



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

January 21, 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

**PATRIOT INSURANCE COMPANY**

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



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**STATE OF MAINE  
BUREAU OF INSURANCE**

**REPORT OF FINANCIAL EXAMINATION**

**PATRIOT INSURANCE COMPANY  
YARMOUTH, MAINE**

**AS OF DECEMBER 31, 2019**

**NAIC COMPANY CODE: 32069**

**NAIC GROUP CODE: 1309**

**ACCEPTANCE OF REPORT OF EXAMINATION**

WHEREAS a verified Report of Examination of Patriot Insurance Company dated January 21, 2021, was delivered to that insurer on March 22, 2021; and

WHEREAS Patriot Insurance Company and Bureau of Insurance staff have agreed to certain modifications with respect to the Report of Examination; and

WHEREAS I find such modifications proper; and

WHEREAS no hearing with respect to the Report of Examination has been requested by Patriot 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: April 7, 2021

*Eric A. Cioppa*

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Eric A. Cioppa, Superintendent

## TABLE OF CONTENTS

<b>SCOPE OF EXAMINATION.....</b>	<b>1</b>
<b>SUMMARY OF SIGNIFICANT FINDINGS .....</b>	<b>1</b>
<b>PRIOR EXAMINATION.....</b>	<b>1</b>
<b>CURRENT EXAMINATION.....</b>	<b>2</b>
<b>THE COMPANY.....</b>	<b>2</b>
<b>HISTORY .....</b>	<b>2</b>
<b>CORPORATE OWNERSHIP .....</b>	<b>2</b>
<b>CORPORATE RECORDS .....</b>	<b>3</b>
<b>CORPORATE GOVERNANCE.....</b>	<b>3</b>
<b>TRANSACTIONS WITH AFFILIATES .....</b>	<b>3</b>
<b>TERRITORY &amp; PLAN OF OPERATION.....</b>	<b>4</b>
<b>REINSURANCE .....</b>	<b>4</b>
<b>FINANCIAL STATEMENTS .....</b>	<b>5</b>
<b>STATEMENT OF ADMITTED ASSETS, LIABILITIES AND SURPLUS .....</b>	<b>6</b>
<b>STATEMENT OF INCOME .....</b>	<b>7</b>
<b>STATEMENT OF CAPITAL AND SURPLUS.....</b>	<b>8</b>
<b>COMMENTS ON THE FINANCIAL STATEMENTS .....</b>	<b>9</b>
<b>SUBSEQUENT EVENTS .....</b>	<b>9</b>
<b>SUMMARY OF RECOMMENDATIONS.....</b>	<b>9</b>

## **SCOPE OF EXAMINATION**

Patriot Insurance Company (Patriot or the “Company”) was last examined as of December 31, 2016, by the State of Maine Bureau of Insurance (MBOI). This examination covered the period from January 1, 2017 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.

This examination was coordinated with the State of Michigan Department of Insurance and Financial Services (DIFS), which concurrently examined Patriot's parent company, Frankenmuth Mutual Insurance Company (FMIC), and Patriot's insurance affiliates, Ansur America Insurance Company (Ansur), ASure Worldwide Insurance Company (ASure), Fortuity Insurance Company (Fortuity), and Patriot Life Insurance Company (Life), all Michigan domestic insurance companies. These companies, Patriot, and non-insurance affiliates Frankenmuth Agency, Inc., Frankenmuth Insurance Foundation, and Avolanta, Inc., are members of the Frankenmuth Insurance Group. BDO USA, LLP, (BDO) performed the 2019 external audit of FMIC and all insurance affiliates. BDO work papers were utilized for this examination to the extent deemed appropriate. The MBOI relied upon work performed by the DIFS when 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**

None noted.

**THE COMPANY**

**HISTORY**

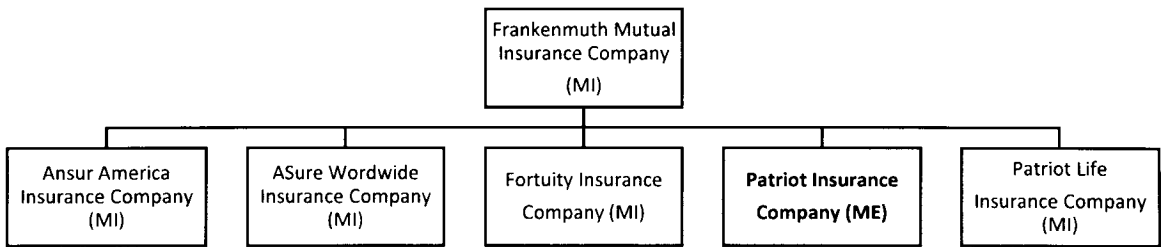
Patriot was incorporated in 1966 as a subsidiary of Blue Cross and Blue Shield of Maine (BCBSME) providing products not offered by BCBSME. Patriot became fully independent in 1999 as a result of the acquisition of BCBSME by Anthem Insurance Companies, Inc.

On January 1, 2002, Patriot became licensed to write property and casualty lines and contracted to acquire substantially all of the Maine, New Hampshire, and Vermont property and casualty personal lines business from Acadia Insurance Company.

Effective July 1, 2007, Patriot Mutual Holding Company, which included Patriot and Patriot’s wholly owned subsidiary, Life, merged into FMIC, with FMIC being the surviving company, owner of Patriot, and ultimate parent of Life. Additionally, each membership interest in Patriot as of the effective date, was converted into a membership interest in FMIC by virtue of the merger and FMIC amended its articles of association accordingly. Immediately following the merger, Patriot began writing commercial lines products in Maine, followed by New Hampshire and Vermont during 2008. In 2010, Life was sold to FMIC and re-domesticated to Michigan.

**CORPORATE OWNERSHIP**

The Company is a wholly-owned subsidiary of FMIC. An abbreviated corporate ownership diagram showing only insurance affiliates follows:



### **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 its management team.

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

<b><u>Name</u></b>	<b><u>Title</u></b>
John Stewart Benson	Chair
Lyle Gerald Davis, Jr.	Director
Frederick Allen Edmond, Jr.	Director
Bryan Lee Gilleland	Director
David Frederick Honold*	Director
Scott Lee Mandel	Director
Lincoln Jerry Merrill, Jr.	Director
David Allen Pendleton	Director
Susan DiDonato Royles	Director
James Edward Wilds*	Director
Drew Randall Zehnder	Director

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

<b><u>Name</u></b>	<b><u>Title</u></b>
Lincoln Jerry Merrill, Jr.	President & CEO
Bryan Lee Gilleland	Secretary
John David Rosilier	Treasurer
Alan Robert Small	Vice President
Zachary James Martin	Vice President

\* Subsequent to December 31, 2019: David Frederick Honold and James Edward Wilds retired as Directors; Mary Rose Merkel and Yanina Montau-Thatcher were elected as Directors; and Timothy Earl LeClair was elected as Vice President.

### **TRANSACTIONS WITH AFFILIATES**

Patriot is a party to a written Federal Tax Allocation Agreement with FMIC and affiliates, as of July 1, 2007. The agreement provides that the portion of the consolidated tax liability allocated to the Company is based on a separate tax return liability.

Patriot has a Management Services Agreement with FMIC, effective December 13, 2018, under which FMIC provides certain administrative and management services to Patriot, for which Patriot pays FMIC a sum equal to the costs of the services.

As of January 1, 2010, the Company is a party to a Pooling Reinsurance Agreement with its parent, FMIC, and its three property and casualty insurance affiliates, under which all property and casualty lines of business are pooled. See the Reinsurance section below for more details.

### **TERRITORY & PLAN OF OPERATION**

Patriot is a property casualty insurer licensed to transact business in the states of Maine, Massachusetts, Michigan, New Hampshire, and Vermont. Patriot reported premiums written in Maine, New Hampshire, and Vermont. Patriot primarily writes homeowners multiple peril, commercial multiple peril, inland marine, private passenger auto liability, commercial auto liability, auto physical damage, and other liability lines of business.

### **REINSURANCE**

Patriot, FMIC, and FMIC's other wholly owned property and casualty insurance subsidiaries are party to an intercompany pooling reinsurance agreement under which all property and casualty lines of business are pooled. Under terms of the pooling agreement, the participants will cede to FMIC (the "lead insurer") all of their insurance business, net of inuring reinsurance, and assume from the lead insurer an amount equal to their respective participation percentages as follows: FMIC, 78%; Patriot, 8%; Ansur, 8%; ASure, 3%; and Fortuity, 3%.

Patriot is party to external reinsurance treaties that include property and casualty excess of loss, catastrophe, quota share, and facultative contracts. A summary of the coverage in place at December 31, 2019 follows:

- Property Excess - Property per risk excess of loss treaties provide three layers of protection with a total coverage of \$48,750,000 excess of a \$1,250,000 per risk retention.
- Property Catastrophe - Property catastrophe excess of loss agreements provide a three-layer, \$112,500,000 cover and an additional \$45,000,000 layer. Total coverage is \$157,500,000 excess of a \$12,500,000 retention.
- Casualty, Workers' Compensation and Commercial Umbrella - An excess of loss reinsurance agreement provides coverage of \$8,250,000 excess of \$1,750,000 per occurrence, and additional clash coverage provides \$5,000,000 each occurrence excess of \$10,000,000 and an additional layer of \$10,000,000 each occurrence excess of \$15,000,000.
- Workers' Compensation Catastrophe - Catastrophe excess of loss reinsurance agreement provides coverage of \$35,000,000 each occurrence excess of \$25,000,000 with a \$10,000,000 maximum for any one employee.
- Personal Umbrella Quota Share and Excess of Loss - Umbrella facultative reinsurance contract provides protection up to \$5,000,000 each occurrence with a retention of 50% of the first \$1,000,000 each occurrence.
- Employment Practices Liability - Quota share reinsurance contract with coverage provided up to \$1,000,000 aggregate for any one policy with a retention of 20%.
- Equipment Breakdown - 100% reinsured with limits up to \$50,000,000.
- Miscellaneous Professional Liability - 100% reinsured with limits up to \$2,000,000.



- Cyber Plus Quota Share - Cyber insurance protection up to \$1,000,000 per policy with 0% retention of each occurrence.

Patriot also assumes reinsurance as a member of the National Workers' Compensation Reinsurance Association, a mandatory workers' compensation reinsurance pool.

## **FINANCIAL STATEMENTS**

The Statement of Admitted Assets, Liabilities and Surplus, the Statement of Operations, 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	\$ 101,506,033
Real estate: Properties occupied by the company	10,428,330
Cash and cash equivalents	3,957,563
Investment income due and accrued	755,460
Uncollected premiums and agents' balances	10,441,925
Deferred premiums, agents' balances and installments	12,933,169
Amounts recoverable from reinsurers	6,889,965
Net deferred tax asset	1,608,811
Electronic data processing equipment and software	92,357
Receivables from parent, subsidiaries and affiliates	11,020
Aggregate write-ins for other-than-invested assets	<u>548</u>
Total assets	<u>\$ 148,625,181</u>

Liabilities

Losses	\$ 36,618,143
Reinsurance payable	8,317,088
Loss adjustment expenses	6,250,800
Commissions payable	2,132,780
Other expenses	1,149,707
Taxes, licenses and fees	250,865
Current federal and foreign income taxes	163,000
Unearned premiums	27,539,441
Advance premium	264,019
Ceded reinsurance premiums payable	7,745,338
Funds held by company under reinsurance treaties	33,000
Amounts withheld or retained for account of others	25,378
Payable to parent, subsidiaries and affiliates	518,247
Aggregate write-ins for liabilities	<u>46,804</u>
Total liabilities	<u>91,054,610</u>

Capital and Surplus

Common capital stock	8,750,000
Gross paid in and contributed surplus	16,250,000
Unassigned funds	<u>32,570,571</u>
Policyholders' surplus	<u>57,570,571</u>
Total Liabilities, Capital and Surplus	<u>\$ 148,625,181</u>

**STATEMENT OF INCOME**  
**YEAR ENDED DECEMBER 31, 2019**

Premiums earned	\$ 56,467,191
Deductions:	
Losses incurred	33,043,600
Loss adjustment expenses incurred	4,844,815
Other underwriting expenses incurred	<u>19,117,249</u>
Total underwriting deductions	<u>57,005,663</u>
Net underwriting loss	<u>(538,472)</u>
Net investment income earned	3,293,732
Net realized capital gains	<u>39,309</u>
Net investment gain	<u>3,333,041</u>
Net loss from agents' or premiums charged off	(174,617)
Finance and service charges not included in premiums	48,852
Aggregate write-ins for miscellaneous income	<u>(5,965)</u>
Total other income (loss)	<u>(131,730)</u>
Net income before dividends to policyholders	2,662,839
Dividends to policyholders	<u>293,548</u>
Net income before federal income taxes	2,369,291
Federal income taxes	<u>431,000</u>
Net income	<u>\$ 1,938,291</u>

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

Capital and surplus, December 31, 2018	\$ 55,299,275
Net income	1,938,291
Change in net deferred income tax	115,113
Change in nonadmitted assets	217,892
Net change in surplus	<u>2,271,296</u>
Capital and surplus, December 31, 2019	<u>\$ 57,570,571</u>

## **COMMENTS ON THE FINANCIAL STATEMENTS**

### **NOTE 1 – RESERVES**

Madison Consulting Group, Inc. (the “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 with key personnel to gain an understanding of the corporate structure, products, services, and reserving and pricing processes, and to determine where the majority of risks lie; review of controls to mitigate certain reserving and pricing risks; and review of the internal reserve analysis and the Appointed Actuary’s independent reserve analysis, as of December 31, 2019. 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 three-year period beginning January 1, 2017:

Capital and surplus, January 1, 2017	\$ 49,433,669
Net income or (loss)	9,861,927
Change in deferred tax	(1,065,203)
Change in nonadmitted assets	(659,822)
Capital and surplus, December 31, 2019	<u>\$ 57,570,571</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 United States (U.S.). The COVID-19 pandemic has continued to develop throughout 2020, 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.

## **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

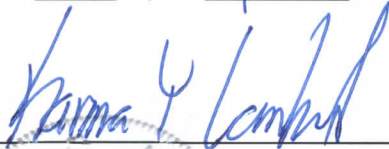
**PATRIOT INSURANCE COMPANY**

located in Yarmouth, 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:

Audrey L. Wade, CFE, CISA  
Jeremy C. Finch

  
Vanessa J. Sullivan, CFE

Subscribed and sworn to before me  
This 7<sup>th</sup> day of April, 2021

  
\_\_\_\_\_  
Notary Public  
My Commission Expires:

