

Examination Warrant Number 19-04794-11703-A1  
19-04794-11219-A1  
19-04794-12274-A1

**Report of Examination of**  
**Lackawanna Casualty Company**  
**Lackawanna American Insurance Company**  
**Lackawanna National Insurance Company**  
**Wilkes-Barre, Pennsylvania**

**As of December 31, 2019**

*For Informational Purposes Only*

# Lackawanna Insurance Group

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Harrisburg, Pennsylvania  
May 17, 2021

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

Dear Madam:

In accordance with instructions contained in Examination Warrant Numbers 19-04794-11703-A1, 19-04794-11219-A1, and 19-04794-12274-A1 dated January 29, 2020, an examination was made of

**Lackawanna Casualty Company, NAIC Code: 11703**

**Lackawanna American Insurance Company, NAIC Code: 11219**

**Lackawanna National Insurance Company, NAIC Code: 12274**

Pennsylvania domiciled, multi-state, property and casualty companies hereinafter referred to as “LIG” or “Companies”.

A report of this group examination is hereby respectfully submitted.

### **SCOPE OF EXAMINATION**

The Pennsylvania Insurance Department (“Department”) has performed an examination of the Companies, which were last examined as of December 31, 2015. This examination covered the four-year period from January 1, 2016 through December 31, 2019.

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

The Handbook requires that the Department plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Companies, 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 Companies 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

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of such adjustment will be documented separately following each 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 Companies.

For the years of 2016, 2017, and 2018, the certified public accounting firm of Baker Tilly Virchow Krause, LLP provided an unmodified audit opinion on the Companies' year-end consolidated financial statements based on statutory accounting principles. For the year 2019, the certified public accounting firm of PricewaterhouseCooper LLP ("CPA") provided an unmodified audit opinion on the Companies' year-end consolidated financial statements based on statutory accounting principles. Relevant work performed by the CPA, during its annual audit of the Companies, was reviewed during the examination and incorporated into the examination workpapers.

The following companies were examined at the same time during the above examination:

<u>Company</u>	<u>NAIC Code</u>	<u>Domestic State</u>
Delaware Life Insurance Company	79065	Delaware
Delaware Life Reinsurance Company	15690	Delaware
Clear Spring Health Insurance Company	78301	Arizona
Eon Health, Inc.	16005	Georgia
Community Care Alliance of Illinois, Inc.	15209	Illinois
Clear Spring Health of Illinois, Inc.	16278	Illinois
Delaware Life Insurance Company of New York	72664	New York
Clear Spring Property and Casualty Company	15563	Texas
Clear Spring Health VA, Inc.	16534	Virginia

### HISTORY

Lackawanna Casualty Company ("LCC") was incorporated on July 6, 1942, licensed by the Department on October 6, 1942, and commenced business on or about November 1, 1942.

Lackawanna American Insurance Company ("LAIC") was incorporated on July 8, 1999, licensed by the Department on May 9, 2002, and commenced business on or about July 1, 2002.

Lackawanna National Insurance Company ("LNIC") was incorporated on October 1, 2003, licensed by the Department and commenced business on or about May 17, 2005.

As of December 31, 2019, LCC is authorized to transact those classes of insurance described in 40 P.S. § 382(c)(1) Fidelity and Surety, (c)(4) Other Liability, and (c)(14) Workers' Compensation.

As of December 31, 2019, LAIC is authorized to transact the class of insurance described in 40 P.S. § 382(c)(14) Workers' Compensation.

As of December 31, 2019, LNIC is authorized to transact the class of insurance described in 40 P.S. § 382(c)(14) Workers' Compensation.

## **MANAGEMENT AND CONTROL**

### **CAPITALIZATION**

As of December 31, 2019, LCC's total capital was \$130,136,716, consisting of 220,000 capital shares of issued and outstanding class A voting common stock with a par value of \$5.00 per share and 214,286 capital shares of issued and outstanding class B voting common stock with no par value amounting to \$1,100,001; \$3,010,371 in gross paid in and contributed surplus; and \$126,026,344 in unassigned funds (surplus).

LCC's minimum capital and minimum surplus requirements for the types of business for which it is licensed, pursuant to 40 P.S. § 386, is \$1,000,000 in capital and \$500,000 in surplus. LCC has met all governing requirements throughout the examination period.

As of December 31, 2019, LAIC's total capital was \$52,414,022, consisting of 7,000 capital shares of issued and outstanding class A voting common stock and 3,000 capital shares of issued and outstanding class B voting common stock with an implied value of \$300 per share amounting to \$3,000,001; \$7,136,783 in gross paid in and contributed surplus; and \$42,277,238 in unassigned funds (surplus).

LAIC's minimum capital and minimum surplus requirements for the type of business for which it is licensed, pursuant to 40 P.S. § 386, is \$750,000 in capital and \$375,000 in surplus. LAIC has met the minimum capital and minimum surplus requirements throughout the examination period.

As of December 31, 2019, LNIC's total capital was \$20,273,567, consisting of 7,000 capital shares of issued and outstanding class A voting common stock and 3,000 capital shares of issued and outstanding class B voting common stock with an implied par value of \$150 per share amounting to \$1,500,001; \$3,500,000 in gross paid in and contributed surplus; and \$15,273,566 in unassigned funds (surplus).

LNIC's minimum capital and minimum surplus requirements for the type of business for which it is licensed, pursuant to 40 P.S. § 386, is \$750,000 in capital and \$375,000 in surplus. LNIC has met the minimum capital and minimum surplus requirements throughout the examination period.

### **STOCKHOLDERS**

Delaware Life Insurance Company ("DLIC"), a for-profit corporation organized under the laws of the State of Delaware, directly owns all of the issued and outstanding class A and class B voting common stock of LCC representing 100% of the voting securities of LCC.

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LCC directly owns all of the issued and outstanding class A and class B voting common stock of LAIC and LNIC representing 100% of the voting securities of each company.

During the examination period, LCC paid to stockholders the following total cash dividends each year:

<u>Year</u>	<u>Ordinary</u>	<u>Extraordinary</u>
2016	\$3,000,000	\$0
2017	\$5,000,000	\$0
2018	\$0	\$0
2019	\$0	\$0

LCC reported all dividends to the Department in compliance with 40 P.S. § 991.1404(e).

During the examination period, LAIC and LNIC did not pay any dividends to stockholders.

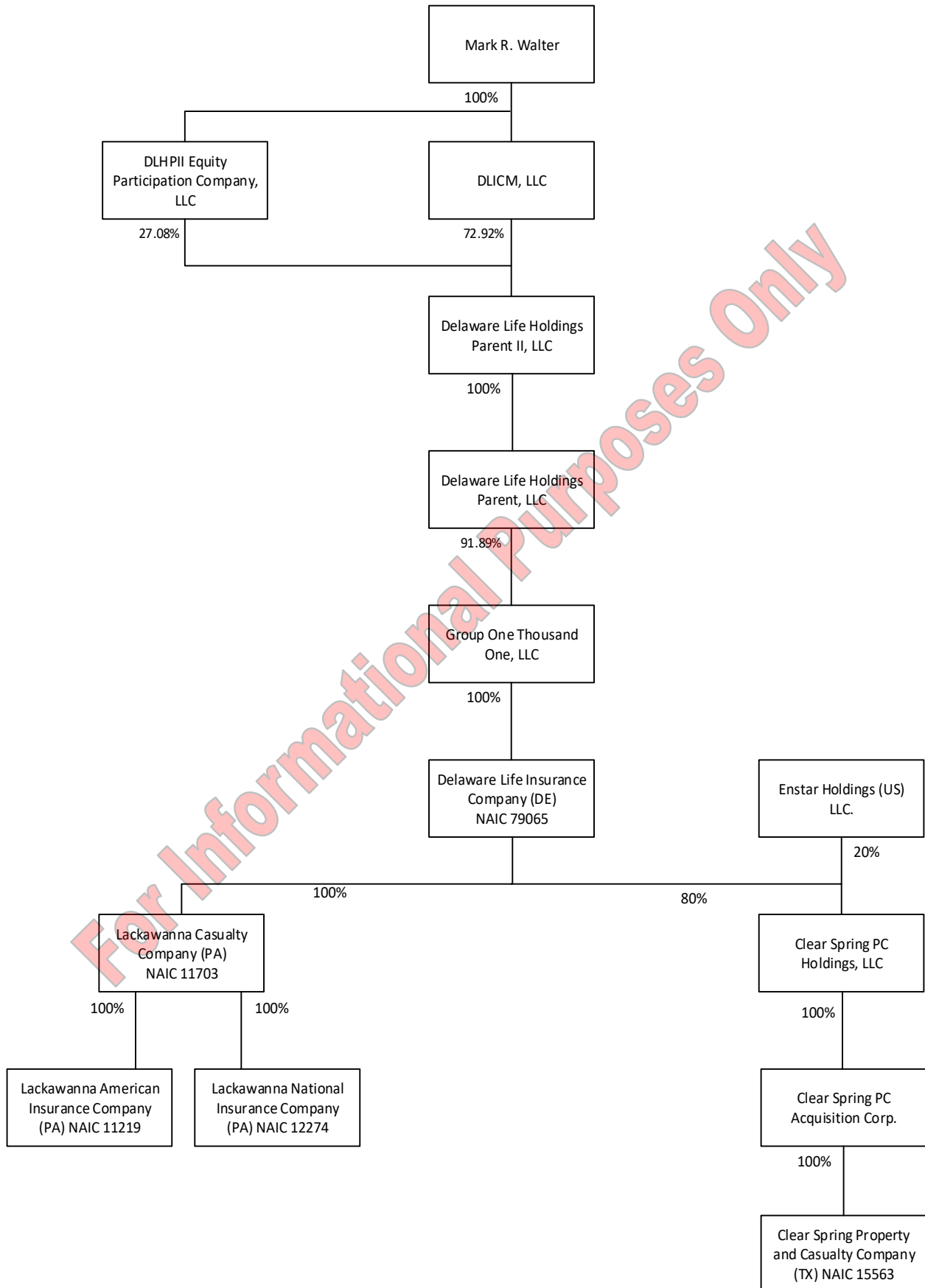
### **INSURANCE HOLDING COMPANY SYSTEM**

The Companies meet the requirements for filing an insurance holding company system annual registration statement (“Annual Registration Statement”), in accordance with 40 P.S. § 991.1404. For each year of the examination period, the Companies filed the required Annual Registration Statement by March 31.

The organizational chart below depicts the Companies’ direct and indirect ownership within its holding company system as of December 31, 2019. The organizational chart does not depict all entities contained within the holding company system due to the size and complexity of the business operations within the holding company system. The holding company system consists of various insurance and non-insurance entities.

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Mark R. Walter is named as the ultimate controlling entity/person of the holding company system.

Mr. Walter holds 100% of the controlling interests in DLHP II Equity Participation Company, LLC (“DEPC”), a Delaware limited liability company, and DLICM, LLC (“DLICM”), a Delaware limited liability company.

Together, DEPC and DLICM hold 100% of the controlling interests in Delaware Life Holdings Parent II, LLC (“DLHP II”), a Delaware limited liability company.

DLHP II holds 100% of the controlling interests in Delaware Life Holdings Parent, LLC (“DLHP”), a Delaware limited liability company.

DLHP holds 91.8% controlling interests in Group One Thousand One, LLC (“GOTO”), a Delaware limited liability company, and GOTO holds 100% of the issued and outstanding common stock of DLIC, a Delaware life insurance company.

DLIC also owns an 80% controlling interest in Clear Spring PC Holdings, LLC (“CSPH”), a Delaware limited liability company. Enstar Holdings (U.S.) LLC, a Delaware limited liability corporation, owns the remaining 20% controlling interest.

CSPH owns 100% of the issued and outstanding common stock of Clear Spring PC Acquisition Corp. (“CSPAC”), a Delaware corporation.

CSPAC owns 100% of the issued and outstanding common stock Clear Spring Property and Casualty Company, a Texas-domiciled insurance company.

As of the examination date, the Companies were not in compliance with 40 P.S. § 991.1405(c)(3)(i), (ii), (4), (4.1), and (5) as relates to independence requirements and the duties that are required to be performed by an independent committee.

*It is recommended that the Companies become compliant with all requirements outlined under 40 P.S. § 991.1405(c)(3)(i), (ii), (4), (4.1), and (5) as relates to committee independence requirements and the duties that are required to be performed by an independent committee.*

## BOARD OF DIRECTORS

Management of the Companies is vested in their Board of Directors (“Board”), which was comprised of the following members as of December 31, 2019:

<b>Name and Address</b>	<b>Principal Occupation</b>
Michael Camilleri Boca Raton, Florida	Chief Executive Officer and President Lackawanna Insurance Group

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Victor E. Akin Carmel, Indiana	Senior Vice President and Chief Actuary Delaware Life Insurance Company
Michael S. Bloom Portsmouth, New Hampshire	Senior Vice President and General Counsel Delaware Life Insurance Company
Michael K. Moran Bedford, Massachusetts	Senior Vice President and Chief Accounting Officer Delaware Life Insurance Company
James D. Purvis Carmel, Indiana	Chief Operating Officer Delaware Life Insurance Company
Bradford J. St. Pierre, Jr. Cumming, Georgia	Chief Actuary Clear Spring Property and Casualty Company
Daniel J. Towriss Zionsville, Indiana	Chief Executive Officer and President Delaware Life Insurance Company

Directors are elected at the annual meeting of the shareholders and each director elected holds office until his or her successor is elected and qualified.

### COMMITTEES

As of December 31, 2019, there were no committees appointed by the Companies' Board.

### OFFICERS

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

<b>Name</b>	<b>Title</b>
Michael Camilleri	Chief Executive Officer and President
John S. Maloney	Chief Financial Officer and Treasurer
Scott A. Hanfling	Secretary

### CORPORATE RECORDS

#### MINUTES

A compliance review of corporate minutes revealed the following:

- The annual meetings of the Companies' stockholders were held in compliance with their by-laws.
- The stockholders elect directors at such meetings in compliance with the by-laws.
- Quorums were present at all directors' meetings.
- The Companies' investment transactions are approved quarterly by the Board.
- The majority of directors attend board meetings regularly.

- The Companies' board minutes show approval of its reinsurance contracts.

## **ARTICLES OF INCORPORATION**

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

## **BY-LAWS**

LCC, LAIC and LNIC made numerous revisions and restated their by-laws, which were adopted by their respective Boards on November 15, 2019.

## **SERVICE AND OPERATING AGREEMENTS**

The Companies are parties to various service and operating agreements, which includes intercompany and related-party agreements. The following are significant affiliated agreements in effect as of December 31, 2019.

### **Cost Sharing Agreements**

Effective January 1, 2011, LCC and LAIC entered into a Cost Sharing Agreement. The agreement sets forth administrative services to be provided by LCC to LAIC and sets forth the expenses to be shared and payment terms.

Effective January 1, 2011, LCC and LNIC entered into a Cost Sharing Agreement. The agreement sets forth administrative services to be provided by LCC to LNIC and sets forth the expenses to be shared and payments terms.

### **Tax Allocation Agreement**

Effective January 1, 2011, LCC, LAIC and LNIC entered into a Tax Allocation Agreement. The agreement sets forth the terms of the calculation of the federal tax liabilities of LAIC and LNIC to be paid to LCC and payment terms.

### **Administrative Services Agreements**

Effective July 1, 2019, LIG and Clear Spring Property and Casualty Company ("CSPC") entered into an Administrative Services Agreement. The agreement sets forth the services to be provided and payment terms. This agreement was approved by the Companies' Boards on June 27, 2019. The Department approved the Form D filing for this agreement on September 10, 2019.

Effective October 1, 2019, LCC and CSPC entered into an Administrative Services Agreement. The agreement sets forth the services to be provided and payment terms. This agreement was approved by the Companies' Boards on June 27, 2019. The Department approved the Form D filing for this agreement on March 11, 2020.

The following are significant non-affiliated agreements in effect as of December 31, 2019.

**Master Services Agreement**

Effective November 19, 2010, the Companies and Premier Comp Solutions LLC (“Premier”) entered into a Master Services Agreement. Under this agreement, Premier provides workers' compensation services to the Companies including, but not limited to, panel development services, on-site panel implementation and orientation for policyholders, appointment scheduling of panel physician, physical therapy, and diagnostic services, daily intake reports, claimant work status communications, discounted physical therapy and diagnostic network access, medical bill review and repricing, Preferred Provider Organization network access, and compilation and transmittal of bill review data to comply with Pennsylvania's Medical Data Call requirements.

**Investment Management Agreements**

Effective February 11, 2002, LCC and Berkshire Asset Management Inc. (“Berkshire”) entered into an Asset Management Agreement. Under this agreement, Berkshire acts as an asset manager with full discretion as to all investment decisions regarding any assets that LCC has specified as being subject to management by Berkshire.

There are three separate Investment Manager Agreements with Sage Advisory Services, Ltd. (“Sage”) dated March 27, 2001, with LCC, dated February 22, 2002, with LAIC, and dated December 29, 2015, with LNIC. Under these agreements, Sage supervises and directs, in its full discretion, investment decisions on behalf of LIG account assets in accordance with the terms of LIG’s investment guidelines.

**REINSURANCE**

**CEDED**

LCC’s ceded premium for 2019 was \$47,891,980 which is approximately 37% of its surplus. LCC’s net amount recoverable for 2019 was approximately \$62,251,000. As of December 31, 2019, LCC had \$32,376 outstanding due recoverables from its reinsurers.

LAIC’s ceded premium for 2019 was \$56,093,204 which is approximately 107% of its surplus. LAIC’s net amount recoverable for 2019 was approximately \$116,061,000. As of December 31, 2019, LAIC had \$0 outstanding due recoverables from its reinsurers.

LNIC’s ceded premium for 2019 was \$22,815,723 which is approximately 113% of its surplus. LNIC’s net amount recoverable for 2019 was approximately \$36,501,000. As of December 31, 2019, LNIC had \$0 outstanding due recoverables from its reinsurers.

**Pooling Agreement**

Effective July 1, 2002, LCC and LAIC entered into a Proportional Reinsurance Agreement (“Pooling Agreement”). Effective January 7, 2005, the Pooling Agreement was revised to include LNIC. For policies effective July 1, 2002 through September 30, 2005, the pooling participation shares for LCC and LAIC are 70% and 30%, respectively. For policies

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effective October 1, 2005 and forward, the pooling participation shares for LCC, LAIC, and LNIC are 70%, 20% and 10%, respectively.

Effective August 1, 2019, the Pooling Agreement was amended to include CSPC. The pooling percentages for LCC, CSPC, LAIC, and LNIC are 48%, 23%, 21%, and 8% respectively.

The Pooling Agreement provides for CSPC, LAIC and LNIC to cede and for LCC to accept automatically from inception all gross liabilities under policies and contracts issued. In return, LCC shall retrocede and CSPC, LAIC and LNIC shall assume their proportional share of premium collections and gross liabilities.

### Excess of Loss Agreement

Effective May 1, 2018, the Companies entered into a Workers Compensation Excess of Loss reinsurance agreement with General Reinsurance Corporation (“Gen Re”). The contract remains in effect until terminated. The Companies’ retention under the agreement is \$2,000,000. Gen Re’s reinsurance limits are as follows:

First Excess Cover:	\$3,000,000/occurrence \$12,000,000/agreement year
Second Excess Cover:	\$5,000,000/occurrence \$20,000,000/agreement year
Third Excess Cover:	\$5,000,000/occurrence \$15,000,000/agreement year
Fourth Excess Cover:	\$5,000,000/occurrence \$10,000,000/agreement year

The Companies did not utilize a reinsurance intermediary in securing this coverage.

The Companies’ reinsurance contracts contain the proper insolvency and arbitration clauses. Additionally, the contracts transfer risk as outlined in Statement of Statutory Accounting Principles No. 62R.

### **ASSUMED**

The Companies do not assume any reinsurance from non-affiliates.

### **TERRITORY AND PLAN OF OPERATION**

The Companies are licensed solely in Pennsylvania and primarily write workers’ compensation coverage on a direct basis. LCC writes a nominal amount of surety business. Additionally, the Companies assume small amounts of other liability, private passenger auto liability, and auto physical damage through the Pooling Agreement. Due to assuming this business from its affiliate, CSPC, a Texas-domiciled insurer, the Companies are now classified as multi-state insurers.

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The Companies currently market business through a force of independent producers and their marketing philosophy has not significantly changed during the examination period. The Companies maintain focus on small to medium sized businesses in the low to moderate hazard classes of business in the following markets: manufacturing, healthcare, auto dealers, restaurants, retail operations, wholesale operations, hospitality, artisan contractors, colleges/universities, trucking, and other service-related companies.

The following charts illustrate the direct and assumed and ceded premium amounts by lines of business for each of the Companies for the year ended December 31, 2019:

### Lackawanna Casualty Co.

Line of Business	Direct and Assumed Premium	Ceded Premium	Net Written Premium	Percentage of Total
<b>December 31, 2019</b>				
Workers' compensation	\$ 113,164,936	\$ 45,485,816	\$ 67,679,120	96.9%
Other liability - occurrence	23,373	12,154	11,219	0.0%
Private passenger auto liability	3,605,062	1,874,632	1,730,430	2.5%
Auto physical damage	998,804	519,378	479,426	0.7%
Surety	(45,006)	0	(45,006)	-0.1%
<b>Totals</b>	<b>\$ 117,747,169</b>	<b>\$ 47,891,980</b>	<b>\$ 69,855,189</b>	<b>100.0%</b>

### Lackawanna American Ins Co.

Line of Business	Direct and Assumed Premium	Ceded Premium	Net Written Premium	Percentage of Total
<b>December 31, 2019</b>				
Workers' compensation	\$ 78,675,138	\$ 56,093,204	\$ 22,581,934	95.9%
Other liability - occurrence	4,908	0	4,908	0.0%
Private passenger auto liability	757,063	0	757,063	3.2%
Auto physical damage	209,749	0	209,749	0.9%
<b>Totals</b>	<b>\$ 79,646,858</b>	<b>\$ 56,093,204</b>	<b>\$ 23,553,654</b>	<b>100.0%</b>

### Lackawanna National Ins Co.

Line of Business	Direct and Assumed Premium	Ceded Premium	Net Written Premium	Percentage of Total
<b>December 31, 2019</b>				
Workers' compensation	\$ 32,992,855	\$ 22,815,723	\$ 10,177,132	96.5%
Other liability - occurrence	1,870	0	1,870	0.0%
Private passenger auto liability	288,405	0	288,405	2.7%
Auto physical damage	79,904	0	79,904	0.8%
<b>Totals</b>	<b>\$ 33,363,034</b>	<b>\$ 22,815,723</b>	<b>\$ 10,547,311</b>	<b>100.0%</b>

## SIGNIFICANT OPERATING RATIOS AND TRENDS

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

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### Lackawanna Casualty Co.

	<b>Amount</b>	<b>Percentage</b>
Premiums earned	318,104,192	100.0 %
Losses incurred	211,571,399	66.5 %
Loss expenses incurred	25,028,051	7.9 %
Other underwriting expenses incurred	56,855,204	17.9 %
Net underwriting gain or (loss)	24,649,538	7.7 %
Totals	318,104,192	100.0 %

### Lackawanna American Ins Co.

	<b>Amount</b>	<b>Percentage</b>
Premiums earned	91,781,085	100.0 %
Losses incurred	60,822,884	66.2 %
Loss expenses incurred	7,725,801	8.4 %
Other underwriting expenses incurred	15,747,664	17.2 %
Net underwriting gain or (loss)	7,484,736	8.2 %
Totals	91,781,085	100.0 %

### Lackawanna National Ins Co.

	<b>Amount</b>	<b>Percentage</b>
Premiums earned	45,559,038	100.0 %
Losses incurred	30,337,604	66.6 %
Loss expenses incurred	3,565,607	7.8 %
Other underwriting expenses incurred	7,894,214	17.3 %
Net underwriting gain or (loss)	3,761,613	8.3 %
Totals	45,559,038	100.0 %

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

	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>
Admitted assets	\$ 280,645,496	\$ 253,119,442	\$ 240,203,500	\$ 227,090,185
Liabilities	\$ 150,508,780	\$ 146,552,886	\$ 147,119,536	\$ 138,513,078
Surplus as regards policyholders	\$ 130,136,716	\$ 106,566,556	\$ 93,083,964	\$ 88,577,107
Gross premium written	\$ 117,747,169	\$ 118,619,230	\$ 118,121,557	\$ 118,285,098
Net premium written	\$ 69,855,189	\$ 81,092,784	\$ 80,762,213	\$ 80,911,204
Underwriting gain/(loss)	\$ 8,089,789	\$ 7,979,537	\$ 3,510,829	\$ 5,069,383
Investment gain/(loss)	\$ 6,596,559	\$ 4,865,192	\$ 5,014,402	\$ 3,619,618
Other gain/(loss)	\$ 104,479	\$ 119,439	\$ 79,930	\$ 82,852
Net income	\$ 12,545,059	\$ 9,903,559	\$ 6,493,263	\$ 6,282,704

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

	2019	2018	2017	2016
Admitted assets	\$ 94,740,411	\$ 92,961,652	\$ 89,842,151	\$ 86,260,143
Liabilities	\$ 42,326,389	\$ 46,021,822	\$ 46,029,530	\$ 44,588,558
Surplus as regards policyholders	\$ 52,414,022	\$ 46,939,830	\$ 43,812,621	\$ 41,671,585
Gross premium written	\$ 79,646,858	\$ 86,105,780	\$ 89,118,692	\$ 90,703,946
Net premium written	\$ 23,553,654	\$ 23,179,498	\$ 23,040,956	\$ 23,088,240
Underwriting gain/(loss)	\$ 3,265,071	\$ 1,769,534	\$ 1,022,685	\$ 1,427,446
Investment gain/(loss)	\$ 3,224,130	\$ 1,975,362	\$ 2,208,391	\$ 1,782,152
Other gain/(loss)	\$ 30,344	\$ 34,169	\$ 22,274	\$ 25,303
Net income	\$ 5,401,846	\$ 3,078,258	\$ 2,554,903	\$ 2,460,886

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

	2019	2018	2017	2016
Admitted assets	\$ 39,653,531	\$ 39,005,545	\$ 38,929,593	\$ 37,687,069
Liabilities	\$ 19,379,964	\$ 21,202,396	\$ 22,750,690	\$ 22,469,979
Surplus as regards policyholders	\$ 20,273,567	\$ 17,803,149	\$ 16,178,903	\$ 15,217,090
Gross premium written	\$ 33,363,034	\$ 36,254,046	\$ 35,273,263	\$ 33,092,196
Net premium written	\$ 10,547,311	\$ 11,589,749	\$ 11,520,478	\$ 11,544,737
Underwriting gain/(loss)	\$ 1,369,938	\$ 1,166,525	\$ 511,699	\$ 713,451
Investment gain/(loss)	\$ 1,481,679	\$ 751,983	\$ 895,199	\$ 720,364
Other gain/(loss)	\$ 14,939	\$ 17,084	\$ 11,137	\$ 12,651
Net income	\$ 2,479,959	\$ 1,603,051	\$ 1,169,195	\$ 1,144,011

### PENDING LITIGATION

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

### FINANCIAL STATEMENTS

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

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

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

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

### Lackawanna Casualty Co.

	2019	2018	2017	2016
Bonds	\$ 119,017,437	\$ 113,738,978	\$ 98,507,018	\$ 88,342,932
Common stocks	101,452,261	88,129,637	83,897,455	76,532,436
Mortgage loans on real estate	5,480,168	5,600,814	5,713,328	5,818,254
Cash, cash equivalents, and short term investments	13,014,848	5,682,444	10,793,282	9,991,908
Other invested assets	3,558,906	4,546,867	4,352,680	6,425,363
Receivable for securities	0	0	0	606,253
Subtotals, cash and invested assets	242,523,620	217,698,740	203,263,763	187,717,146
Investment income due and accrued	1,423,624	1,427,158	1,296,897	1,167,291
Premiums and agents' balances due	26,783,946	24,036,275	23,637,971	23,585,083
Amounts recoverable from reinsurers	32,376	(13,433)	176,886	196,832
Funds held by or deposited with reinsured companies	7,681,306	0	0	0
Current federal and foreign income tax recoverable and interest thereon	0	241,817	0	0
Net deferred tax asset	1,597,582	2,859,364	1,670,308	3,276,270
Electronic data processing equipment and software	80,848	53,083	86,288	36,803
Receivable from parent, subsidiaries and affiliates	935	6,566,774	9,943,159	11,103,545
Aggregate write-ins for other than invested assets	521,259	249,664	128,228	7,215
Total	\$ 280,645,496	\$ 253,119,442	\$ 240,203,500	\$ 227,090,185
Losses	\$ 92,371,854	\$ 91,810,643	\$ 90,972,981	\$ 84,623,728
Reinsurance payable on paid loss and loss adjustment expenses	123,518	0	0	0
Loss adjustment expenses	11,597,925	11,344,854	11,447,482	10,499,229
Commissions payable, contingent commissions and other similar charges	1,953,341	2,262,745	2,202,567	2,210,654
Other expenses	2,817,373	4,027,098	4,862,120	3,325,933
Taxes, licenses and fees	(5,979)	93,638	58,168	224,291
Current federal and foreign income taxes	847,541	0	152,695	493,217
Unearned premiums	27,806,630	35,258,563	34,422,863	35,113,645
Advance premium	676,043	489,288	864,455	935,178
Ceded reinsurance premiums payable (net of ceding commissions)	9,548,590	240,096	254,219	282,050
Amounts withheld or retained by company for account of others	47,355	81,915	104,833	104,897
Payable to parent, subsidiaries and affiliates	2,701,069	0	0	0
Payable for securities	0	912,886	1,740,701	651,736
Aggregate write-ins for liabilities	23,520	31,160	36,452	48,520
Total liabilities	150,508,780	146,552,886	147,119,536	138,513,078
Common capital stock	1,100,001	1,100,001	1,100,001	1,100,001
Gross paid in and contributed surplus	3,010,371	500,000	500,000	500,000
Unassigned funds (surplus)	126,026,344	104,966,555	91,483,963	86,977,106
Surplus as regards policyholders	130,136,716	106,566,556	93,083,964	88,577,107
Totals	\$ 280,645,496	\$ 253,119,442	\$ 240,203,500	\$ 227,090,185

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

**Lackawanna American Ins Co.**

	2019	2018	2017	2016
Bonds	\$ 79,120,905	\$ 78,747,605	\$ 76,231,956	\$ 68,333,859
Cash, cash equivalents, and short term investments	5,472,168	5,319,570	4,845,234	8,581,067
Receivable for securities	0	0	0	360,773
Subtotals, cash and invested assets	<u>84,593,073</u>	<u>84,067,175</u>	<u>81,077,190</u>	<u>77,275,699</u>
Investment income due and accrued	924,165	962,697	969,820	859,718
Premiums and agents' balances due	5,760,172	6,863,603	6,753,880	6,738,596
Net deferred tax asset	1,145,760	1,040,442	978,094	1,386,130
Receivable from parent, subsidiaries and affiliates	2,317,241	0	0	0
Aggregate write-ins for other than invested assets	0	27,735	63,167	0
Total	<u>\$ 94,740,411</u>	<u>\$ 92,961,652</u>	<u>\$ 89,842,151</u>	<u>\$ 86,260,143</u>
Losses	\$ 25,861,513	\$ 25,496,803	\$ 25,048,818	\$ 23,125,145
Loss adjustment expenses	3,993,114	3,738,023	3,380,119	3,095,384
Commissions payable, contingent commissions and other similar charges	558,097	646,499	629,305	631,615
Other expenses	31,500	23,000	14,500	6,000
Taxes, licenses and fees	166,312	26,753	0	51,379
Current federal and foreign income taxes	769,652	236,210	46,866	31,082
Unearned premiums	10,556,909	10,043,398	9,777,994	9,989,453
Advance premium	193,154	139,797	246,987	267,194
Ceded reinsurance premiums payable (net of ceding commissions)	186,835	140,044	139,318	137,469
Amounts withheld or retained by company for account of others	9,303	11,234	6,235	2,953
Payable to parent, subsidiaries and affiliates	0	5,124,763	6,456,123	6,874,436
Payable for securities	0	395,298	283,265	376,448
Total liabilities	<u>42,326,389</u>	<u>46,021,822</u>	<u>46,029,530</u>	<u>44,588,558</u>
Common capital stock	3,000,001	3,000,001	3,000,001	3,000,001
Gross paid in and contributed surplus	7,136,783	7,136,783	7,136,783	7,136,783
Unassigned funds (surplus)	<u>42,277,238</u>	<u>36,803,046</u>	<u>33,675,837</u>	<u>31,534,801</u>
Surplus as regards policyholders	52,414,022	46,939,830	43,812,621	41,671,585
Totals	<u>\$ 94,740,411</u>	<u>\$ 92,961,652</u>	<u>\$ 89,842,151</u>	<u>\$ 86,260,143</u>

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

## Lackawanna National Ins Co.

	2019	2018	2017	2016
Bonds	\$ 32,412,122	\$ 32,659,878	\$ 30,783,986	\$ 29,076,140
Cash, cash equivalents, and short term investments	3,080,672	2,006,133	3,841,755	4,161,337
Receivable for securities	0	0	0	21,420
Subtotals, cash and invested assets	<u>35,492,794</u>	<u>34,666,011</u>	<u>34,625,741</u>	<u>33,258,897</u>
Investment income due and accrued	379,503	388,064	402,608	348,668
Premiums and agents' balances due	2,880,085	3,431,802	3,376,939	3,369,297
Current federal and foreign income tax recoverable and interest thereon	0	0	11,041	23,261
Net deferred tax asset	517,319	505,801	480,680	686,946
Receivable from parent, subsidiaries and affiliates	383,830	0	0	0
Aggregate write-ins for other than invested assets	0	13,867	32,584	0
Total	<u>\$ 39,653,531</u>	<u>\$ 39,005,545</u>	<u>\$ 38,929,593</u>	<u>\$ 37,687,069</u>
Losses	\$ 12,618,506	\$ 12,470,917	\$ 12,221,866	\$ 11,227,927
Loss adjustment expenses	1,618,413	1,527,194	1,597,135	1,453,387
Commissions payable, contingent commissions and other similar charges	279,049	323,249	314,652	315,808
Other expenses	15,750	11,500	7,250	3,000
Taxes, licenses and fees	23,304	13,377	0	17,189
Current federal and foreign income taxes	266,277	152,174	0	0
Unearned premiums	4,381,060	5,021,699	4,888,997	4,994,727
Advance premium	96,580	69,898	123,494	133,597
Ceded reinsurance premiums payable (net of ceding commissions)	79,203	70,022	69,659	68,735
Amounts withheld or retained by company for account of others	1,822	266	143	135
Payable to parent, subsidiaries and affiliates	0	1,442,013	3,487,038	4,229,107
Payable for securities	0	100,087	40,456	26,367
Total liabilities	<u>19,379,964</u>	<u>21,202,396</u>	<u>22,750,690</u>	<u>22,469,979</u>
Common capital stock	1,500,001	1,500,001	1,500,001	1,500,001
Gross paid in and contributed surplus	3,500,000	3,500,000	3,500,000	3,500,000
Unassigned funds (surplus)	15,273,566	12,803,148	11,178,902	10,217,089
Surplus as regards policyholders	<u>20,273,567</u>	<u>17,803,149</u>	<u>16,178,903</u>	<u>15,217,090</u>
Totals	<u>\$ 39,653,531</u>	<u>\$ 39,005,545</u>	<u>\$ 38,929,593</u>	<u>\$ 37,687,069</u>

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

## Lackawanna Casualty Co.

Underwriting Income	2019	2018	2017	2016
Premiums earned	\$ 77,053,955	\$ 80,258,608	\$ 81,456,712	\$ 79,334,917
Deductions:				
Losses incurred	46,812,777	53,047,969	56,672,554	55,038,099
Loss expenses incurred	6,475,250	5,595,427	6,826,953	6,130,421
Other underwriting expenses incurred	15,676,139	13,635,675	14,446,376	13,097,014
Total underwriting deductions	68,964,166	72,279,071	77,945,883	74,265,534
Net underwriting gain or (loss)	8,089,789	7,979,537	3,510,829	5,069,383
<b>Investment Income</b>				
Net investment income earned	5,128,908	4,352,379	3,599,416	3,203,592
Net realized capital gains or (losses)	1,467,651	512,813	1,414,986	416,026
Net investment gain or (loss)	6,596,559	4,865,192	5,014,402	3,619,618
<b>Other Income</b>				
Net gain or (loss) from agents' or premium balances charged off	(14,574)	(9,966)	(50,536)	(36,019)
Finance and service charges not included in premiums	116,289	129,555	128,494	124,578
Aggregate write-ins for miscellaneous income	2,764	(150)	1,972	(5,707)
Total other income	104,479	119,439	79,930	82,852
Net income before dividends to policyholders and before federal and foreign income taxes	14,790,827	12,964,168	8,605,161	8,771,853
Dividends to policyholders	114,591	105,937	0	0
Federal and foreign income taxes incurred	2,131,177	2,954,672	2,111,898	2,489,149
Net income	\$ 12,545,059	\$ 9,903,559	\$ 6,493,263	\$ 6,282,704

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

**Lackawanna American Ins Co.**

<b>Underwriting Income</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>
Premiums earned	\$ 22,967,810	\$ 22,914,529	\$ 23,253,477	\$ 22,645,269
Deductions:				
Losses incurred	13,748,991	15,156,563	16,192,158	15,725,172
Loss expenses incurred	2,054,487	1,969,203	1,950,559	1,751,552
Other underwriting expenses incurred	3,899,261	4,019,229	4,088,075	3,741,099
Total underwriting deductions	19,702,739	21,144,995	22,230,792	21,217,823
Net underwriting gain or (loss)	3,265,071	1,769,534	1,022,685	1,427,446
<b>Investment Income</b>				
Net investment income earned	2,500,299	2,218,022	1,972,203	1,678,837
Net realized capital gains or (losses)	723,831	(242,660)	236,188	103,315
Net investment gain or (loss)	3,224,130	1,975,362	2,208,391	1,782,152
<b>Other Income</b>				
Net gain or (loss) from agents' or premium balances charged off	(4,164)	(2,847)	(14,439)	(10,291)
Finance and service charges not included in premiums	34,508	37,016	36,713	35,594
Total other income	30,344	34,169	22,274	25,303
Net income before dividends to policyholders and before federal and foreign income taxes	6,519,545	3,779,065	3,253,350	3,234,901
Dividends to policyholders	32,740	30,268	0	0
Federal and foreign income taxes incurred	1,084,959	670,539	698,447	774,015
Net income	\$ 5,401,846	\$ 3,078,258	\$ 2,554,903	\$ 2,460,886

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**Comparative Statement of Income  
For the Year Ended December 31,**

Lackawanna National Ins Co.	2019	2018	2017	2016
<b>Underwriting Income</b>				
Premiums earned	\$ 11,151,783	\$ 11,457,265	\$ 11,626,739	\$ 11,323,251
Deductions:				
Losses incurred	6,800,659	7,578,281	8,096,079	7,862,585
Loss expenses incurred	979,345	735,208	975,279	875,775
Other underwriting expenses incurred	2,001,841	1,977,251	2,043,682	1,871,440
Total underwriting deductions	9,781,845	10,290,740	11,115,040	10,609,800
Net underwriting gain or (loss)	1,369,938	1,166,525	511,699	713,451
<b>Investment Income</b>				
Net investment income earned	955,226	852,418	793,650	693,265
Net realized capital gains or (losses)	526,453	(100,435)	101,549	27,099
Net investment gain or (loss)	1,481,679	751,983	895,199	720,364
<b>Other Income</b>				
Net gain or (loss) from agents' or premium balances charged off	(2,082)	(1,424)	(7,219)	(5,146)
Finance and service charges not included in premiums	17,021	18,508	18,356	17,797
Total other income	14,939	17,084	11,137	12,651
Net income before dividends to policyholders and before federal and foreign income taxes	2,866,556	1,935,592	1,418,035	1,446,466
Dividends to policyholders	16,370	15,134	0	0
Federal and foreign income taxes incurred	370,227	317,407	248,840	302,455
Net income	\$ 2,479,959	\$ 1,603,051	\$ 1,169,195	\$ 1,144,011

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

**Lackawanna Casualty Co.**

	2019	2018	2017	2016
Surplus as regards policyholders,				
December 31, previous year	\$ 106,566,556	\$ 93,083,964	\$ 88,577,107	\$ 80,830,698
Net income	12,545,059	9,903,559	6,493,263	6,282,704
Net unrealized capital gains or (losses)	11,568,714	2,979,139	4,200,167	4,230,299
Change in net deferred income tax	(337,794)	717,937	(1,314,274)	221,755
Change in nonadmitted assets	(205,819)	(118,043)	127,701	11,651
Surplus adjustments:				
Paid in	2,510,371	0	0	0
Dividends to stockholders	0	0	(5,000,000)	(3,000,000)
Aggregate write-ins for gains and losses in surplus	(2,510,371)	0	0	0
Change in surplus as regards policyholder for the year	23,570,160	13,482,592	4,506,857	7,746,409
Surplus as regards policyholders,				
December 31, current year	\$ 130,136,716	\$ 106,566,556	\$ 93,083,964	\$ 88,577,107

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

**Lackawanna American Ins Co.**

	2019	2018	2017	2016
Surplus as regards policyholders,				
December 31, previous year	\$ 46,939,830	\$ 43,812,621	\$ 41,671,585	\$ 39,148,769
Net income	5,401,846	3,078,258	2,554,903	2,460,886
Net unrealized capital gains or (losses)	9,037	(6,193)	(2,845)	0
Change in net deferred income tax	107,719	60,703	(640,560)	74,388
Change in nonadmitted assets	(44,410)	(5,559)	229,538	(12,458)
Change in surplus as regards policyholder for the year	5,474,192	3,127,209	2,141,036	2,522,816
Surplus as regards policyholders,				
December 31, current year	\$ 52,414,022	\$ 46,939,830	\$ 43,812,621	\$ 41,671,585

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

**Lackawanna National Ins Co.**

	2019	2018	2017	2016
Surplus as regards policyholders,				
December 31, previous year	\$ 17,803,149	\$ 16,178,903	\$ 15,217,090	\$ 14,043,183
Net income	2,479,959	1,603,051	1,169,195	1,144,011
Net unrealized capital gains or (losses)	906	(906)	0	0
Change in net deferred income tax	11,758	24,880	(319,921)	35,736
Change in nonadmitted assets	(22,205)	(2,779)	112,539	(5,840)
Change in surplus as regards policyholder for the year	<u>2,470,418</u>	<u>1,624,246</u>	<u>961,813</u>	<u>1,173,907</u>
Surplus as regards policyholders,				
December 31, current year	<u>\$ 20,273,567</u>	<u>\$ 17,803,149</u>	<u>\$ 16,178,903</u>	<u>\$ 15,217,090</u>

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

## Lackawanna Casualty Co.

	2019	2018	2017	2016
<b>Cash from Operations</b>				
Premiums collected net of reinsurance	\$ 76,194,162	\$ 80,287,259	\$ 80,606,684	\$ 79,055,110
Net investment income	6,093,949	5,335,173	4,610,619	4,247,199
Miscellaneous income	(7,576,827)	119,439	79,930	82,852
Total income	<u>74,711,284</u>	<u>85,741,871</u>	<u>85,297,233</u>	<u>83,385,161</u>
Benefit and loss related payments	46,297,375	52,019,988	50,303,355	51,862,296
Commissions, expenses paid and aggregate write-ins for deductions	23,393,544	20,073,104	18,963,099	18,585,935
Dividends to policyholders	114,591	105,937	0	0
Federal and foreign income taxes paid (recovered)	1,431,954	3,485,502	3,214,340	2,870,852
Total deductions	<u>71,237,464</u>	<u>75,684,531</u>	<u>72,480,794</u>	<u>73,319,083</u>
Net cash from operations	<u>3,473,820</u>	<u>10,057,340</u>	<u>12,816,439</u>	<u>10,066,078</u>
<b>Cash from Investments</b>				
Proceeds from investments sold, matured or repaid:				
Bonds	74,010,398	45,598,972	46,301,476	56,177,608
Stocks	4,070,189	5,667,192	6,444,816	3,225,893
Mortgage loans	120,646	112,512	104,927	97,853
Other invested assets	1,322,741	367,629	2,479,941	470,658
Net gain or (loss) on cash and short-term investments	(33,818)	(5,320)	(1,044)	346
Miscellaneous proceeds	0	0	1,695,218	45,484
Total investment proceeds	<u>79,490,156</u>	<u>51,740,985</u>	<u>57,025,334</u>	<u>60,017,842</u>
Cost of investments acquired (long-term only):				
Bonds	78,870,405	62,406,511	57,276,931	65,076,355
Stocks	4,723,246	6,836,195	7,876,687	2,813,762
Miscellaneous applications	912,887	827,818	37	0
Total investments acquired	<u>84,506,538</u>	<u>70,070,524</u>	<u>65,153,655</u>	<u>67,890,117</u>
Net cash from investments	<u>(5,016,382)</u>	<u>(18,329,539)</u>	<u>(8,128,321)</u>	<u>(7,872,275)</u>
<b>Cash from Financing and Miscellaneous Services</b>				
Other cash provided (applied):				
Capital and paid in surplus, less treasury stock	2,510,371	0	0	0
Dividends to stockholders (paid)	0	0	5,000,000	3,000,000
Other cash provided or (applied)	6,364,595	3,161,361	1,113,256	(3,692,561)
Net cash from financing and miscellaneous sources	<u>8,874,966</u>	<u>3,161,361</u>	<u>(3,886,744)</u>	<u>(6,692,561)</u>
<b>Reconciliation of cash and short-term investments:</b>				
Net change in cash and short-term investments	7,332,404	(5,110,838)	801,374	(4,498,758)
Cash and short-term investments:				
Beginning of the year	5,682,444	10,793,282	9,991,908	14,490,666
End of the year	<u>\$ 13,014,848</u>	<u>\$ 5,682,444</u>	<u>\$ 10,793,282</u>	<u>\$ 9,991,908</u>

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

## Lackawanna American Ins Co.

	2019	2018	2017	2016
<b>Cash from Operations</b>				
Premiums collected net of reinsurance	\$ 24,640,490	\$ 22,958,187	\$ 23,006,146	\$ 22,549,346
Net investment income	3,436,559	3,247,059	2,823,198	2,613,586
Miscellaneous income	30,344	34,169	22,274	25,303
Total income	<u>28,107,393</u>	<u>26,239,415</u>	<u>25,851,618</u>	<u>25,188,235</u>
Benefit and loss related payments	13,384,281	14,708,578	14,268,485	14,525,771
Commissions, expenses paid and aggregate write-ins for deductions	5,639,000	5,578,081	5,799,088	5,454,833
Dividends to policyholders	32,740	30,268	0	0
Federal and foreign income taxes paid (recovered)	743,929	416,689	809,841	650,670
Total deductions	<u>19,799,950</u>	<u>20,733,616</u>	<u>20,877,414</u>	<u>20,631,274</u>
Net cash from operations	<u>8,307,443</u>	<u>5,505,799</u>	<u>4,974,204</u>	<u>4,556,961</u>
<b>Cash from Investments</b>				
Proceeds from investments sold, matured or repaid:				
Bonds	44,674,026	32,459,190	33,865,353	43,892,428
Net gain or (loss) on cash and short-term investments	(14,881)	(939)	(926)	267
Miscellaneous proceeds	0	112,033	267,590	0
Total investment proceeds	<u>44,659,145</u>	<u>32,570,284</u>	<u>34,132,017</u>	<u>43,892,695</u>
Cost of investments acquired (long-term only):				
Bonds	45,002,493	36,310,818	42,363,856	47,603,761
Miscellaneous applications	395,298	0	0	1,174,440
Total investments acquired	<u>45,397,791</u>	<u>36,310,818</u>	<u>42,363,856</u>	<u>48,778,201</u>
Net cash from investments	<u>(738,646)</u>	<u>(3,740,534)</u>	<u>(8,231,839)</u>	<u>(4,885,506)</u>
<b>Cash from Financing and Miscellaneous Services</b>				
Other cash provided (applied):				
Other cash provided or (applied)	(7,416,199)	(1,290,929)	(478,198)	(2,035,910)
Net cash from financing and miscellaneous sources	<u>(7,416,199)</u>	<u>(1,290,929)</u>	<u>(478,198)</u>	<u>(2,035,910)</u>
<b>Reconciliation of cash and short-term investments:</b>				
Net change in cash and short-term investments	152,598	474,336	(3,735,833)	(2,364,455)
Cash and short-term investments:				
Beginning of the year	5,319,570	4,845,234	8,581,067	10,945,522
End of the year	<u>\$ 5,472,168</u>	<u>\$ 5,319,570</u>	<u>\$ 4,845,234</u>	<u>\$ 8,581,067</u>

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

## Lackawanna National Ins Co.

	2019	2018	2017	2016
<b>Cash from Operations</b>				
Premiums collected net of reinsurance	\$ 11,076,518	\$ 11,479,092	\$ 11,503,074	\$ 11,275,289
Net investment income	1,436,234	1,369,882	1,210,224	1,100,955
Miscellaneous income	14,939	17,084	11,137	12,651
Total income	<u>12,527,691</u>	<u>12,866,058</u>	<u>12,724,435</u>	<u>12,388,895</u>
Benefit and loss related payments	6,653,070	7,329,230	7,102,140	7,248,255
Commissions, expenses paid and aggregate write-ins for deductions	2,919,990	2,756,176	2,889,308	2,709,799
Dividends to policyholders	16,370	15,134	0	0
Federal and foreign income taxes paid (recovered)	395,586	127,976	291,303	279,806
Total deductions	<u>9,985,016</u>	<u>10,228,516</u>	<u>10,282,751</u>	<u>10,237,860</u>
Net cash from operations	<u>2,542,675</u>	<u>2,637,542</u>	<u>2,441,684</u>	<u>2,151,035</u>
<b>Cash from Investments</b>				
Proceeds from investments sold, matured or repaid:				
Bonds	20,982,003	16,724,625	17,079,990	11,591,526
Net gain or (loss) on cash and short-term investments	(2,290)	(1,638)	(1,261)	331
Miscellaneous proceeds	0	60,113	35,509	4,947
Total investment proceeds	<u>20,979,713</u>	<u>16,783,100</u>	<u>17,114,238</u>	<u>11,596,804</u>
Cost of investments acquired (long-term only):				
Bonds	20,536,859	19,230,079	19,100,859	19,285,754
Miscellaneous applications	100,569	0	0	0
Total investments acquired	<u>20,637,428</u>	<u>19,230,079</u>	<u>19,100,859</u>	<u>19,285,754</u>
Net cash from investments	<u>342,285</u>	<u>(2,446,979)</u>	<u>(1,986,621)</u>	<u>(7,688,950)</u>
<b>Cash from Financing and Miscellaneous Services</b>				
Other cash provided (applied):				
Other cash provided or (applied)	(1,810,421)	(2,026,185)	(774,645)	2,307,327
Net cash from financing and miscellaneous sources	<u>(1,810,421)</u>	<u>(2,026,185)</u>	<u>(774,645)</u>	<u>2,307,327</u>
<b>Reconciliation of cash and short-term investments:</b>				
Net change in cash and short-term investments	1,074,539	(1,835,622)	(319,582)	(3,230,588)
Cash and short-term investments:				
Beginning of the year	2,006,133	3,841,755	4,161,337	7,391,925
End of the year	<u>\$ 3,080,672</u>	<u>\$ 2,006,133</u>	<u>\$ 3,841,755</u>	<u>\$ 4,161,337</u>

**SUMMARY OF EXAMINATION CHANGES**

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

**NOTES TO FINANCIAL STATEMENTS****ASSETS****INVESTMENTS**

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

**Lackawanna Casualty Co.**

	<b>Amount</b>	<b>Percentage</b>
Bonds	119,017,437	49.1 %
Common stocks	101,452,261	41.8 %
Mortgage loans on real estate	5,480,168	2.3 %
Cash	6,708,483	2.8 %
Cash equivalents	5,198,089	2.1 %
Short-term investments	1,108,276	0.5 %
Other invested assets	3,558,906	1.4 %
Totals	<u>242,523,620</u>	<u>100.0 %</u>

**Lackawanna American Ins Co.**

	<b>Amount</b>	<b>Percentage</b>
Bonds	79,120,905	93.5 %
Cash	2,342,072	2.8 %
Cash equivalents	2,550,383	3.0 %
Short-term investments	579,713	0.7 %
Totals	<u>84,593,073</u>	<u>100.0 %</u>

**Lackawanna National Ins Co.**

	<b>Amount</b>	<b>Percentage</b>
Bonds	32,412,122	91.3 %
Cash	1,089,793	3.1 %
Cash equivalents	1,920,370	5.4 %
Short-term investments	70,509	0.2 %
Totals	<u>35,492,794</u>	<u>100.0 %</u>

## Lackawanna Insurance Group

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

### Lackawanna Casualty Co.

NAIC Designation	Amount	Percentage
1 - highest quality	70,818,061	59.0 %
2 - high quality	48,662,392	40.5 %
3 - medium quality	645,260	0.5 %
Totals	<u>120,125,713</u>	<u>100.0 %</u>

Years to Maturity	Amount	Percentage
1 year or less	4,297,149	3.6 %
2 to 5 years	52,293,029	43.5 %
6 to 10 years	61,909,156	51.5 %
11 to 20 years	1,626,379	1.4 %
Totals	<u>120,125,713</u>	<u>100.0 %</u>

### Lackawanna American Ins Co.

NAIC Designation	Amount	Percentage
1 - highest quality	58,860,857	73.8 %
2 - high quality	20,559,650	25.8 %
3 - medium quality	280,111	0.4 %
Totals	<u>79,700,618</u>	<u>100.0 %</u>

Years to Maturity	Amount	Percentage
1 year or less	2,993,522	3.8 %
2 to 5 years	29,902,209	37.5 %
6 to 10 years	46,080,137	57.8 %
11 to 20 years	724,750	0.9 %
Totals	<u>79,700,618</u>	<u>100.0 %</u>

### Lackawanna National Ins Co.

NAIC Designation	Amount	Percentage
1 - highest quality	29,727,999	91.6 %
2 - high quality	2,711,224	8.3 %
3 - medium quality	43,407	0.1 %
Totals	<u>32,482,630</u>	<u>100.0 %</u>

Years to Maturity	Amount	Percentage
1 year or less	266,850	0.8 %
2 to 5 years	8,768,456	27.0 %
6 to 10 years	23,344,083	71.9 %
11 to 20 years	103,241	0.3 %
Totals	<u>32,482,630</u>	<u>100.0 %</u>

As of December 31, 2019, LCC had approximately 49% of its invested assets in bonds and approximately 42% in common stocks. LCC's bond portfolio is comprised of approximately 99% in investment grade bonds which have maturities of ten years or less.

As of December 31, 2019, LAIC had approximately 94% of its invested assets in bonds. LAIC's bond portfolio is comprised of approximately 100% in investment grade bonds which have maturities of ten years or less.

As of December 31, 2019, LNIC had approximately 91% of its invested assets in bonds. LNIC's bond portfolio is comprised of approximately 100% in investment grade bonds which have maturities of ten years or less.

The Companies each entered into a custodial agreement with US Bank National Association, a national banking association organized under the laws of the United States of America, effective March 17, 2011. The custodial agreements comply with the standards for custodial agreements pursuant to 31 Pa. Code § 148a.3.

The Companies have 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 Companies' Boards. The Companies were following their investment policies at December 31, 2019.

## LIABILITIES

### LOSS AND LOSS ADJUSTMENT EXPENSE RESERVES

The following chart depicts the Companies' reserves for losses and loss adjustment expenses ("LAE") as reported on their December 31, 2019 Annual Statements.

<u>Company</u>	<u>Losses</u>	<u>LAE</u>
LCC	\$ 92,371,854	\$ 11,597,925
LAIC	\$ 25,861,513	\$ 3,993,114
LNIC	\$ 12,618,506	\$ 1,618,413

Kay Kufera, FCAS, MAAA, of Kufera Consulting, Inc. has been LIG's appointed actuary for the entire examination period.

For each year under the examination period, Ms. Kufera issued a Statement of Actuarial Opinion for each company concluding that the reserves made a reasonable provision for all unpaid loss and LAE obligations under the terms of its contacts and agreements.

In order for the examination team to gain an adequate comfort level with the Companies' loss and LAE estimates, the examination team performed a risk-focused review of the Companies' reserving and pricing processes.

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, 2019.

## **SUBSEQUENT EVENTS**

On April 29, 2020, the Companies amended their Articles of Incorporation to restate the par value of the class A and class B common stock.

Effective November 6, 2020, LCC expanded its lines of authority to include 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)(5) Boiler and Machinery, (c)(6) Burglary and Theft, (c)(8) Water Damage, (c)(9) Elevator, (c)(11) Auto Liability, and (c)(12) Mine and Machinery. Effective this same date, LAIC and LNIC expanded their lines of authority to include 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)(5) Boiler and Machinery, (c)(6) Burglary and Theft, (c)(8) Water Damage, (c)(9) Elevator, (c)(11) Auto Liability, and (c)(12) Mine and Machinery.

On November 30, 2020, LCC paid an extraordinary stockholder dividend to DLIC in the amount of \$18,525,124. This dividend was approved by the Department on November 13, 2020.

Effective February 2, 2021, Michael Camilleri resigned as Chief Executive Officer, President, and Director of the Companies. James D. Purvis was appointed as Interim Chief Executive Officer and President of the Companies, effective February 3, 2021.

The director vacancy left by Mr. Camilleri's resignation was filled by Curtis P. Steger, effective March 19, 2021.

Effective March 19, 2021, John Maloney resigned as Chief Financial Officer and Treasurer of the Companies. Melinda Cahill-Hebb was appointed as Chief Accounting Officer and Treasurer, effective April 12, 2021.

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 the following recommendations:

1. It was recommended that the Companies establish a formal process to monitor proposed transactions affecting the direct or indirect control of the Companies and

obtain prior approval or exemption of transactions, when applicable, pursuant to the requirements of 40 P.S. § 991.1402.

*The Companies complied with this recommendation.*

2. It was recommended that the Companies ensure the Annual Registration Statement contains complete and accurate information on all affiliates in compliance with the requirements of 40 P.S. § 991.1404 and 31 Pa. Code § 25.17.

*The Companies complied with this recommendation.*

3. It was recommended that the Companies ensure the Annual Registration Statement completely and accurately identifies all ultimate controlling persons in compliance with the requirements of 40 P.S. § 991.1404 and 31 Pa. Code § 25.1.

*The Companies complied with this recommendation.*

4. It was recommended that all ultimate controlling persons of the Companies comply with the filing requirements of 40 P.S. § 991.1404.

*This recommendation is no longer applicable as the Companies are under a new holding company system effective April 2019.*

5. It was recommended that the Companies ensure that the Schedule Y filed within their future annual and quarterly statements contain complete and accurate information on all affiliates in compliance with NAIC Annual Statement Instructions – Property and Casualty.

*The Companies complied with this recommendation.*

6. It was recommended that the Companies provide prior notice to the Department of transactions subject to the prior notice filing requirements of 40 P.S. § 991.1405 and 31 Pa. Code § 25.21.

*The Companies complied with this recommendation.*

## **CURRENT EXAMINATION**

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

1. *It is recommended that the Companies become compliant with all requirements outlined under 40 P.S. § 991.1405(c)(3)(i), (ii), (4), (4.1), and (5) as relates to committee independence requirements and the duties that are required to be performed by an independent committee. (see “Insurance Holding Company System”, page 6)*

## Lackawanna Insurance Group

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### CONCLUSION

As a result of this examination, the financial condition of the Companies, as of December 31, 2019, was determined to be as follows:

#### Lackawanna Casualty Company

	<b>Amount</b>	<b>Percentage</b>
Admitted assets	280,645,496	100.0 %
Liabilities	150,508,780	53.6 %
Surplus as regards policyholders	130,136,716	46.4 %
Total liabilities and surplus	280,645,496	100.0 %

Since the previous examination, made as of December 31, 2015, LCC's assets increased by \$67,258,738, its liabilities increased by \$17,952,720, and its surplus increased by \$49,306,018.

#### Lackawanna American Insurance Company

	<b>Amount</b>	<b>Percentage</b>
Admitted assets	94,740,411	100.0 %
Liabilities	42,326,389	44.7 %
Surplus as regards policyholders	52,414,022	55.3 %
Total liabilities and surplus	94,740,411	100.0 %

Since the previous examination, made as of December 31, 2015, LAIC's assets increased by \$9,829,977, its liabilities decreased by \$3,435,276, and its surplus increased by \$13,265,253.

#### Lackawanna National Insurance Company

	<b>Amount</b>	<b>Percentage</b>
Admitted assets	39,653,531	100.0 %
Liabilities	19,379,964	48.9 %
Surplus as regards policyholders	20,273,567	51.1 %
Total liabilities and surplus	39,653,531	100.0 %

Since the previous examination, made as of December 31, 2015, LNIC's assets increased by \$6,329,894, its liabilities increased by \$99,510, and its surplus increased by \$6,230,384.

This examination was conducted by Dennis Williams, James DiSanto, John Pedrick, FCAS, MAAA of The INS Companies, and Elizabeth McGarry, CFE, with the latter in charge.

Respectfully submitted,



Matthew C. Milford, CFE  
Director  
Bureau of Financial Examinations



Shannon Hopkins (Jun 24, 2021 10:55 EDT)

Shannon Hopkins, CFE  
Examination Manager



Elizabeth McGarry, 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.

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