

**ASSOCIATION EXAMINATION
OF
MARKEL AMERICAN INSURANCE COMPANY
Glen Allen, Virginia
as of
December 31, 2020**

COMMONWEALTH OF VIRGINIA



SCOTT A. WHITE
COMMISSIONER OF INSURANCE
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE

P.O. BOX 1157
RICHMOND, VIRGINIA 23218
1300 E. MAIN STREET
RICHMOND, VIRGINIA 23219
TELEPHONE: (804) 371-9741
www.scc.virginia.gov/boi

I, Scott A. White, Commissioner of Insurance of the Commonwealth of Virginia, do hereby certify that the annexed copy of the Examination Report of Markel American Insurance Company as of December 31, 2020, 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 10th day of June 2022

A handwritten signature in black ink, appearing to read 'Scott A. White', written over a horizontal line.

Scott A. White
Commissioner of Insurance



TABLE OF CONTENTS

Scope of the Examination..... 1

History 2

Management and Control 4

Related Party Transactions..... 7

Territory and Plan of Operation 9

Growth of the Company 10

Reinsurance 11

Financial Statements..... 18

Subsequent Event 24

Acknowledgement..... 25

Richmond, Virginia
March 15, 2022

Honorable Scott A. White
Commissioner of Insurance
Commonwealth of Virginia
Richmond, Virginia

Dear Madam:

Pursuant to your instructions and in conformity with § 38.2-1317 of the Code of Virginia, an examination of the records and affairs of the

MARKEL AMERICAN INSURANCE COMPANY

Glen Allen, Virginia,

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

SCOPE OF THE EXAMINATION

The Company was last examined by representatives of the State Corporation Commission's Bureau of Insurance (Bureau) as of December 31, 2015. The examination covers the period from January 1, 2016 through December 31, 2020.

The 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, assess corporate controls and procedures used to mitigate those risks. An examination also includes 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.

The Examination was conducted by the Illinois Department of Insurance on a coordinated basis, with the state of Illinois as the NAIC lead state. Other Markel insurance company examinations conducted concurrently with this examination were as follows:

<u>Insurer</u>	<u>Domiciliary State</u>
Evanston Insurance Company	Illinois
Markel Insurance Company	Illinois
Independent Specialty Insurance Company	Delaware
Markel Global Reinsurance Company	Delaware
Superior Specialty Insurance Company	Delaware
United Specialty Insurance Company	Delaware
Essentia Insurance Company	Missouri
FirstComp Insurance Company	Nebraska
City National Insurance Company	Texas
National Specialty Insurance Company	Texas
Pinnacle National Insurance Company	Texas
State National Insurance Company Inc.	Texas
Suretec Insurance Company	Texas

The services of Risk & Regulatory Consulting LLC were employed to provide an actuarial analysis as to the reasonableness of the Company's loss and loss adjustment expense reserves as of December 31, 2020.

The services of INS Services, Inc. were employed to perform a general assessment of the internal controls of the Company's information systems and significant business processes as deemed necessary.

This examination report includes significant findings of fact and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the Company.

HISTORY

The Company is a stock property and casualty insurer. The Company was issued a certificate of incorporation by the State Corporation Commission (Commission) on October 15, 1986. The Company commenced business on February 27, 1987. According to the Company's Articles of Incorporation, amended and restated as of October 4, 1993, its purpose is as follows:

The Corporation is organized to conduct business as an insurance company, and shall have the authority, if licensed, to write one or more of the following classes of insurance: credit accident and sickness, accident and sickness, fire, miscellaneous property, water damage, burglary and theft,

glass, boiler and machinery, animal, personal injury liability, property damage liability, workers' compensation and employers' liability, fidelity, surety, credit, motor vehicle, aircraft, marine, homeowners insurance, farmowners insurance, commercial multi-peril insurance, contingent and consequential losses (as such classes of insurance are defined in the Virginia Stock Corporation Act (the "Act"), which term shall be deemed to include the Act or any successor statute or section thereof, as now written and as hereafter amended), and to engage in any other business as may be related to or incidental to the insurance business.

The Company's initial capitalization was \$4,000,000, including \$1,500,000 in common capital stock (15,000 shares issued and outstanding with a par value of \$100) and \$2,500,000 in gross paid in and contributed surplus.

On January 10, 1992, Markel Corporation (Markel) contributed the outstanding common stock of the Company to an affiliate, Markel Service, Inc. (MSI). On January 13, 1992, MSI contributed the assets of the Governmental Programs Brokerage Division (GPBD) to the Company. The Company sold GPBD to a non-affiliate, resulting in an additional capital contribution of \$1,443,668.

Evanston Insurance Company (Evanston), an Illinois domestic, purchased the Company from MSI on March 27, 1992. Effective February 28, 1993, the Company declared and paid a one-for-one stock dividend to Evanston, resulting in a transfer of \$1,500,000 from surplus to common capital stock and increasing the issued and outstanding common stock from 15,000 shares to 30,000 shares. On October 24, 1994, the Company received a capital contribution of \$3,500,000 from Evanston.

As a result of a transfer of the Company's issued and outstanding shares between affiliated companies effective January 30, 1998, the Company became a direct, wholly-owned subsidiary of Markel.

Effective April 13, 2001, the Company amended its Articles of Incorporation to change the par value of its common shares from \$100 to \$166.67 per share. This resulted in a transfer of \$2,000,100 from gross paid in and contributed surplus to common capital stock.

On December 13, 2001, Markel made a capital contribution of \$5,000,000 in cash to the Company. On November 1, 2002, Markel made a capital contribution of \$10,000,000 in bonds to the Company. On December 30, 2002, Markel made a capital contribution of \$7,000,000 in cash to the Company. On December 11, 2008, Markel made a capital contribution of \$14,098,794 in securities to the Company. On March 9,

2017, Markel made a capital contribution of \$10,000,000 in cash to the Company. On December 31, 2018, Markel made a capital contribution of \$5,000,000 in cash to the Company. On December 16, 2019, Markel made a capital contribution of \$40,000,000 in cash and securities to the Company. On March 26, 2020, Markel made a capital contribution of \$50,000,000 in cash and securities to the Company. On December 7, 2020, Markel made a capital contribution of \$40,000,000 in cash to the Company.

The Company's authorized capital is 50,000 shares of common stock with a current par value of \$166.67 per share. As of December 31, 2020, there were 30,000 shares of common stock issued and outstanding.

MANAGEMENT AND CONTROL

The bylaws provide that the business and affairs of the Company will be managed under the direction of the board of directors subject to any limitation set forth in the articles of incorporation. It further provides that the number of directors shall be a number that is equal to or greater than three but less than or equal to eleven, the exact number of directors to be fixed, from time to time, by a resolution of the board of directors. Each director shall hold office until the next succeeding annual meeting of shareholders at which directors are elected.

Directors shall be elected at each annual meeting of shareholders. A majority of directors then in office shall constitute a quorum for the transaction of business unless a greater number is required by law or by the articles of incorporation. The act of a majority of the directors present at a meeting at which a quorum is present shall be the act of the board of directors.

The bylaws provide that the officers of the Company shall be a chairman of the board of directors, a president, a secretary, a treasurer, and at the discretion of the board of directors, one or more vice presidents and other officers and assistant officers as may be deemed necessary or advisable to carry on the business of the Company. Any two or more offices may be held by the same person, except that the same person cannot hold simultaneously the offices of president and secretary. At December 31, 2020, the board of directors and officers were as follows:

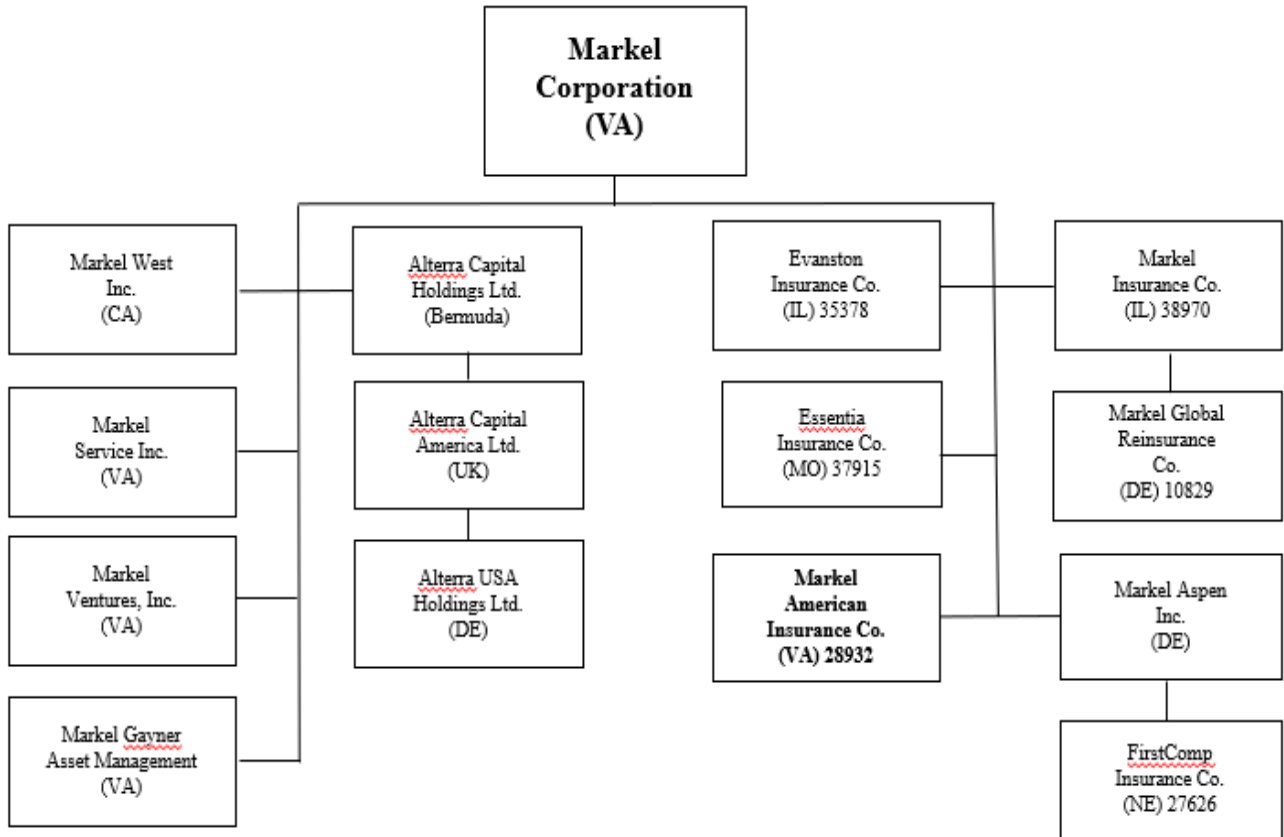
<u>Directors</u>	<u>Principal Occupation</u>
Robert C. Cox	President and COO, Insurance Operations Markel Service, Inc.
Oscar Guerrero	Chief Accounting Officer Markel Corporation

Bradley J. Kiscaden	President and Chief Administrative Officer Markel Corporation
Robin Russo	EVP, Chief Underwriting Officer Markel Corporation
Bryan W. Sanders	President Markel Specialty

Officers

Bradley J. Kiscaden	Chairman of the Board
Matthew H. Parker	President
Jeffrey T. May	Senior Vice President
John D. Back	Vice President
Joanne M. Cichon-Feeney	Vice President
Brian J. Constanzo	Vice President and Chief Financial Officer
Richard R. Grinnan	Vice President and Assistant Secretary
Oscar Guerrero	Vice President
Robin Russo	Vice President
Kathleen A. Sturgeon	Secretary
April L. Duff	Treasurer
Michael J. Jaeger	Controller
Ella Liberman	Assistant Secretary
Kelli S. Plusch	Assistant Secretary
Karl M. Strait	Assistant Secretary
Kristen M. Williamson	Assistant Secretary
Justin P. Broussard	Assistant Treasurer

The Company is a wholly-owned subsidiary of Markel. The following chart illustrates this insurance holding company system at December 31, 2020:



RELATED PARTY TRANSACTIONS

The Company and its affiliated underwriting managers entered into a service agreement with Markel on August 1, 2003, granting Markel authority to issue checks on behalf of the Company and its affiliates in order to pay the expenses of the Company and its affiliated underwriting managers. This agreement was approved by the Bureau on August 12, 2003.

On October 1, 2013, the Company and certain of its affiliates entered into a management agreement with Markel Service, Inc. (MSI), whereby MSI serves as exclusive business and underwriting manager performing all management, administrative and financial services as well as providing underwriting, claims, reinsurance and other underwriting services. Previous agreements were terminated and consolidated into the MSI arrangement.

On October 1, 2013, the Company and MSI granted underwriting authority to Markel West, Inc. (MW) to enter into producer agreements and granted MW binding authority pursuant to the Company's underwriting standards and guidelines, as well as claims authority to adjust, settle, defend and litigate claims arising out of the policies issued pursuant to the agreement.

Effective January 1, 2015, the Company entered into an Amended and Restated Investment Advisory Agreement with Markel-Gayner Asset Management, Inc. (Markel-Gayner). Under this agreement, Markel-Gayner provides investment advisory services to the Company with respect to assets in its investment portfolio. The Company pays an annual fee to Markel Gayner equal to 1% of the portfolio's market value.

Tax Sharing Agreement

The Company is included in the consolidated federal income tax return filed by Markel. There is a written tax allocation agreement, effective January 1, 2013, that covers tax allocations for the calendar years 2012 and thereafter. The method of allocation is based upon a separate federal income tax return calculation for each party subject to this agreement, except for deferred intercompany transactions.

Dividends

The Company did not pay dividends to Markel during the period under review.

Revolving Credit Arrangement

On February 25, 1999, the Bureau approved a revolving credit arrangement between the Company and Markel. This agreement enables the Company to borrow up to 25% of its policyholders surplus level as of the immediately preceding December 31, if necessary, from Markel. The arrangement's purpose is to provide efficient cash flow to the Company in the event it is necessary to settle large claims, particularly prior to reinsurance recoveries. The repayment of borrowed funds (unsecured) will occur pursuant to the terms of a short-term demand note bearing interest from the date of advance until repayment at the prime rate periodically announced by a certain financial institution. Payment of principal is on demand. Reinsurance recoveries when received will be used to repay the loans. This arrangement anticipates that such loans will not remain outstanding for more than 90 days. Either party may terminate the arrangement upon 30 days written notice to the other. At December 31, 2020, there were no balances outstanding under this agreement.

Promissory Notes

Effective September 26, 2018, the Company and Markel Ventures, Inc. (Ventures) entered into a promissory note. Under the terms of the note, Ventures promises to pay the Company the principal sum of \$15,000,000 on September 26, 2028, and to pay interest semiannually at the rate 4.54% interest per year until the principal is paid. In conjunction with the promissory note, Markel entered into a Guaranty Agreement whereby Markel guarantees the payment due the Company should Ventures fail to pay. Effective November 22, 2019, the Company and Ventures entered into a second promissory note whereby Ventures promises to pay the Company the principal sum of \$25,000,000 on November 22, 2029, and to pay interest semiannually at the rate of 3.21% per year until the principal is paid. Markel entered into an additional Guaranty Agreement for the second promissory note.

TERRITORY AND PLAN OF OPERATION

At December 31, 2020, the Company was licensed to operate in all 50 states, the District of Columbia and Puerto Rico. In Virginia, the Company was licensed to transact the following lines of business:

Accident and sickness	Automobile physical damage
Credit accident and sickness	Aircraft liability
Fire	Aircraft physical damage
Miscellaneous property and casualty	Fidelity
Farmowners multiple peril	Surety
Homeowners multiple peril	Glass
Commercial multiple peril	Burglary and theft
Ocean marine	Boiler and machinery
Inland marine	Credit
Workers compensation-employer liability	Animal
Liability other than auto	Water damage
Automobile liability	

Currently, the majority of the Company's direct premium is written in California, Florida, Georgia, Illinois, Massachusetts, New Jersey, New York, Pennsylvania and Texas. According to its 2020 Annual Statement, the Company wrote the following lines of business:

Direct:

Fire	Products liability-occurrence
Allied lines	Private passenger auto no-fault (PIP)
Homeowners multiple peril	Other private passenger auto liability
Commercial multiple peril	Commercial auto liability
Ocean marine	Other commercial auto liability
Inland marine	Auto physical damage
Medical professional liability-claims-made	Fidelity
Workers' compensation	Burglary and theft
Other liability-occurrence	Boiler and machinery
Other liability-claims-made	Credit

GROWTH OF THE COMPANY

The following data, obtained from Annual Statements filed with the Bureau and from examination reports, indicates the growth of the Company for the ten-year period ending December 31, 2020:

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Aggregate Write-ins for Special Surplus Funds</u>	<u>Capital Paid-Up</u>	<u>Gross Paid In and Contributed Surplus</u>	<u>Unassigned Funds</u>
2011	\$448,805,466	\$315,891,428	\$1,586,383	\$5,000,100	\$41,542,362	\$84,785,193
2012	422,023,051	310,844,339		5,000,100	41,542,362	64,636,250
2013	441,097,769	305,305,931		5,000,100	41,542,362	89,249,376
2014	323,705,948	186,165,299		5,000,100	41,542,362	90,998,187
2015	329,312,720	192,850,661		5,000,100	41,542,362	89,919,597
2016	433,410,415	288,620,207		5,000,100	41,542,362	98,247,746
2017	585,546,827	405,615,331		5,000,100	51,542,362	123,389,035
2018	838,216,849	656,772,791		5,000,100	56,542,362	119,901,596
2019	1,120,600,880	873,135,590		5,000,100	96,542,362	145,922,828
2020	1,517,623,242	1,143,041,525		5,000,100	186,542,362	183,039,255

<u>Year</u>	<u>Premiums Earned</u>	<u>Loss and Loss Adjustment Expenses Incurred</u>	<u>Other Underwriting Expenses</u>	<u>Net Underwriting Gains or (Loss)</u>
2011	\$114,971,675	\$45,531,025	\$48,285,198	\$21,155,452
2012	111,011,608	56,237,976	47,555,210	7,218,422
2013	113,188,494	49,590,622	47,176,714	16,421,158
2014	118,207,469	65,346,515	52,718,975	141,979
2015	131,334,147	68,638,994	50,519,974	12,175,179
2016	162,610,692	85,630,013	84,204,833	(7,224,154)
2017	265,105,126	172,221,206	104,679,400	(11,795,480)
2018	344,259,891	218,447,968	132,837,412	(7,025,489)
2019	484,221,960	296,588,265	194,574,820	(6,941,125)
2020	634,196,417	366,740,125	224,957,879	42,498,413

REINSURANCE

The net aggregate amount insured in any one risk excluding workers' compensation at December 31, 2020 was \$15,000,000 million for the professional liability line of business. The following reinsurance agreements were in force at December 31, 2020:

Assumed Reinsurance – Affiliates

<u>Type of Agreement</u>	<u>Business Covered</u>	<u>Ceding Company</u>
Indemnity Reinsurance & Administrative Service Agreement	Indemnity Agreement where Pinnacle National Insurance Company (PNIC) cedes all obligations on reinsurance agreements entered prior to 10/1/18 to the Company.	PNIC

Assumed Reinsurance – Non-Affiliates

For the year ended December 31, 2020, the assumed premiums from non-affiliates primarily consisted of premiums from pools and associations.

Ceded Reinsurance – Affiliates

<u>Type of Agreement</u>	<u>Business Covered</u>	<u>Assuming Company</u>
100% Assumption Agreement	Business that was fronted to Specialty Surplus Insurance Company now fronted to Evanston Insurance Company and then to third party reinsurers	Evanston Insurance Company
40% Quota Share	Policies with limits equal to or exceeding \$15M on any one policy for Assurance Casualty (Healthcare, Products Liability, Binding/Brokerage/Commercial Wholesale XS Casualty which excludes Middle Market Primary), Specialty Division (Commercial /Specialty Programs), and Digital Division (Casualty)	Markel Insurance Company

Shared Reinsurance Apportionment Agreement

Insurance entities within the Markel Group enter into joint reinsurance programs providing reinsurance coverage for those entities. Effective April 1, 2020, the Company and other Markel North America affiliates were added to the Shared Reinsurance Apportionment Agreement between Markel Corporation, Markel International Insurance Company Limited, Markel Syndicate Management Limited and Markel Insurance SE and

the parties agreed to terminate all prior reinsurance allocation agreements by and between the parties simultaneous to the effective date of the agreement. The purpose of the agreement is to determine how the parties will provide for the apportionment of premium, retention, and recovery for those joint reinsurance programs where such apportionment is not specified otherwise. This agreement was approved by the Bureau of Insurance on August 10, 2020.

Ceded Reinsurance – Non-Affiliates

Companies within the Markel Group are protected from excess losses through various reinsurance facilities for which they are named participants. These facilities include an enterprise aggregate excess of loss agreement, various Markel North America property catastrophe covers, global reinsurance property covers, and a workers compensation cover. On the casualty side, the companies are covered under various agreements including enterprise casualty and cyber liability, casualty mainframe, professional liability, surety, Burns and Wilcox umbrella, personal umbrella, Global Re public entity, MINT Fine Arts, and MINT Trade Credit. The following contracts were deemed significant as related to the coverage for the Company:

Enterprise Aggregate Excess of Loss

Effective January 1, 2020, coverage under the Enterprise Aggregate Excess of Loss is provided under two layers, which are net after all reinsurance. The original structure was \$300 million excess of \$200 million for the first layer and \$100 million excess of \$500 million for the second layer. There is a \$10 million per occurrence deductible in place and both layers were 100% placed. Effective July 1, 2020, the attachment point for the first layer was lowered from \$200 million to \$174.75 million.

Business covered under this agreement includes policies underwritten by or on behalf of Markel Assurance, Markel Specialty, Markel International (as respects “Canadian Cross Border” business underwritten in the United States), State National Companies, Hagerty Insurance Agency, LLC and Hagerty Classic Marine Insurance Agency, LLC, and business classified as: Property, Ocean Marine and Inland Marine; Markel Global Re Domestic and International CAT, Per Risk, Quota Share; Direct & Facultative; Whole Account; Marine & Energy including Offshore; CV Starr Aviation; MINT Marine & Energy including Offshore; National Markets Property; All Latin American exposures; All Workers Comp (insurance and reinsurance); All Accident & Health (insurance and reinsurance).

All lines of business that are subject to natural peril losses are subject to this placement excluding assumed retros and State National Lender Services.

Markel North America Property Catastrophe

Effective May 1, 2020, Markel entered into the Markel North America Property Catastrophe agreement that provides a \$200 million excess of loss layer of protection above Markel's \$100 million retention. Business covered includes policies underwritten by or on behalf of Markel Assurance (formerly known as Markel Wholesale and Global Insurance), Markel Specialty, Markel International (as respects "Canadian Cross Border" business underwritten in the United States), State National Insurance Company, Hagerty Insurance Agency, LLC and Hagerty Classic Marine Insurance Agency, LLC classified by the company as Property, Ocean Marine and Inland Marine. The agreement was 100% placed.

Markel North America Property Risk Structure

Effective May 1, 2020, Markel had a multilayer property risk structure in place to partially cover the \$100 million retention noted in the above property catastrophe agreement.

For Markel Assurance Commercial Property and Risk Managed Property, there is a 100% Quota Share that was 45.75% placed with Markel retaining the remainder. The agreement is on a risk-attaching basis. The Reinsurers will indemnify the Company for losses under all policies underwritten by or on behalf of Markel Assurance Commercial Property Product Line or Markel Assurance Risk Management Property Product Line and classified by the Company as Property.

There are two excess of loss agreements covering \$9 million excess of Markel's \$1 million retention. The first is a \$4 million excess of \$1 million per risk (which excludes losses of named hurricanes at landfall and earthquakes) and was 100% placed. This layer has an \$18 million Annual Aggregate Deductible (AAD). The second agreement covers \$5 million excess of \$5 million per risk with an AAD of \$2.5 million and was 100% placed. Business covered under these layers cover losses under all Policies underwritten by or on behalf of Markel Assurance Contract Binding Property, Markel Assurance Healthcare Practice Group, Markel Specialty Commercial, Markel Specialty Programs (excluding Wright Specialty School Program), Markel International (as respects "Canadian Cross Border" business underwritten in the United States), Markel Assurance Inland Marine, Markel Assurance Railroad, Markel Assurance Ocean Marine, Markel Specialty Personal Lines Ocean Marine and Markel Insurtech Underwriting and classified by the Company as Property including but not limited to Inland Marine, Ocean Marine, and Businessowners Policies (property coverages only).

Above the \$10 million limit there are two additional excess of loss agreements. The first layer is a \$15 million excess of \$10 million excess of loss (XOL) per risk agreement. The second agreement is \$25 million excess of \$25 million. Both

agreements were 100% placed and provide per occurrence clash protection. Business covered includes losses under all Policies underwritten by or on behalf of Markel Assurance, Markel Specialty Commercial, Markel Specialty Programs (excluding Wright Specialty School Program), Markel International (as respects "Canadian Cross Border" business underwritten in the United States), Markel International (MINT) Direct and Facultative business, Markel Assurance Inland Marine, Markel Assurance Railroad, Markel Assurance Ocean Marine, Markel Specialty Personal Lines Ocean Marine and Markel Insurtech Underwriting and classified by the Company as Property including but not limited to Inland Marine, Ocean Marine and Businessowners Policies (property coverages only).

Commercial Property Quota Share

Effective January 1, 2020, Markel entered into a Commercial Property 50% quota share agreement covering named storms/earthquake losses occurring in respect to policies that are in force, new and renewed, by Markel Assurance Commercial Property and Risk Managed Property. Effective May 1, 2020, this agreement was changed to an 80% quota share. Markel retained 50% per the January 1, 2020 effective date, and 20% per the May 1, 2020 effective date. The agreement was placed 100%.

Property JEM 2.0 Quota Share

Effective September 1, 2020, Markel entered a 90% Quota Share reinsurance agreement to cover business where Markel participates 20% with the RT Specialty – JEM 2.0 program. The 90% Quota Share agreement was placed 100% with Markel retaining the remaining 10%.

Ocean Marine Indemnity Quota Share (Gulf Coast Marine Pool)

Effective April 1, 2001, and continuous, Markel retrocedes 5% of the 30.5% portion of the inward pool for business classified as Hull and Cargo with a policy limit of \$1 million. The gross ceded for outward retrocession to Ocean Marine Indemnity is 16.39%. Markel retrocedes 30.5% of the 49% portion of the inward pool for business classified as Protection and Indemnity with a policy limit of \$1 million. The gross ceded for outward retrocession to Ocean Marine Indemnity is 62.24%.

Markel Personal Property Lines Quota Share

Effective May 1, 2020, Markel entered into a quota share agreement to cover Markel Personal Lines (MPL) Property policies. The agreement is divided into two sections. Section 1 is a 100% quota share on Excess and Surplus (E&S) policies not produced by Burns and Wilcox (B&W). Section 2 is a 60% quota share that covers E&S

policies produced by B&W. The treaty has a \$5 million per risk limit and a 250% of Net Written Premium (NWP) loss occurrence cap. The agreement was 44.5% placed.

There is a second B&W Personal Lines Property 20% quota share for E&S Homeowners and Dwelling business produced by B&W. Effective May 1, 2020, the agreement has a \$5 million per risk limit and a per occurrence limit of 250% of net written premium. The agreement was 100% placed.

Wright Education Program

Effective July 1, 2020, Markel entered into a 100% Quota Share agreement to provide all coverages for business written under the Wright Education Program.

Workers' Compensation

Effective June 1, 2020, Markel entered into an excess of loss agreement for all policies written by Markel Specialty and classified as Workers' Compensation and Employers Liability business. Excess of loss coverage is provided by two layers. Layer 1 is \$10 million excess of \$10 million with an aggregate limit of \$20 million, with Markel retaining the first \$10 million. Layer 2 is \$50 million excess of \$20 million with an aggregate limit of \$100 million. Both layers are 100% placed.

Enterprise Casualty and Cyber Liability

Effective March 1, 2020, Markel entered into an excess of loss agreement to cover casualty and cyber liability. The agreement is divided into two sections. Section A is per event and section B is aggregate. Section A was 25% placed. Section A1 provides clash cover of \$40 million in excess of \$25 million for third party liability for Markel Assurance and Specialty; Markel Specialty Commercial (except Education Accident & Medical and Hagerty Classic Auto and Watercraft); Markel Specialty Agriculture; Markel Specialty Programs (except Health Special Risk); Workers' Compensation; Prairie State; Markel Surety; Markel Assurance Casualty; Markel Assurance Professional Liability; Markel Insurtech Underwriters (formerly known as Markel Digital); and Assurance Ocean Marine; Markel Global Reinsurance: Public Entity and Markel International: MINT Specialty and Financial Lines; MINT National Markets; MINT Marine & Energy; and MINT Latin America Surety. Section A2 covers transactional liability of \$40 million excess of \$25 million. Both A1 and A2 have an aggregate limit of \$80 million.

Section B covers Cyber Events involving policies classified by the Company as: Property; Casualty; Professional Liability, Workers' Compensation; Marine and Energy; and Surety, including both affirmative and silent cyber insurance. The affirmative and silent cyber covers \$150 million excess of \$120 million with an aggregate limit of \$150

million and is 43.33% placed. Additionally, the affirmative cyber covers \$150 million excess of \$120 million with an aggregate limit of \$150 million and is 10.00% placed. Section B contains varying sub limits for certain reinsurers.

Casualty Mainframe

Effective November 1, 2020, Markel entered into a casualty mainframe excess of loss agreement to cover Risk Management Excess Liability Policies providing Commercial/Infrastructure construction. The agreement is divided into two sections. Section A covers losses excess of \$250,000 not to exceed \$2.75 million each loss, each risk and has a \$350 million AAD. Section A is 98.5% placed and the aggregate limit is \$250 million. Section B covers losses excess of \$3 million, not to exceed \$22 million each loss, each risk and has a \$120 million AAD. Section B is 91% placed and the aggregate limit is \$250 million. There is an aggregate limit of \$400 million for both sections combined.

Professional Liability

Effective December 1, 2020, Markel entered into a 100% quota share agreement covering Markel Specialty Professional Liability. The agreement is 50% placed and Markel retains 50%. The agreement has a per risk limit of \$25 million and aggregate limit of 200% of the paid loss ratio estimated at \$1.6 billion. The contract has an AAD with a 32% Paid Loss Ratio that Markel is responsible for prior to the quota share payments.

Ullico Liability Quota Share

Effective January 1, 2020 and continuous, the Company entered into a 60% quota share agreement with Ullico Labor Captive, IC (Ullico) for policies issued by Ullico Casualty Group, Inc. on behalf of the Company. The agreement covers Fiduciary Liability, Governmental Liability, Excess Fiduciary Liability and Management Non-Profit Liability with limits of \$15 million per policy and Union Liability with a limit of \$5 million per policy. The agreement has a \$2 million per risk limit with 100% of limits above \$2 million retained by the Company.

B&W Umbrella Quota Share

Effective April 1, 2020, Markel entered a 20% quota share agreement with policy limits up to \$3 million for policies produced by B&W and classified as umbrella liability and excess liability. Markel retained 80%.

Global Reinsurance Public Entity Quota Share

Effective December 1, 2020, Markel entered into a 100% quota share agreement with policy limits up to \$10 million for business underwritten by the Global Reinsurance Public Entity Product Line Division and classified as Public Entity business. This agreement was placed at 38.75%. Markel retained 61.25%.

MINT Fine Arts

Effective July 1, 2020, Markel entered into an excess of loss agreement for all policies classified as Fine Arts. Markel retains \$2 million and coverage is provided for net losses in excess of \$2 million with an aggregate limit of \$48 million each loss each risk. The agreement is 100% placed.

MINT Trade Credit & Surety XOL

Effective May 1, 2020, Markel entered into a 20% quota share agreement and excess of loss agreement for policies classified as Trade Credit, including Surety and Political Risk business. The agreement has various limits in place based on the type of business. For the remaining 80% there is excess of loss coverage provided by three layers. Layer 1 is \$10 million excess of \$10 million that is retained by Markel, Layer 2 is \$15 million excess of \$20 million and Layer 3 is \$30 million excess of \$35 million. All three layers are 80% placed. Layers 1 and 2 both have \$30 million limits and Layer 3 has a \$60 million limit.

Employment Practices Liability

Effective January 1, 2013 and continuous, Markel entered into a 100% quota share agreement for losses occurring under an Employment Practices Liability Coverage Form on policies underwritten by the Markel Specialty Division and classified as Hartford Steam Boiler Employment Practices Liability.

Equipment Breakdown

Effective July 1, 2014 and continuous, Markel entered into a 100% quota share agreement of the net retained liability for policies classified as Markel Specialty and Markel Assurance Healthcare Practice Group.

FINANCIAL STATEMENTS

The following statutory financial statements present the financial condition of the Company for the period ending December 31, 2020. No examination adjustments were made to the statutory financial statements filed by the Company with the Bureau for the period ending December 31, 2020.

ASSETS

	<u>Assets</u>	<u>Nonadmitted Assets</u>	<u>Net Admitted Assets</u>
Bonds	\$752,722,312		\$752,722,312
Common stocks	98,293,613		98,293,613
Cash and short-term investments	459,547,505		459,547,505
Other invested assets	40,000,000		40,000,000
Investment income due and accrued	5,633,338		5,633,338
Uncollected premiums and agents' balances in course of collection	124,244,064	23,098,603	101,145,461
Deferred premiums, agents' balances and installments booked but deferred and not yet due	14,855,538	2,177,487	12,678,051
Amounts recoverable from reinsurers	5,007,195		5,007,195
Net deferred tax asset	13,614,006		13,614,006
Receivables from parent, subsidiaries and affiliates	128,394		128,394
Aggregate write-ins for other than invested assets	28,853,367		28,853,367
Totals	<u>\$1,542,899,332</u>	<u>\$25,276,090</u>	<u>\$1,517,623,242</u>

LIABILITIES, SURPLUS AND OTHER FUNDS

Losses		\$499,050,115
Reinsurance payable on paid losses and loss adjustment expenses		709,990
Loss adjustment expenses		179,203,371
Commissions payable, contingent commissions and other similar charges		2,539,410
Other expenses		880,339
Taxes, licenses and fees		7,022,271
Current federal income taxes		23,851,189
Net deferred tax liability		
Unearned premiums		349,020,582
Advance premium		187,809
Ceded reinsurance premiums payable		54,516,653
Funds held by company under reinsurance treaties		123,068
Provision for reinsurance		466,310
Payable to parent, subsidiaries and affiliates		<u>25,470,418</u>
 Total liabilities		 \$1,143,041,525
 Common capital stock	\$5,000,100	
Gross paid in and contributed surplus	186,542,362	
Unassigned funds (surplus)	<u>183,039,255</u>	
 Surplus as regards policyholders		 <u>374,581,717</u>
 Totals		 <u><u>\$1,517,623,242</u></u>

UNDERWRITING AND INVESTMENT EXHIBIT
STATEMENT OF INCOME

UNDERWRITING INCOME

Premiums earned	<u>\$634,196,417</u>
Deductions:	
Losses incurred	\$252,298,809
Loss adjustment expenses incurred	114,441,316
Other underwriting expenses incurred	<u>224,957,879</u>
Total underwriting deductions	<u>\$591,698,004</u>
Net underwriting gain	<u>\$42,498,413</u>

INVESTMENT INCOME

Net investment income earned	\$22,451,107
Net realized capital gains	<u>22,152,704</u>
Net investment gain	<u>\$44,603,811</u>

OTHER INCOME

Net loss from agents' or premium balances charged off	(\$1,526,222)
Finance and service charges not included in premiums	69,240
Aggregate write-ins for miscellaneous income	<u>121,097</u>
Total other income	<u>(\$1,335,885)</u>
Net income before federal income taxes	\$85,766,339
Federal income tax incurred	<u>18,821,223</u>
Net income	<u><u>\$66,945,116</u></u>

RECONCILIATION OF CAPITAL AND SURPLUS
FOR PERIOD UNDER REVIEW

	2016	2017	2018	2019	2020
Surplus as regards policyholders, December 31, previous year	\$136,462,059	\$144,790,208	\$179,931,497	\$181,444,058	\$247,465,290
Net income	(790,251)	(3,147,992)	287,422	5,727,824	66,945,116
Change in net unrealized capital gains or (losses)	6,048,751	31,182,001	(9,710,029)	25,503,785	(26,811,201)
Change in net deferred income tax	3,308,896	(2,933,427)	6,076,258	8,100,786	7,772,827
Change in nonadmitted assets	172,663	46,935	(210,122)	(13,573,155)	(10,560,005)
Change in provision for reinsurance	(411,910)	(6,228)	69,032	261,992	(230,310)
Surplus adjustments		10,000,000	5,000,000	40,000,000	90,000,000
Change in surplus as regards policyholders for the year	\$8,328,149	\$35,141,289	\$1,512,561	\$66,021,232	\$127,116,427
Surplus as regards policyholders, December 31, current year	\$144,790,208	\$179,931,497	\$181,444,058	\$247,465,290	\$374,581,717

CASH FLOW**Cash From Operations**

Premiums collected net of reinsurance	\$708,060,888
Net investment income	27,527,314
Miscellaneous income	<u>(1,335,885)</u>
Total	<u>\$734,252,317</u>
Benefits and loss related payments	\$154,155,918
Commissions, expenses paid and aggregate write-ins for deductions	258,754,814
Federal income taxes paid	<u>7,618,803</u>
Total	<u>\$420,529,535</u>
Net cash from operations	<u>\$313,722,782</u>

Cash From Investments

Proceeds from investments sold, matured or repaid:	
Bonds	\$54,094,375
Stocks	<u>32,628,617</u>
Total investment proceeds	<u>\$86,722,992</u>
Cost of investments acquired (long-term only):	
Bonds	<u>\$132,506,078</u>
Total investments acquired	<u>\$132,506,078</u>
Net cash from investments	<u>(\$45,783,086)</u>

Cash From Financing and Miscellaneous Sources

Cash provided (applied):	
Capital and paid in surplus	\$40,471,467
Other cash applied	<u>(9,317,411)</u>
Net cash from financing and miscellaneous sources	<u>\$31,154,056</u>
Net change in cash and short-term investments	<u>\$299,093,752</u>

RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS

Cash and short-term investments:	
Beginning of year	\$160,453,753
End of year	<u>459,547,505</u>
Net change in cash and short-term investments	<u>\$299,093,752</u>

SUBSEQUENT EVENT

Effective January 1, 2022, the Company, along with its affiliates Evanston, Markel Insurance Company (MIC), FirstComp Insurance Company, and SureTec Insurance Company, entered into a Reinsurance Pooling Agreement. The Company and affiliates will each agree to cede 100% of net liability and related premium taxes and commissions, net premiums earned, net losses incurred, net loss adjustment expenses incurred, net underwriting expenses, and net other income and expenses. MIC will assume 100% of the amounts and then retro-cede back to the affiliates its share of the pool.

<u>Company</u>	<u>State of Domicile</u>	<u>Pooling Share</u>
Evanston Insurance Company	IL	64.0%
Markel Insurance Company	IL	22.5%
Markel American Insurance Company	VA	13.5%
FirstComp Insurance Company	NE	0.0%
SureTec Insurance Company	TX	0.0%

This agreement was approved by the Bureau of Insurance on December 20, 2021.

ACKNOWLEDGEMENT

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

In addition to the undersigned, Mario A. Cuellar, CFE and T. Bradford Earley, Jr., AIAF, CFE, CPCU, of the Bureau participated in the work of the examination.

Respectfully submitted,

Jennifer K. Blizzard

Jennifer K. Blizzard, AIAF, AIM, CFE
Principal Insurance Financial Analyst



June 7, 2022

Mr. David H. Smith, CFE, CPA, CPCU
Chief Examiner
Virginia State Corporation Commission,
Bureau of Insurance
1300 E. Main Street
Richmond, Virginia 23219

**RE: Response to Report of Examination as of December 31, 2020 for:
Markel American Insurance Company**

Dear Mr. Smith:

We hereby acknowledge receipt of the Report of Examination (Report) of Markel American Insurance Company (Company) as of December 31, 2020.

Please send us three (3) certified copies of the Company's Report.

We thank the Virginia examiners and staff for their time, patience and guidance throughout the examprocess.

Sincerely,

DocuSigned by:
A handwritten signature in cursive script that reads "Michael Jaeger".
A02BB4CAACBD48A...
Michael Jaeger

Controller