

**STATE OF NORTH DAKOTA  
BISMARCK, NORTH DAKOTA**

**REPORT OF EXAMINATION**

**OF**

**ADRIATIC  
INSURANCE COMPANY**

**METARIE, LOUISIANA**

**AS OF  
DECEMBER 31, 2021**

STATE OF NORTH DAKOTA  
INSURANCE DEPARTMENT

I, the undersigned, Commissioner of Insurance of the State of North Dakota, do hereby certify that I have compared the annexed copy of the Report of Examination of the


**Adriatic Insurance Company**

**Metairie, Louisiana**

as of December 31, 2021, with the original on file in this Department and that the same is a correct transcript therefrom and of the whole of said original.

IN WITNESS WHEREOF, I have hereunto  
set my hand and affixed my official seal at my  
office in the City of Bismarck, this 30 day of  
May, 2023.



  
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Jon Godfread  
Insurance Commissioner

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Metairie, Louisiana  
March 30, 2023

Honorable Jon Godfread  
Insurance Commissioner  
North Dakota Insurance Department  
600 East Boulevard Avenue  
Bismarck, ND 58505-0320

Dear Commissioner:

Pursuant to your instructions and statutory requirements, an examination has been made of the books, records, and financial condition of

**Adriatic Insurance Company**

Statutory Home Office  
120 W. Suite Ave.,  
Bismarck, North Dakota

Main Administrative Office  
3501 North Causeway Boulevard, Suite 1000  
Metairie, Louisiana

hereinafter referred to as the "Company", last examined as of December 31, 2016, by representatives of the North Dakota Insurance Department, hereinafter referred to as the "Department."

**SCOPE OF EXAMINATION**

This examination was a risk-focused financial condition examination conducted in accordance with North Dakota Century Code ("N.D.C.C.") § 26.1-03-19.3 and observed guidelines and procedures contained in the National Association of Insurance Commissioners ("NAIC") *Financial Condition Examiners Handbook*. The examination was conducted to determine the Company's financial condition, its compliance with statutes, and to review its corporate affairs and insurance operations. This statutory examination covers the five year period of January 1, 2017 through December 31, 2021, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of this statutory examination.

The examination was conducted in accordance with examination policies and standards established by the Department and procedures recommended by the NAIC. In accordance with the NAIC Financial Condition Examiners Handbook, the examination was planned and performed 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. The examination also included 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 process. 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. Statements were prepared by management and are therefore the responsibility of management. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements.

## **STATUS OF PRIOR EXAMINATION FINDINGS**

Our examination included a review to determine the current status of the two exception conditions commented upon in our preceding Report on Examination which covered the period from January 1, 2012, to December 31, 2016. We determined that the Company had satisfactorily addressed one of these findings, which related to the adoption of investment guidelines. The second prior finding related to quarterly Board approval of investment transactions made under delegated authority cited N.D. Admin Code ("N.D.A.C.") §45-03-12-05. This was an "again recommended" finding in the prior examination and the Company has not satisfactorily addressed the sentiment of this issue, rather, the code citation related to this finding has changed as the Company no longer manages its investments under delegated authority. This finding and the current N.D.C.C. violation will be discussed within the Corporate Records section.

## **SUMMARY OF SIGNIFICANT FINDINGS**

There were no material adverse findings or material changes in the financial statements.

## **SUBSEQUENT EVENTS**

There were no material subsequent events noted through the date of this report.

## **HISTORY**

### **General**

The Company was incorporated on July 16, 1992, in accordance with the North Dakota Business Corporation Act, N.D.C.C. Chapter 10-19.1, and the state insurance statutes, N.D.C.C. §26.1-05. Effective October 1, 1992, the Company was the surviving entity in a merger with Adriatic Insurance Company, a Delaware corporation that was originally organized on June 12, 1979, under the laws of the State of Delaware.

The Company's primary purpose is to engage in the business of property and casualty insurance. The Company is authorized to operate on the stock plan and is a wholly owned subsidiary of the Anglesey Corporation, A Delaware insurance holding company.

### **Capital Stock**

The Company's Articles of Incorporation authorize the Company to issue 1,500,000 shares of single class (common), no par value capital stock. At December 31, 2021, the Company had issued all 1,500,000 shares to its parent, Anglesey Corporation.

On April 27, 1994, the Company's stockholders voted to change the par value of common stock from \$1 par value per share to no par. The amendment to the Articles was filed with an approval by the North Dakota Insurance Department effective August 17, 1994. The stockholder also approved a transfer of \$2,000,000 of unassigned surplus funds to capital stock on April 27, 1994, which increased the capital stock to \$3,500,000.

### **Stock Redemptions**

In 2020, the Company completed an Internal Revenue Code Section 303 stock redemption totaling \$20 million. To generate the \$20 million, the Company redeemed 1,983 shares, valued at just over \$10,000 per share by Chaffee & Associates, which reduced the total shares outstanding from 8,625 to 6,642. This redemption was approved by the Department as an extraordinary dividend.

## **MANAGEMENT AND CONTROL**

### **Stockholders**

Anglesey Corporation, a Delaware insurance holding company, owned 100% of the Company's outstanding stock at December 31, 2021.

Prior to his death in 2016, the former ultimate controlling person, Anthony Ciervo Jr., set up a generation-skipping trust for his grandson, Anthony F. Ciervo, that holds 1,078 shares (16.23%) of Anglesey Corporation. Upon Anthony Ciervo Jr.'s passing, his son Anthony Vandergrift Ciervo inherited 5,564 shares (83.77%) of Anglesey stock. Since then, Anthony Vandergrift Ciervo has transferred 2,294 of his shares (34.54%) to a second trust, which he controls for his son, Anthony F. Ciervo. At December 31, 2021, Anthony Vandergrift Ciervo owned or controlled 83.77% of Anglesey Corporation's outstanding shares.

### **Board of Directors**

Board of Directors serving as of December 31, 2021, were as follows:

<b><u>Name and Address</u></b>	<b><u>Principal Occupation</u></b>
Anthony Vandegrift Ciervo Metairie, Louisiana	President Adriatic Insurance Company
Joseph Edmond Taylor, III Metairie, Louisiana	Secretary Adriatic Insurance Company
Steven Michael Harris Mandeville, Louisiana	Treasurer Adriatic Insurance Company

## **Officers**

The Bylaws provide that the officers of the corporation shall be a President, a Vice President, a Secretary, and a Treasurer. The Board of Directors may also appoint other or additional officers as may be reasonably necessary for the conduct of the Company's business.

Officers of the Company serving as of December 31, 2021, were as follows:

<b><u>Name</u></b>	<b><u>Position</u></b>
Anthony Vandegrift Ciervo	President
Sheryl Landry Karger	Vice President
Joseph Edmond Taylor, III	Secretary
Steven Michael Harris	Treasurer

## **CORPORATE RECORDS**

### **Articles of Incorporation and Bylaws**

The Company did not amend or restate the Articles of Incorporation or Bylaws during the examination period.

The Bylaws provide that an annual meeting of the stockholders shall be held on the fourth Wednesday of April of each year, beginning with the year 1993 at the hour of 2:00 p.m.

The Bylaws also provide that the number of directors of the corporation shall be three and each director holds office until the next annual meeting of stockholders and until his successor has been elected and qualified. Regular meetings of the Board of Directors are held on or after the annual stockholders meeting.

### **Board of Directors, Stockholders, and Committee Minutes**

The recorded minutes of the Board of Directors (Board) for the Company and the annual stockholder meetings were reviewed for the period under examination. The recorded minutes of the Board did not document the prior approval of Company's investment transactions as required by N.D.C.C. §26.1-05-18:

An investment or loan, except a policy loan, may not be made by any domestic insurance company unless the investment or loan first has been authorized by the board of directors of the company or by an investment committee appointed by the board of directors of the company charged with the duty of supervising the making of loans or investments by the Company.

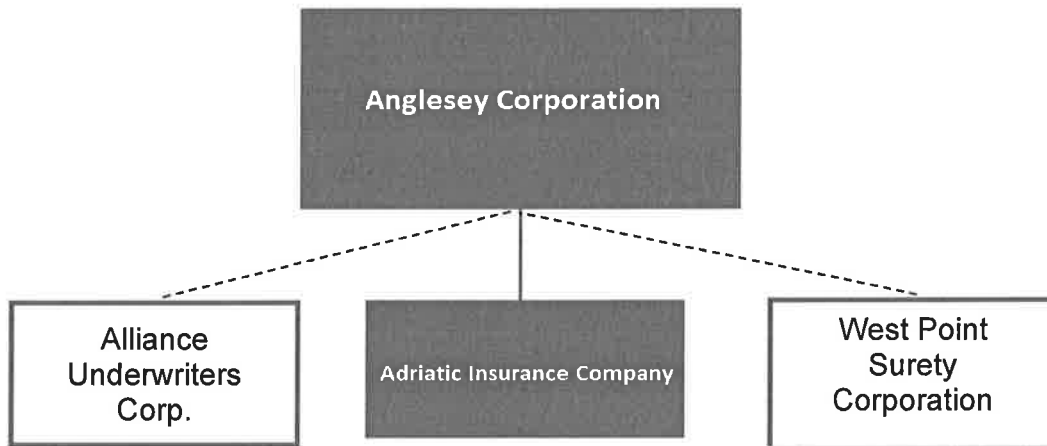
**It is recommended that the Board of Directors document its prior approval of investment transactions within Board of investment committee minutes per N.D.C.C. §26.1-05-18.**

**Conflict of Interest Procedure**

The Company had adopted a policy statement requiring annual disclosure of conflicts of interest in accordance with the guidelines of the NAIC Financial Condition Examiners Handbook. No issues or conflicts were noted within these disclosures.

**AFFILIATED AND RELATED PARTY SERVICE AGREEMENTS**

The Company's organizational structure is shown below:



As previously mentioned in the stockholder section, Anglesey Corporation is the Company's sole stockholder.

**Intercompany Agreements**

**Tax Allocation Agreement**

A consolidated federal income tax return is filed for Adriatic Insurance Company and its parent Anglesey Corporation. The return is in the parent's name. During the exam period, the Company was a party to a Consolidated Tax Allocation Agreement with Anglesey Corp. that apportions federal income tax between Anglesey Corp. and Adriatic based on the net income of each. There is a charge back to Anglesey from Adriatic every year, but according to the agreement the amount may be carried over to the following year until the balance exceeds \$500 (if exceeded, payment is required by Anglesey by March 31 of the following year).

**Asset Lease Agreement**

The Company has a long-term asset lease with Alliance Underwriters Corp ("Alliance") an affiliate with the same ownership or control as Anglesey Corp. Under this agreement, Alliance purchases and controls all of the furniture, fixtures, and equipment (and any required service or support contracts for that equipment) which the Company needs in order to operate for \$12,000 per month.



### **Other Affiliated or Related Party Transactions**

The owners of Anglesey Corporation also own premium finance company, West Point Surety Corporation ("WPSC"). At December 31, 2021, there were no agreements between WPSC and the Company, but because of the similar ownership with the Company's ultimate controlling party, this relationship needs to be reported under Note 10 of the Annual Statement.

On the December 31, 2021 Annual Statement, the Company did not disclose its relationships with Alliance or WPSC on either Schedule Y or in Note 10 of the Annual Statement.

**It is recommended that the Company properly disclose related parties on Schedule Y and/or in Note 10, in accordance with SSAP 22 and the NAIC Annual Statement instructions.**

### **FIDELITY BOND AND OTHER INSURANCE**

At December 31, 2021, the Company did not have insurance coverage protecting it from losses resulting from dishonest acts committed by any of the Company's employees. At December 31, 2021, the minimum amount of coverage suggested by NAIC guidance was \$350,000. The Company has elected to self-insure this risk.

The Company had in force insurance policies providing coverage for business personal property, general liability, loss of income, workers compensation, and employer's liability.

### **STATUTORY DEPOSITS**

Deposits held by or pledged to regulatory agencies at December 31, 2021, are as follows:

<b>State</b>	<b>Type of Asset</b>	<b>Fair Value</b>	<b>Statement Value</b>
New Mexico	Trust	350,000	350,000
New York	Trust	2,606,315	2,606,315
North Dakota	Trust	3,550,000	3,550,000
South Carolina	Trust	210,963	210,963
Total		\$6,717,278	\$6,717,278

The deposits held by North Dakota and New York are for the benefit of all policyholders, claimants, and creditors of the Company.

### **TERRITORY AND PLAN OF OPERATION**

The Company is licensed in North Dakota, Delaware, Nevada, and New Mexico, but writes no business in those states. The Company writes inland marine and auto physical damage lines of business in 38 states and the District of Columbia on an excess and surplus lines basis.

The Company specializes in writing automobile physical damage coverage for commercial vehicles, including local and long-haul trucking, taxicabs and special automobile risks.

## **REINSURANCE**

The Company only used facultative reinsurance to place risks in excess of its stated retention.

## **ACCOUNTS AND RECORDS**

The Company's accounting procedures, internal controls, and transaction cycles were reviewed during the course of the examination. Revenues and expenses were test checked to the extent deemed necessary. At December 31, 2021, the Company used Stone River software for general ledger processing, and used Aspire software program for policy and claims management.

The Company is audited annually by the independent certified public accountant firm of Postlethwaite & Netterville. The work papers of this CPA were made available to the Examiners and were used to the extent deemed appropriate for this examination.

## **FINANCIAL STATEMENTS**

The following pages present a Statement of Assets and a Statement of Liabilities, Surplus, and Other Funds as of December 31, 2021. These statements are followed by supporting statements and reconciliations presented in the following order:

Summary of Income, Year 2021

Reconciliation of Capital and Surplus, January 1, 2017, through December 31, 2021

These financial statements are based on the statutory financial statements filed by the Company with the Department and present the financial condition of the Company for the period ending December 31, 2021. The accompanying comments on financial statements reflect any examination adjustments to the amounts reported in the annual statement and should be considered an integral part of the financial statements.

**Adriatic Insurance Company**  
**Statement of Assets**  
**As of December 31, 2021**

	<b>Assets</b>	<b>Nonadmitted Assets</b>	<b>Net Admitted Assets</b>
Bonds	\$74,713,368		\$74,713,368
Common Stocks	501,840		501,840
Cash	4,906,999		4,906,999
Cash Equivalents	21,840,380		21,840,380
Investment Income Due and Accrued	734,177		734,177
Premiums and Agents Balances in Course of Collection	3,049,934		3,049,934
Federal and Foreign Income Tax Recoverable	565,269		565,269
Net Deferred Tax Asset	431,801		431,801
Totals	<u>\$106,743,768</u>		<u>\$106,743,768</u>

**Adriatic Insurance Company**  
**Statement of Liabilities, Surplus and Other Funds**  
**As of December 31, 2021**

Losses		\$ 10,322,708
Loss Adjustment Expenses		708,659
Other Expenses		562,516
Taxes, Licenses and Fees		6,738
Unearned Premiums		11,562,203
Ceded Reinsurance Premiums Payable		4,313
Amounts Withheld or Retained by Company for Account of Others		<u>25,000</u>
Total Liabilities		\$23,192,137
Common Capital Stock	\$3,500,000	
Gross Paid In and Contributed Surplus	1,100,042	
Unassigned Funds (Surplus)	<u>78,951,589</u>	
Surplus as Regards Policyholders		<u>83,551,631</u>
Total		<u>\$106,743,768</u>

**Adriatic Insurance Company  
Statement of Income  
for the year Ended December 31, 2021**

**UNDERWRITING INCOME**

Premiums Earned		\$21,475,231
Deductions:		
Losses Incurred	\$9,994,636	
Loss Expense Incurred	1,354,443	
Other Underwriting Expenses Incurred	<u>6,277,919</u>	
Total Underwriting Deductions		<u>17,626,998</u>
Net Underwriting Gain or (Loss)		\$ 3,848,233

**INVESTMENT INCOME**

Net Investment Income Earned	\$2,539,741	
Net Realized Capital Gains or (Losses)	<u>173,907</u>	
Net Investment Gain or (Loss)		2,713,648

**OTHER INCOME**

Net Loss from Agents' or Premium Balances Charged Off		<u>4</u>
Net Income Before Federal Income Taxes		\$ 6,561,885
Federal Income Taxes Incurred		<u>1,357,959</u>
Net Income		<u>\$ 5,203,926</u>

**Adriatic Insurance Company**  
**Reconciliation of Capital and Surplus Accounts**  
**January 1, 2017 Through December 31, 2021**

	2021	2020	2019	2018	2017
Capital and Surplus, December 31, Previous Year	\$78,188,187	\$91,539,515	\$83,209,832	\$75,220,704	\$69,572,774
Net Income	5,203,926	6,845,851	8,196,764	8,222,480	5,730,877
Net Unrealized Capital Gains or (Losses)	159,518	(197,179)	132,919	(233,352)	(82,947)
Dividends to Shareholders		(20,000,000)			
Net Change in Capital and Surplus for the Year	5,363,444	(13,351,328)	8,329,683	7,989,128	5,647,930
Capital and Surplus, December 31, Current Year	\$83,551,631	\$78,188,187	\$91,539,515	\$83,209,832	\$75,220,704

## CONCLUSION

The financial condition of the Company, as of December 31, 2021, as determined by this examination is as follows:

Admitted Assets:		<u>\$106,743,768</u>
Total Liabilities	\$ 23,192,137	
Common Capital Stock	\$ 3,500,000	
Gross Paid In & Contributed	1,100,042	
Unassigned Funds	<u>78,951,589</u>	
Surplus as Regards Policyholders		<u>83,551,631</u>
Liabilities, Surplus and Other Funds		<u>\$106,743,768</u>

Since the last examination conducted as of December 31, 2016, the Company's admitted assets have increased \$18,571,614, its total liabilities have increased \$4,592,757, and its surplus as regards policyholders has increased \$13,978,857.

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

In addition to the undersigned, Stefan Obereichholz-Bangert, AES, CISA, CISM, CDPSE, Information Systems Auditor and Eric Dercher, CFE, Financial Examiner of Noble Consulting Services, Inc., participated in this examination.

Respectfully submitted,



Colton Schulz, CISA, CFE, CFE (Fraud)  
Supervising Examiner  
North Dakota Insurance Department

## **COMMENTS AND RECOMMENDATIONS**

It is recommended that the Board of Directors document its prior approval of investment transactions within Board of investment committee minutes per N.D.C.C. §26.1-05-18.

It is recommended that the Company properly disclose related parties on Schedule Y and/or in Note 10, in accordance with SSAP 22 and the NAIC Annual Statement instructions.