

STATE OF MISSOURI



DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

P.O. Box 690, Jefferson City, Mo. 65102-0690

ORDER

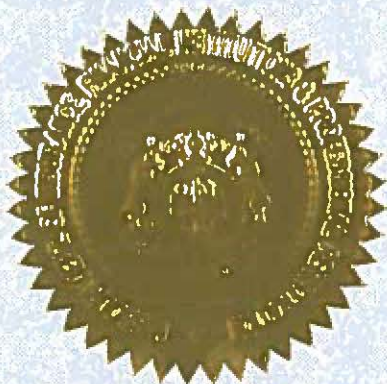
After full consideration and review of the report of the financial examination of Essentia Insurance Company for the period ended December 31, 2015, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, Chlora Lindley-Myers, Director of the Missouri Department of Insurance, Financial Institutions and Professional Registration pursuant to section 374.205.3(3)(a), RSMo, adopt such examination report. After my consideration and review of such report, workpapers, and written submissions or rebuttals, I hereby incorporate by reference and deem the following parts of such report to be my findings and conclusions to accompany this order pursuant to section 374.205.3(4), RSMo: subsequent events, summary of significant findings, company history, corporate records, management and control, territory and plan of operation, reinsurance, financial statements, financial statement changes resulting from examination, comments on financial statement items, and summary of recommendations.

Based on such findings and conclusions, I hereby ORDER that the report of the financial examination of Essentia Insurance Company as of December 31, 2015 be and is hereby ADOPTED as filed and for Essentia Insurance Company to take the following action or actions, which I consider necessary to cure any violation of law, regulation or prior order of the Director revealed by such report: (1) account for its financial condition and affairs in a manner consistent with the Director's findings and conclusions.

So ordered, signed and official seal affixed this 1st day of AUGUST, 2017.

A handwritten signature in blue ink that reads "Chlora Lindley-Myers".

Chlora Lindley-Myers, Director
Department of Insurance, Financial Institutions
and Professional Registration



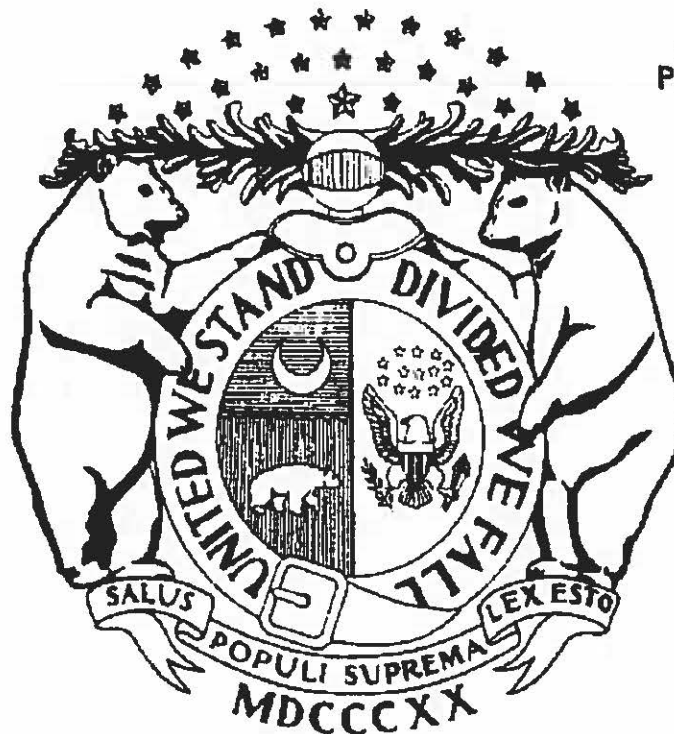
**REPORT OF THE
FINANCIAL EXAMINATION OF
ESSENTIA INSURANCE COMPANY**

**AS OF
DECEMBER 31, 2015**

FILED

AUG 14 2017

**DIRECTOR OF INSURANCE,
FINANCIAL INSTITUTIONS &
PROFESSIONAL REGISTRATION**



STATE OF MISSOURI

**DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND
PROFESSIONAL REGISTRATION**

JEFFERSON CITY, MISSOURI

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May 17, 2017

Honorable Chlora Lindley-Myers, Director
 Missouri Department of Insurance, Financial
 Institutions and Professional Registration
 301 West High Street, Room 530
 Jefferson City, Missouri 65101

Director Lindley-Myers:

In accordance with your financial examination warrant, a full scope financial examination has been made of the records, affairs and financial condition of

Essentia Insurance Company

hereinafter referred to as Essentia, or as the Company. Its administrative office is located at Ten Parkway North, Deerfield, IL, 60015, telephone number (804) 747-0136. The examination began on January 4, 2016 and concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

The previous examination of the Company was made by the Missouri Department of Insurance, Financial Institutions and Professional Registration (DIFP) as of December 31, 2011 as part of a multi-state coordinated examination of its predecessor parent and subsidiaries, with Pennsylvania as the lead state. This examination covers the period from January 1, 2012 through December 31, 2015. This was a multi-state coordinated examination of Markel Corporation Group (Markel) led by the Illinois Department of Insurance with participation from the insurance departments of Delaware, Missouri, Nebraska, and Virginia. This examination also included the material transactions and/or events occurring subsequent to December 31, 2015.

Companies within Markel examined were:

Company	State of Domicile
Essex Insurance Company	Delaware
Alterra America Insurance Company	Delaware
Markel Global Reinsurance Company	Delaware
Markel Insurance Company	Illinois
Associated International Insurance Company	Illinois
Evanston Insurance Company	Illinois
Essentia Insurance Company	Missouri
FirstComp Insurance Company	Nebraska
Markel American Insurance Company	Virginia

Procedures

We conducted our examination in accordance with the National Association of Insurance Commissioners' (NAIC) Financial Condition Examiners' Handbook (Handbook) except where practices, procedures and applicable regulations of the DIFP and the statutes of the State of Missouri prevailed. 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 approach. 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 this examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements.

The examination report includes findings of facts 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 conclusion, proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the Company.

Reliance Upon Others

The examination relied upon various workpapers, documents, and other information provided by the other states' departments of insurance participating in the coordinated examination. The items relied upon included, but was not limited to, review of IT systems, review of overall corporate governance, and control and substantive testing for all key activities.

The examination also relied upon information supplied by the Company's independent auditor, KPMG, LLP for its audit covering the period from January 1, 2015 through December 31, 2015. The items relied upon included, but were not limited to, narrative descriptions of processes and controls, paid claims testing and attorney letters.

SUBSEQUENT EVENTS

As described in the Ceded Reinsurance section of this report, effective January 1, 2016, the 100% quota-share agreement between Essentia and Evanston Insurance Company (Evanston) was amended to a 90% quota-share agreement with Evanston, whereby Essentia retains 10%. All other conditions of the quota-share agreement remain the same.

SUMMARY OF SIGNIFICANT FINDINGS

There were no material adverse findings, significant non-compliance issues, or material changes to the financial statements noted during the examination.

COMPANY HISTORY

General

The Company, which was originally owned by Commercial Union Insurance Company, was originally incorporated as American Central Insurance Company on April 27, 1979 as a stock casualty insurance company under the provision of Missouri Law at Chapter 379 RSMo (Insurance Other Than Life) and commenced business effective January 1, 1983. The Company's name was changed to Essentia Insurance Company on September 27, 2007. During 2012, Essentia was transferred from its then parent Pennsylvania General Insurance Company (PGIC) to OneBeacon Insurance Group LLC (OBLLC). Effective January 1, 2013 Essentia was sold to Markel Corporation (Markel). Effective January 1, 2014, The Hagerty Group, LLC purchased 9.9% ownership of Essentia.

Capital Contributions

In 2013, the Company received a capital contribution of \$18,000,000, offsetting a cash dividend paid to OBLLC in the previous year (see the "Dividends" section of this report). In 2014, the Company received capital and surplus contributions totaling \$3,970,000.

Dividends

The following dividends were paid during the examination period, as approved by the Board of Directors:

<u>Year Paid</u>	<u>Amount Paid</u>
2012	Essentia paid \$18,000,000 extraordinary cash dividend to OBLLC for the sale to Markel.
2013	Essentia issued \$5,000 stock dividend (additional 50 shares at \$100 par)
2014	Essentia paid \$367,864 extraordinary cash dividend to Markel.

Mergers and Acquisitions

On May 15, 2012, Pennsylvania General Insurance Company paid a dividend consisting of all Essentia's common stock to OBLLC.

Markel Corporation and OBLLC entered into a Stock Purchase Agreement on October 16, 2012 under which Markel Corporation acquired 100% of the issued and outstanding shares of capital stock of Essentia. Markel Corporation paid \$23,000,000 plus the market value of certain liquid assets held by Essentia (estimated at \$4.5 million). The sale was effective January 1, 2013.

On January 1, 2014, The Hagerty Group, LLC acquired 9.9% ownership interest in Essentia with Markel retaining the remaining 90.1% ownership interest.

CORPORATE RECORDS

The Company's Articles of Incorporation and Bylaws were reviewed for any changes during the period under examination. On December 12, 2013, the Articles of Incorporation were amended to change the principal place of business to 4521 Highwoods Parkway, Glen Allen, Virginia and to change the registered office and principal place of business in the State of Missouri to 120 South Central Avenue, Clayton, Missouri, 63105, as well as the number of directors to not less than nine (9) nor more than ten (10). On January 1, 2014, the Bylaws were amended, to change the date of the annual stockholder meeting from March to June and to change the number of directors to not less than nine (9) nor more than ten (10).

The minutes of Board of Directors' meetings and shareholder's meetings were reviewed for proper approval of corporate transactions. In general, the minutes appear to properly reflect and approve the Company's major transactions and events for the period under examination

MANAGEMENT AND CONTROL

Board of Directors

The management of the Company is vested in a Board of Directors which is elected by the shareholder. The Company's Articles of Incorporation specify that the Board of Directors shall consist of no less than nine (9) nor more than ten (10). The Board of Directors appointed and serving as of December 31, 2015 were as follows:

<u>Name</u>	<u>Address</u>	<u>Principal Occupation and Business Affiliation</u>
Gerard Albanese Jr.	Richmond, VA	Chief Underwriting Officer & Executive Vice President, Markel Corporation
Francis M. Crowley	Richmond, VA	President, Markel Corporation
Britton L. Glisson	Doswell, VA	Chief Administrative Officer, Markel Corporation
Richard R. Grinnan	Henrico, VA	Vice President, Secretary, & General Counsel, Markel Corporation
Alan I. Kirshner	Doswell, VA	Director, Chairman of Board, & Chief Executive Officer, Markel Corporation
Bradley J. Kiscaden	Glen Allen, VA	Chief Actuarial Officer & Executive Vice President, Markel Corporation
Thomas K. Smith	Richmond, VA	Chief Marketing Officer, Markel Corporation
Anne G. Waleski	Richmond, VA	Executive Vice President & Chief Financial Officer, Markel Corporation
Richard R. Whitt III	Glen Allen, VA	Co-President & Co-Chief Operating Officer, Markel Corporation

Senior Officers

The officers elected by the Board of Directors and serving as of December 31, 2015 were as follows:

<u>Officer</u>	<u>Position</u>
Francis M. Crowley	President
Thomas K. Smith	Senior Vice President
Richard R. Whitt, III	Senior Vice President
Anne G. Waleski	Vice President, Chief Financial Officer and Treasurer
Deidre I. Balbuena	Vice President
Nora N. Crouch	Vice President
Richard R. Grinnan	Vice President and Secretary
Audrey J. Hanken	Vice President
Bruce A. Kay	Vice President
Robin Russo	Vice President
Robert G. Whitt, III	Controller
Rebecca S. Dubois	Assistant Secretary
Jonathan G. Neal	Assistant Secretary/Tax Director
Kelli S. Plusch	Assistant Secretary/Tax Director
Karl M. Strait	Assistant Secretary
Kathleen A. Sturgeon	Assistant Secretary
April L. Duff	Assistant Treasurer

Committees

Essentia's Articles of Incorporation and Bylaws do not require any committees, nor have any been designated by the Board of Directors as of December 31, 2015. Essentia relies on several key committees of Markel, which regularly review and approve actions or transactions that may directly or indirectly affect the operations of Essentia. These committees include the Audit Committee, Corporate Governance/Nominating Committee, and Compensation Committee.

Holding Company, Subsidiaries and Affiliates

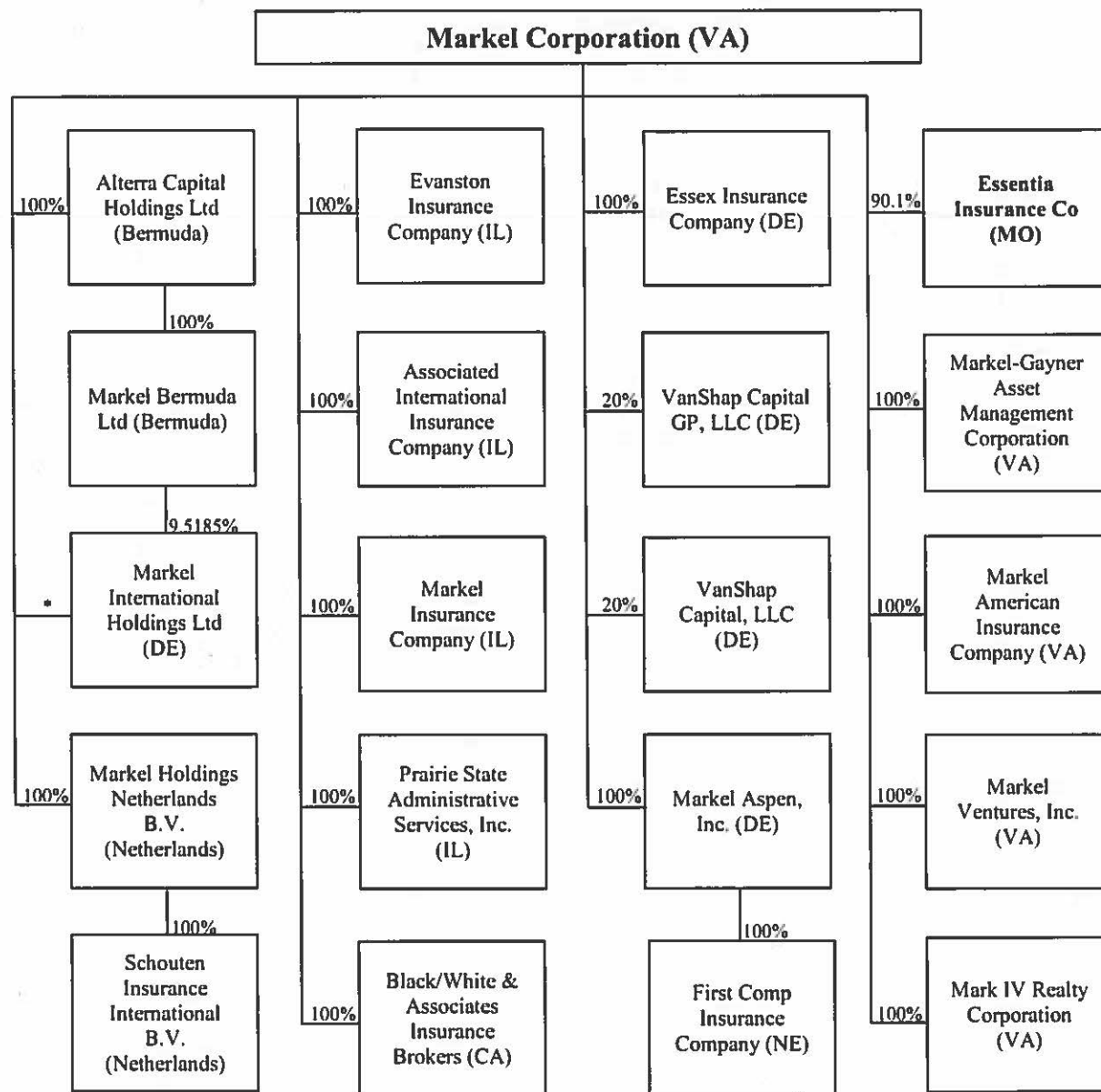
Essentia is a member of an Insurance Holding Company System as defined by 382.010 RSMo (Definitions). As described in the "General" section of this report, Essentia's ownership transferred from PGIC to OBLLC during 2012, then transferred to Markel during 2013.

On May 15, 2012, 100% of issued and outstanding common stock of Essentia was dividend to OBLLC by PGIC. On January 1, 2013, Essentia was sold to Markel Corporation. Markel is publicly traded on the NYSE, with no single stockholder owning 10% or more of its outstanding stock. Markel has a large number of subsidiaries including U.S. and alien insurers as well as various other subsidiaries not doing business within the insurance sector.

On January 1, 2014, Markel Corporation’s ownership in Essentia decreased from 100% to 90.1%, when The Hagerty Group, LLC purchased 9.9% ownership of Essentia.

Organizational Chart

The following abbreviated organizational chart depicts the ownership structure of the Company as of December 31, 2015.



* 90.4815%

Intercompany Transactions

Intercompany agreements (excluding intercompany reinsurance agreements, which are described in the “Reinsurance” section of this report) that were in effect as of December 31, 2015 are outlined below.

1. Investment Advisory Agreement

- Parties:** Essentia and Markel Gayer Asset Management Corp. (MGAM)
Effective: Original effective January 1, 2013;
 Amendment I effective July 31, 2014;
 Amendment II effective January 1, 2015
Terms: Under this agreement MGAM will provide investment services to Essentia, to include reviewing the portfolio, decisions of purchase and sale of securities, review of cash position to meet period needs, and directives to brokers to effectuate the investment decisions made. Amendment I removes the reference to MGAM being a registered SEC advisor. Amendment II includes an annual fee of 20 basis points for non-equity portfolio.
Rate: MGAM will receive an annual fee of 20 basis points for non-equity portfolio.

2. Tax Allocation Agreement

- Parties:** Essentia and Markel, and various Markel affiliates
Effective: Original effective January 1, 2013;
 Restated effective January 1, 2014;
Terms: Under this agreement Markel will ensure consolidate federal tax filings for the Group are completed. Individual company tax liability will be computed and used as the basis of the tax amounts paid to/from Markel on a quarterly/annual basis. The restatement updated the agreement to account for Hargerty’s 9.9% interest in Essentia effective January 1, 2014.
Rate: N/A, no additional fees are associated with this agreement.

3. Management Services Agreement

- Parties:** Essentia and Markel Services Inc. (MSI)
Effective: January 1, 2013
Terms: Under this agreement MSI will provide various general and insurance business services to Essentia, to include accounting services, financial statement preparation, tax returns, accounts receivable/payable, maintenance of reports and records, etc.
Rate: Essentia will reimburse MSI’s incurred costs; costs associated with more than one affiliate will be allocated based on gross written premium less affiliated reinsurance transactions.

4. Securities Trading/Sales/Purchases Agreement

- Parties:** Essentia and Markel, Markel Group Insurance entities, and non-U.S. subsidiaries or affiliates of Markel
- Effective:** February 9, 2015
- Terms:** Under this agreement the parties to the agreement may trade, sell or purchase investments up to an aggregate limit of \$20 million without prior notification to the MO DIFP. Notification is required within 15 days after the end of the month in which any transactions occurred.
- Rate:** Securities will be traded/sold/purchased at the fair market value on the date of the transaction.

TERRITORY AND PLAN OF OPERATIONS

Essentia is licensed as a property and casualty insurer by the DIFP under Chapter 379 RSMo (Insurance Other Than Life) to provide the following kinds of insurance: accident and health, fidelity and surety, liability, miscellaneous, and property. As of December 31, 2015, the Company was licensed in all 50 states and the District of Columbia.

In April 2007, Essentia entered into a business relationship with Hagerty Insurance Agency (Hagerty) of Traverse City, Michigan. Hagerty sells property and liability insurance for classic and collectible autos and wooden boats throughout the United States. Under this arrangement, Essentia is the direct insurer for the policies sold by Hagerty. During the examination period, 100% of Essentia's direct written premium was associated with this agreement.

As part of the program, Essentia ceded 100% of premiums, losses, LAE, etc. to Atlantic Specialty Insurance Company under a quota-share agreement. See the Reinsurance section below for additional information.

REINSURANCE**General**

The Company's reinsurance and premium activity during the period under examination was as follows:

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Direct Business	\$239,846,847	\$217,574,699	\$194,735,872	\$186,945,550
Assumed – Affiliates	0	0	0	0
Assumed – Non-affiliates	2,561,952	373,168	0	0
Ceded – Affiliates	(239,149,946)	(213,599,882)	(191,432,331)	(195,090,118)
Ceded – Non-affiliates	(3,258,853)	(4,347,985)	(3,303,541)	0
Net Premiums	\$ 0	\$ 0	\$ 0	\$ (8,144,568)

Assumed

Beginning December 2, 2013, the Company began assuming business from Nationwide Mutual Insurance Company under a 50% quota-share agreement. These premiums were then retroceded to Evanston Insurance Company, as described in the “Ceded” section of this report. The amount of premium assumed under this agreement was immaterial as of December 31, 2015.

Ceded

Effective May 1, 2007, Essentia entered into a 90% quota-share agreement with OBIC (OneBeacon Insurance Company), its former affiliate. Under the agreement, 90% of the Hagerty business (premiums, losses, LAE, etc.) were ceded to OBIC, with Essentia retaining the remaining 10%. Effective January 1, 2012, this agreement was replaced with a 100% quota-share agreement, ceding all the Hagerty business to Atlantic Specialty Insurance Company.

Effective January 1, 2013, the agreement was replaced by a 100% quota-share reinsurance agreement with Evanston, following the sale of Essentia to Markel. Effective January 1, 2016 as described in the Subsequent Events section of this report, the agreement was replaced by a 90% quota-share agreement with Evanston, whereby Essentia retains the remaining 10%.

Essentia is contingently liable for all reinsurance losses ceded to others. This contingent liability would become an actual liability in the event that an assuming reinsurer fails to perform its obligations under the reinsurance agreement.

FINANCIAL STATEMENTS

The following financial statements present the financial condition of Essentia Insurance Company for the period ending December 31, 2015. Any examination adjustments to the amounts reported in the financial statements and/or comments regarding such are made in the “Comments on Financial Statement Items”. The failure of any column of numbers to add to its respective total is due to rounding or truncation.

There may have been additional differences found in the course of this examination, which are not shown in the “Comments on Financial Statement Items”. These differences were determined to be immaterial concerning their effect on the financial statements and therefore were only communicated to the Company and noted in the workpapers for each individual activity.

	<u>Assets</u>		
	Assets	Non-Admitted Assets	Net Admitted Assets
Bonds	\$ 12,041,170	\$ 0	\$ 12,041,170
Cash, Cash Equivalents and Short-term Investments	12,469,215	0	12,469,215
Investment Income Due and Accrued	180,542	0	180,542
Uncollected premiums and agents' balances in the course of collection	17,672,520	0	17,672,520
Amounts Recoverable from Reinsurers	20,919,313	0	20,919,313
Aggr. Write-Ins for Other than Invested Assets:			
Claims clearing	3,739,354	0	3,739,354
TOTAL ASSETS	\$ 67,022,114	\$ 0	\$ 67,022,114

Liabilities, Surplus and Other Funds

Losses	\$	0
Commissions payable, contingent commissions and other similar charges		23,973,084
Other Expenses (Excluding Taxes, Licenses and Fees)		32,407
Taxes, Licenses and Fees (Excluding Federal and Foreign Income Taxes)		(666,337)
Current Federal and Foreign Income Taxes		1,781
Ceded Reinsurance Premiums Payable (Net of Ceding Commissions)		12,562,460
Payable to Parent, Subsidiaries and Affiliates		750,780
TOTAL LIABILITIES	\$	36,654,175
Common Capital Stock		5,000,000
Gross Paid In and Contributed Surplus		30,730,000
Unassigned Funds (Surplus)		(5,362,061)
Surplus as Regards Policyholders	\$	30,367,939
TOTAL LIABILITIES AND SURPLUS	\$	67,022,114

Statement of Income

Underwriting Income:	
Premiums Earned	\$ 0
Deductions:	
Other Underwriting Expenses Incurred	(110)
Net Underwriting Gain or (Loss)	\$ 110
Investment Income:	
Net Investment Income Earned	194,794
Net Investment Gain or (Loss)	\$ 194,794
Other Income:	
Net Income Before Federal and Foreign Income Taxes	\$ 194,904
Federal and Foreign Income Taxes Incurred	6,254
NET INCOME	\$ 188,650

Capital and Surplus Account

Surplus as Regards Policyholders, December 31, 2014	\$ 30,178,517
Net Income	188,650
Change in Net Deferred Income Tax	772
Change in Surplus as Regards Policyholders for the year	\$ 189,422
Surplus as Regards Policyholders, December 31, 2015	\$ 30,367,939

FINANCIAL STATEMENT CHANGES RESULTING FROM EXAMINATION

None

COMMENTS ON FINANCIAL STATEMENT ITEMS

None

SUMMARY OF RECOMMENDATIONS

None.

ACKNOWLEDGMENT

The assistance and cooperation extended by the officers and the employees of Essentia Insurance Company during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Emily Pennington, AFE, examiner for Missouri Department of Insurance, Financial Institutions and Professional Registration, participated in this examination. As a coordinated examination, a material amount of the examination was performed by various other participating states, led by the Illinois Department of Insurance. Steve Symon, FCAS & AAA of Oliver Wyman, also participated as a consulting actuary.

VERIFICATION

State of Missouri)
County of Jackson)

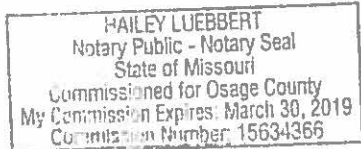
I, Jennifer R. Danz, CPA, CFE, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of Essentia Insurance Company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.

Jennifer R. Danz
Jennifer R. Danz, CPA, CFE

Examiner-In-Charge
Missouri Department of Insurance, Financial
Institutions and Professional Registration

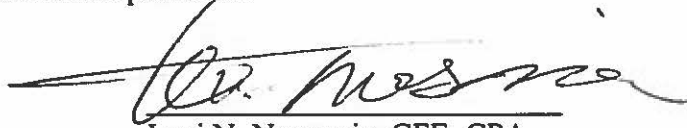
Sworn to and subscribed before me this 15th day of March, 2017.

My commission expires: March 30, 2019 *Hailey Luebbert*
Notary Public



SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed, except where practices, procedures and applicable regulations of the MO DIFP and statutes of the State of Missouri prevailed.



Levi N. Nwasoria, CFE, CPA

Audit Manager

Missouri Department of Insurance, Financial
Institutions and Professional Registration