

Report of Examination of

**Triumphe Casualty Company**  
Richfield, Ohio

As of December 31, 2010

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Richfield, Ohio  
October 18, 2011

Honorable Joseph Torti, III  
Deputy Director and Superintendent of Insurance  
Chairman, Financial Condition (E) Committee  
National Association of Insurance Commissioners  
Department of Business Regulation  
1511 Pontiac Avenue  
Cranston, Rhode Island 02920

Honorable Mary Taylor  
Lt. Governor/Director  
Ohio Department of Insurance  
50 West Town Street  
3<sup>rd</sup> Floor – Suite 300  
Columbus, Ohio 43215

Dear Madam and Sir:

In accordance with Section 3901.07 of the Ohio Revised Code (“ORC”), the Ohio Department of Insurance (“Department”) conducted an examination of

**Triumphe Casualty Company**

previously a Pennsylvania domiciled, stock, property and casualty insurance company, hereinafter referred to as the (“Company.”) The Company re-domesticated to the State of Ohio on October 6, 2011. The examination was conducted at the Company’s home office, located at 3250 Interstate Drive, Richfield, Ohio.

**Scope of Examination**

The Pennsylvania Department last examined the Company as of December 31, 2005. The current examination covers the period of January 1, 2006 through December 31, 2010.

The Department conducted the examination in accordance with the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners Handbook. The Handbook requires that the Department plan and perform the examination to evaluate the Company’s financial condition and identify prospective risks including corporate governance, identify and assess inherent risks and evaluate system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management’s compliance with Statutory

Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

For examination years 2006 through 2010, the certified public accounting firm of Ernst & Young, LLP (“E&Y”) provided an unqualified opinion based on statutory accounting principles. Relevant work performed by E&Y during its annual audit of the Company was reviewed during the examination and incorporated into the examination work papers.

## **Management and Control**

### **Board of Directors**

Management of the Company is vested in its Board of Directors, which was comprised of the following members as of the examination date.

<b><u>Name</u></b>	<b><u>Principal Occupation</u></b>
Alan Robert Spachman	Chairman, National Interstate Corporation
Gary Norman Monda	Vice President and Chief Investment Officer, National Interstate Corporation
David Warner Michelson	President and Chief Executive Officer, National Interstate Corporation
Terry Eugene Phillips	Senior Vice President, National Interstate Corporation
Julie Ann McGraw	Vice President and Chief Financial Officer, National Interstate Corporation
Terri Kaye Johnson	Vice President, National Interstate
Tanya Marie Inama	Assistant Vice President and Deputy General Counsel, National Interstate
Arthur Jeffrey Gonzales	Vice President, General Counsel and Secretary, National Interstate Corporation

## **Officers**

As of the examination date, the following officers were elected and serving in accordance with the Company's Bylaws:

<b><u>Name</u></b>	<b><u>Title</u></b>
David Warner Michelson	President
Julie Ann McGraw	Treasurer
Arthur Jeffrey Gonzales	Vice President, General Counsel and Secretary
Gary Norman Monda	Assistant Treasurer

## **Insurance Holding Company System**

The Company is a member of a holding company system as defined in Section 3901.32 of the ORC. Great American Insurance Company, a wholly owned subsidiary of American Financial Group, Inc., owned 52.5% of the voting stock of National Interstate Corporation. The following displays the chain of ownership of the insurance companies as of December 31, 2010:

Great American Insurance Company  
Agricultural Services, LLC  
El Aguila Compania de Seguros, S.A. de C.V.  
FCIA Management Company, Inc.  
GAI Warranty Company  
GAI Warranty Company of Florida  
Great American Alliance Insurance Company  
Great American Assurance Company  
Great American Casualty Insurance Company  
Great American Contemporary Insurance Company  
Great American E & S Insurance Company  
Great American Fidelity Insurance Company  
Great American Insurance Agency, Inc.  
Great American Insurance Company of New York  
Great American Lloyd's Insurance Company  
Great American Protection Insurance Company  
Great American Security Insurance Company  
Great American Spirit Insurance Company  
National Interstate Corporation (52.5%)  
Hudson Indemnity, Ltd.  
National Interstate Insurance Company  
National Interstate Insurance Company of Hawaii, Inc.  
Triumphe Casualty Company  
Vanliner Group, Inc.  
Vanliner Insurance Company  
Vanliner Reinsurance Limited

## Territory and Plan of Operations

The Company is licensed to transact business in the following jurisdictions of Alaska, Arizona, California, Delaware, Florida, Georgia, Illinois, Indiana, Iowa, Kansas, Maryland, Missouri, Montana, Nebraska, Nevada, North Dakota, Oklahoma, Oregon, Pennsylvania, South Carolina, South Dakota, Texas, Utah, Virginia, West Virginia and the District of Columbia.

The following schedule illustrates the Company's premium written in 2010 by line of business:

	Direct	Assumed	Ceded	Net	Percent
Commercial auto liability	43,843	2,553,373	43,843	2,553,373	53.2%
Auto physical damage	6,264,237	1,313,104	6,264,237	1,313,104	27.4%
Workers' compensation	-	538,826	-	538,826	11.2%
Other liability – occurrence	161,674	156,095	161,674	156,095	3.3%
Private passenger auto liability	870,599	140,097	870,599	140,097	2.9%
All other	-	<u>96,982</u>	-	<u>96,982</u>	<u>2.0%</u>
Totals	<u>\$ 7,340,353</u>	<u>\$ 4,798,477</u>	<u>\$ 7,340,353</u>	<u>\$ 4,798,477</u>	<u>100.0%</u>

## Significant Operating Results

The Company reported the following net underwriting results, reported in thousands, for the three most recent years of the examination period:

	2010	2009	2008
Premiums earned	<u>\$ 4,544</u>	<u>\$ 4,339</u>	<u>\$ 4,485</u>
Losses incurred	2,288	1,916	2,212
Loss adjustment expense incurred	468	386	491
Underwriting expense incurred	<u>1,498</u>	<u>1,337</u>	<u>1,284</u>
Total underwriting deductions	<u>4,254</u>	<u>3,639</u>	<u>3,987</u>
Net underwriting gain	\$ 290	\$ 699	\$ 498
Pure loss ratio	50.3%	44.2%	49.3%
Loss adjustment expense ratio	<u>10.3%</u>	<u>8.9%</u>	<u>10.9%</u>
Loss ratio	60.6%	53.1%	60.3%
Underwriting expense ratio	<u>31.2%</u>	<u>31.3%</u>	<u>19.7%</u>
Combined ratio	<u>91.9%</u>	<u>84.3%</u>	<u>80.0%</u>

## Reinsurance

Effective January 1, 2008, the Company entered into an intercompany reinsurance pooling agreement with its parent company and insurance affiliates (“the Group”). The effect is to transfer all net retained insurance liabilities of the subsidiaries to the Company and to cede specified percentages of the net underwriting results of the Group to the participating companies as follows:

<u>The Group</u>	<u>% Participation</u>
National Interstate Insurance Company (Lead)	96%
National Interstate Insurance Company of Hawaii, Inc	2%
Triumpher Casualty Company	2%

The passenger transportation book of business is protected by excess of loss reinsurance up to \$5 million on liability or workers’ compensation. An automatic facultative agreement is in place for those policies greater than \$5 million. The Group retains up to 100% of the liability on the first \$1 million and the first \$12 million of losses in the \$4 million excess of the \$1 million, referred to as the annual aggregate deductible (“AAD”). Losses above the AAD are 100% reinsured up to an annual aggregate limit of \$20 million. The Group retains up to 100% of the first \$1 million in auto physical damage losses within this program.

The commercial truck business is reinsured under an excess of loss program with limits up to \$1 million with an automatic facultative agreement in place for those policies greater than \$1 million. The Group retains 100% of the first \$500,000 of liability exposure and 50% of the \$500,000, excess of \$500,000 layer. The Group also retains up to 100% of \$1 million in auto physical damage for this book.

The recreational vehicle program has an excess of loss agreement covering losses up to \$2 million of those exceeding the Group’s retention level of \$400,000 for liability. The Group obtains reinsurance protection for physical damage losses exceeding the Group’s \$350,000 retention up to a \$2 million cover.

Mainland catastrophe protection is in place primarily covering the Group’s auto physical damage in excess of \$750,000 up to \$5 million per occurrence. Likewise, catastrophe excess of loss reinsurance for workers’ compensation is in place for losses greater than \$1 million.

For the Hawaii business, the Group utilizes multiple reinsurance contracts, including excess of loss and quota share programs. Excess of loss protection with limits of \$750,000 excess of \$250,000 is purchased for the general commercial and auto liability business. Workers’ compensation coverage is reinsured with a quota share contract with the Group retaining 40% of the losses up to a limit of \$250,000. Excess protection is in place for losses above that amount. The Group cedes 95% of Hawaii property losses up to a limit of \$3.25 million per risk. A catastrophe cover reinsures auto physical damage and property losses exceeding \$500,000 up to \$5 million.

### **Financial Statements**

The financial condition and the results of its operations for the five year period under examination as reported and filed by the Company with the Department and audited by the Company's external auditors, are reflected in the following:

Statement of Assets, Liabilities, Capital and Surplus

Statement of Income

Statement of Changes in the Capital and Surplus Account

**Statement of Assets, Liabilities, Capital and Surplus  
December 31, 2010**

**Admitted assets**

Bonds	\$ 22,885,953
Preferred stocks	5,730
Cash	<u>22,981</u>
Total cash and invested assets	22,914,664
Investment income due and accrued	244,896
Uncollected premiums and agents' balances in the course of collection	24,812
Deferred premiums, agents' balances and installments booked but deferred and not yet due	845,887
Net deferred tax asset	347,421
Receivables from parent, subsidiaries and affiliates	125,676
Aggregate write-ins for other than invested assets:	
Other receivables	23,259
Annuity contracts	<u>113,271</u>
Total admitted assets	<u>\$ 24,639,886</u>

**Statement of Liabilities, Capital and Surplus  
December 31, 2010**

**Liabilities**

Losses	\$ 3,293,747
Loss adjustment expenses	988,962
Commissions payable, contingent commissions and other similar charges	165,704
Other expenses	217,467
Taxes, licenses and fees	90,877
Current federal income taxes	334,860
Unearned premiums	2,210,849
Advanced premiums	19,995
Ceded reinsurance premiums payable	145,968
Funds held by company under reinsurance treaties	152,550
Amounts withheld or retained by company for account of others	351
Payable to parent, subsidiaries and affiliates	<u>74,929</u>
Total liabilities	7,696,259

**Capital and Surplus**

Aggregate write-ins for special surplus funds	
Additional admitted deferred taxes assets – SSAP 10R	38,224
Common capital stock	3,000,000
Gross paid in and contributed surplus	6,500,000
Unassigned funds	<u>7,405,404</u>
Surplus as regards policyholders	<u>16,943,627</u>
Total liabilities, capital and surplus	<u>\$ 24,639,886</u>

**Statement of Income**  
**As of December 31, 2010**

Premium earned	<u>\$ 4,543,784</u>
Losses incurred	2,287,547
Loss adjustment expenses	467,599
Other underwriting expenses incurred	<u>1,498,321</u>
Net underwriting gain	<u>290,317</u>
Net investment income earned	777,464
Net realized capital losses	<u>6,897</u>
Net investment gain	<u>784,361</u>
Finance and service charges not included in premiums	46,677
Aggregate write-ins for miscellaneous income:	
Miscellaneous	142,880
Funds held interest	<u>(739)</u>
Total other income	<u>188,818</u>
Net income before dividends to policyholders and federal income taxes	1,263,495
Federal and foreign income taxes incurred	<u>331,146</u>
Net income	<u>\$ 932,349</u>

**Statement of Changes in the Capital and Surplus Account**  
(In thousands)

<u>Capital and Surplus</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Capital & surplus, prior year end	\$ 15,977	\$ 14,707	\$ 14,119	\$ 13,671	\$ 13,286
Net income	932	1,115	366	483	703
Change in net unrealized capital gains or (losses)			18	(18)	-
Change in net deferred income tax	34	(4)	266	5	(44)
Change in non-admitted assets	(11)	133	(63)	(32)	23
Change in provision for reinsurance	6	(6)	-	12	(12)
Cumulative effect of changes in accounting principles	-	-	-	-	(285)
Aggregate write-ins for gains and losses in surplus					
Additional admitted deferred taxes asset-SSAP 10R	5	-	-	-	-
<u>Implementation of SSAP 10R</u>	-	34	-	-	-
Net change in capital and surplus	<u>966</u>	<u>1,271</u>	<u>587</u>	<u>449</u>	<u>385</u>
Capital and surplus, current year end	<u>\$ 16,944</u>	<u>\$ 15,977</u>	<u>\$ 14,707</u>	<u>\$ 14,119</u>	<u>\$ 13,671</u>

**Notes to Financial Statements**

**Investments**

The Company's investment portfolio consists primarily of investment grade bonds and is in compliance with Section 3925.08 of the ORC. The investments were valued in accordance with the relevant Statements of Statutory Accounting Principles and the NAIC Securities Valuation Office.

**Loss and Loss Adjustment Expense Reserves**

The Company appointed John L. Doellman, FCAS, MAAA, an actuary employed with Great American Insurance Company, to certify the total reserves for all years under examination.

Thomas Botsko, Chief Property and Casualty Actuary of the Department, reviewed the actuarial studies performed and determined the loss and loss adjustment expense ("LAE") reserves presented in the Company's 2010 annual statement appear to make a reasonable provision for the Company's loss and LAE reserves.

### **Subsequent Event**

Effective TBD, the Company re-domesticated to the State of Ohio and is licensed to write business in the jurisdiction of Ohio.

### **Conclusion**

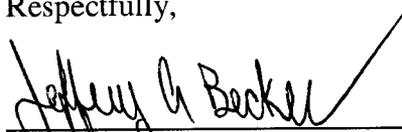
The balance sheet contained in this Report of Examination reflects the financial condition of the Company as of December 31, 2010, and is summarized as follows:

Total Admitted Assets	<u>\$ 24,639,886</u>
Liabilities	\$ 7,696,259
Surplus as Regards Policyholders	<u>16,943,627</u>
Total Liabilities and Surplus as Regards Policyholders	<u>\$ 24,639,886</u>

## Acknowledgement

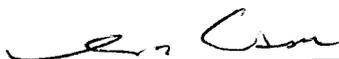
In addition to the undersigned, the following representatives of the Department participated in this examination: Kim Somogyi, CPA; Edward Nagorny, CFE, CPA; Louis Radecky, CFE, CPA; Trish Mesler, CPA; William Harrington, CFE, CPA; Thomas Botsko, ACAS, MAAA; Bradley Schroer; Vicky Hugo, AES, CFE and Larry Rice, AES, CISA.

Respectfully,



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Jeffery A. Becker, CFE  
Examiner-In-Charge  
Office of Risk Assessment  
Ohio Department of Insurance



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David A. Cook, CFE  
Assistant Chief Examiner  
Office of Risk Assessment  
Ohio Department of Insurance

Verification

As required by Section 3901.07 of the Ohio Revised Code, the undersigned hereby attest to the best of their knowledge and belief that the attached is a true Report of Examination as of December 31, 2010.

Jeffery A. Becker  
Examiner-in-Charge

10/18/2011  
Date

[Signature]  
Assistant Chief Examiner

10/18/2011  
Date

State of Ohio  
County of Franklin

Personally appeared before me the above named, Jeffery A. Becker, personally known to me, who executed the above instrument and that the statements and answers contained therein are true and correct to the best of his/her knowledge and belief.

Subscribed and sworn to before me this 18 day of October, 2011.

Elizabeth Chase  
(Notary Public)  
**ELIZABETH CHASE**  
**NOTARY PUBLIC, STATE OF OHIO**  
**MY COMMISSION EXPIRES MAY 22, 2012**  
My Commission Expires

State of Ohio  
County of Franklin

Personally appeared before me the above named, David A. Cook, personally known to me, who executed the above instrument and that the statements and answers contained therein are true and correct to the best of his/her knowledge and belief.

Subscribed and sworn to before me this 18 day of October, 2011.

Elizabeth Chase  
(Notary Public)  
**ELIZABETH CHASE**  
**NOTARY PUBLIC, STATE OF OHIO**  
**MY COMMISSION EXPIRES MAY 22, 2012**  
My Commission Expires