



Janet T. Mills
Governor

STATE OF MAINE
DEPARTMENT OF PROFESSIONAL
AND FINANCIAL REGULATION
BUREAU OF INSURANCE
34 STATE HOUSE STATION
AUGUSTA, MAINE
04333-0034

Eric A. Cioppa
Superintendent

June 24, 2021

Eric A. Cioppa, Superintendent
Maine Bureau of Insurance
34 State House Station
Augusta, ME 04333-0034

Dear Superintendent:

Pursuant to the provisions of 24-A M.R.S. §221 and in conformity with your instructions,
a financial examination has been made of the

GREAT FALLS INSURANCE COMPANY

as of December 31, 2019. The following report is respectfully submitted.



**STATE OF MAINE
BUREAU OF INSURANCE**

REPORT OF FINANCIAL EXAMINATION

**GREAT FALLS INSURANCE COMPANY
AUBURN, ME**

AS OF DECEMBER 31, 2019

NAIC COMPANY CODE: 14003

NAIC GROUP CODE: 4912

ACCEPTANCE OF REPORT OF EXAMINATION

WHEREAS a verified Report of Examination of Great Falls Insurance Company dated June 24, 2021, was delivered to that insurer on June 29, 2021; and

WHEREAS no hearing with respect to the Report of Examination has been requested by Great Falls Insurance Company;

NOW THEREFORE, I accept the Report of Examination and hereby order it placed on file in the Bureau of Insurance as provided for by 24-A M.R.S. §226 (3).

Dated: 6-30-21

Eric
Eric A. Cioppa, Superintendent

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SCOPE OF EXAMINATION

Great Falls Insurance Company (GFIC or the “Company”) was last examined as of December 31, 2014, by the State of Maine Bureau of Insurance (MBOI). This examination covered the period from January 1, 2015, to December 31, 2019.

This examination was performed pursuant to the risk-focused approach promulgated by the National Association of Insurance Commissioners (NAIC), in conformity with statutory accounting practices, NAIC guidelines, the 2020 Financial Condition Examiners Handbook and the laws, rules, and regulations prescribed or permitted by the State of Maine. The examination consisted of a review of the Company's operations, controls, corporate governance, valuation of assets, and determination of liabilities at December 31, 2019. The examination also included the identification and evaluation of significant risks that could cause the Company's surplus to be materially misstated both currently and prospectively. Bonamassa, Maietta & Cartelli, LLP (BMC) performed the 2019 external audit of the Company. BMC work papers were utilized for this examination to the extent deemed appropriate in order to enhance the effectiveness and efficiency of this examination.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. The examination does not attest to the fair presentation of the financial statements included herein. Comments on various balance sheet items, for purposes of this report, may be limited to matters involving clarification, departures from laws, rules and regulations, and/or significant changes in amounts. To the extent deemed necessary, transactions occurring subsequent to the examination date were reviewed.

This examination report includes significant findings of fact, pursuant to 24-A M.R.S. §225 (1), and general information about the Company and its financial condition. There may be other items identified during the examination that, due to their nature, are not included herein, and are instead separately reported to other regulators and/or the Company.

SUMMARY OF SIGNIFICANT FINDINGS

PRIOR EXAMINATION

None noted.

CURRENT EXAMINATION COMMENTS

None noted.

THE COMPANY

HISTORY

The Company was incorporated on December 1, 2010. The Company, a property and casualty insurer, is domiciled in the State of Maine with corporate headquarters located in Auburn, Maine.

The Company was granted a certificate of authority on December 30, 2010. The initial certificate of authority was limited to the writing of workers' compensation insurance in the State of Maine. The

Company commenced writing insurance in 2011. On November 16, 2011, the Company was granted authority to write employment practices liability insurance.

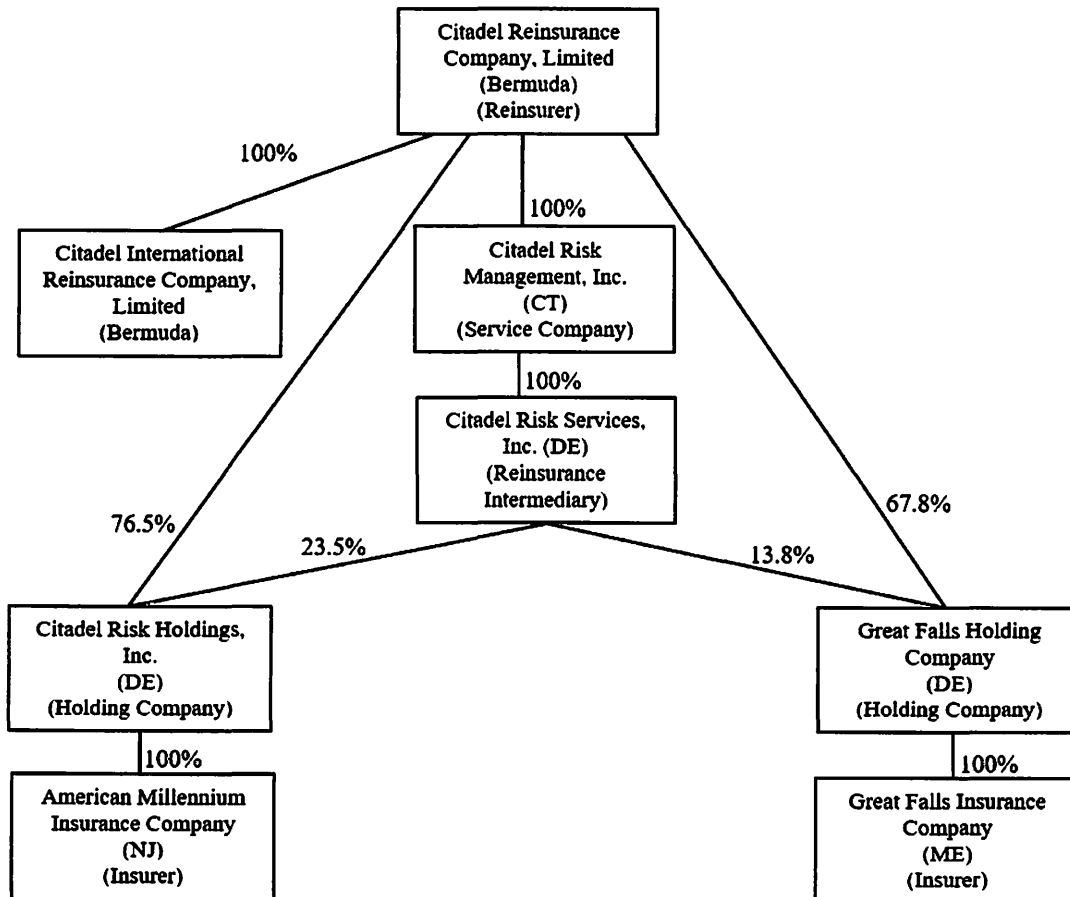
On September 18, 2017, the Company finalized the sale of its renewal rights to the workers' compensation and employment practices liability insurance policies insured by the Company to Eastern Alliance Insurance Company, free and clear of all liens, claims and encumbrances. The Company's last policy expired on September 30, 2018 and the Company retained the liability for the book of business that existed prior to that date.

MANAGEMENT AND CONTROL

The Company is a wholly owned subsidiary of Great Falls Holding Company (GFHC), a Delaware corporation.

Citadel Reinsurance Company, Limited (CRCL) owns a majority of the shares of common stock in GFHC, both directly and indirectly through its subsidiary, Citadel Risk Services, Inc. (CRSI). On February 15, 2015, CRCL purchased an additional 4,000 shares of common stock in GFHC, the Company's parent, in exchange for consideration of \$740,000 which was contributed to the Company to increase its capital. As a result of its acquisition of the additional shares, CRCL's direct and indirect ownership interests in GFHC increased from 73.3% at December 31, 2014, to 81.6%. Remaining shares of common stock in GFHC are held by individual minority shareholders.

The following chart illustrates the relationship of the companies within the holding company system:



CORPORATE RECORDS

The Company's articles of incorporation, bylaws, and minutes of the board of directors meetings held during the period under examination were reviewed.

CORPORATE GOVERNANCE

The Company is governed and overseen by its board of directors and the management team of the Company.

As of December 31, 2019, the board of directors of the Company consisted of the following members:

<u>Name</u>	<u>Title</u>
Scott C. Penwell	Chairman
James E. Clemons	Director
Arthur P. Coleman*	Director
Gary L. Hall	Director
John M. Ignatowitz	Director
Robert L. Murch	Director
Anthony Weller	Director

*Subsequent to the examination period, as of the date of this report, Arthur P. Coleman is no longer a Director of the Company.

As of December 31, 2019, the officers of the Company consisted of the following individuals:

<u>Name</u>	<u>Title</u>
Gary L. Hall	President & Chief Executive Officer
James E. Clemons	Secretary
John M. Ignatowitz	Treasurer

TRANSACTIONS WITH AFFILIATES

The Company is party to a written tax sharing agreement with GFHC as of December 30, 2010. The agreement provides that the portion of the consolidated tax liability allocated to the Company is based on its separate tax return liability.

The Company has an administrative services agreement with Citadel Risk Management, Inc. (CRMI). Under this agreement, CRMI provides services to the Company related to accounting administration.

The Company participates in a quota share reinsurance agreement with CRCL.

TERRITORY & PLAN OF OPERATION

The Company is licensed in the State of Maine to write workers' compensation and employment practices liability insurance. On February 12, 2016, the Company became licensed to write workers' compensation insurance in New Hampshire.

Beginning in October 2017, the Company ceased issuing policies and began the runoff of its insurance liabilities.

REINSURANCE

The Company has a quota share reinsurance contract in place with CRCL whereby the Company cedes 75% of its net retained liability of the first \$1,000,000 of the ultimate net loss per occurrence to CRCL.

The Company has excess of loss reinsurance with various reinsurers wherein the Company's net retention is \$1,000,000 with coverage up to \$9,000,000 in excess of its net retention. Effective May 1, 2016, the Company added a third layer of excess of loss reinsurance with coverage up to \$10,000,000 in excess of \$10,000,000. Excess of loss reinsurance coverage remained in effect for all policies issued before October 1, 2017. The layers of excess of loss reinsurance coverage follow:

<u>Excess of Loss Layer</u>	<u>Excess Terms</u>
First Excess	\$4,000,000 in excess of \$1,000,000
Second Excess	\$5,000,000 in excess of \$5,000,000
Third Excess	\$10,000,000 in excess of \$10,000,000

The first excess of loss reinsurance agreement for the period of July 1, 2012 to July 1, 2013 was commuted in April 2015. The quota share agreement for the period of November 1, 2010 through December 31, 2013 was amended effective December 31, 2013 and is no longer limited to the first \$1,000,000 of the ultimate net loss per occurrence. The Company cedes 75% of all losses incurred during the period previously limited by the commuted excess reinsurance.

The employment practices liability insurance business is 100% ceded to an authorized reinsurer.

FINANCIAL STATEMENTS

The Statement of Admitted Assets, Liabilities and Surplus, the Statement of Income, and the Statement of Capital and Surplus are as presented by management and audited by the Company's external auditors. It should be noted that these financial statements have not been audited by the MBOI and thus the MBOI does not express an opinion on the financial statements as a whole.

**STATEMENT OF ADMITTED ASSETS, LIABILITIES, AND SURPLUS
AS OF DECEMBER 31, 2019**

Assets

Bonds	\$ 6,202,615
Preferred stocks	403,382
Cash and short-term investments	880,567
Investment income due and accrued	60,746
Uncollected premiums in the course of collection	24,636
Deferred premiums, agents' balances and installments	33,755
Amounts recoverable from reinsurers	673,121
Current federal and foreign income tax recoverable	171,296
Net deferred tax asset	59,096
Aggregate write-ins for other than invested assets	607,064
Total assets	<u>\$ 9,116,278</u>

Liabilities

Losses	\$ 1,473,098
Loss adjustment expenses	255,206
Commissions payable	6,063
Other expenses	75,529
Taxes, licenses and fees	29,879
Current federal income taxes	11,394
Unearned premiums	5,566
Ceded reinsurance premiums payable	425,477
Payable to parent and affiliates	29,167
Total liabilities	<u>\$ 2,311,379</u>

Capital and Surplus

Common capital stock	\$ 1,500,000
Gross paid in and contributed surplus	3,767,135
Unassigned funds	1,537,764
Total capital and surplus	<u>6,804,899</u>
Total liabilities, capital and surplus	<u>\$ 9,116,278</u>

STATEMENT OF INCOME
YEAR ENDED DECEMBER 31, 2019

Premiums earned	\$ (78,175)
Deductions:	
Losses incurred	(130,092)
Loss adjustment expenses	15,175
Other underwriting expenses	667,068
Total underwriting deductions	<u>552,151</u>
Total underwriting loss	<u>(630,326)</u>
Net investment income earned	255,892
Net realized capital gains net of capital gains taxes	<u>8,354</u>
Net investment income	<u>264,246</u>
Net loss from premiums charged off	<u>(29,559)</u>
Total other losses	<u>(29,559)</u>
Net loss before federal income taxes	(395,639)
Federal income taxes	<u>(171,296)</u>
Net loss	<u>\$ (224,343)</u>

**STATEMENT OF CAPITAL AND SURPLUS
YEAR ENDED DECEMBER 31, 2019**

Capital and surplus, December 31, 2018	\$ 6,975,029
Net income	(224,343)
Change in net unrealized capital gains (losses), net of capital gains tax	12,769
Change in net deferred income tax	(56,793)
Change in nonadmitted assets	98,238
Net change in capital and surplus	<u>(170,129)</u>
Capital and surplus, December 31, 2019	<u>\$ 6,804,900</u>

COMMENTS ON THE FINANCIAL STATEMENTS

NOTE 1 – RESERVES

Lewis & Ellis, Inc., (“consulting actuary”) was engaged to provide actuarial assistance with the financial examination of the Company as of December 31, 2019. The consulting actuary’s review included: participation in interviews and discussions with key personnel, including the Appointed Actuary, to gain an understanding of the corporate structure, products, services, and reserving processes, and to determine where the majority of risks lie; review of controls to mitigate certain reserving risks; and review of the 2019 Statement of Actuarial Opinion and Actuarial Memorandum prepared by the Appointed Actuary. The reserves as reported by the Company were determined to be reasonable based on the review performed by the consulting actuary.

NOTE 2 – CAPITAL AND SURPLUS

The following table describes the capital and surplus changes for the five-year period since the MBOI’s last examination of the Company, dated December 31, 2014:

Capital and surplus, December 31, 2014	\$ 2,617,315
Net income	4,179,405
Change in net unrealized capital gains or (losses), net of capital gains tax	(16,840)
Change in net deferred income tax	59,096
Change in nonadmitted assets	(34,076)
Capital and surplus, December 31, 2019, as reported by the Company	<u>\$ 6,804,900</u>

SUBSEQUENT EVENTS

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 declared the coronavirus pandemic a national emergency in the U.S. The COVID-19 pandemic has continued to develop throughout 2020 and 2021, with significant uncertainty remaining regarding the full effect of COVID-19 on the U.S. and global insurance and reinsurance industry. At the time of releasing this report, the examination’s review of the Company noted that there has not been a significant impact to the Company. The MBOI has been in communication with the Company regarding the impact of COVID-19 on its business operations and financial position. The MBOI continues to closely monitor the impact of the pandemic on the Company and will take necessary action if a solvency concern arises.

On December 31, 2020, CRSI transferred its 13.8% ownership of GFHC to Citadel Risk Holdings, Inc., which in turn contributed the asset to American Millennium Insurance Company.

A minority shareholder of GFHC has filed a lawsuit in March 2021 seeking damages related to the alleged mishandling of a particular claim and the failure to disclose certain information to a prospective purchaser of the Company’s stock in 2017. The litigation is in its early stages and management intends to defend the claim.

SUMMARY OF RECOMMENDATIONS

There are no report level recommendations.

STATE OF MAINE
COUNTY OF KENNEBEC, SS

Vanessa J. Sullivan, being duly sworn according to law deposes and says that, in accordance with authority vested in her by Eric A. Cioppa, Superintendent of Insurance, pursuant to the Insurance Laws of the State of Maine, she has made an examination of the condition and affairs of the

GREAT FALLS INSURANCE COMPANY

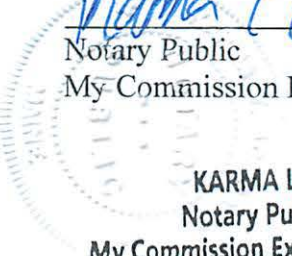
located in Auburn, Maine as of December 31, 2019, and that the foregoing report of examination subscribed to by her is true to the best of her knowledge and belief. The following examiners from the Bureau of Insurance assisted:

Arias Wan, CPA, CFE
Audrey L. Wade, CFE, CISA
Jeremy C. Finch


Vanessa J. Sullivan, CFE

Subscribed and sworn to before me
This 30 day of June, 2021


Notary Public
My Commission Expires:


KARMA LOMBARD
Notary Public, Maine
My Commission Expires June 12, 2023