

Examination Warrant Number 18-00031-25895-R1

**Report of Examination of  
United States Liability Insurance Company  
Wayne, Pennsylvania**

**As of December 31, 2018**

**For Informational Purposes Only**

# United States Liability Insurance Company

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Harrisburg, Pennsylvania  
May 8, 2020

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 18-00031-25895-R1, dated August 14, 2018 an examination was made of

**United States Liability Insurance Company, NAIC Code: 25895**

a Pennsylvania domiciled stock property and casualty insurance company hereinafter referred to as “United States Liability” or the “Company.” The examination was conducted at the Company’s home office, located at 1190 Devon Park Drive, Wayne, Pennsylvania 19087.

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, 2013. This examination covered the five-year period from January 1, 2014 through December 31, 2018.

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. Statements were prepared by management and are therefore the responsibility of management. 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

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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 Weiser Mazars 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:

<u>Company</u>	<u>State of Domicile</u>	<u>NAIC Code</u>
Mount Vernon Fire Insurance Company	Pennsylvania	26522
Mount Vernon Specialty Insurance Company	Nebraska	14420
Radnor Specialty Insurance Company	Nebraska	15756
U.S. Underwriters Insurance Company	North Dakota	35416

### HISTORY

The Company was incorporated in Pennsylvania on April 12, 1867, licensed by the Department on May 18, 1951, and commenced business on May 18, 1951. In its charter, the Company is authorized to engage in any business in which a stock casualty insurance company may engage in pursuant to any law. The Company is wholly owned by U.S. Investment Corporation (“U.S. Investment”). Effective August 8, 2000, 100% of U.S. Investment was acquired by Berkshire Hathaway, Inc. (“Berkshire”), a Nebraska conglomerate holding company. As of December 31, 2018, United States Liability is licensed in forty-three states and Canada and is authorized to write in excess & surplus (non-admitted) in seven states.

The Company is currently authorized to transact those classes of insurance described in 40 P.S. § 382 (b)(1) Fire and Allied Lines, (b)(2) Inland Marine and Physical Damage, (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)(11) Auto Liability, (c)(12) Mine and Machinery, (c)(13) Personal Property Floater, and (c)(14) Workers’ Compensation.

### MANAGEMENT AND CONTROL

#### CAPITALIZATION

As of the examination date, December 31, 2018, the Company’s total capital was \$722,279,985, consisting of 820,000 capital shares of issued and outstanding common stock with a par value of \$5.00 per share amounting to \$4,100,000; \$33,865,582 in gross paid in and contributed surplus; and \$684,314,403 in unassigned funds (surplus).

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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 \$2,150,000 in capital and \$1,075,000 in surplus. The Company has met all governing requirements throughout the examination period.

### STOCKHOLDER

All of the outstanding shares of the Company are directly owned by U.S. Investment, a Pennsylvania insurance holding company. During the examination period, the Company declared and paid the following dividends to its sole shareholder, U.S. Investment:

<u>Year</u>	<u>Amount</u>
2014	\$25,000,000
2015	\$30,012,000
2016	\$30,012,000
2017	\$30,012,000
2018	\$30,012,000

### INSURANCE HOLDING COMPANY SYSTEM

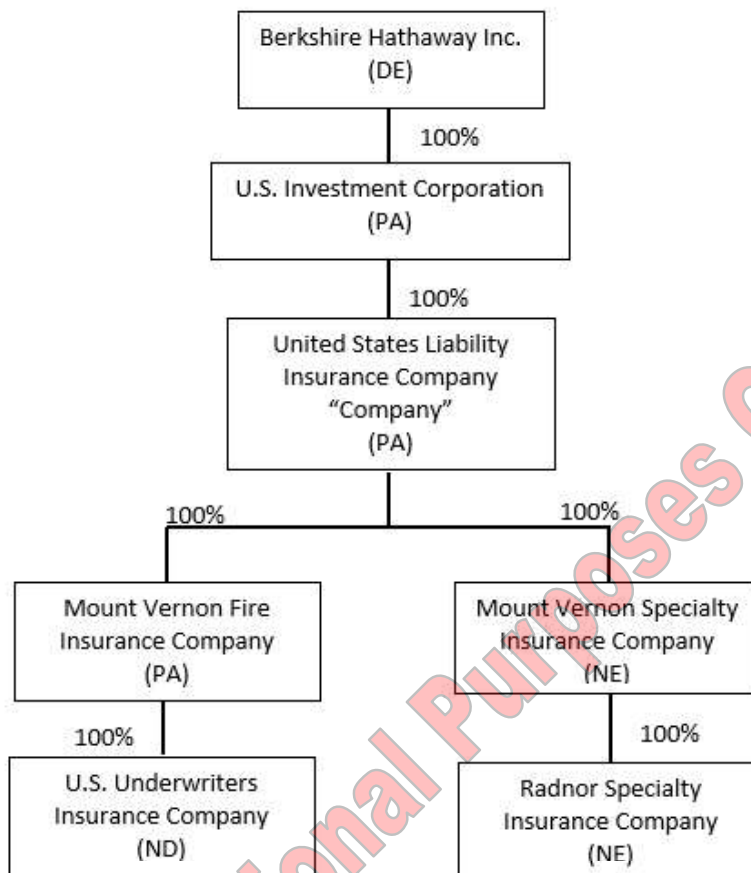
The Company became part of an insurance company holding system on June 15, 1971 when the sole shareholder of the Company exchanged the common stock of the Company for the common stock of U.S. Investment. On August 8, 2000, Berkshire acquired all of the issued and outstanding shares of U.S. Investment. Berkshire is named as the ultimate controlling entity/person of its holding company system. Warren E. Buffet of Omaha, Nebraska owns approximately 33.55% and 19.63% of the voting and economic interest of Berkshire, respectively. Mount Vernon Specialty Insurance Company ("Mount Vernon Specialty"), a former subsidiary of Mount Vernon Fire, became part of the holding company and commenced business on December 11, 2012, when it was issued a Certificate of Authority by the Department.

The Company meets the requirements for filing an Insurance Holding Company System Registration Statement, in accordance with 40 P.S. § 991.1404. The Company has filed the appropriate insurance company registration statements with the Department for each year of the examination period.

Berkshire's organizational chart is condensed to only show the Company's relationship to its parent and subsidiary companies:

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## 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, 2018:

<b>Name and Address</b>	<b>Principal Occupation</b>
Thomas P. Nerney Wayne, PA	Chairman/President/CEO United States Liability Insurance Company
John Richard Petersen, Jr. Malvern, PA	Executive Vice President, General Counsel, Chief Compliance Officer, Secretary United States Liability Insurance Group
John G. Donahue, Jr. Newtown Square, PA	Executive Vice President Devon Park Specialty Insurance Company
Diane S. Duda Lansdale, PA	Executive Vice President, Chief Actuarial Officer United States Liability Insurance Group

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Thomas C. Snyder Exton, PA	President, Customer Distribution, Chief Marketing Officer United States Liability Insurance Group
Lisa K. Kuesel Traynor Malvern, PA	Executive Vice President, Chief Operating Officer United States Liability Insurance Group
Reiner R. Mauer King of Prussia, PA	Division President United States Liability Insurance Group
Andrew M. Mitala Phoenixville, PA	President, Chief Underwriting Officer United States Liability Insurance Group
Jack T. Carballo Jenkintown, PA	Executive Vice President, Chief Administration Officer United States Liability Insurance Group

Each member of the Board serves the same term which is from one Annual Stockholder Meeting to the next, or until his/her successor is elected and qualified, or until his/her earlier resignation or removal. Directors are all elected at the same time at the Annual Stockholder Meetings.

### COMMITTEES

As of the examination date, December 31, 2018, the following committees were appointed by the Board and serving in accordance with the Company's by-laws:

#### Executive Committee

Thomas P. Nerney  
Warren E. Buffet  
Marc D. Hamburg  
Mark D. Millard  
Daniel J. Jaksich

#### Investment Committee

Thomas P. Nerney  
Warren E. Buffet  
Marc D. Hamburg  
Mark D. Millard  
Daniel J. Jaksich

### OFFICERS

As of the examination date, December 31, 2018, the following officers were appointed and serving in accordance with the Company's by-laws:

#### Name

Thomas Patrick Nerney

#### Title

Chairman, President, Chief Executive Officer

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Lisa Kathleen Kuesel Traynor	Executive Vice President, Chief Operating Officer
Reiner Ralf Mauer	Division President, Property and Casualty
Andrew Michael Mitala	President, Chief Underwriting Officer
Thomas Christopher Snyder	President, Customer Distribution, Chief Marketing Officer
Jack Thomas Carballo	Executive Vice President, Chief Administration Officer
Diane Symnoski Duda	Executive Vice President, Chief Actuarial Officer
John Richard Petersen, Jr.	Executive Vice President, Secretary, Chief Compliance Officer
Michael Edward Adamski	Senior Vice President
Mark Addiego	Senior Vice President
Patrick Joseph Bethel	Senior Vice President
Kathleen Mary Charon	Senior Vice President
Melissa Mary Engel	Senior Vice President
Manus Michael Friel	Senior Vice President
Karen Ann Gorski	Senior Vice President
Brian Thomas Hogan	Senior Vice President
Aaron Michael Miller	Senior Vice President, Chief Technology Officer
Sasha Dundi Moul	Senior Vice President
Christine Hellwig Murray	Senior Vice President, Chief Underwriting Officer, Professional Lines
Steven John Rivituso	Senior Vice President, Controller, Treasurer
David Blake Rucker	Senior Vice President
James William Scalise	Senior Vice President, Chief Claims Officer
Donald Hoffman Spence	Senior Vice President
Adam Bruce Taylor	Senior Vice President
James Lawrence Bartel	Vice President
Kimberly Denise Bennett Mullins	Vice President
Joanne Marie Burns	Vice President
David Chuang	Vice President
Viola House Clements	Vice President
John Edward Colaprete	Vice President



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Lisa Ann Coniglio	Vice President
Michael Thomas Curtis	Vice President
Rose Djourup	Vice President
Leslie Marie Dreisbach	Vice President
Michael Stuart Elwell	Vice President
Kristin Diane Hazard	Vice President
Janet Strine Helbig	Vice President
Gina Marie Huhn	Vice President
Alison Blythe Hunter	Vice President
Kristen Marie Iannarelli	Vice President
Robert William Karr	Vice President
William Patrick Keefrider	Vice President
Karl David Koppel	Vice President
Patricia Ann Lachman	Vice President
David Yorke Muir	Vice President
Michael Joseph Murray	Vice President
Mary Eileen O'Neill	Vice President
Diane Bertoldi Owens	Vice President
Janine Louise Pizza	Vice President
Beatrice Anne Reale	Vice President
Phillip John Reese	Vice President
Lauren Anne Reiley	Vice President
Andrew Michael Rogers	Vice President
Kathleen Erin Sharkey	Vice President
Thomas John Toland	Vice President
John Andrew Vesey	Vice President
James Michael Ziff	Vice President

## CORPORATE RECORDS

### MINUTES

A compliance review of corporate minutes revealed the following:

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- The Annual Meetings of the Company's stockholders were held in compliance with its by-laws.
- The stockholders elect directors at such meetings in compliance with the by-laws.
- The stockholders 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 annually by the Board.
- All directors attend Board meetings regularly.

### ARTICLES OF INCORPORATION

There have been no changes to the Company's Articles of Incorporation during the examination period.

### BY-LAWS

There have been no changes to the Company's by-laws during the examination period.

### SERVICE AND OPERATING AGREEMENTS

The Company is party to various service and operating agreements, which includes intercompany and related-party agreements. A summary of each agreement in effect during the examination period is as follows:

#### Joint Tax Return Agreement

On November 17, 2003, the Company entered into a Joint Tax Return Agreement with U.S. Investment, Mount Vernon Fire, U.S. Underwriters, and Berkshire. The companies entered into the agreement as of November 17, 2003 which was amended as of November 9, 2012 and January 31, 2015 and is effective until terminated by either party. The agreement states that the treasurer of Berkshire is authorized to file a joint tax return on behalf of the companies based upon the taxable profit and loss of each company. The agreement and amendments were in writing and were approved by the Board. The amendment on November 9, 2012 was to add Mount Vernon Specialty to the agreement. The amendment on January 31, 2015 was to add Radnor Specialty Insurance Company ("Radnor Specialty") to the agreement.

#### Expense Sharing Agreement

On November 17, 2003, the Company entered into an Expense Sharing Agreement with Mount Vernon Fire, and U.S. Underwriters. The companies entered into the agreement as of November 17, 2003, which was amended as of December 7, 2006 and November 9, 2012, and are effective until terminated by either party. The agreement states that the companies are affiliated and share the same offices, facilities, and staff. Under the terms of the agreement, all parties agree to the allocation of general expenses on the basis of the net premium writings of each company, and that the general expenses incurred by the companies be prorated on the basis

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of the net premium writings of each company. As of November 9, 2012, the agreement was amended to add Mount Vernon Specialty.

### **Investment Service Agreement**

On December 4, 2006, the Company entered into an Investment Service Agreement with National Indemnity Company (“NICO”) ( the “Manager”), U.S. Underwriters, and Mount Vernon Fire. The companies entered into the agreement as of December 4, 2006, and it is effective as of January 1, 2007 until terminated. This agreement appoints the Manager to be the investment manager for the companies and states that the Manager has full authority to buy, sell and effect investment transaction on behalf of the companies. The agreement is in writing and was approved by the Board. The companies entered into an Amendment to the Investment Services Agreement as of November 9, 2012, which added Mount Vernon Specialty to the agreement. The amendment is in writing and was approved by the Board. The companies entered into an Amendment to the Investment Services Agreement as of October 14, 2015, which added Radnor Specialty to the agreement.

### **Intercompany Affiliate Service Agreement**

On September 1, 2015, the Company entered into an Intercompany Affiliate Service Agreement with and to provide services for Devon Park Specialty, which includes Mount Vernon Specialty and Radnor Specialty. Under the terms of the agreement, the Company will perform certain administrative and special services and to share day to day operations of certain property, equipment, and facilities of the companies locations. The services of this agreement are to provide accounting, tax and auditing services including but not limited to management of accounts receivable and premiums; underwriting services including monitoring and auditing business underwriting on behalf of the companies, advising management as needed on reinsurance assumed and retroceded; claims services including review of claims; functional support services including actuarial services, telecommunications, IT, legal and compliance, payroll and purchasing, policy issuance, and sales and marketing; executive services including input, guidance and strategic direction for the companies’ business plan; and personnel development services, including certain HR services for employee relations, trainings, benefit plans administration and related services. The agreement in writing was approved by the Board of Directors.

### **Intercompany Tax Services Agreement**

On June 6, 2017, the Company entered into an Intercompany Tax Services Agreement with NICO. The clients in the agreement are U.S. Underwriters, United States Liability, and Mount Vernon Fire. The companies entered into the agreement for the provider to perform certain tax services with individuals with tax expertise, to achieve certain operating economics, and improve services to the mutual benefit of the companies and provider. Such as providing advisory services on income tax matters and technical issues, completing or facilitating the completion of required federal, state, foreign tax filings, representing the companies as needed on internal and external audits relating to tax matters, and providing training and development of internal staff on tax technical issues and updates. The agreement is in writing and was approved by the Board.

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Upon review, it was determined that the above Service and Operating Agreements meet the fair and reasonable standards in accordance with 40 P.S. § 991.1405(a)(1).

### REINSURANCE

#### CEDED

The Company is party to various reinsurance agreements, which are further described below.

#### Equipment Breakdown Coverage

Effective June 1, 2015, United States Liability, Mount Vernon Fire, and U.S. Underwriters entered into a perpetual contract with Factory Mutual Insurance Company. The Equipment Breakdown Coverage is a 100% quota share reinsurance treaty that attaches on a “risks attaching” basis.

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

<b>Company’s Retention</b>	<b>Reinsurance Limits</b>	<b>Business Covered</b>
No retention amount	Shall not exceed \$25,000,000 for each risk location per policy without prior written agreement of the reinsurer.	Equipment breakdown enhancement endorsements and mechanical, electrical or pressure systems breakdown enhancement endorsements to commercial multi-peril, business owners, personal lines property or monoline commercial property insurance policies and mechanical breakdown coverage sections.

The Canadian Branch for United States Liability is also covered under this agreement; however, the reinsurance limits are reduced to \$10,000,000 for each risk location per policy without prior written agreement of the reinsurer.

#### Cyber Liability Quota Share Contract

Effective January 1, 2018, United States Liability, Mount Vernon Fire, and U.S. Underwriters entered into a one-year Quota Share reinsurance contract. The termination date is December 31, 2018. The Company is 90% reinsured against cyber liability for each and every coverage part of each policy, not to exceed \$1,000,000 of Net Liability for each and every coverage part of each policy ceded. In addition, the reinsurer is obligated to indemnify and

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reinsure the Company for 90% of any extra-contractual obligation, and loss in excess of policy limits, not to exceed \$1,000,000.

This treaty is underwritten by multiple reinsurers through JLT Re. A brief synopsis of this treaty is shown below:

<b>Reinsurers</b>	<b>Participation</b>	<b>Business Covered</b>
Aspen Insurance UK Limited	40%	Cyber Liability and Data Security claims: Data Breach Liability (Coverage Part A), Data Breach Expense and Cyber Extortion Threat Expense (Coverage Part B), Website Liability (Coverage Part C), and Identity Theft (Coverage Part D).
Hannover Rueck SE	25%	
Partner RE LTD	25%	

### Casualty Excess of Loss

Effective January 1, 2018, United States Liability, Mount Vernon Fire, and U.S. Underwriters entered into a one-year Casualty Excess of Loss & Casualty Cessions Excess of Loss Reinsurance Contract. The termination date is December 31, 2018. The Company's reinsurance limits and retention are:

Section A - \$5 Million excess of \$1 Million [Company retention of \$1M]

Section B - \$750K excess of \$250K [Company retention of \$250K]

Section C - \$5 Million excess of \$6 Million [Company retention of \$6M]

This treaty is underwritten by multiple reinsurers through JLT Re. A brief synopsis of this treaty is shown below:

<b>Reinsurers</b>	<b>Share percentage</b>	<b>Business Covered</b>
NICO	First layer	Section "A" business - new and renewal policies classified as casualty business.
	Second layer	
	Third layer	
Hannover Rueck SE	First layer	Section "B" business - new and renewal policies classified as professional liability and commercial liability.
	Second layer	
	Third layer	
Partner Reinsurance Company	First layer	Section C casualty business.
	Second layer	
	Third layer	

### Property per Occurrence Excess of Loss Contract

Effective January 1, 2018, United States Liability, Mount Vernon Fire, U.S. Underwriters, Mount Vernon Specialty, and Radnor Specialty entered into a one-year Property

## United States Liability Insurance Company

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per occurrence excess of loss Reinsurance Contract. The termination date is January 1, 2019. The Company's reinsurance limits, and retention are:

1<sup>st</sup> Layer - \$6 million excess of \$4 Million [Company retention of \$4M]

2<sup>nd</sup> Layer - \$10 million excess of \$10 million [Company retention of \$10M]

3<sup>rd</sup> Layer - \$20 Million excess of \$20 Million [Company retention of \$20M]

This treaty is underwritten by multiple reinsurers through JLT Re. A brief synopsis of this treaty is shown below:

<b>Reinsurers</b>	<b>Share percentage</b>		<b>Business Covered</b>
Axis Specialty Limited	First layer	16.0%	Policies becoming effective on or after 1/1/18 and classified by the Company as Property
	Second layer	17.0%	
	Third layer	17.0%	
DaVinci Reinsurance LTD	First layer	1.2%	
	Second layer	1.2%	
	Third layer	1.2%	
Hannover Rueck SE	First layer	20.0%	
	Second layer	20.0%	
	Third layer	20.0%	
MAPFRE RE, Compania de Reaseguros, S.A.	First layer	5.0%	
	Second layer	5.0%	
	Third layer	5.0%	
Markel Bermuda Limited	First layer	10.0%	
	Second layer	10.0%	
	Third layer	10.0%	
Partner Re LTD	First layer	7.0%	
	Second layer	7.0%	
	Third layer	7.0%	
Renaissance Reinsurance LTD	First layer	1.8%	
	Second layer	1.8%	
	Third layer	1.8%	
The Underwriters at Lloyd's	First layer	39.0%	
	Second layer	38.0%	
	Third layer	38.0%	

### Property Per Risk Excess of Loss Contract

Effective January 1, 2018, United States Liability, Mount Vernon Fire, and U.S. Underwriters entered into a one-year Property per risk excess of loss Reinsurance Contract. The termination date is January 1, 2019 and the Company retention is \$1,000,000.

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This treaty is underwritten by multiple reinsurers through JLT Re. A brief synopsis of this treaty is shown below:

Reinsurers	Share percentage	Business Covered
The TOA Reinsurance Company of America	15% of \$4 Million excess of \$1 Million	Policies becoming effective on or after the 1/1/18 and classified by the Company as Property
Hannover Rueck SE	25% of \$4 Million excess of \$1 Million	
Partner Reinsurance Company	10% of \$4 Million excess of \$1 Million	
National Indemnity Co.	50% of \$4 Million excess of \$1 Million	

### Quota Share Agreement of Reinsurance

Effective January 1, 2007, United States Liability, Mount Vernon Fire, and U.S. Underwriters entered into a perpetual contract with NICO. The Company entered a Quota Share Agreement that attaches on a “loss occurring” basis. The agreement covers all business net of all other reinsurance and NICO’s share is 50%.

### Property and Casualty (Mortgage Guard) Quota Share Reinsurance Contracts

Effective January 1, 2007, United States Liability, Mount Vernon Fire, and U.S. Underwriters entered into a perpetual contract with NICO. The Company entered a Quota Share Agreement that attaches on a “loss occurring” basis. The agreement covers policies issued on an “F” prefix and classified by the Company as “Blanket Mortgage Fire”. The companies cede 70% of the business to NICO and retains the remaining 30%. Business necessitating the treaties was terminated in 2013, and the Company plans to terminate the contracts as of December 31, 2019.

### Indiana Mine Subsidence and Ohio Mine Subsidence

Effective July 10, 2017, United States Liability entered a perpetual mine subsidence reinsurance agreement with the Ohio Mine Subsidence Insurance Underwriting Association. This agreement covers business issued or renewed on and after July 1, 2009. The Company cedes 100% of claims resulting from mine subsidence and costs of administration incurred by the Board. Effective June 11, 2018, United States Liability entered into another perpetual mine subsidence reinsurance agreement with the Indiana Mine Subsidence Insurance Fund. The Company cedes 100% of claims related to mine subsidence coverage under the Indiana code Chapter 27-7-9.

The Company’s reinsurance intermediary, JLT Re. is licensed by the Department as required by 40 P.S. § 321.2(a) Reinsurance intermediaries; licensing. The Company operates its reinsurance program pursuant to a properly executed written authorization between the Company and JLT Re. as required by Pennsylvania Insurance Company Law.

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A review was performed of the reinsurance treaties outlined above and the contracts contain appropriate insolvency and arbitration clauses. The agreements appeared to appropriately transfer risk.

### ASSUMED

The Company does not assume any business.

### TERRITORY AND PLAN OF OPERATION

The Company is licensed in all states and the District of Columbia except Alabama, Indiana, Kentucky, Maine, Massachusetts, New Hampshire, North Dakota, and Tennessee. The Company is approved as a surplus lines carrier in the following states: Alabama, Indiana, Kentucky, Maine, Massachusetts, New Hampshire, and Tennessee.

The following is a distribution by line of business of the total net written premiums for the year ended December 31, 2018:

Line of Business	Direct and Assumed Premium	Ceded Premium	Net Written Premium	Percentage of Total
<b>December 31, 2018</b>				
Fire	\$ 91,216,085	\$ 51,089,796	\$ 40,126,289	16.7%
Allied lines	433	219	214	0.0%
Homeowners multiple peril	363,601	191,344	172,257	0.1%
Inland marine	4,525,209	2,370,194	2,155,015	0.9%
Other liability - occurrence	248,560,983	131,424,608	117,136,375	48.8%
Other liability - claims-made	166,031,866	88,695,475	77,336,391	32.2%
Products liability - occurrence	5,808,913	3,051,767	2,757,146	1.1%
Burglary and theft	1,231,740	645,679	586,061	0.2%
Totals	<u>\$ 517,738,830</u>	<u>\$ 277,469,082</u>	<u>\$ 240,269,748</u>	<u>100.0%</u>

The Company and its subsidiaries, Mount Vernon Fire, Mount Vernon Specialty, Radnor Specialty, and U.S. Underwriters have common management, underwriting, claims, marketing, and support staff, with the exception of Mount Vernon Specialty and Radnor Specialty who have separate underwriting and distribution departments. For United States Liability, Mount Vernon Fire, and U.S. Underwriters, coverage is underwritten through individual product teams.

- Commercial Liability – General liability insurance is written on apartments, general contractors and artisans, child care operations, taverns, restaurants and vacant buildings. Coverage is provided on a primary, excess, or umbrella basis.
- Liquor Liability – Liquor liability coverage is written on bars, taverns and restaurants. Liquor/general liability for special events is also written.
- Package – Property / liability packages are written on apartments, general contractors and artisans, child care operations, taverns, restaurants, small offices and mercantile risk, and vacant buildings



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- Personal – Personal excess and umbrella coverages are the principal lines
- Professional – Major products are nonprofit directors & officers liability and employment practices liability. Some specific occupations are also insured such as real estate agents and appraisers.
- Property – Major products are Vacant Buildings, Lessor’s Risk Only, and 1-4 Family Dwellings and Restaurants.

Insurance is sold through wholesale agents, brokers and retail agents located throughout the United States. The agents generally do not have underwriting authority. All claims are handled by home office claims staff in coordination with independent adjusters and attorneys. Business is placed in one of the companies based on licensing, rate and form filings.

### 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.

	<b>Amount</b>	<b>Percentage</b>
Premiums earned	\$ 978,665,689	100.0 %
Losses incurred	296,814,451	30.2 %
Loss expenses incurred	139,333,140	14.2 %
Other underwriting expenses incurred	433,966,342	44.4 %
Net underwriting gain or (loss)	108,551,756	11.2 %
Totals	\$ 978,665,689	100.0 %

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

	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Admitted assets	\$ 1,153,139,167	\$ 1,244,439,274	\$ 1,015,343,740	\$ 897,218,349	\$ 885,903,737
Liabilities	\$ 430,859,181	\$ 417,213,397	\$ 368,081,722	\$ 337,997,696	\$ 322,582,463
Surplus as regards policyholders	\$ 722,279,985	\$ 827,225,876	\$ 647,262,017	\$ 559,220,651	\$ 563,321,275
Gross premium written	\$ 517,738,830	\$ 481,077,550	\$ 441,220,534	\$ 405,767,061	\$ 369,363,014
Net premium written	\$ 240,269,748	\$ 223,171,739	\$ 204,337,398	\$ 187,153,809	\$ 169,744,537
Underwriting gain/(loss)	\$ 18,789,395	\$ 18,908,185	\$ 32,413,373	\$ 31,397,921	\$ 7,042,882
Investment gain/(loss)	\$ 8,648,211	\$ 52,957,604	\$ 6,860,693	\$ 6,518,069	\$ 2,040,637
Other gain/(loss)	\$ 690,004	\$ 670,710	\$ 10,509	\$ 0	\$ 0
Net income	\$ 20,767,343	\$ 62,502,248	\$ 25,197,604	\$ 24,438,273	\$ 4,581,835

There were no losses experienced during the examination period. It was noted that the fluctuation in net income and surplus as regards policyholders is primarily due to the investment income and unrealized gains/losses reported each year.

**PENDING LITIGATION**

The Company is involved in various legal proceedings arising from its normal course of business. However, Company management does not believe that any of the proceedings will have a material adverse effect on the Company's business, results of operations, or financial condition as of the date of this examination report.

**FINANCIAL STATEMENTS**

The financial condition of the Company, as of December 31, 2018, 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.

For Informational Purposes Only

# United States Liability Insurance Company

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## Comparative Statement of Assets, Liabilities, Surplus and Other Funds As of December 31, 2018

	2018	2017	2016	2015	2014
Bonds	\$ 5,965,274	\$ 6,792,133	\$ 158,757,401	\$ 76,457,632	\$ 106,175,795
Preferred stocks	80,000	80,000	16,000,000	16,000,000	16,000,000
Common stocks	978,428,871	914,558,685	741,322,163	566,542,183	516,898,328
Cash, cash equivalents, and short term investments	72,973,495	246,074,852	21,228,660	167,766,814	180,583,274
Subtotals, cash and invested assets	1,057,447,640	1,167,505,670	937,308,224	826,766,629	819,657,397
Investment income due and accrued	457,101	327,217	596,096	597,115	667,082
Premiums and agents' balances due	67,786,208	56,560,023	52,899,264	52,348,293	50,360,054
Amounts recoverable from reinsurers	25,855,442	19,957,969	22,375,246	17,506,312	14,917,001
Receivable from parent, subsidiaries and affiliates	1,592,776	88,395	2,164,910	0	302,203
Total	\$ 1,153,139,167	\$ 1,244,439,274	\$ 1,015,343,740	\$ 897,218,349	\$ 885,903,737
Losses	\$ 171,364,552	\$ 158,310,569	\$ 142,125,462	\$ 130,743,308	\$ 128,696,272
Loss adjustment expenses	61,239,287	57,958,744	51,928,469	55,944,543	48,913,934
Commissions payable, contingent commissions and other similar charges	2,859,553	604,889	421,110	663,277	778,035
Other expenses	8,530,560	7,193,468	6,425,652	5,714,210	4,301,366
Taxes, licenses and fees	5,908,676	5,488,549	4,602,248	3,883,397	3,740,564
Current federal and foreign income taxes	2,983,149	6,915,597	4,326,545	777,649	1,750,117
Net deferred tax liability	9,630,993	21,515,218	12,539,859	5,395,113	7,294,087
Unearned premiums	131,310,691	122,158,609	112,504,676	104,440,323	96,347,074
Ceded reinsurance premiums payable (net of ceding commissions)	37,031,720	37,067,754	33,207,701	29,594,203	30,745,015
Funds held by company under reinsurance treaties	0	0	0	0	4,800
Provision for reinsurance	0	0	0	53,654	11,199
Payable to parent, subsidiaries and affiliates	0	0	0	788,019	0
Total liabilities	430,859,181	417,213,397	368,081,722	337,997,696	322,582,463
Common capital stock	4,100,000	4,100,000	4,100,000	4,100,000	4,100,000
Gross paid in and contributed surplus	33,865,582	33,865,582	33,865,582	1,100,000	1,100,000
Unassigned funds (surplus)	684,314,403	789,260,294	609,296,435	554,020,651	558,121,275
Surplus as regards policyholders	722,279,985	827,225,876	647,262,017	559,220,651	563,321,275
Totals	\$ 1,153,139,166	\$ 1,244,439,273	\$ 1,015,343,739	\$ 897,218,347	\$ 885,903,738

# United States Liability Insurance Company

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## Comparative Statement of Income For the Year Ended December 31, 2018

	2018	2017	2016	2015	2014
<b>Underwriting Income</b>					
Premiums earned	\$ 231,117,668	\$ 213,517,809	\$ 196,273,047	\$ 179,060,561	\$ 158,696,604
Deductions:					
Losses incurred	80,027,636	67,986,750	55,941,101	38,515,341	54,343,623
Loss expenses incurred	31,350,934	32,007,030	20,147,092	29,064,688	26,763,396
Other underwriting expenses incurred	100,949,703	94,615,844	87,771,481	80,082,611	70,546,703
Total underwriting deductions	212,328,273	194,609,624	163,859,674	147,662,640	151,653,722
Net underwriting gain or (loss)	18,789,395	18,908,185	32,413,373	31,397,921	7,042,882
<b>Investment Income</b>					
Net investment income earned	9,146,118	7,287,737	6,865,009	6,518,069	11,027,229
Net realized capital gains or (losses)	(497,907)	45,669,867	(4,316)	0	(8,986,592)
Net investment gain or (loss)	8,648,211	52,957,604	6,860,693	6,518,069	2,040,637
<b>Other Income</b>					
Finance and service charges not included in premiums	690,004	670,710	10,509	0	0
Total other income	690,004	670,710	10,509	0	0
Net income before dividends to policyholders and before federal and foreign income taxes	28,127,610	72,536,499	39,284,575	37,915,990	9,083,519
Federal and foreign income taxes incurred	7,360,267	10,034,251	14,086,971	13,477,717	4,501,684
Net income	\$ 20,767,343	\$ 62,502,248	\$ 25,197,604	\$ 24,438,273	\$ 4,581,835

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United States Liability Insurance Company

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**Comparative Statement of Capital and Surplus  
For the Year Ended December 31, 2018**

	2018	2017	2016	2015	2014
Surplus as regards policyholders,					
December 31, previous year	<u>\$ 827,225,867</u>	<u>\$ 647,262,008</u>	<u>\$ 559,220,648</u>	<u>\$ 563,321,272</u>	<u>\$ 537,503,426</u>
Net income	20,767,343	62,502,248	25,197,604	24,438,273	4,581,835
Net unrealized capital gains or (losses)	(95,437,533)	162,755,915	59,427,365	1,254,068	51,519,675
Change in net unrealized foreign exchange capital gain or (loss)	(1,142,342)	0	0	0	(6,386,250)
Change in net deferred income tax	1,117,388	(15,366,058)	493,570	192,070	1,479,488
Change in nonadmitted assets	(238,745)	83,754	115,584	69,420	(406,303)
Change in provision for reinsurance	0	0	53,655	(42,455)	29,401
Surplus adjustments:					
Paid in	0	0	32,765,582	0	0
Dividends to stockholders	(30,012,000)	(30,012,000)	(30,012,000)	(30,012,000)	(25,000,000)
Change in surplus as regards policyholder for the year	<u>(104,945,889)</u>	<u>179,963,859</u>	<u>88,041,360</u>	<u>(4,100,624)</u>	<u>25,817,846</u>
Surplus as regards policyholders,					
December 31, current year	<u>\$ 722,279,978</u>	<u>\$ 827,225,867</u>	<u>\$ 647,262,008</u>	<u>\$ 559,220,648</u>	<u>\$ 563,321,272</u>

For Informational Purposes Only

# United States Liability Insurance Company

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## Comparative Statement of Cash Flow For the Year Ended December 31, 2018

	2018	2017	2016	2015	2014
<b>Cash from Operations</b>					
Premiums collected net of reinsurance	\$ 228,768,787	\$ 223,454,789	\$ 207,515,509	\$ 184,084,179	\$ 173,743,337
Net investment income	8,976,738	6,209,374	6,641,445	6,612,218	11,065,885
Total income	237,745,525	229,664,163	214,156,954	190,696,397	184,809,222
Benefit and loss related payments	100,941,517	75,361,121	73,591,041	61,091,694	52,839,683
Commissions, expenses paid and aggregate write-ins for deductions	96,937,820	92,777,948	86,583,352	78,641,692	70,964,269
Federal and foreign income taxes paid (recovered)	11,292,715	7,445,199	10,538,075	14,450,185	(2,881,974)
Total deductions	209,172,052	175,584,268	170,712,468	154,183,571	120,921,978
Net cash from operations	28,573,473	54,079,895	43,444,486	36,512,826	63,887,244
<b>Cash from Investments</b>					
Proceeds from investments sold, matured or repaid:					
Bonds	6,834,692	12,708,620	112,627,267	29,693,980	98,605,957
Stocks	49,086,562	115,686,560	0	0	18,326,694
Net gain or (loss) on cash and short-term investments	(29,716)	0	0	0	0
Miscellaneous proceeds	690,004	2,026,395	10,509	0	0
Total investment proceeds	56,581,542	130,421,575	112,637,776	29,693,980	116,932,651
Cost of investments acquired (long-term only):					
Bonds	5,892,422	0	194,706,769	0	25,256,875
Stocks	219,705,226	70,968,000	107,714,299	50,096,693	0
Total investments acquired	225,597,648	70,968,000	302,421,068	50,096,693	25,256,875
Net cash from investments	(169,016,106)	59,453,575	(189,783,292)	(20,402,713)	91,675,776
<b>Cash from Financing and Miscellaneous Services</b>					
Other cash provided (applied):					
Capital and paid in surplus, less treasury stock	0	0	32,765,582	0	0
Net deposits on deposit-type contracts and other insurance liabilities	0	0	0	(4,800)	0
Dividends to stockholders (paid)	30,012,000	30,012,000	30,012,000	30,012,000	25,000,000
Other cash provided or (applied)	(2,646,722)	2,076,514	(2,952,930)	1,090,223	1,479,591
Net cash from financing and miscellaneous sources	(32,658,722)	(27,935,486)	(199,348)	(28,926,577)	(23,520,409)
<b>Reconciliation of cash and short-term investments:</b>					
Net change in cash and short-term investments	(173,101,355)	85,597,984	(146,538,154)	(12,816,464)	132,042,611
Cash and short-term investments:					
Beginning of the year	246,074,852	160,476,868	167,766,810	180,583,274	48,540,663
End of the year	\$ 72,973,497	\$ 246,074,852	\$ 21,228,656	\$ 167,766,810	\$ 180,583,274

## United States Liability Insurance Company

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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, 2018, the Company's invested assets were distributed as follows:

	<b>Amount</b>	<b>Percentage</b>
Bonds	\$ 5,965,274	0.6 %
Preferred stocks	80,000	0.0 %
Common stocks	978,428,871	92.5 %
Cash	20,017,847	1.9 %
Cash equivalents	52,955,648	5.0 %
Totals	<u>\$ 1,057,447,640</u>	<u>100.0 %</u>

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

<b>NAIC Designation</b>	<b>Amount</b>	<b>Percentage</b>
1 - highest quality	<u>\$ 5,965,274</u>	<u>100.0 %</u>
Totals	<u>\$ 5,965,274</u>	<u>100.0 %</u>

<b>Years to Maturity</b>	<b>Amount</b>	<b>Percentage</b>
2 to 5 years	<u>\$ 5,965,274</u>	<u>100.0 %</u>
Totals	<u>\$ 5,965,274</u>	<u>100.0 %</u>

The Company holds 92.5% of their investments in common stocks. Common stocks are made up of 37.2% unaffiliated publicly traded equity securities and 55.3% of affiliated securities. The affiliated common stock securities of Mount Vernon Fire increased in value to \$531,081,657, while Mount Vernon Specialty increased to \$53,557,661. The Company used the equity method for the valuation for subsidiaries which is in compliance with SSAP No. 97.

The Company has a written investment policy as required by 40 P.S. § 653b(b). The investment policy is reviewed and approved on an annual basis by the Board. The Company was following its investment policy at December 31, 2018.

The Company's Custodial Agreement with U.S. Bank National Association is in compliance with 31 Pa. Code § 148a.3.

## **LIABILITIES**

### **LOSS AND LOSS ADJUSTMENT EXPENSE RESERVES**

The Company reported net reserves in the amount of \$171,364,552 for losses and \$61,239,287 for loss adjustment expenses (“LAE”) on the December 31, 2018 Annual Statement.

Mr. David Kaye, FCAS, MAAA, from PricewaterhouseCoopers LLP is the Company’s appointed actuary (“AA”) for year ending 2018. For the years ending 2014 to 2017, the Company’s AA was Lynne Bloom, FCAS, MAAA, of PricewaterhouseCoopers LLP. The Department received the appropriate notification for the change in actuary and no disagreements letters.

For each year in the examination period, the AA provided a Statement of Actuarial Opinion (“Opinion”) stating that the loss and LAE reserve amounts made a reasonable provision on the adequacy of its loss and LAE reserves as provided in the NAIC *Annual Statement Instructions – Property and Casualty*.

In order for the Department to gain an adequate comfort level with the Company’s estimates of reserves, the Department retained the actuarial services of Baker Tilly to assist in performing a risk-focused review of the Company’s reserving processes, pricing and prospective risks related to the December 31, 2018 loss and LAE amounts reported by the Company. Baker Tilly’s credentialed actuary reviewed the claims handling and reserve setting methodology risks, processes, and internal controls of the Company, as well as the Actuarial Report prepared by the Company’s AA. The underlying reserve data that was provided for the actuarial analysis was reconciled to the Company’s accounting and statistical records.

Based on the procedures performed and the results obtained, the examination team obtained sufficient documentation to support the conclusion that the Company’s carried loss and LAE reserve amounts are reasonably stated as of December 31, 2018.

### **SUBSEQUENT EVENTS**

Effective June 2019 Richard Petersen, EVP, General Counsel, and Chief Compliance Officer retired, and Lauren Reiley assumed the position of General Counsel and Chief Compliance Officer. Diane Duda, EVP and Chief Actuary retired as of June 2019 and Mark Addiego assumed the position of Chief Actuary.

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.



**RECOMMENDATIONS**

**PRIOR EXAMINATION**

The prior examination report contained no recommendations:

**CURRENT EXAMINATION**

There are no recommendations to be made as a result of the current examination.

*For Informational Purposes Only*

# United States Liability Insurance Company

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## CONCLUSION

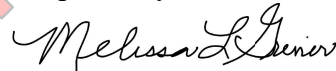
As a result of this examination, the financial condition of United States Liability Insurance Company, as of December 31, 2018, was determined to be as follows:

	<b>Amount</b>	<b>Percentage</b>
Admitted assets	<u>\$ 1,153,139,167</u>	<u>100.0 %</u>
Liabilities	\$ 430,859,181	37.4 %
Surplus as regards policyholders	<u>722,279,985</u>	<u>62.6 %</u>
Total liabilities and surplus	<u>\$ 1,153,139,166</u>	<u>100.0 %</u>

Since the previous examination, made as of December 31, 2013, the Company's assets increased by \$341,842,129, its liabilities increased by \$157,065,570, and its surplus increased by \$184,776,558.

This examination was conducted by Rachel Schmoyer, CPA, CISA; Jordan Fulton, APIR; James DiSanto; Phil Schmoyer; Kyra Brown, MBS, APIR; Nick Marella; Michael Dubin, FCAS, FSA, MAAA, FCA; Dave Wolfe, ACAS, MAAA; Jake Powell; Paige Mayo; Taylor Urian; Dennis Schaefer, CISA; and John Romano, CFE, CPA, CITP, CIA, CSM, with the latter in charge.

Respectfully,



Melissa L. Greiner  
Director  
Bureau of Financial Examinations



Robert A. Woronko, CFE, CPA, CISA  
Examination Manager



John Romano (Jun 23, 2020 11:48 EDT)

John Romano, CFE, CPA, CITP, CIA, CSM  
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.