

Report on Examination

of

**PROVIDENCE WASHINGTON INSURANCE COMPANY**

Warwick, Rhode Island

as of

December 31, 2018



State of Rhode Island and Providence Plantations  
Department of Business Regulation  
Insurance Division



**State of Rhode Island and Providence Plantations  
DEPARTMENT OF BUSINESS REGULATION  
1511 Pontiac Avenue, Bldg. 69-2  
Cranston, Rhode Island 02920**

**Insurance Division**

**ADOPTION ORDER**

The attached Report of Examination as of December 31, 2018, of the condition and affairs of

**PROVIDENCE WASHINGTON INSURANCE COMPANY**

was recently completed by duly qualified examiners, pursuant to the provisions of the Rhode Island General Laws.

Due consideration has been given to the comments of the examiners regarding the operation of the Company and its financial condition, as reflected in the report.

It is therefore ORDERED that said Report be, and it is hereby, adopted and filed and made an official record of this Department as of this date.

Department of Business Regulation

A handwritten signature in black ink that reads "Elizabeth Kelleher Dwyer".

Dated: June 30, 2020

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Elizabeth Kelleher Dwyer  
Superintendent of Insurance

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**SALUTATION**

June 2, 2020

Ms. Elizabeth Kelleher Dwyer  
Superintendent of Insurance  
State of Rhode Island and Providence Plantations  
Department of Business Regulation  
1511 Pontiac Avenue, Bldg. 69-2  
Cranston, Rhode Island 02920

Dear Superintendent Dwyer:

In accordance with your instructions and pursuant to Chapters 13.1 and 35 of Title 27 of the General Laws of the State of Rhode Island, an examination has been made as of December 31, 2018, of the financial condition and affairs of

**PROVIDENCE WASHINGTON INSURANCE COMPANY**

located at 475 Kilvert Street, Suite 330, Warwick, Rhode Island. The report of such examination is herewith submitted.

Providence Washington Insurance Company (also referred to as “PWIC” or the “Company”) was previously examined as of December 31, 2013, and both the current and prior examinations were conducted by the Insurance Division of the State of Rhode Island (“Insurance Division”).

## SCOPE OF EXAMINATION

The last examination of the Company covered the three-year period of January 1, 2011 through December 31, 2013. The current examination covered the five-year period of January 1, 2014 through December 31, 2018 and was performed in compliance with the above mentioned sections of the General Laws of the State of Rhode Island, as amended. We conducted our examination in accordance with the National Association of Insurance Commissioners (“NAIC”) *Financial Condition Examiners Handbook* (“Handbook”), and it was performed in conjunction with the full scope coordinated multi-state risk-focused examination (“Coordinated Exam”) of the Enstar Group. The lead state for the Coordinated Exam was Delaware. The states of New York, Oklahoma, Rhode Island, and Texas participated in the Coordinated Exam, which included the following insurers:

Name of Insurer	State of Domicile
Clarendon National Insurance Company	Texas
Pavonia Life Insurance Company of New York	New York
<b>Providence Washington Insurance Company</b>	<b>Rhode Island</b>
StarStone National Insurance Company	Delaware
StarStone Specialty Insurance Company	Delaware
Yosemite Insurance Company	Oklahoma

The Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company and evaluate system controls and procedures used to mitigate those risks. 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, and general information about the insurer 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.

#### **SUMMARY OF SIGNIFICANT FINDINGS**

There were no material adverse or significant non-compliance findings noted during the examination conducted as of December 31, 2018.

#### **COMPANY HISTORY**

The Company is the outgrowth of two companies; namely, the Providence Insurance Company and the Washington Insurance Company that were incorporated by Acts of the General Assembly of the State of Rhode Island on January 5, 1799 and January 10, 1800, respectively.

The Act to incorporate the stockholders of the Providence Insurance Company and the Washington Insurance Company into one company by the name of Providence Washington Insurance Company was passed by the General Assembly of the State of Rhode Island at its February Session in 1820.

In 1982, through a series of transactions, PW Holdings, Inc. (“PWH”) was formed, and all issued and outstanding shares of capital stock of PWIC were contributed to PWH.

On October 23, 1998, control of PWIC was transferred in a transaction approved by order of the Insurance Division dated October 19, 1998, pursuant to which all of the outstanding shares of the voting securities of Baloise U.S. Holdings, Inc. (parent of PW Holdings, Inc.,) that was the sole shareholder of PWIC, were sold to PW Acquisition Company.

On July 20, 2010, a 100% interest in PW Acquisition Company was sold to PWAC Holdings, Inc., a holding company that is wholly owned by Enstar Group Limited (Bermuda). During 2015, there were several consolidations of insurance holding companies, such that PW Acquisition Co. was merged into PWAC Holdings, Inc., which in turn was merged into Enstar Holdings (US) Inc. Following these consolidations, all outstanding shares of the Company were immediately owned or controlled by Enstar Holdings (US) Inc., an insurance holding company domiciled in the State of Delaware. On December 28, 2017, Enstar Holdings (US) Inc. converted from a Delaware corporation into a Delaware limited liability company and changed its name to Enstar (US)

Holdings LLC. The Company and the aforementioned entities are ultimately owned by Enstar Group Ltd.

During 2012, American Concept Insurance Company, a wholly owned subsidiary of the Company, was merged with and into the Company, with the latter being the surviving entity.

As of March 31, 2014, Capital Assurance Company, Inc. (“Capital”), an affiliated property & casualty insurer domiciled in Florida and a wholly owned subsidiary of Sun Gulf Holdings, was merged into the Company. As of December 31, 2014, York Insurance Company (“York”), a wholly owned subsidiary property & casualty insurer domiciled in Rhode Island, was merged into the Company. As of March 31, 2015, Seaton Insurance Company (“Seaton”), an affiliated property & casualty insurer domiciled in Rhode Island and a wholly owned subsidiary of Virginia Holdings Ltd, was merged into the Company. Prior to merger, Seaton was a multiline property and casualty insurance company. Subsequent to the merger, the Company continues to run off Seaton’s discontinued book of reinsurance assumed business and Seaton's discontinued book of facultative and special risks business.

The Company had previously entered into a voluntary runoff on May 28, 2004 and undertook actions to cease writing new and renewal business at the earliest possible date. For the year ending December 31, 2018, the Company had no direct written premium, a minimal amount of assumed written premium, and ceded written premium of \$37,897,298.

## MANAGEMENT AND CONTROL

### Stockholders

The Bylaws provide that the annual meeting shall be held prior to or on April 30<sup>th</sup> in each and every year, for the purpose of electing Directors and transacting such other business as may be properly presented. Special meetings may be called at any time by the President, by order of the Board of Directors, or by a stockholder or group of stockholders holding at least ten percent (10%) of the outstanding shares. At all meetings of the stockholders, each share of common stock shall be entitled to one (1) vote.

The Bylaws stipulate that two-thirds (2/3) of the shares of issued and outstanding capital stock, entitled by the Articles of Incorporation and by applicable Rhode Island statutes to vote on the business proposed to be transacted at such meeting of stockholders, represented by the holders of record thereof in person or by proxy, shall constitute a quorum for the transaction of business.

### Board of Directors

The Bylaws provide that the property, affairs and business of the Company shall be managed by the Board of Directors (“Board”), and the Board shall have, and may exercise, all of the powers of the Company, except such as are conferred by the Bylaws upon the stockholders. The Board shall have the power by vote to create such committee or committees of Directors, Officers, employees, or other persons designated by it for the purpose of advising with the Board, and the Officers and employees of the Company in all such matters as the Board shall deem advisable and with such sanctions and duties as the Board by vote may prescribe.

The Bylaws stipulate that the number of Directors shall be fixed from time to time by the stockholders at any meeting called for such purpose. Each director shall be elected each year by a majority vote of the stockholders present in person or by proxy at the annual meeting of the stockholders and shall hold office until the next annual meeting of stockholders and until his successor is elected and qualified. Vacancies occurring in the Board may be filled by a majority of the remaining members of the Board or by the stockholders at any meeting called for such purpose, and any director so elected shall hold office until the next annual meeting of stockholders and until his successor is elected and qualified.

Regular meetings of the Board shall be held at least four (4) times per year, immediately following the annual meetings of the stockholders and at three (3) other dates as may be fixed by the resolution of the Board. Special meetings of the Board may be held at any time or place upon the call of the chairman of the Board, or of the President, or of any two members of the Board, or unanimous consent of the Board. The attendance at a meeting of a majority of the duly elected and qualified Directors shall constitute a quorum for the transaction of business at such meeting.

The members of the Board together with the principal business or professional affiliation of each director was as follows at December 31, 2018:

<b>Name</b>	<b>Business Affiliation</b>	<b>Term Expires</b>
Paul Brockman	Enstar (US) Inc - President	2019
Robert Redpath	Enstar (US) Inc - Sr. Vice President & US Legal Director	2019
Richard Seelinger	Enstar (US) Inc - Sr. Vice President & Chief Operating Officer	2019
Teresa Reali	Enstar (US) Inc - Sr. Vice President and Client Director	2019
Jennifer Miu	Enstar (US) Inc – Sr. Vice President & Chief Financial Officer	2019

Committees

The Bylaws also provide that the Board may, by resolution adopted by a majority of the Board, designate an executive committee and such other standing and special committees as may be necessary or desirable to manage the affairs of the Company, fix the number of members thereof, and specify the duties thereof. At December 31, 2018, the only standing committee of the Board was an investment committee which was comprised of the following individuals:

**Investment Committee**

- Paul Brockman
- Teresa Reali
- Jennifer Miu

## Officers

The Bylaws provide that the Officers of the Company shall consist of the Chairman of the Board, the President, the Corporate Secretary, the Treasurer, and such Vice Presidents, Assistant Vice Presidents, Assistant Corporate Secretaries, Assistant Treasurers, and other Officers as may be elected by the Board or appointed by the Chairman of the Board. Any two or more offices may be held by the same person, except that the duties of the President and the Corporate Secretary shall not be performed by one person. The Chairman of the Board and the President shall be chosen from the Board of Directors.

The Officers of the Company specifically designated above shall be elected annually by the Board to hold office until the next annual meeting of the stockholders and until other Officers are elected.

The Officers serving, and their respective titles at December 31, 2018, are as follows:

<b>Name</b>	<b>Title</b>
Paul Brockman	President / Chief Executive Officer / Chairman
Jennifer Miu	Chief Financial Officer
Teresa Reali	Treasurer and Vice President
Thomas Balkan	Corporate Secretary
Richard Seelinger	Senior Vice President
Robert Redpath	Senior Vice President
Louis Dimopoulos	Sr. Vice President - Tax Officer
Nadja Stavenhagen	Assistant Secretary
Sharon Fletcher	Assistant Vice President

## Organizational Structure

At December 31, 2018, 100% of the issued and outstanding common capital stock of the Company is owned by Enstar Holdings (US) LLC, an insurance holding company domiciled in the State of Delaware. Enstar Holdings (US) LLC is ultimately owned by Enstar Group Ltd., a Bermuda corporation, the ultimate controlling entity in the holding company system.

The following represents an abbreviated organizational chart as of December 31, 2018, which illustrates the identities and interrelationships between the Company, its parent, affiliated insurers and other members of the holding company system:

<u>Company</u>	<u>Domicile</u>	<u>% Owned</u>
Enstar Group Limited	Bermuda	
Kenmare Holdings Ltd.	Bermuda	100%
Enstar (US Asia-Pac) Holdings Limited	UK	100%
Enstar USA, Inc.	Georgia (USA)	100%
Enstar Holdings (US) LLC	Delaware (USA)	100%
<b>Providence Washington Insurance Company</b>	<b>Rhode Island (USA)</b>	<b>100%</b>

## **Intercompany Agreements**

### *Insurance Services Management Agreement*

Effective October 1, 2013, the Company<sup>1</sup> entered into a service agreement with Enstar (US) Inc. Enstar (US) Inc. provides, or arranges for the provision of, all services necessary or appropriate in connection with the management and operation of the Company and its run-off business<sup>2</sup>.

### *Tax Sharing Agreement*

Effective July 21, 2010, the Company and its two wholly owned subsidiaries became parties to the existing Tax Sharing Agreement (“Tax Agreement”) between Enstar Holdings (US) Inc. and various affiliates (individually, the “Members,” collectively, the “Consolidated Group”). Under the terms of the Tax Agreement, the allocation to the Members is based on the separate tax return calculations except the benefits related to utilization of losses and credits, that are allocated to the Member generating such attributes to the extent the losses and credits are utilized in the consolidated federal income tax return for the applicable tax year.

Under the terms of the Tax Agreement, any obligation of a Member owed to another Member of the Consolidated Group shall be paid within thirty (30) days of the payment of any tax due, including estimated taxes or taxes owed in the event of a redetermination of taxes, or within thirty (30) days of any tax refund actually received.

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<sup>1</sup> The Company’s former subsidiary, York Insurance Company (“York”) was also a party to the agreement but York was subsequently merged with and into the Company and ceased to exist.

<sup>2</sup> On April 16<sup>th</sup>, 2020, the Company entered into a revised service agreement with Enstar (US) with substantially similar terms.

Effective December 31, 2018, the Company became a party to a Tax Sharing Agreement between Enstar USA, Inc. and various affiliates (individually, the members. The purpose of the Tax Sharing Agreement was to replace Enstar Holdings (US) Inc. (n/k/a Enstar Holdings (US) LLC) which was the party in the previous tax sharing agreement with a new parent of the consolidated tax group, Enstar USA, Inc. The agreement establishes methods for (1) allocating the consolidated federal income tax liabilities of the affiliated group among its members, (2) reimbursing Enstar USA for payment of such liability, (3) compensating any member for use of its losses or tax credits, and (4) providing for the allocation and payment of any refund arising from a carryback of losses or tax credits from subsequent tax years.

#### Reinsurance Agreements

The company has the following intercompany reinsurance agreements in effect at December 31, 2018:

1. Reinsurance Agreement between Fitzwilliam Insurance Limited (in respect of segregated cell No. 19) and Seaton Insurance Company dated April 7th, 2010.
2. 100% Quota Share Reinsurance Agreement between Fitzwilliam Insurance Limited (in respect of segregated cell No. 30), Enstar Group Limited and Providence Washington Insurance Company dated November 4, 2013 and amended on June 9th, 2016.
3. 100% Quota Share Reinsurance Agreement between Fitzwilliam Insurance Limited (in respect of segregated cell No. 30), Enstar Group Limited and Providence Washington Insurance Company dated November 13, 2013 with respect to ROA.
4. 100% Quota Share Reinsurance Agreement between Fitzwilliam Insurance Limited (in respect of segregated cell No. 30) and Providence Washington Insurance Company dated 27th June, 2016.
5. 100% Quota Share Reinsurance and Insurance Business Transfer Agreement between the Company and Yosemite Insurance Company, effective as of December 31, 2018.

Additional information on the intercompany reinsurance agreements is provided in the Reinsurance Section below.

### **TERRITORY AND PLAN OF OPERATIONS**

On May 28, 2004, the Company announced to the public and its agency force its intentions to enter into a self-administered runoff. A runoff plan was prepared by management and reviewed with representatives of the Rhode Island Insurance Division. Withdrawal plans were approved by each state in which the Company is licensed to operate, and an orderly process of non-renewal commenced shortly thereafter. New business ceased immediately upon the announcement of the rating downgrade to B- by A.M. Best on May 30, 2004. The Company worked aggressively with agents, policyholders, and mortgagors to remarket virtually all of the in-force business subsequent to the runoff announcement.

A new management team was identified to prepare for and manage the runoff. It continues to be the intent of the Company to abide by all state rules and regulations as they pertain to this self-administered managed runoff. The Company intends to maintain sufficient staffing to perform all required functions related to policyholder services, billing and collections, claims administration and financial reporting. Runoff activities are anticipated to continue for many years, specifically in claims administration and financial reporting.

At December 31, 2018, the Company continues to be licensed to transact business in forty-eight (48) jurisdictions. Certain jurisdictions have requested Stipulation and Consent Orders not to engage in new business without specific authorization; however, there are no plans to write new business in the future.

### **REINSURANCE**

The Company protected itself from excessive losses through reinsurance on both treaty and facultative bases. Although the reinsurer is liable to the Company to the extent of the reinsurance ceded, the Company remains primarily liable to the policyholders as the direct insurer on all risks reinsured. The Company evaluated the financial condition of its reinsurers to minimize its exposure to losses from reinsurer insolvencies.

As a result of the Company's announcement to enter into a self-administered managed runoff, the Company's lead reinsurer provided notification of cancellation of reinsurance effective July 31, 2004 for the Property Per Risk Treaty and Casualty Excess of Loss Treaty. Effective September 1, 2004, the Umbrella Treaty was canceled on a runoff basis. The Company replaced the canceled reinsurance with no lapse in coverage. Effective August 1, 2004, the Company's Property Per Risk Treaty covered in force, new and renewal policies with total limits of \$5,500,000 excess of \$500,000 per risk. The Casualty Per Occurrence Treaty provided clash protection of \$9,000,000 excess of \$1,000,000 and an additional \$10,000,000 excess \$10,000,000 for workers' compensation. There was a two-policy warranty, which applied to all casualty business other than workers' compensation.

The Umbrella Treaty was not replaced. Effective August 1, 2005, the Company's Property Per Risk Treaty covered new and renewal policies with limits of \$750,000 excess of \$500,000. The clash protection provided by the Casualty Per Occurrence Treaty remained in effect for policies written with effective dates prior to August 1, 2005. All reinsurance was terminated or lapsed when the Company's in force premium expired. The termination of reinsurance has no impact on reinsurance recoverables as of December 31, 2018.

Effective January 1, 1995 and amended on August 25, 1997, April 1, 1999, April 13, 2005 and June 1, 2006, the Company and its subsidiaries entered into a Quota Share Reinsurance Treaty ("Pooling Agreement") whereby the lead company, Providence Washington Insurance Company, assumed all business from York Insurance Company and American Concept Insurance Company. During 2012, American Concept Insurance Company, a wholly owned subsidiary of the Company, was merged with and into the Company, with the latter being the surviving entity. In accordance with the Pooling Agreement, all accident year premiums, losses and expenses, and all other reinsurance activity including any involving the coverages noted in the preceding paragraphs, were pooled and the business is retroceded back to the pool members in the following quota share percentages:

Providence Washington Insurance Company	Eighty-eight percent (88%)
York Insurance Company	Twelve percent (12%)

Due to the merger of York Insurance Company into Providence Washington Insurance Company, the pooling arrangement has been discontinued as of December 31, 2014.

Effective April 3, 2013, the Company entered into a Workers Compensation Assignment and Assumption Agreement with American Physicians Assurance Corporation and AP Specialty Insurance Company (Doctors 1) which the Company reports as retroactive reinsurance. The agreement calls for the Company to take on all obligations and administrative responsibilities associated with a specified group of expired policies and outstanding claims. In addition, the Company received all the rights and benefits with third party ceded reinsurance previously attached to the assumed liabilities to be assigned to the Company.

Effective January 15, 2015, the Company entered into a Workers Compensation loss portfolio agreement Reciprocal of America, in Receivership, which the Company reports as retroactive reinsurance. The agreement obligates the Company to take on all obligations and administrative responsibilities associated with the expired policies and outstanding claims. In addition, the Company received all the rights and benefits associated with ceded reinsurance agreements. Concurrent with this agreement, the Company entered into a 100% net quota share retroactive reinsurance agreement with Fitzwilliam Insurance Ltd. (“Fitzwilliam”), an affiliate of Enstar Group.

Effective November 30, 2016, the Company entered into a Workers Compensation Assignment and Assumption Agreement with The Doctors Company and American Healthcare indemnity Company (“Doctors 2”) which the Company reports as retroactive reinsurance. The agreement called for the Company to take on all obligations and administrative responsibilities associated

with the expired policies and outstanding claims. In addition, the Company received all the rights and benefits associated with ceded reinsurance agreements.

Effective June 8, 2016, the Company entered into a reinsurance agreement with Fitzwilliam with an inception date of January 1, 2016. Pursuant to the agreement, Fitzwilliam reinsures on a 100% quota share basis, net of recoveries with limits equal to 150% of premium arising from the Doctors 1 and Doctors 2 agreements and Workers Compensation business underwritten by the Company.

Effective December 31, 2018, the Company entered into a Net Retained Liability Agreement (“NRLA”) with an affiliate, Yosemite Insurance Company (“YIC”), whereby PWIC cedes 100% net liability arising from all business written by the company prior to the date of the agreement.

Following the merger of Seaton Insurance Company into Providence Washington Company, the Company has additional coverage relating to the Reinsurance Assumed (“RA”) and Facultative and Special Risk (“FASR”) books of business. Below is a summary of the Company’s principal ceded treaties.

**'RA' Book of Business**

<u>Contract *</u>	<u>Term</u>	<u>Description</u>
Incare Casualty Assumed Excess of Loss Treaty	7/1/79 - 6/30/84	\$900,000 excess \$100,000
Casualty Excess of Loss Cover (Clash)	7/1/72 - 6/30/74	\$750,000 excess \$250,000
	7/1/74 - 6/30/79	\$1,000,000 excess \$250,000
	7/1/79 - 6/30/85	\$1,250,000 excess \$250,000

**'FASR' Book of Business**

<u>Contract *</u>	<u>Term</u>	<u>Description</u>
16/26/36/46/76/86	4/1/72 - 12/31/74	Second Casualty Excess of Loss Treaty (\$1,000,000 excess \$1,000,000)
17/27/37/47/77/87	4/1/72 - 12/31/74	Third Casualty Excess of Loss Treaty (\$3,000,000 excess \$2,000,000)
65	1/1/75 - 12/31/76	First Casualty Gap (No Exception) (\$500,000 excess \$500,000)
66	1/1/75 - 12/31/76	Second Casualty Gap (No Exception) (\$1,000,000 excess \$1,000,000)
67	1/1/75 - 12/31/76	Third Casualty Gap (No Exception) (\$3,000,000 excess \$2,000,000)

*\* List is comprised of significant active treaties. Inactive treaties have been excluded. Also, facultative certificates have also been excluded as they are policy specific.*

In addition to the reinsurance contracts summarized above, effective July 1, 1993, Seaton entered into a Quota Share Reinsurance Agreement (“Quota Share Agreement”) with Unigard Insurance Company (“UIC”), a former affiliate. Under the Quota Share Agreement, UIC assumed 100% of Seaton’s continuing insurance operations business, net premiums written and related losses. The Quota Share Agreement also provided for UIC to convert all of the Seaton’s continuing insurance operations business to UIC policies as soon as reasonably practicable. In connection with the foregoing, Seaton entered into a service agreement with UIC, whereby UIC will service continuing operations policies covered under the Quota Share Agreement. All of this business is currently in run-off.

On December 3, 2009, Columbia Insurance Company, an indirect subsidiary of Berkshire Hathaway Inc. and an affiliate of National Indemnity Company (“NICO”) entered into a stock purchase agreement with Stonewall Acquisition Corporation and certain of its affiliates to acquire all of the outstanding capital stock of Stonewall Insurance Company from Stonewall Acquisition Corporation. Seaton was also owned by Stonewall Acquisition Corp. The sale transaction closed on April 7, 2010. In conjunction with this sale transaction, the aggregate reinsurance agreement between Seaton and NICO was commuted on April 7, 2010. The commutation proceeds were to be paid by NICO to the Company over a five-year period under the terms of a Promissory Note. The final payment under the Promissory Note was made on December 31, 2014. Concurrent with this commutation, the Company entered into a retroactive reinsurance agreement with Fitzwilliam. The Fitzwilliam agreement provides for \$43,000,000 of coverage in excess of an attachment point, protecting the RA and FASR books of business discussed under the ‘Territory and Plan of

Operation' caption. The Fitzwilliam agreement also provides for capital support payments should the Company's surplus fall below \$6,000,000.

## **FINANCIAL STATEMENTS**

The following financial statements are based on the statutory financial statements filed by the Company with the State of Rhode Island Department of Business Regulation and present the financial condition of the Company for the period ending December 31, 2018. The accompanying comments on financial statements reflect examination adjustments to the amounts reported in the annual statements and should be considered an integral part of the financial statements:

Comparative Statement of Assets  
December 31, 2018 and December 31, 2013

Comparative Statement of Liabilities and Capital and Surplus  
December 31, 2018 and December 31, 2013

Statement of Revenue and Expenses  
Year Ended December 31, 2018

Reconciliation of Capital and Surplus  
December 31, 2013 to December 31, 2018

Analysis of Examination Adjustments  
December 31, 2018

**PROVIDENCE WASHINGTON INSURANCE COMPANY**

**Comparative Statement of Assets**

**December 31, 2018 and December 31, 2013**

	<u>December 31,</u> <u>2018</u>	<u>December 31,</u> <u>2013</u>	<u>Increase</u> <u>(Decrease)</u>
Bonds	\$95,744,846	\$91,129,093	\$4,615,753
Common stocks	-	9,438,862	(9,438,862)
Cash, cash equivalents, and short-term investments	3,493,535	12,803,027	(9,309,492)
Other Invested Assets	11,164,249	6,730,629	4,433,620
Investment income due and accrued	747,865	454,430	293,435
Uncollected premiums and agents' balances in the course of collection		279,005	(279,005)
Amounts recoverable from reinsurers	2,398,734	3,019,146	(620,412)
Funds held by or deposited with reinsured companies	186,792	-	186,792
Other amounts receivable under reinsurance contracts	2,604,313		2,604,313
Current federal and foreign income tax recoverable and interest thereon		490,235	(490,235)
Net deferred tax asset	1,505,332		1,505,332
Receivables from parent, subsidiaries, and affiliates		60,335	(60,335)
Aggregate write-ins for other than invested assets		154,373	(154,373)
Total Assets	<u>\$117,845,666</u>	<u>\$124,559,135</u>	<u>(\$6,713,469)</u>

**PROVIDENCE WASHINGTON INSURANCE COMPANY**  
**Comparative Statement of Liabilities and Capital and Surplus**  
**December 31, 2018 and December 31, 2013**

	<u>December 31,</u> <u>2018</u>	<u>December 31,</u> <u>2013</u>	<u>Increase</u> <u>(Decrease)</u>
Losses	-	\$32,632,849	(\$32,632,849)
Reinsurance payable on paid losses and loss adjustment expenses	\$3,946,475	1,850,696	2,095,779
Loss adjustment expense		19,429,973	(19,429,973)
Commissions payable, contingent commissions, and other similar charges	(3,946,475)	-	(3,946,475)
Other expenses (excluding taxes, licenses, and fees)	9,546,453	6,904,917	2,641,536
Taxes, licenses, and fees (excluding federal and foreign income taxes)		556,812	(556,812)
Ceded reinsurance premiums payable		1,074,172	(1,074,172)
Funds held by company under reinsurance treaties	70,114,971		70,114,971
Provision for reinsurance	1,340,045	421,238	918,807
Payable to parent, subsidiaries, and affiliates	18,174,789		18,174,789
Aggregate write-ins for other liabilities	(1,750,508)	32,632,035	(34,382,543)
Total Liabilities	<u>\$97,425,750</u>	<u>\$95,502,692</u>	<u>\$1,923,058</u>
Aggregate write-ins for special surplus funds			
Common capital stock	5,021,200	5,021,200	-
Gross paid in and contributed surplus	80,329,828	80,233,079	96,749
Unassigned funds (surplus)	(64,931,112)	(56,197,837)	(8,733,275)
Total Capital and Surplus	<u>\$20,419,916</u>	<u>\$29,056,442</u>	<u>(\$8,636,526)</u>
Total Liabilities, Capital and Surplus	<u>\$117,845,666</u>	<u>\$124,559,134</u>	<u>(\$6,713,468)</u>
	-	-	

**PROVIDENCE WASHINGTON INSURANCE COMPANY**

**Statement of Revenue and Expenses**

**December 31, 2018**

**Underwriting Income:**

Premiums earned \$ (37,896,881)

**Deductions:**

Losses incurred (32,639,864)

Loss adjustment expenses incurred (3,467,647)

Other underwriting expenses incurred 4,257,685

Total underwriting deductions (31,849,826)

Net underwriting gain (loss) (6,047,055)

**Investment Income:**

Net investment income earned 4,098,381

Net realized capital gains (losses)  
less capital gains tax (1,173,471)

Net investment gain (loss) 2,924,910

**Other Income:**

Aggregate write-ins for miscellaneous income 3,345,387

Total other income 3,345,387

Net income, after dividends to policyholders, after  
capital gains tax, and before all other federal  
and foreign income taxes 223,242

Federal and foreign income taxes incurred -

Net income \$ 223,242

**PROVIDENCE WASHINGTON INSURANCE COMPANY**

**Reconciliation of Capital and Surplus**  
**December 31, 2013 to December 31, 2018**

**Capital/Surplus Change During Examination Period**

Capital and Surplus, December 31, 2013:

Providence Washington Insurance Company	\$ 29,056,443
Capital Assurance Company, Inc. <sup>1</sup>	7,584,857
Seaton Insurance Company <sup>2</sup>	8,137,018

	<u>Gains</u>	<u>Losses</u>	
Net income	31,150,535		
Change in net unrealized capital gains	1,797,577		
Change in net deferred income tax	5,113,968		
Change in nonadmitted assets		5,892,119	
Change in provision for reinsurance	2,814,951		
Dividends to stockholders		30,054,861	
Surplus adjustments		30,762,225	
Aggregate write-in for surplus gains or (losses)	<u>1,473,777</u>	<u>                    </u>	
Total Gains and Losses	<u>42,350,808</u>	<u>66,709,205</u>	
Net change in Capital and Surplus for the period			<u>(24,358,402)</u>
Capital and Surplus, December 31, 2018			<u>\$ 20,419,916</u>

<sup>1</sup> Merged into Providence Washington Insurance Company as of March 31, 2014.

<sup>2</sup> Merged into Providence Washington Insurance Company as of March 31, 2015.

**PROVIDENCE WASHINGTON INSURANCE COMPANY**

Analysis of Examination Adjustments

December 31, 2018

The examination of Providence Washington Insurance Company, performed as of December 31, 2018, did not disclose any material misstatements to the financial statements contained in its 2018 Annual Statement filing. Accordingly, the amounts reported by the Company have been accepted for purposes of this report.

**COMMENTS ON FINANCIAL STATEMENTS**

**Bonds**

**\$ 95,744,846**

The above amount is the net admitted value of bonds held by the Company at December 31, 2018 and is the same amount reported by the Company in its 2018 Annual Statement. All the bonds are held in accordance with the terms of custodial agreements with third-party financial institutions.

The quality ratings of all securities included in the Company’s bond portfolio were reviewed based upon criteria established by the National Association of Insurance Commissioners (“NAIC”). It was noted that 78.9% of the bond portfolio represented class NAIC-1, which are bonds of the “highest” quality, according to the NAIC rating system, 20.6% were NAIC-2, and 0.6% were NAIC-3.

The book value, fair value, actual cost and par value of the bond portfolio at December 31, 2018, are as follows:

<u>Book/Adjusted Carrying Value</u>	<u>Fair Value</u>	<u>Actual Cost</u>	<u>Par Value</u>
\$95,744,846	\$91,455,648	\$97,041,649	\$97,470,074

**Other invested assets****\$ 11,164,249**

The above amount is the same amount reported by the Company in its 2018 Annual Statement.

The Company's other invested assets are composed of \$10,369,968 (92.9%) in limited partnership and limited liability companies (unaffiliated), \$700,000 (6.3%) in surplus debentures (unaffiliated), and \$94,281 (0.8%) in other classes of assets (unaffiliated).

**Actuarially Determined Assets and (Liabilities)**

Losses	\$ 0
Loss adjustment expenses	0

The significant actuarially determined amounts above are the same as those reported in the Company's 2018 Annual Statement. The calculations prepared by the Company were reviewed by INS Consultants, Inc., consulting actuaries retained by the State of Delaware on behalf of the Coordinated Exam. INS Consultants, Inc. relied upon the underlying data reported by the Company, and their analyses included a review of the actuarial assumptions and methods used by the Company in determining the reserves, and such tests of actuarial calculations as deemed necessary.

In assisting INS Consultants, Inc. with their analysis, the examiners either independently performed or relied upon the procedures performed by the Company's independent accounting firm to verify the integrity of the underlying claims data, including completeness and accuracy testing. A combination of subjective and statistical sampling techniques was utilized in testing the claims data, as deemed appropriate.

INS Consultants, Inc. reviewed the actuarially determined liabilities as of December 31, 2018 and rendered an opinion that the amounts carried in the balance sheet as of December 31, 2018, are fairly stated.

**Funds held by company under reinsurance treaties** **\$ 70,114,971**

The above amount is the same amount reported by the Company in its 2018 Annual Statement. The balance is composed primarily of funds held under the reinsurance treaty with affiliates Yosemite Insurance Company (\$38,284,000) and Fitzwilliam Insurance Ltd. (\$31,807,000).

#### **SUBSEQUENT EVENTS**

A review of financial information, Company records, and the minutes to the Board of Directors' meetings and its various committees for the period subsequent to the examination period was performed to ascertain whether any subsequent events have occurred which would have a material impact on the Company's operations or financial statements. In addition, an inquiry was made of the Company's management regarding subsequent events. Based upon our review, there were three significant events which have either occurred or are anticipated to occur, subsequent to December 31, 2018 as follows:

- 1.) On February 15, 2019, the company transferred \$17,937,433 to its affiliate, Yosemite Insurance Company, as payment for a dividend declared to its parent, Enstar Holdings (US), Inc.

- 2.) As previously described, the Company entered into a Net Retained Liabilities Agreement (“NRLA”) effective December 31, 2018 with the affiliate, YIC whereby PWIC ceded 100% of net liability arising from all business written and assumed by PWIC prior to the date of the agreement. The NRLA required approval from the insurance departments of each of the Companies’ state of domicile. Both the Oklahoma and Rhode Island departments of insurance regulation approved the NRLA agreement. This agreement follows the original terms and conditions of PWIC’s underlying insurance policies and third-party reinsurance agreements. This agreement aligned with and preceded an intended Insurance Business Transfer (“IBT”) agreement. Under the proposed IBT Plan, PWIC intends to effectively transfer the Subject Business to Yosemite, and all third-party agreements will remain in effect, with Yosemite being the ceding insurer in place of PWIC. The Transferring Business consists of all of the insurance and reinsurance business underwritten by PWIC, the transferring insurer, including any business underwritten by a predecessor or merged entity. Under the proposed IBT Plan, PWIC intends to effectively transfer the Subject Business to Yosemite, and all third-party agreements will remain in effect, with Yosemite being the assuming insurer in place of PWIC<sup>3</sup>. The final hearing date for the IBT in the Oklahoma courts was initially scheduled for May 13, 2020, however, due to the impact of the COVID-19 pandemic, has been re-scheduled to October 15<sup>th</sup>, 2020.
- 3.) On March 11, 2020, the World Health Organization declared the spreading coronavirus (“COVID-19”) outbreak a pandemic. On March 13, 2020, U.S. President Donald J. Trump

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<sup>3</sup> Policies in states where Yosemite is not yet licensed will be transferred at a later date.

declared the coronavirus pandemic a national emergency in the United States. The epidemiological threat posed by COVID-19 is having disruptive effects on the economy, including disruption of the global supply of goods, reduction in the demand for labor, and reduction in the demand for U.S. products and services, resulting in a sharp increase in unemployment. The economic disruptions caused by COVID-19 and the increased uncertainty about the magnitude of the economic slowdown has also caused extreme volatility in the financial markets.

The full effect of COVID-19 on the U.S. and global insurance and reinsurance industry is still unknown at the time of releasing this report. The Rhode Island Department of Business Regulation, Insurance Division (the “Insurance Division”), is expecting the COVID-19 outbreak to impact a wide range of insurance products resulting in coverage disputes, reduced liquidity of insurers, and other areas of operations of insurers. The Insurance Division and all insurance regulators, with the assistance of the National Association of Insurance Commissioners (“NAIC”), are monitoring the situation through a coordinated effort and will continue to assess the impacts of the pandemic on U.S. insurers. The Insurance Division has been in communication with the Enstar Group regarding the impact of COVID-19 on its business operations and financial position, including its Crisis Management Governance & Oversight Framework in place to ensure a consistent approach to crisis management across all business segments and key business continuity towers. Per summary analysis, at this time there are no significant concerns with the Group’s financial solvency, liquidity or business continuity plans.

## CONCLUSION

We have applied verification procedures to the data and information contained in this report using sampling techniques and other examination procedures as deemed appropriate. While sampling and other examination procedures do not give complete assurance that all errors and irregularities will be detected, had any been detected during the course of this examination, such errors and/or irregularities would have been disclosed in this report. Other than what has been noted in the body of this report, we were not informed of, and did not become aware of any errors or irregularities that could have a material effect on the financial condition of the Company as presented in this report.

Participating in the examination with the undersigned were various insurance examiners from the Rhode Island Insurance Division. In addition, acknowledgment is made of INS Regulatory Insurance Services, Inc. and its related companies, INS Consultants, Inc. and INS Services, Inc., for the services rendered to assist with the examination by providing consulting financial examiners, actuaries and information technology specialists.

Respectfully submitted,



David Carter, CFE, CIE, FLMI, MCM  
Insurance Examiner-In-Charge  
INS Regulatory Insurance Services, Inc., on behalf of the  
Rhode Island Insurance Division