding common stock of MBIC.

The Company paid $81,000 in dividends to MBIC during the period covered by this examination, $18,000 for each year between 2011 and 2014 and $9,000 in 2015.

INSURANCE HOLDING COMPANY SYSTEM

The Company is part of an insurance company holding company system and is required by 40 P.S. § 991.1404 to register with the Department by March 31, of each year. Mutual Benefit is named as the ultimate controlling entity in the holding company system. The following summarizes the insurance holding company structure of the Mutual Benefit Group ("Group") on December 31, 2015:



The Company and its ultimate parent, Mutual Benefit, were parties to a reinsurance pooling agreement whereby all premiums, losses, loss adjustment expenses and underwriting expenses were allocated based upon each company's participation in the reinsurance pooling agreement. See the Reinsurance and Assumption Agreement section below for further details.

MBIC Holdings, Inc. ("MBIC")

MBIC is a Pennsylvania business holding corporation and the immediate parent of Select Risk. All of the outstanding common stock of Select Risk Insurance Company was held by the MBIC which is 100% owned by Mutual Benefit.

Mutual Benefit Insurance Company

Mutual Benefit is the ultimate parent in the Group, writing essentially the same business of Select Risk. There are no direct Select Risk employees; their employees are provided by Mutual Benefit.

Carriage House Insurance, Inc. ("CHI")

CHI is a licensed insurance agency and a wholly-owned subsidiary of Mutual Benefit. Although the agency has some business with Mutual Benefit, it operates as an independent agency.

BOARD OF DIRECTORS

Management of the Company is vested in its Board of Directors ("Board"), which was comprised of the following members as of the examination date, December 31, 2015:

Name and Address	Principal Occupation
Steven C. Sliver Huntingdon, PA	President and Chief Executive Officer Mutual Benefit
Joseph L. Sloan Huntingdon, PA	Chief Financial Officer and Vice President Mutual Benefit
Peter M. McManamon Huntingdon, PA	Attorney
John D. Coursen * Huntingdon, PA	Retired Officer Mutual Benefit and Select Risk
Debra A. Goodling-Kime Dover, PA	CFO Community Progress Council, Inc.
Timothy I. Havice Lewistown, PA	Chairman of the Board Mutual Benefit
Janis L. Herschkowitz Cornwall, PA	President and CEO PRL, Inc. & Subsidiaries
Robert R. Packer Clymer, PA	Retired
Mark R. Cummins Green Lane, PA	Retired
Judy L. Loy Port Matilda, PA	President President of Nestlerode & Loy, Inc.
Mark E. Russell Huntingdon, PA	Vice President of Claims Mutual Benefit
Donna L. Patterson ** Huntingdon, PA	Retired

*As of March 4, 2016, John D. Coursen retired from the Board of Directors.

**Effective January 15, 2016, Donna L. Patterson resigned from the Board of Directors of Select Risk Insurance Company, concurrent with her retirement from the position of Vice President - Personal Lines of Mutual Benefit Insurance Company.

The by-laws of the Company provide that the size of the Board may be fixed by action of the shareholders or the Board. However, if the number has not been fixed, the number shall be nine. On December 31, 2015, the Board was composed of twelve members. Each year the shareholders elect one of three classes of directors to serve a three-year term. The Company has a conflict of interest policy and all directors execute a conflict of interest questionnaire annually.

COMMITTEES

All members of the Board were members of the Executive and Finance Committees at December 31, 2015.

The following committees were appointed by the Board of the Company and were serving at December 31, 2015:

Investment Committee
Joseph L. Sloan
Janis L. Herschkowitz
Steven C. Sliver
Mark R. Cummins

The Company has Board and committee membership that meets the necessary independence and has established independent committees to comply with 40 P.S. § 991.1405(c) (3), (4) and (4.1). The Audit Committee was maintained at the Mutual Benefit level.

OFFICERS

As of the examination date, December 31, 2015, the following officers were appointed and served in accordance with the Company's by-laws:

Name	Title
Steven C. Sliver	President and Chief Executive Officer
Joseph L. Sloan	Chief Financial Officer, Vice President and Treasurer
Peter M. McManamon	Secretary

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 the Company's by-laws.
- The stockholders elected directors at such meetings in compliance with the Company's 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 Investment Committee.
- All directors attend Board meetings regularly.

Investment policy statement, loss reserves, significant financial transactions, and actions of the Company's officers were additionally reviewed by the Board on a yearly basis.

The Board of Directors approved reinsurance agreements and all significant agreements of the Company.

ARTICLES OF INCORPORATION

There were no changes to the Articles of Incorporation during the examination period.

BY-LAWS

There were no changes to the by-laws during the examination period.

SERVICE AND OPERATING AGREEMENTS

TAX ALLOCATION AGREEMENT

The Company files its federal income tax return as part of a consolidated return filed by the Company, its affiliates and Parent, Mutual Benefit. A tax allocation agreement between the companies provides for the allocation of income tax or income tax benefits based upon each company's share of consolidated net income or loss. This was effective December 6, 2006.

COST SHARING AGREEMENT

Effective January 1, 2007, the Company and Mutual Benefit entered into a Cost Sharing Agreement under which the companies agreed that expenses incurred directly by each company would not be subject to any cost-sharing or allocation, but would be paid directly by the entity incurring such expenses, including directors' fees, interest on deferred compensation for directors' fees, audit fees and expenses, filing fees, investment expenses (except rental expense), legal fees, and other directly incurred expenses. Expenses relating to premiums and losses will continue to be allocated in accordance with the Reinsurance and Assumption Agreement.

COOPERATION AGREEMENT

Effective April 1, 1997, Mutual Benefit and Select Risk shall jointly coordinate their respective distribution systems with the intention that agents of the companies and policies written by the companies be jointly managed such that agents may be retained, terminated, compensated and managed on behalf of both companies and policies may be placed, billed and cancelled as a package of complementary products under the name "Mutual Benefit Group".

Mutual Benefit and Select Risk shall share expenses related to the management of investments, external and internal audit fees, data processing, tax preparation, joint consultant services, and other functions as deemed appropriate by Mutual Benefit and Select Risk.

In the event one company performs services (the "Acting Company") for the other (the "Served Company") pursuant to this Agreement, the Served Company agrees to reimburse the Acting Company for all costs and expenses incurred by the Acting Company in performing such services under this Agreement in such amounts and in such manner as may be mutually agreed upon from time to time between the appropriate officers of the companies.

The examiners observed that Column 9 on Schedule Y, Part 2 of the 2015 Annual Statement includes amounts related to the pooling agreement between the Company and Mutual Benefit. The NAIC *Annual Statement Instructions* state that Column 9 shall include experience rating refunds related to pooling agreements and shall not include pooling agreement amounts.

> ***It is recommended that the Company properly report its intercompany agreement amounts on Schedule Y, Part 2 as required by the NAIC Annual Statement Instructions, and in accordance with 40 P.S. § 443(a)(2).***

The inter-company agreements listed above meet the fair and reasonable standards in 40 P.S. § 991.1405(a)(1)(i).

REINSURANCE

POOLING

<u>**Reinsurance and Assumption Agreement**</u>

The Company and Mutual Benefit pool all their direct business to the pool and then the combined business is allocated back 85% to Mutual Benefit and 15% to the Company, which is net of the external ceded reinsurance contracts described below.

CEDED

Most of the Company's reinsurers are either licensed, qualified or certified in the Commonwealth of Pennsylvania. A letter of credit is obtained from unauthorized reinsurers, as needed. The Company's total ceded premium for 2015 was $4,187,000. The Company's net amount recoverable from reinsurers for 2015 was $4,605,000, which is approximately 30% of its surplus.

The Company's reinsurance intermediaries, Guy Carpenter & Company, LLC ("Guy Carpenter"), and BMS Intermediaries, Inc. ("BMS") were licensed by the Department as required by 40 P.S. § 321.2(a). The Company operates these programs pursuant to a properly executed written authorization between the intermediaries and Mutual Benefit as required by 40 P.S. § 321.3.

Below is a summary of the Company's reinsurance program.

Equipment Breakdown Quota Share

The Company entered into an Equipment Breakdown Quota Share Reinsurance Contract with an effective date of June 1, 2007, with Factory Mutual Insurance Company. The term of the contract is for one year, and shall remain in-force until terminated by either party. The Company's retention and the reinsurance limits are as follows:

Company's Retention	Reinsurance Limits	Type of business Covered
N/A	100% of Loss, subject to maximum $25,000 any one risk. 90% of Loss in Excess of Policy Limits or Extra Contractual Obligations	Equipment Breakdown

The Reinsurer shall allow the Company a ceding commission of 35% of each policy's reinsurance premium ceded under this agreement.

Workers' Compensation Excess of Loss

The Company entered into a Workers Compensation Reinsurance Contract with Midwest Employers Casualty Company with an effective date of January 1, 2015. The term of the contract is for one year, and shall remain in-force until January 1, 2016. The Company's retention and the reinsurance limits are as follows:

Company's Retention	Reinsurance Limits	Type of business Covered
$1,250,000 any one risk	$8,750,000	Workers' Compensation

Company's Retention	Reinsurance Limits	Type of business Covered
$1,250,000 any one risk	$750,000	Employers' Liability

The Company's intermediary was Guy Carpenter.

The Reinsurer's liability is also subject to a limit of $8,750,000 in the aggregate for all losses as a result of Acts of Terrorism (applied to both Workers' Compensation and Employers' Liability). This contract has been replaced in 2016 with a similar contract.

Equipment Breakdown Facultative

The Company entered into an Equipment Breakdown Facultative Reinsurance Contract with Hartford Steam Boiler Inspection and Insurance Company with an effective date of March 15, 2011. The term of the contract is for one year, and shall remain in-force until terminated by either party with 180 days written notice. The Company's retention and the reinsurance limits are as follows:

Company's Retention	Reinsurance Limits	Type of business Covered
N/A	$25 million any one accident	Equipment Breakdown

As respects the Reinsurance Premium for ISO Business Owners policies, other than policies covering referral risks, no ceding commission shall be allowed. As respects all other policies and policies covering referral risks, the Reinsurer shall allow the Company a ceding commission of 25%.

Cyber Risk

The Company entered into a Cyber Risk Reinsurance Contract with Hartford Steam Boiler Inspection and Insurance Company with an effective date of July 1, 2014, and is continuous until terminated from either party with 180 days' notice.

The Company's retention and the reinsurance limits are as follows:

Company's Retention	Reinsurance Limits	Type of business Covered
None	$100,000 per policy	Cyber risk attached to Company policies

The Reinsurer shall continue to be bound hereunder for the balance of the term of all policies which remain in force on the termination date of this agreement.

The Reinsurer shall allow the Company a ceding commission of 25% of each policy's reinsurance premium ceded under this agreement.

Data Compromise Reinsurance Contract

The Company entered into a Data Compromise Reinsurance Contract with The Hartford Steam Boiler Inspection and Insurance Company with an effective date of July 1, 2014, and is continuous until terminated from either party with 180 days' notice. The Company's retention and the reinsurance limits are as follows:

Company's Retention	Reinsurance Limits	Type of business Covered
N/A	$1,000,000 per policy	Data Compromise attached to Company policies

The Reinsurer shall continue to be bound hereunder for the balance of the term of all policies which remain in-force on the termination date of this agreement.

The Reinsurer shall allow the Company a ceding commission of 25% of each policy's reinsurance premium ceded under this agreement.

Property Catastrophe Excess of Loss (Three Layers)

The Company entered into a Property Catastrophe Excess of Loss Agreement with various reinsurers with an effective date of July 1, 2015. The term of the contract is until July 1, 2016.

Various Reinsurers

	1st excess	2nd excess	3rd excess
Allied World Insurance Company	8.00%	5.00%	5.00%
American Agricultural Insurance Company	3.50%	3.50%	3.50%
Amlin Bermuda	2.50%	2.50%	2.00%
Employers Mutual Casualty Company	4.00%	4.00%	4.00%
Everest Reinsurance Company	4.00%	2.00%	4.00%
Korean Reinsurance Company	5.00%	5.00%	5.00%
Liberty Specialty Markets - Paris Reinsurance	10.00%	8.00%	8.00%
Mapfre Re, Compafiia de Reaseguros, S.A.	8.00%	8.00%	10.00%
MS Frontier Reinsurance Ltd	0.00%	0.00%	13.00%
R+V Versicherung AG	14.50%	9.50%	7.50%
Validus Reinsurance, Ltd.	20.00%	20.00%	0.00%
Various Underwriters at Lloyd's, London	20.50%	32.50%	38.00%
Total	100.00%	100.00%	100.00%

The Company's retention and the reinsurance limits for the First Excess of Loss are as follows:

Company's Retention	Reinsurance Per Loss Limits	Type of business Covered
$3,500,000	$3,000,000	All Property

The Reinsurer's Term limit is $6,000,000.

The Company's retention and the reinsurance limits for the Second Excess of Loss are as follows:

Company's <u>Retention</u>	Reinsurance <u>Per Loss Limits</u>	Type of business <u>Covered</u>
$6,500,000	$6,500,000	All Property

The Reinsurer's Term limit is $13,000,000.

The Company's retention and the reinsurance limits for the Third Excess of Loss are as follows:

Company's <u>Retention</u>	Reinsurance <u>Per Loss Limits</u>	Type of business <u>Covered</u>
$13,000,000	$17,000,000	All Property

The Reinsurer's Term limit is $34,000,000.

BMS is the intermediary for this contract.

<u>**Umbrella Quota Share**</u>

The Company entered into an Umbrella Quota Share Reinsurance Contract with Swiss Re America with an effective date of October 1, 2007. The term of the contract is for one year, and shall remain in-force until terminated by either party. The Company's retention and the reinsurance limits are as follows:

Company's <u>Retention</u>	Reinsurance <u>Limits</u>	Type of business <u>Covered</u>
20% of Net Liability of first $1m	As noted below	Personal & Commercial Umbrella

Umbrella – 80% of $1,000,000, per occurrence; and 100% of $4,000,000 in excess of $1,000,000. The liability of the Reinsurer shall never exceed $9,000,000 with respect to any one Loss Occurrence.

The Reinsurer shall allow the Company a ceding commission of 31%.

Nuclear, Biological, Chemical and Radiological Terrorism Excess of Loss

The Company entered into a Nuclear, Biological, Chemical and Radiological Terrorism Excess of Loss Reinsurance Contract with various reinsurers with an effective date of January 1, 2015, and expiring January 1, 2016.

The Company's retention and the reinsurance limits are as follows:

Company's Retention	Reinsurance Limits	Type of business Covered
$1,000,000	$9,000,000	Casualty & Workers Comp (only as respects acts of terrorism)

As respects Workers' Compensation business, the maximum Ultimate Net Loss, any one claimant, is $5,000,000. As respects other Casualty business, the maximum Ultimate Net Loss, any one claimant, is $1,000,000. As respects Workers' Compensation business, the Reinsurer shall not be liable under this Contract unless two or more claimants are involved in the same Act of Terrorism.

Guy Carpenter is the intermediary for this contract.

Validus Reinsurance, Ltd. held 75% of the Interests and Liabilities of the contract with Lloyd's Syndicate # 2003 maintaining the other 25%.

This contract has been replaced in 2016 with a similar contract.

Casualty Excess of Loss (Three Layers)

The Company entered into a Casualty Excess of Loss Agreement with an effective date of January 1, 2015. The term of the contract is until January 1, 2016. The various reinsurers are listed below:

Subscribing Reinsurers	1st excess	2nd excess	3rd excess
American Agricultural Insurance Company	5.40%	2.70%	0.00%
Berkley Insurance Company	5.00%	2.50%	0.00%
Employers Mutual Casualty Company	6.10%	3.05%	0.00%
Farmers Mutual Hail Insurance Company of Iowa	3.50%	1.75%	0.00%
Hannover Ruck SE	0.00%	25.00%	25.00%
Certain Underwriting Members of Lloyd's, London	0.00%	30.00%	42.00%
Swiss Reinsurance America Corporation	25.00%	15.00%	15.00%
The Toa Reinsurance Company of America	40.00%	10.00%	3.00%
Transatlantic Reinsurance Company	15.00%	10.00%	15.00%
Total	100.00%	100.00%	100.00%

The Company's retention and the reinsurance limits for the First Excess of Loss are as follows:

Company's Retention	Reinsurance Per Loss Limits	Type of business Covered
$500,000	$1,500,000	Casualty

The Company's retention and the reinsurance limits for the Second Excess of Loss are as follows:

Company's Retention	Reinsurance Per Loss Limits	Type of business Covered
$2,000,000	$3,000,000	Casualty

The Company's retention and the reinsurance limits for the Third Excess of Loss are as follows:

Company's Retention	Reinsurance Per Loss Limits	Type of business Covered
$ 5,000,000	$ 7,000,000	Casualty

As respects Umbrella Policies, the Company shall maintain 80% of $1,000,000, per occurrence; and 100% of $4,000,000 in excess of $1,000,000 quota share reinsurance and such reinsurance shall inure to the benefit of this Contract. The Company's net retained liability under any such policy shall not exceed $200,000 as respects any one Loss Occurrence.

The Company has in-force Workers' Compensation Excess of Loss Reinsurance effective January 1, 2015, that inures to the benefit of this contract.

The Company's intermediary for this contract was Guy Carpenter.

This contract has been replaced in 2016 with a similar contract.

Property Excess of Loss (Two Layers)

The Company entered into a Property Excess of Loss Agreement with various reinsurers with an effective date of January 1, 2015. The term of the contract is until January 1, 2016. The various reinsurers are listed below:

Subscribing Reinsurers	1st excess	2nd excess
Allied World Insurance Company	5.00%	5.00%
American Agricultural Insurance Company	0.00%	2.70%
Berkley Insurance Company	0.00%	2.50%
Employers Mutual Casualty Company	0.00%	3.05%
Employers Mutual Casualty Company	5.00%	5.00%
Farmers Mutual Hail Insurance Company of Iowa	0.00%	1.75%
Hannover Ruck Se	7.50%	7.50%
Partner Reinsurance Company of The U.S.	13.50%	2.50%
Platinum Underwriters Reinsurance, Inc.	20.00%	20.00%
RLI Insurance Company	0.00%	5.00%
Swiss Reinsurance America Corporation	25.00%	20.00%
The Toa Reinsurance Company of America	24.00%	25.00%
Total	100.00%	100.00%

The Company's retention and the reinsurance limits for the First Excess of Loss are as follows:

Company's Retention	Reinsurance Per Loss Limits	Type of business Covered
$500,000	$500,000	Property

The Company's retention and the reinsurance limits for the Second Excess of Loss are as follows:

Company's Retention	Reinsurance Per Loss Limits	Type of business Covered
$1,000,000	$3,000,000	Property

The Company's intermediary for this contract was Guy Carpenter.

This contract has been replaced in 2016 with a similar contract.

ASSUMED

Other than business assumed under Intercompany Reinsurance Agreements described above, and through mandatory pools and associations operating in several jurisdictions, the Company did not assume any business.

TERRITORY AND PLAN OF OPERATION

The Company is currently licensed in three states: Pennsylvania, Maryland, and Ohio. As of the examination date, business written in Pennsylvania and Maryland represented approximately 86% and 14%, respectively, of the Company's total direct writings in 2015. The Company limits direct writings to workers' compensation business.

The following chart summarizes the Company's Direct and Assumed, Ceded and Net Written Premiums for the year 2015:

Line of Business	Direct and Assumed Premium	Ceded Premium	Net Written Premium	Percentage of Total
December 31, 2015				
Fire	$ 96,308	$ 0	$ 96,308	0.6%
Allied lines	70,929	0	70,929	0.5%
Homeowners multiple peril	2,960,875	0	2,960,875	19.2%
Commercial multiple peril	2,944,569	0	2,944,569	19.1%
Inland marine	87,281	0	87,281	0.6%
Workers' compensation	6,497,055	4,186,947	2,310,108	15.0%
Other liability - occurrence	83,835	0	83,835	0.5%
Private passenger auto liability	2,871,549	0	2,871,549	18.6%
Commercial auto liability	1,109,022	0	1,109,022	7.2%
Auto physical damage	2,897,561	0	2,897,561	18.8%
Totals	$ 19,618,984	$ 4,186,947	$ 15,432,037	100.0%

The Company solicits business through the use of 221 and 203 agencies as of December 31, 2015, and 2014, respectively. There have been no changes to the Company's marketing strategy since the previous examination.

It was found that the Company is not properly reporting Agent Commissions. The Company is netting agent commissions on the Assets page: Line 15.1. The NAIC *Annual Statement Instructions* direct companies to record offsetting amounts on the Liabilities Page: Line 4 as a payable.

It is recommended that the Company properly report its Agent Commissions on future Annual Statement's Liabilities page: Line 4 as required by the NAIC Annual Statement Instructions, 40 P.S. § 443(a)(2), and SSAP 64, paragraphs 3 & 4.

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	$	74,549,516	100.0 %
Losses incurred	$	43,071,436	57.8 %
Loss expenses incurred		8,144,131	10.9 %
Other underwriting expenses incurred		23,775,930	31.9 %
Net underwriting gain or (loss)		(441,981)	(0.6)%
Totals	$	74,549,516	100.0 %

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

		2015		2014		2013		2012		2011
Admitted assets	$	38,558,536	$	36,738,188	$	36,714,443	$	35,357,734	$	34,863,430
Liabilities	$	23,297,941	$	22,305,247	$	22,632,445	$	23,403,228	$	24,094,826
Surplus as regards policyholders	$	15,260,595	$	14,432,941	$	14,081,998	$	11,954,506	$	10,768,604
Gross premium written	$	19,618,984	$	17,856,306	$	17,729,663	$	18,362,729	$	18,198,156
Net premium written	$	15,432,037	$	14,509,716	$	14,593,215	$	14,843,618	$	15,145,555
Underwriting gain/(loss)	$	379,141	$	(548,276)	$	638,896	$	5,299	$	(917,041)
Investment gain/(loss)	$	1,233,454	$	1,031,204	$	1,017,596	$	1,214,765	$	1,747,176
Other gain/(loss)	$	122,284	$	134,043	$	150,536	$	177,788	$	205,703
Net income	$	1,506,740	$	619,020	$	1,528,741	$	1,133,138	$	854,080

PENDING LITIGATION

The Company is not involved in any material litigation, other than in normal course of business, as of the date of this examination report, February 7, 2017, that would be expected to have a material adverse impact to the financial condition of the Company.

FINANCIAL STATEMENTS

The financial condition of the Company, as of December 31, 2015, 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.

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

	2015	2014	2013	2012	2011
Bonds	$ 26,226,448	$ 25,450,710	$ 25,532,360	$ 25,219,582	$ 24,937,291
Preferred stocks	0	0	0	49,128	0
Common stocks	5,649,172	5,490,424	5,684,418	4,132,995	3,488,849
Cash, cash equivalents, and short term investments	1,061,272	608,000	548,543	580,086	896,016
Receivable for securities	1,605	1,595	1,219	6,809	0
Subtotals, cash and invested assets	32,938,497	31,550,729	31,766,540	29,988,600	29,322,156
Investment income due and accrued	267,967	385,005	394,743	381,671	373,535
Premiums and agents' balances due	4,314,297	3,895,495	3,682,012	3,851,798	3,823,448
Amounts recoverable from reinsurers	385,104	509,359	546,920	393,637	440,835
Current federal and foreign income tax recoverable and interest thereon	0	0	0	0	27,360
Net deferred tax asset	613,449	354,614	270,381	736,119	805,711
Receivable from parent, subsidiaries and affiliates	39,222	42,986	53,847	6,607	70,387
Aggregate write-ins for other than invested assets	0	0	0	(698)	0
Total	$ 38,558,536	$ 36,738,188	$ 36,714,443	$ 35,357,734	$ 34,863,430
Losses	$ 7,982,828	$ 8,332,742	$ 8,385,718	$ 8,636,650	$ 9,012,372
Reinsurance payable on paid loss and loss adjustment expenses	2,254,541	2,099,593	2,121,714	2,437,257	3,221,483
Loss adjustment expenses	2,144,992	2,220,867	2,214,922	2,291,019	2,275,907
Other expenses	50,830	31,835	22,763	14,269	23,428
Taxes, licenses and fees	54,549	35,433	23,154	43,634	35,908
Current federal and foreign income taxes	564,185	143,867	479,021	419,686	0
Unearned premiums	7,745,275	7,337,019	7,306,192	7,478,044	7,605,414
Dividends declared and unpaid:					
Stockholders'	9,000	18,000	18,000	18,000	18,000
Ceded reinsurance premiums payable (net of ceding commissions)	1,386,708	1,164,756	950,382	1,004,984	971,633
Amounts withheld or retained by company for account of others	134,110	133,850	141,284	149,732	214,151
Payable to parent, subsidiaries and affiliates	963,538	786,988	961,844	900,001	710,865
Payable for securities	7,385	297	7,451	9,952	5,665
Total liabilities	23,297,941	22,305,247	22,632,445	23,403,228	24,094,826
Aggregate write-ins for special surplus funds	0	0	0	0	121,786
Common capital stock	1,800,000	1,800,000	1,800,000	1,800,000	1,800,000
Gross paid in and contributed surplus	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Unassigned funds (surplus)	12,460,595	11,632,941	11,281,998	9,154,506	7,846,818
Surplus as regards policyholders	15,260,595	14,432,941	14,081,998	11,954,506	10,768,604
Totals	$ 38,558,536	$ 36,738,188	$ 36,714,443	$ 35,357,734	$ 34,863,430

Comparative Statement of Income
For the Year Ended December 31,

Underwriting Income	2015	2014	2013	2012	2011
Premiums earned	$ 15,023,781	$ 14,478,888	$ 14,765,068	$ 14,970,988	$ 15,310,791
Deductions:					
Losses incurred	8,139,923	8,675,949	7,665,122	8,537,002	10,053,440
Loss expenses incurred	1,465,332	1,840,143	1 688,860	1,810,376	1,539,420
Other underwriting expenses incurred	5,039,385	4,711,072	4,772,190	4,618,311	4,634,972
Aggregate write-ins for underwriting deductions	0	0	0	0	0
Total underwriting deductions	14,644,640	15,027 164	14,126,172	14,965,689	16,227,832
Net income of protected cells	0	0	0	0	0
Net underwriting gain or (loss)	379,141	(548,276)	638,896	5,299	(917,041)
Investment Income					
Net investment income earned	491,066	597,393	610,489	743,148	867,703
Net realized capital gains or (losses)	742,388	433,811	407,107	471,617	879,473
Net investment gain or (loss)	1,233,454	1,031,204	1,017 596	1,214,765	1,747,176
Other Income					
Net gain or (loss) from agents' or premium balances charged off	(33,548)	(36,397)	(44,941)	(52,144)	(46,772)
Finance and service charges not included in premiums	155,255	168,003	192,825	227,643	250,035
Aggregate write-ins for miscellaneous income	577	2,437	2,652	2,289	2,440
Total other income	122,284	134,043	150,536	177,788	205,703
Net income before dividends to policyholders and before federal and foreign income taxes	1,734,879	616,971	1,807,029	1,397,852	1,035,838
Dividends to policyholders	61 759	78,791	45,413	61,344	43,024
Federal and foreign income taxes incurred	166,380	(80,840)	232,875	203,370	138,734
Net income	$ 1,506,740	$ 619,020	$ 1,528,741	$ 1,133,138	$ 854,080

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

	2015	2014	2013	2012	2011
Surplus as regards policyholders,					
December 31, previous year	$ 14,432,941	$ 14,081,998	$ 11,954,506	$ 10,768,604	$ 10,760,613
Net income	1,506,740	619,020	1,528,741	1,133,138	854,080
Net unrealized capital gains or (losses)	(612,980)	(220,645)	714,444	92,635	(503,246)
Change in net deferred income tax	(57,106)	(29,432)	(97,693)	(21,871)	(328,445)
Change in nonadmitted assets	0	0	0	0	(121,632)
Cumulative effect of changes in accounting principles	0	0	0	0	3,448
Dividends to stockholders	(9,000)	(18,000)	(18,000)	(18,000)	(18,000)
Aggregate write-ins for gains and losses in surplus	0	0	0	0	121,786
Change in surplus as regards policyholder for the year	827,654	350,943	2,127,492	1,185,902	7,991
Surplus as regards policyholders,					
December 31, current year	$ 15,260,595	$ 14,432,941	$ 14,081,998	$ 11,954,506	$ 10,768,604

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

	2015	2014	2013	2012	2011
Cash from Operations					
Premiums collected net of reinsurance	$ 15,235,186	$ 14,510,607	$ 14,708,400	$ 14,848,617	$ 13,933,302
Net investment income	815,765	861,218	861,830	967,018	1,031,086
Miscellaneous income	122,283	134,042	150,537	177,788	205,703
Total income	16,173,234	15,505,867	15,720,767	15,993,423	15,170,091
Benefit and loss related payments	8,231,798	8,669,030	8,362,205	9,629,966	9,642,775
Commissions, expenses paid and aggregate write-ins for deductions	6,521,315	6,368,379	6,571,807	6,434,794	6,183,379
Dividends to policyholders	61,759	78,791	45,413	61,344	43,024
Federal and foreign income taxes paid (recovered)	128,503	477,791	383,262	(722)	(74,231)
Total deductions	14,943,375	15,593,991	15,362,687	16,125,382	15,794,947
Net cash from operations	1,229,859	(88,124)	358,080	(131,959)	(624,856)
Cash from Investments					
Proceeds from investments sold, matured or repaid:					
Bonds	7,690,584	10,650,782	10,698,661	5,813,926	14,080,728
Stocks	4,061,807	2,704,781	1,823,928	2,481,346	5,184,440
Net gain or (loss) on cash and short-term investments	(453)	0	0	0	0
Miscellaneous proceeds	7,078	0	3,089	0	4,383
Total investment proceeds	11,759,016	13,355,563	12,525,678	8,295,272	19,269,551
Cost of investments acquired (long-term only):					
Bonds	8,510,613	10,804,973	11,050,225	6,129,344	14,451,008
Stocks	4,187,562	2,206,054	1,852,532	2,518,588	3,615,484
Miscellaneous applications	0	7,529	0	2,522	0
Total investments acquired	12,698,175	13,018,556	12,902,757	8,650,454	18,066,492
Net cash from investments	(939,159)	337,007	(377,079)	(355,182)	1,203,059
Cash from Financing and Miscellaneous Services					
Other cash provided (applied):					
Dividends to stockholders (paid)	18,000	18,000	18,000	18,000	9,000
Other cash provided or (applied)	180,572	(171,426)	5,456	189,211	(111,321)
Net cash from financing and miscellaneous sources	162,572	(189,426)	(12,544)	171,211	(120,321)
Reconciliation of cash and short-term investments:					
Net change in cash and short-term investments	453,272	59,457	(31,543)	(315,930)	457,882
Cash and short-term investments:					
Beginning of the year	608,000	548,543	580,086	896,016	438,134
End of the year	$ 1,061,272	$ 608,000	$ 548,543	$ 580,086	$ 896,016

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, 2015, the Company's invested assets were distributed as follows:

		Amount	Percentage
Bonds	$	26,226,448	79.6 %
Common stocks		5,649,172	17.2 %
Cash		498,458	1.4 %
Short-term investments		562,814	1.7 %
Receivable for securities		1,605	0.1 %
Totals	$	32,938,497	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	$	23,167,869	86.5 %
2 - high quality		3,621,393	13.5 %
Totals	$	26,789,262	100.0 %

Years to Maturity		Amount	Percentage
1 year or less	$	2,923,869	10.9 %
2 to 5 years		11,980,647	44.7 %
6 to 10 years		10,932,479	40.8 %
11 to 20 years		846,264	3.2 %
over 20 years		106,003	0.4 %
Totals	$	26,789,262	100.0 %

The Company had a written investment policy as required by 40 P.S. § 653b(b). The investment policy was reviewed and approved on an annual basis by the Board. The Company was following its investment policy as of December 31, 2015.

The Company's invested assets are covered by custodial agreement with Manufacturers and Traders Trust Company, a subsidiary of Wilmington Trust Corporation that is in compliance with 31 Pa. Code § 148a.3.

LIABILITIES

LOSS AND LOSS ADJUSTMENT EXPENSE RESERVES

The Company reported reserves in the amount of $7,982,828 for losses and $2,144,992 for loss adjustment expenses ("LAE") on the December 31, 2015 Annual Statement. These amounts represent the Company's assumed portion of the losses and LAE in accordance with the Reinsurance and Assumption Agreement described above.

Steven J. Regnier, ACAS, MAAA, FCA, President of the Regnier Consulting Group, Inc., Stevens Point, Wisconsin, has been the Company's appointed actuary ("AA") for all years in the examination period. For each year in the examination period, the AA issued a Statement of Actuarial Opinion concluding that the Company's reserves make a reasonable provision.

In order for the examination team to gain an adequate comfort level with the Company's loss and LAE reserves estimates, the Department retained the actuarial services of Huggins Actuarial Services, Inc. ("Huggins"), as a subcontractor to Grant Thornton LLP, to assist the examination team in performing a risk-focused review of the Company's reserving and pricing activities. Huggins reviewed certain risks within the pricing and reserving processes as part of its review.

Based upon the procedures performed and results obtained from Huggins, the Department obtained sufficient documentation that the Company's reported loss and LAE reserves "make a reasonable provision for all unpaid loss and loss adjustment expense obligations of the Company under the terms of its contracts and agreements."

SUBSEQUENT EVENTS

Subsequent events were evaluated from December 31, 2015 through February 7, 2017, which is the date this report was prepared. No significant subsequent events were noted.

RECOMMENDATIONS

PRIOR EXAMINATION

There were no recommendations as a result of the previous examination.

CURRENT EXAMINATION

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

1. It is recommended that the Company properly report its intercompany agreement amounts on Schedule Y, Part 2 as required by the NAIC *Annual Statement Instructions,* and in accordance with 40 P.S. § 443(a)(2). (See "Service And Operating Agreements", page 7)

2. It is recommended that the Company properly report its Agent Commissions on future Annual Statement's Liabilities page: Line 4 as required by the NAIC *Annual Statement Instructions*, 40 P.S. § 443(a)(2), and SSAP 64, paragraphs 3 & 4. (See "Territory and Plan of Operation", page 15)

CONCLUSION

As a result of this examination, the financial condition of Select Risk Insurance Company, as of December 31, 2015, was determined to be as follows:

	Amount	Percentage
Admitted assets	$ 38,558,536	100.0 %
Liabilities	$ 23,297,941	60.4 %
Surplus as regards policyholders	15,260,595	39.6 %
Total liabilities and surplus	$ 38,558,536	100.0 %

Since the previous examination, made as of December 31, 2010, the Company's assets increased by $3,978,447, its liabilities decreased by $521,535, and its surplus increased by $4,499,982.

This examination was conducted by Boaz Cohen, CISA, Danielle Wurst, and Derek Butler, CIA, CFE, MBA of Grant Thornton LLP; Jane Taylor, FCAS, MAAA, JD of Huggins Actuarial Services, Inc.; Ryan Monahan, Matt Counsil, CFE, and Gary L. Greenaway Jr., CFE, with the latter in charge.

Respectfully,

Melissa L. Greiner
Director
Bureau of Financial Examinations

David R. Evans, CFE
Examination Manager

Gary L. Greenaway Jr., CFE
Examiner-in-Charge

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