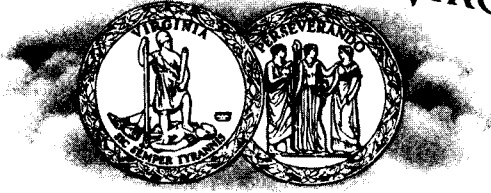


**EXAMINATION  
of  
ELEPHANT INSURANCE COMPANY  
Glen Allen, Virginia  
as of  
December 31, 2009**

# COMMONWEALTH OF VIRGINIA

ALFRED W. GROSS  
COMMISSIONER OF INSURANCE  
STATE CORPORATION COMMISSION  
BUREAU OF INSURANCE



P.O. BOX 1157  
RICHMOND, VIRGINIA 23218  
TELEPHONE: (804) 371-9741  
TDD/VOICE: (804) 371-9206  
<http://www.state.va.us/scc>

I, Alfred W. Gross, Commissioner of Insurance of the Commonwealth of Virginia, do hereby certify that the annexed copy of the Examination Report of Elephant Insurance Company as of December 31, 2009, is a true copy of the original report on file with this Bureau.

**IN WITNESS WHEREOF**, I have hereunto set my hand  
and affixed to the original the seal of the Bureau at the City  
of Richmond, Virginia this 30<sup>th</sup> day of September, 2010

A handwritten signature in cursive script that reads "Alfred W. Gross".

---

Alfred W. Gross  
Commissioner of Insurance

(SEAL)

**TABLE OF CONTENTS**

Description ..... 1

History ..... 1

Management And Control..... 2

Related Party Transactions..... 4

Fidelity Bond And Other Insurance ..... 4

Territory And Plan Of Operation ..... 5

Scope ..... 6

Financial Statements ..... 6

Subsequent Events ..... 12

Conclusion ..... 13

Richmond, Virginia  
July 16, 2010

Honorable Alfred W. Gross  
Commissioner of Insurance  
Commonwealth of Virginia  
Richmond, Virginia

Dear Sir:

Pursuant to your instructions and by authority of § 38.2 - 1317 of the Code of Virginia, a financial condition examination of the records and affairs of the

**ELEPHANT INSURANCE COMPANY**

Glen Allen, Virginia

hereinafter referred to as the Company, has been completed. The report thereon is submitted for your consideration.

**DESCRIPTION**

The Company is a stock property and casualty insurer and this is the first examination by representatives of the Commonwealth of Virginia State Corporation Commission's Bureau of Insurance (Bureau). The current examination, which was called and conducted under the auspices of the NAIC, was made by Examiners from the Bureau. This examination covers the period from October 2, 2009 through December 31, 2009.

**HISTORY**

The Company was incorporated under the laws of the Commonwealth of Virginia on June 5, 2009, under the name of AIUS Insurance Company. The name of the Company was subsequently changed to Elephant Insurance Company on September 16, 2009. The Company was licensed by the Virginia State Corporation Commission on September 24, 2009 and commenced business on October 2, 2009.

The initial capital of the Company was provided by the Company's parent, Admiral Group plc (Admiral), a publicly-traded insurance-industry holding company headquartered in Cardiff, Wales, U.K. The Company received a capital contribution of \$14,000,000 in September 2009 from Admiral, of which \$1,400,000 represented an

equity purchase of 140 shares of \$10,000 par value common stock and \$12,600,000 represented an additional paid-in surplus contribution. This equity issuance was effective June 5, 2009.

### MANAGEMENT AND CONTROL

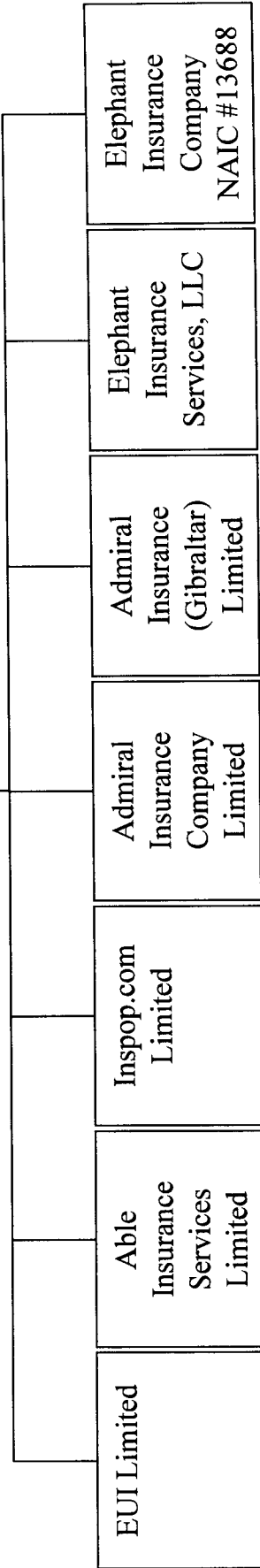
Management is vested in a board of directors consisting of four members. A quorum shall consist of three directors. Directors will act only by the assent of at least three directors. The bylaws provide that the board shall elect a president, a secretary, and a treasurer. The board may elect other officers as needed.

At December 31, 2009, the directors and officers of the Company were as follows:

| <u>Directors</u>            | <u>Principal<br/>Business Affiliation</u>  |
|-----------------------------|--|
| Kevin D. Chidwick           | Finance Director<br>Admiral Group, plc<br>Cardiff, UK  |
| Henry A. Engelhardt         | Chief Executive Officer<br>Admiral Group, plc<br>Cardiff, UK                                     |
| Timothy S. MacAleese        | Deputy Director<br>Elephant Insurance Services LLC<br>Glen Allen, Virginia                       |
| Andrew P. Rose              | President and Chief Executive Officer<br>Elephant Insurance Services LLC<br>Glen Allen, Virginia |
| <br><u>Elected Officers</u> |  |
| Andrew P. Rose              | President and Chairman of the Board  |
| Tim MacAleese               | Secretary & Treasurer  |

The Company is a wholly owned subsidiary of Admiral. The following chart illustrates this insurance holding company system at December 31, 2009:

Admiral Group, PLC



## **RELATED PARTY TRANSACTIONS**

### **General Agent and Shared Services and Expenses Agreements**

The Company has a General Agent Agreement and a Shared Services and Expenses Agreement with its affiliate, Elephant Insurance Services, LLC, a Delaware Limited Liability Company (EIS), to provide marketing, sales, pricing, product management, underwriting, claims handling, financial, administrative, and other services to the Company with respect to producing and servicing private passenger auto insurance business.

In exchange for these services, the Company reimburses EIS on an actual cost basis within 30 days after the end of each month. During 2009, EIS waived its rights to the reimbursements due from the Company. As a result, the Company recorded no expense under these agreements for the period ending December 31, 2009. Had this waiver not been received, the Company would have recorded a total expense of \$1,123,558.

### **Trade Mark and Domain Name License Agreement**

The Company has a Trade Mark and Domain Name License Agreement with its affiliate, EUI Limited, a company incorporated in England and Wales (EUI), that provides the Company with a non-exclusive, non-transferable license to use certain intellectual property owned by EUI for the purpose of producing and servicing private passenger auto insurance business in the United States. In exchange for this license, EUI is compensated 0.5% of the gross premiums written generated by the Company. Such compensation shall be payable quarterly, within 30 days of the end of each calendar quarter.

## **FIDELITY BOND AND OTHER INSURANCE**

At December 31, 2009, the Company had fidelity coverage of \$250,000 in force, subject to a single loss deductible of \$100. The Company also had the following coverages in place at December 31, 2009: workers' compensation, insurance company errors and omissions, business owners policy and a commercial umbrella policy.

**TERRITORY AND PLAN OF OPERATION**

At December 31, 2009, the Company was licensed to transact the following lines of business of insurance in Virginia.

Auto Liability  
Auto Physical Damage  
Liability Other than Auto

The Company writes business on a direct basis to its policyholders, utilizing telephone and internet access. The Company does not use a traditional underwriting approach, but relies instead on an automated rating and underwriting process.

Over the next five years, the Company plans to expand into multiple additional states. Ultimately, the Company may consider a possible presence in all 51 states and territories.

Control over underwriting and settlement of claims is maintained at the Company's home office.



## **SCOPE**

This is a full scope financial condition examination initiated and conducted under the provisions of Article 4, Chapter 13 of Title 38.2 of the Code of Virginia. The examination covers the period from October 2, 2009 through December 31, 2009. Assets were verified and liabilities were established at December 31, 2009.

This examination was conducted in accordance with the NAIC *Financial Condition Examiners Handbook* (Handbook). The Handbook requires that the Bureau plan and perform the examination to evaluate the Company's financial condition and identify prospective risks of the Company, assess corporate governance, identify and assess inherent risks within the Company 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.

## **FINANCIAL STATEMENTS**

There follows a statement of financial condition as of December 31, 2009, a statement of income for the period ending December 31, 2009, a reconciliation of surplus for the period under review and a statement of cash flow for the period ending December 31, 2009. The financial statements are presented in accordance with Statutory Accounting Principles.

**ASSETS**

|  | <u>Assets</u>              | <u>Nonadmitted<br/>Assets</u> | <u>Net<br/>Admitted<br/>Assets</u> |
|--|----------------------------|-------------------------------|------------------------------------|
| Bonds  | \$250,000                  |                               | \$250,000                          |
| Cash and short-term investments  | 13,722,932                 |                               | 13,722,932                         |
| Investment income due and accrued  | 5,074                      |                               | 5,074                              |
| Uncollected premiums and agents'<br>balances in course of collection                           | 1,007                      |                               | 1,007                              |
| Deferred premiums, agents' balances<br>and installments booked but<br>deferred and not yet due | 98,773                     |                               | 98,773                             |
| Net deferred tax asset   | 16,387                     |                               | 16,387                             |
| Receivable from parent, subsidiaries,<br>and affiliates  | 22,692                     |                               | 22,692                             |
| Aggregate write-ins for other than<br>invested assets  | <u>49,339</u>              | <u>49,339</u>                 |                                    |
| Totals   | <u><u>\$14,166,204</u></u> | <u><u>\$49,339</u></u>        | <u><u>\$14,116,865</u></u>         |

**LIABILITIES, SURPLUS AND OTHER FUNDS**

|  |                 |                                |
|--|-----------------|--------------------------------|
| Losses   |                 | \$4,456                        |
| Loss adjustment expenses                       |                 | 110                            |
| Current federal income taxes                   |                 | 2,496                          |
| Unearned premiums                              |                 | 132,600                        |
| Payable to parent, subsidiaries and affiliates |                 | <u>736</u>                     |
| <br>Total liabilities                          |                 | <br>\$140,398                  |
| <br>Common capital stock                       | \$1,400,000     |                                |
| Gross paid in and contributed surplus          | 12,600,000      |                                |
| Unassigned funds (surplus)                     | <u>(23,533)</u> |                                |
| <br>Surplus as regards policyholders           |                 | <br><u>13,976,467</u>          |
| <br>Totals                                     |                 | <br><u><u>\$14,116,865</u></u> |

**UNDERWRITING AND INVESTMENT EXHIBIT**  
**STATEMENT OF INCOME**

UNDERWRITING INCOME

|                                      |          |
|--------------------------------------|----------|
| Premiums earned                      | \$14,558 |
| <hr/>                                |          |
| Deductions:                          |          |
| Losses incurred                      | \$6,856  |
| Loss expenses incurred               | 141      |
| Other underwriting expenses incurred | 4,047    |
| <hr/>                                |          |
| Total underwriting deductions        | \$11,044 |
| <hr/>                                |          |
| Net underwriting gain                | \$3,514  |
| <hr/>                                |          |

INVESTMENT INCOME

|                              |         |
|------------------------------|---------|
| Net investment income earned | \$6,770 |
| <hr/>                        |         |
| Net investment gain          | \$6,770 |
| <hr/>                        |         |

OTHER INCOME

|  |          |
|--|----------|
| Net gain (loss) from agents' balances charged off    | (\$150)  |
| Finance and service charges not included in premiums | 1,781    |
| <hr/>  |          |
| Total other income                                   | \$1,631  |
| <hr/>  |          |
| Net income before federal income taxes               | \$11,915 |
| Federal income taxes incurred                        | 2,496    |
| <hr/>  |          |
| Net income   | \$9,419  |
| <hr/> <hr/>  |          |

**RECONCILIATION OF CAPITAL AND SURPLUS**  
**FOR PERIOD UNDER REVIEW**

|   | <b>2009</b>  |
|---|--------------|
| Surplus as regards policyholders,<br>December 31, previous year | \$0          |
| Net income  | \$9,419      |
| Change in net deferred income tax                               | 16,387       |
| Change in nonadmitted assets                                    | (49,339)     |
| Paid in Capital changes   | 1,400,000    |
| Paid in Surplus adjustments                                     | 12,600,000   |
| Change in surplus as regards<br>policyholders for the year      | \$13,976,467 |
| Surplus as regards policyholders,<br>December 31, current year  | \$13,976,467 |

**CASH FLOW****Cash From Operations**

|  |                 |
|--|-----------------|
| Premiums collected net of reinsurance                                | \$24,536        |
| Net investment income  | 1,697           |
| Miscellaneous income   | 1,782           |
| Total  | <u>\$28,015</u> |
| Benefit and loss related payments                                    | \$2,400         |
| Commissions, expenses paid and aggregate write-ins<br>for deductions | 3,343           |
| Total  | <u>\$5,743</u>  |
| Net cash from operations   | <u>\$22,272</u> |

**Cash From Investments**

|  |                    |
|--|--------------------|
| Cost of investments acquired (long-term only): |                    |
| Bonds  | \$250,000          |
| Total investments acquired                     | <u>\$250,000</u>   |
| Net cash from investments                      | <u>(\$250,000)</u> |

**Cash From Financing and Miscellaneous Sources**

|   |                     |
|---|---------------------|
| Cash provided (applied):                          |                     |
| Capital and paid in surplus                       | \$14,000,000        |
| Other cash provided                               | (49,340)            |
| Net cash from financing and miscellaneous sources | <u>\$13,950,660</u> |
| Net change in cash and short-term investments     | <u>\$13,722,932</u> |

**RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS**

|   |                     |
|---|---------------------|
| Cash and short-term investments:              |                     |
| Beginning of year                             | \$0                 |
| End of year                                   | 13,722,932          |
| Net change in cash and short-term investments | <u>\$13,722,932</u> |

**SUBSEQUENT EVENTS**

1. Effective January 1, 2010, the Company entered into two quota share reinsurance agreements. Under each agreement, the Company shall cede 33% of premiums written to the respective reinsurer for policies incepting January 1, 2010 and thereafter. Under these agreements, both reinsurers shall share in all expenses, claims and operations incurred by the Company. As a result, management estimates that during the period in which both of these agreements are in force, the Company's future net income (loss) will be reduced by approximately two-thirds.
2. In March 2010, the Company received a capital contribution of \$1,000,000 from Admiral. This represented a \$100,000 purchase of common capital stock and additional paid-in surplus of \$900,000. This equity issuance was effective March 31, 2010.
3. As reported in the Company's amended March 31, 2010 Quarterly Statement, the Company reported assets of \$16,952,558 and liabilities of \$4,611,830 and surplus of \$12,340,728 million. Furthermore, the Company reported an underwriting loss of \$2,760,570 and a net loss of \$916,151.

The Company amended the quarterly statement to include a provision for reinsurance as a result of using unauthorized reinsurers. The Company is in the process of obtaining the necessary letters of credit or funds withheld to take credit for reinsurance recoverables.

**CONCLUSION**

The courteous cooperation extended by the Company's officers and employees during the course of the examination is gratefully acknowledged.

In addition to the undersigned, Jennifer K. Crawley, CFE, Mario A. Cuellar, CFE, and Theresa C. Lewis, CFE of the Bureau participated in the work of the examination.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "T. Bradford Earley, Jr.", written in a cursive style.

T. Bradford Earley, Jr., CFE, CPCU, AIAF  
Insurance Principal Financial Analyst  
Commonwealth of Virginia





140 East Shore Drive  
Suite 300  
Glen Allen, VA 23059

STATE CORPORATION  
COMMISSION  
BUREAU OF INSURANCE

10 SEP 27 AM 9:19

September 24, 2010

Mr. David H. Smith  
Chief Examiner  
Commonwealth of Virginia  
State Corporation Commission  
Bureau of Insurance  
P.O. Box 1157  
Richmond, VA 23218

Mr. Smith:

As requested, this letter formally acknowledges receipt of the Elephant Insurance Company Examination Report as of December 31, 2009. We take no issue with any matter contained in the Examination Report, and will not be submitting a request for a hearing before the Commission. Please provide one copy of the Examination Report, as this will be sufficient for our present and future needs.

The Elephant Insurance Company gratefully appreciates the Bureau of Insurance's diligence and counsel in conducting the examination.

Please feel free to contact me at any time if you have any questions or concerns.

Sincerely,

A handwritten signature in black ink, appearing to read "Timothy S. MacAleese".

Timothy S. MacAleese  
Secretary and Treasurer  
804-955-1700, Ext. 2002  
tim.macaleese@elephant.com