

Examination Warrant Number 16-0000-11831-R1

**Report of Examination of**

**Freedom Advantage Insurance Company  
Pittsburgh, Pennsylvania**

**As of December 31, 2016**

*For Informational Purposes Only*

# Freedom Advantage Insurance Company

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Harrisburg, Pennsylvania  
March 28, 2018

Honorable Joseph DiMemmo, CPA  
Deputy Insurance Commissioner  
Commonwealth of Pennsylvania  
Insurance Department  
Harrisburg, Pennsylvania

Dear Sir:

In accordance with instructions contained in Examination Warrant Number 16-0000-11831-R1, dated June 9, 2016, an examination was made of

**Freedom Advantage Insurance Company, NAIC Code:11831**

a Pennsylvania domiciled, single state, property and casualty company, hereinafter referred to as "Company." The examination was conducted at the Company's home office, located at 4240 Greensburg Pike, Pittsburgh, Pennsylvania 15221.

A report of this examination is hereby respectfully submitted.

**SCOPE OF EXAMINATION**

The Pennsylvania Insurance Department ("Department") has performed an examination of the Company, which was last examined as of December 31, 2011. This examination covered the five-year period from January 1, 2012 through December 31, 2016.

Work programs employed in the performance of this examination were designed to comply with the standards promulgated by the Department and the National Association of Insurance Commissioners ("NAIC") *Financial Condition Examiners Handbook* ("Handbook").

The Handbook requires that the Department plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company, evaluate system controls and procedures used to mitigate those risks, and review subsequent events. 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. 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.

This examination report includes significant findings of fact, in accordance with 40 P.S. § 323.5(a), and general information about the Company and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective

## **Freedom Advantage Insurance Company**

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conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the Company.

For 2012 and 2013 the certified public accounting (“CPA”) firm of Parente Beard, LLC provided an unmodified audit opinion the Company’s year-end financial statements based on statutory accounting principles. In 2014, Parente Beard, LLC, merged into Baker Tilly Virchow Krause, LLC, (“Baker Tilly”), who performed the audits for years-ending 2014 through 2016. Baker Tilly issued an unmodified audit opinion for the years 2014, 2015, and 2016. Relevant work performed by the CPA firm, during its annual audit of the Company, was reviewed during the examination and incorporated into the examination work papers.

### **HISTORY**

The Company was incorporated on June 23, 2003 and received its certificate of authority to transact business as a stock casualty company on December 16, 2003.

The Company is currently authorized to transact those classes of insurance described in 40 P.S. § 382, (c)(14) Workers Compensation.

### **MANAGEMENT AND CONTROL**

#### **CAPITALIZATION**

As of the examination date, December 31, 2016, the Company’s total capital was \$4,178,374, consisting of 1,000,000 capital shares of issued and outstanding common stock with a par value of \$.75 per share amounting to \$750,000; \$2,705,000 in paid in and contributed surplus; and \$723,374 in unassigned funds (surplus).

The Company’s minimum capital and minimum surplus requirements for the type of business for which it is licensed, pursuant to 40 P.S. § 386, is \$750,000 in capital and \$375,000 in surplus for a total of \$1,125,000. The Company has met all governing requirements throughout the examination period.

#### **SHAREHOLDERS**

All outstanding shares are owned by its sole shareholder, the Freedom Advantage Corporation. During the examination period, the Company declared a \$300,000 dividend in 2016 which was paid in 2017. All distributions paid were classified as ordinary dividends, and therefore, did not require Department approval.

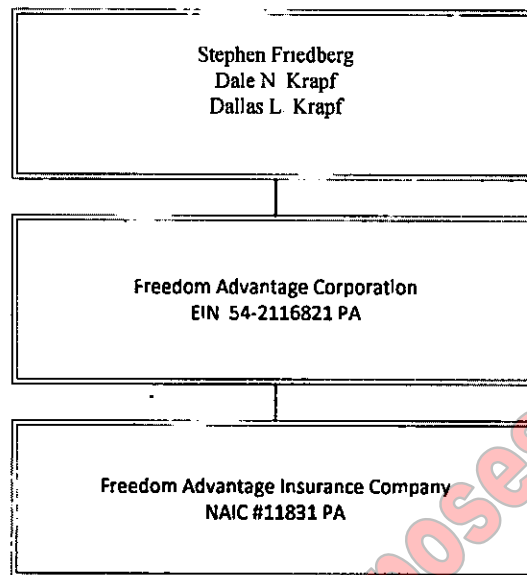
#### **INSURANCE HOLDING COMPANY SYSTEM**

As a wholly-owned subsidiary of Freedom Advantage Corporation, the Company meets the requirements for filing an insurance holding company system annual registration statement (Annual Registration Statement”), in compliance with 40 P.S. § 991.1404. The Company has filed the appropriate Annual Registration Statements for all years of the examination period.

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The ownership structure and members of the holding company system are outlined below:



## BOARD OF DIRECTORS

Management of the Company is vested in its Board of Directors ("Board"), which was comprised of the following members as of the examination date, December 31, 2016:

<b>Name and Address</b>	<b>Principal Occupation</b>
Peter K. Darragh, Esq. McDonald, Pennsylvania	Attorney Self-Employed
Stanford Friedberg Murrysville, Pennsylvania	Chief Executive Officer Freedom Advantage
Stephen M. Friedberg Murrysville, Pennsylvania	President Financial Associates, Inc.
Kenneth E. Kovalchuk Mount Pleasant, Pennsylvania	President Financial Solutions Group
Dale N. Krapf West Chester, Pennsylvania	Co-Owner George Krapf, Jr. & Sons, Inc.
Dallas L. Krapf Exton, Pennsylvania	Co-Owner George Krapf, Jr. & Sons, Inc.
David A. Thomsson Cranbury, New Jersey	President Brookside Veneers Ltd.
Anthony R. Verdi West Chester, Pennsylvania	Chief Financial Officer InsPro Technologies Corp.

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According to Section 2.2 of the Company's By-Laws, "the annual meeting of the shareholders is to be held annually and at a date not later than May 1, at such place and time chosen by the Board of Directors. At the annual meeting, the Directors are elected to serve for the ensuing year until their successors have been duly elected and qualified or until their earlier resignation or removal." The Company complies with this section of their By-Laws.

According to Section 3.1(b) of the Company's By-Laws, "the business and affairs of the Company is managed by a Board of Directors of not less than three or more than thirteen members. The Directors need not be shareholders of the Company or residents of the Commonwealth of Pennsylvania. Each newly elected Board of Directors holds a regular meeting as soon as practicable after the annual meeting of the shareholders at such place and time as shall be fixed by the shareholders at the meeting at which such Directors are elected." The Company complies with this section of their By-Laws.

According to Section 3.7 of the Company's By-Laws, "a majority of the Directors in office shall be necessary to constitute a quorum for the transaction of business, and the acts of a majority of the Directors present at a meeting at which a quorum is present shall be the acts of the Board of Directors. If at any meeting a quorum is not present, the meeting may be adjourned until a quorum is present." The Company complies with this section of their By-Laws.

The Company has a Conflict of Interest policy. All directors signed the Conflict of Interest form for 2016.

### COMMITTEES

As of the examination date, December 31, 2016, one committee was appointed by the Board and served in accordance with the Company's By-Laws:

#### Audit Committee

Peter K. Darragh, Esq.

Kenneth E. Kovalchuk

David A. Thomsson

### OFFICERS

As of the examination date, December 31, 2016, the following officers were appointed and serving in accordance with the Company's By-Laws:

<b>Name</b>	<b>Title</b>
Dallas L. Krapf	Chief Executive Officer
Dale N. Krapf	Secretary
Anthony R. Verdi	Chief Financial Officer

## **CORPORATE RECORDS**

### **MINUTES**

A compliance review of Board of Directors' minutes revealed the following:

- Quorums were present at all Directors' meetings.
- The Company's investment transactions are approved quarterly by the Board.
- All Directors attend Board meetings regularly.
- The Company Board meeting minutes approve the reinsurance contracts.

### **ARTICLES OF INCORPORATION**

There were no changes to the Company's Articles of Incorporation during the period under examination.

### **BY-LAWS**

There were no changes to the Company's By-Laws during the period under examination.

### **SERVICE AND OPERATING AGREEMENTS**

The Company has entered into various services and operating agreements, which are summarized below:

#### **Program Administrator Agreement**

The Company executed the Program Administrator Agreement ("Agreement") with Financial Associates, Inc., d/b/a Research Underwriters ("RU") effective January 1, 2004. This Agreement is amended annually. Research Underwriters provides all the necessary marketing, underwriting, and claim management services to meet the Company's regulatory obligations, including the policy filing, premium audit, collection functions and unit statistical reporting. RU will also provide offices, systems, clerical support, phones and internet services for the Company. The Agreement properly contains fee schedules and establishes provisions for the termination of the Agreement.

The examiner's review determined this Agreement meets the fair and reasonable standards of 40 P.S. § 991.1405(a)(1).

#### **Claims Service Agreement**

The Company entered into the Claims Service Agreement ("Agreement") with Frank Gates Service Company, ("FGSC") effective January 1, 2004. FGSC is a wholly-owned subsidiary of York Risk Services. In consideration of service fees paid by the Company as set forth in this Agreement, FGSC agrees to provide claims adjusting services with respect to all qualified claims which do not exceed the settlement and reserve authority established by this

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Agreement, according to the claims handling guidelines established within this Agreement. The Agreement properly contains fee schedules and establishes provisions for the termination of the Agreement.

The examiner's review of the management agreements found that certain service agreements with affiliated directors and officers were not in compliance with 40 P.S. § 991.1405(c)(5), which requires that management agreements, service agreements, tax allocation agreements, guarantees and cost sharing agreements shall be in writing.

*It is recommended that the Company comply with 40 P.S. § 991.1405(c)(5) and maintain signed agreements for all management services provided.*

## REINSURANCE

### CEDED

The Company's reinsurance program as of December 31, 2016, has been summarized as follows:

For year ended December 31, 2016, the Company's reinsurance treaties are fully placed in the layers between \$500,000 and \$5,000,000. However, the Company retains 100% of all losses above \$5,000,000 per occurrence.

From the Company's inception in 2003 until October 15, 2014, the reinsurance intermediary was Towers Watson. In 2014, JLT, Re acquired the business from Towers Watson and became the licensed intermediary. As of June 16, 2016, the Company terminated JLT, Re, and signed an intermediary agreement with Willis, Re. Willis, Re is a licensed intermediary by the Department as required by 40 P.S. § 321.2(a). The following is a summary of the Company's contracts that were in effect as of December 31, 2016:

### XL/Catlin Syndicate 2003

The Company entered into an excess of loss reinsurance contract with an effective date of January 1, 2016. The term of the contract is for one year and shall remain in-force until terminated by either party.

The Company's retention and the reinsurance limits are as follows:

<u>Company's Retention</u>	<u>Reinsurance Limits</u>	<u>Type of business Covered</u>
\$500,000	\$1,000,000	Workers Compensation



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### Safety National Casualty Corporation

The Company entered into a second excess loss reinsurance contract with an effective date of January 1, 2016. The term of the contract is for one year and shall remain in-force until terminated by either party.

The Company's retention and the reinsurance limits are as follows:

<u>First Layer Retention</u>	<u>Reinsurance Limits</u>	<u>Type of business Covered</u>
\$1,000,000	\$5,000,000	Workers compensation

All of the Company's reinsurance contracts meet the transfer of risk test. All contracts contain the appropriate insolvency and arbitration clauses.

### ASSUMED

The Company did not assume any business during the period under examination.

### TERRITORY AND PLAN OF OPERATIONS

The Company is licensed to write Worker's Compensation in the Commonwealth of Pennsylvania. Currently, the majority of business is produced through Financial Associates, Inc., d/b/a/ Research Underwriters, acting as agent for the Company.

The following chart summarizes the Company's direct and assumed, ceded and net written premiums for the year 2016:

<u>Line of Business</u>	<u>Direct and Assumed Premium</u>	<u>Ceded Premium</u>	<u>Net Written Premium</u>	<u>Percentage of Total</u>
December 31, 2016				
Workers' compensation	\$ 3,906,196	\$ 457,012	\$ 3,449,184	100.0%
Totals	\$ 3,906,196	\$ 457,012	\$ 3,449,184	100.0%

### SIGNIFICANT OPERATING TRENDS

The underwriting ratios summarized below are shown on an earned/incurred basis, and encompass the five-year period covered by this examination.

	<u>Amount</u>	<u>Percentage</u>
Premiums earned	\$ 20,003,714	100.0%
Losses incurred	\$ 10,629,889	53.2%
Loss expenses incurred	2,887,684	14.4%
Other underwriting expenses incurred	6,171,027	30.8%
Net underwriting gain or (loss)	315,114	1.6%
Totals	\$ 20,003,714	100.0%

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The Company reported the following net underwriting, investment, and other gains or losses during the period under examination:

	2016	2015	2014	2013	2012
Admitted assets	\$ 11,032,388	\$ 11,251,665	\$ 11,585,191	\$ 11,685,682	\$ 11,061,015
Liabilities	\$ 6,854,014	\$ 7,308,501	\$ 8,528,179	\$ 8,577,966	\$ 7,701,123
Surplus as regards policyholders	\$ 4,178,374	\$ 3,943,164	\$ 3,057,012	\$ 3,107,716	\$ 3,359,892
Gross premium written	\$ 3,906,196	\$ 4,597,274	\$ 4,630,112	\$ 5,072,672	\$ 4,719,334
Net premium written	\$ 3,449,184	\$ 4,100,358	\$ 3,985,483	\$ 4,415,620	\$ 4,172,396
Underwriting gain/(loss)	\$ 593,630	\$ 856,352	\$ (437,525)	\$ (237,616)	\$ (459,727)
Investment gain/(loss)	\$ 68,275	\$ 127,881	\$ 250,902	\$ 20,087	\$ 63,071
Other gain/(loss)	\$ 0	\$ (163,537)	\$ 0	\$ 0	\$ 0
Net income	\$ 437,135	\$ 801,871	\$ (180,825)	\$ (169,460)	\$ (331,885)

### PENDING LITIGATION

The Company is not involved in any pending litigation that would have a material effect on its financial statements.

### FINANCIAL STATEMENTS

The financial condition of the Company, as of December 31, 2016, and the results of its operations for the five-year period under examination, are reflected in the following statements\*:

- Comparative Statement of Assets, Liabilities, Surplus and Other Funds;
- Comparative Statement of Income;
- Comparative Statement of Capital and Surplus;
- Comparative Statement of Cash Flow

\*Note: Some financials shown in this report may contain immaterial differences to those reported in the Company's filed Annual Statements due to rounding errors.

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## Comparative Statement of Assets, Liabilities, Surplus and Other Funds As of December 31,

	2016	2015	2014	2013	2012
Bonds	\$ 5,441,113	\$ 8,972,466	\$ 7,122,901	\$ 4,618,000	\$ 2,250,000
Common stocks	0	0	1,755,957	3,008,628	3,573,168
Cash, cash equivalents, and short term investments	4,482,523	1,200,339	1,484,343	2,608,819	4,318,653
Subtotals, cash and invested assets	9,923,636	10,172,805	10,363,201	10,235,447	10,141,821
Investment income due and accrued	23,928	31,453	28,036	7,655	5,152
Premiums and agents' balances due	715,189	786,750	767,752	1,138,549	440,619
Current federal and foreign income tax recoverable and interest thereon	0	0	0	104,031	150,032
Net deferred tax asset	105,814	0	0	0	123,391
Aggregate write-ins for other than invested assets	253,821	250,657	428,202	200,000	200,000
<b>Total</b>	<b>\$ 11,032,388</b>	<b>\$ 11,251,665</b>	<b>\$ 11,585,191</b>	<b>\$ 11,685,682</b>	<b>\$ 11,061,015</b>
Losses	\$ 4,224,042	\$ 4,972,478	\$ 6,003,993	\$ 5,705,627	\$ 4,938,833
Loss adjustment expenses	802,373	992,720	1,208,141	1,228,025	1,194,954
Commissions payable, contingent commissions and other similar charges	69,904	74,795	73,836	107,850	42,704
Other expenses	309,020	273,029	291,551	325,490	218,889
Taxes, licenses and fees	54,000	48,000	42,000	38,000	30,000
Current federal and foreign income taxes	223,695	18,825	0	0	0
Unearned premiums	765,657	779,389	750,070	960,045	1,080,765
Dividends declared and unpaid:					
Stockholders'	300,000	0	0	0	0
Amounts withheld or retained by company for account of others	105,423	149,265	158,588	214,929	194,978
<b>Total liabilities</b>	<b>6,854,014</b>	<b>7,308,501</b>	<b>8,528,179</b>	<b>8,577,966</b>	<b>7,701,123</b>
Common capital stock	750,000	750,000	750,000	750,000	750,000
Gross paid in and contributed surplus	2,705,000	2,705,000	2,705,000	2,405,000	2,405,000
Unassigned funds (surplus)	723,374	488,164	(397,988)	(47,284)	204,892
Surplus as regards policyholders	4,178,374	3,943,164	3,057,012	3,107,716	3,359,892
<b>Totals</b>	<b>\$ 11,032,388</b>	<b>\$ 11,251,665</b>	<b>\$ 11,585,191</b>	<b>\$ 11,685,682</b>	<b>\$ 11,061,015</b>

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Freedom Advantage Insurance Company

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Comparative Statement of Income;  
For the Year Ended December 31,

	2016	2015	2014	2013	2012
<b>Underwriting Income</b>					
Premiums earned	\$ 3,462,916	\$ 4,071,039	\$ 4,195,458	\$ 4,538,340	\$ 3,737,961
Deductions:					
Losses incurred	1,336,484	1,630,564	2,719,706	2,684,642	2,258,493
Loss expenses incurred	421,868	411,612	590,414	739,397	724,393
Other underwriting expenses incurred	1,110,934	1,172,511	1,322,863	1,349,917	1,214,802
Total underwriting deductions	2,869,286	3,214,687	4,632,983	4,773,956	4,197,688
Net underwriting gain or (loss)	593,630	856,352	(437,525)	(237,616)	(459,727)
<b>Investment Income</b>					
Net investment income earned	68,275	149,576	257,731	29,649	62,916
Net realized capital gains or (losses)	0	(21,895)	(6,829)	(9,562)	155
Net investment gain or (loss)	68,275	127,681	250,902	20,087	63,071
<b>Other Income</b>					
Net gain or (loss) from agents' or premium balances charged off	0	(163,537)	0	0	0
Total other income	0	(163,537)	0	0	0
Net income before dividends to policyholders and before federal and foreign income taxes	661,905	820,696	(186,623)	(217,529)	(396,656)
Federal and foreign income taxes incurred	224,770	18,825	(5,788)	(48,069)	(64,771)
Net income	\$ 437,135	\$ 801,871	\$ (180,825)	\$ (169,460)	\$ (331,885)

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**Freedom Advantage Insurance Company**

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**Comparative Statement of Capital and Surplus  
For the Year Ended December 31,**

	2016	2015	2014	2013	2012
Surplus as regards policyholders.					
December 31 previous year	\$ 3,943,164	\$ 3,057,012	\$ 3,107,716	\$ 3,359,892	\$ 3,588,660
Net income	437,135	801,871	(180,825)	(169,460)	(331,885)
Net unrealized capital gains or (losses)	0	72,153	(209,387)	17,514	121,975
Change in net deferred income tax	202,694	0	(357,903)	20,414	82,813
Change in nonadmitted assets	(104,619)	12,128	397,391	(120,644)	(141,984)
Cumulative effect of changes in accounting principles	0	0	0	0	40,312
Surplus adjustments.					
Paid in	0	0	300,000	0	0
Dividends to stockholders	(300,000)	0	0	0	1
Change in surplus as regards policyholder for the year	235,210	886,152	(50,704)	(252,176)	(228,766)
Surplus as regards policyholders.					
December 31 current year	\$ 4,178,374	\$ 3,943,164	\$ 3,057,012	\$ 3,107,716	\$ 3,359,892

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### Comparative Statement of Cash Flow For the Year Ended December 31,

	2016	2015	2014	2013	2012
<b>Cash from Operations</b>					
Premiums collected net of reinsurance	\$ 3,530,745	\$ 4,071,360	\$ 4,356,280	\$ 3,717,690	\$ 4,265,113
Net investment income	85,152	154,683	239,884	27,145	59,978
Miscellaneous income	0	(163,537)	0	0	0
<b>Total income</b>	<b>3,615,897</b>	<b>4,062,506</b>	<b>4,596,164</b>	<b>3,744,835</b>	<b>4,325,091</b>
Benefit and loss related payments	2,625,153	2,662,079	2,421,340	1,917,848	1,676,138
Commissions, expenses paid and aggregate write-ins for deductions	1,145,816	1,811,107	1,995,114	1,878,496	1,848,820
Federal and foreign income taxes paid (recovered)	20,000	0	(109,829)	(94,070)	140,000
<b>Total deductions</b>	<b>3,790,969</b>	<b>4,473,186</b>	<b>4,306,625</b>	<b>3,702,274</b>	<b>3,663,058</b>
<b>Net cash from operations</b>	<b>(175,072)</b>	<b>(410,680)</b>	<b>289,539</b>	<b>42,561</b>	<b>662,033</b>
<b>Cash from Investments</b>					
Proceeds from investments sold, matured or repaid:					
Bonds	3,921,999	1,828,000	0	0	100,000
Stocks	0	1,820,528	1,270,535	744,000	427,020
<b>Total investment proceeds</b>	<b>3,921,999</b>	<b>3,648,528</b>	<b>1,270,535</b>	<b>744,000</b>	<b>527,020</b>
Cost of investments acquired (long-term only):					
Bonds	400,000	3,688,089	2,507,435	2,388,000	400,000
Stocks	0	14,113	234,061	171,508	1,439,838
<b>Total investments acquired</b>	<b>400,000</b>	<b>3,702,202</b>	<b>2,741,496</b>	<b>2,559,508</b>	<b>1,839,838</b>
<b>Net cash from investments</b>	<b>3,521,999</b>	<b>(51,674)</b>	<b>(1,470,961)</b>	<b>(1,795,508)</b>	<b>(1,312,618)</b>
<b>Cash from Financing and Miscellaneous Services</b>					
Other cash provided (applied):					
Capital and paid in surplus, less treasury stock	0	0	300,000	0	0
Dividends to stockholders (paid)	0	0	0	0	198,000
Other cash provided or (applied)	(84,743)	178,350	(243,054)	43,113	41,579
<b>Net cash from financing and miscellaneous sources</b>	<b>(84,743)</b>	<b>178,350</b>	<b>56,946</b>	<b>43,113</b>	<b>(156,421)</b>
<b>Reconciliation of cash and short-term investments:</b>					
Net change in cash and short-term investments	3,282,184	(284,004)	(1,124,476)	(1,709,834)	(807,006)
Cash and short-term investments:					
Beginning of the year	1,200,339	1,484,343	2,608,819	4,318,653	5,125,659
End of the year	\$ 4,482,523	\$ 1,200,339	\$ 1,484,343	\$ 2,608,819	\$ 4,318,653

**SUMMARY OF EXAMINATION CHANGES**

There have been no changes to the Company's financial statements as a result of this examination.

**NOTES TO FINANCIAL STATEMENTS****ASSETS****INVESTMENTS**

As of December 31, 2016, the Company's invested assets were distributed as follows:

	Amount	Percentage
Bonds	\$ 5,441,113	54.8 %
Cash	4,482,523	45.2 %
Totals	<u>\$ 9,923,636</u>	<u>100.0 %</u>

The Company's bond and short-term investment portfolio had the following quality and maturity profiles:

NAIC Designation	Amount	Percentage
1 - highest quality	\$ 5,441,113	100.0 %
Totals	<u>\$ 5,441,113</u>	<u>100.0 %</u>

Years to Maturity	Amount	Percentage
1 year or less	\$ 3,056,000	56.2 %
2 to 5 years	1,284,982	23.6 %
6 to 10 years	735,803	13.5 %
11 to 20 years	364,328	6.7 %
Totals	<u>\$ 5,441,113</u>	<u>100.0 %</u>

The Company entered into a non-discretionary custodial agreement with Bank of New York Mellon effective December 12, 2012. The examiners reviewed the Custodial Agreement and found it to be compliant with 31 Pa. Code § 148a.3.

The Company has a written investment policy as required by 40 P.S. 653.b(b) that is reviewed and updated on an annual basis by the Board. The Company was following its investment policy as of December 31, 2016.

**LIABILITIES**

**LOSS AND LOSS ADJUSTMENT EXPENSE RESERVES**

The Company reported net reserves of \$4,224,042 for losses and \$802,373 for loss adjustment expenses (“LAE”) on the December 31, 2016 Annual Statement.

Christopher Tait, FCAS, MAAA, of Milliman, Inc., was the Company’s appointed actuary for each year during the examination period. Mr. Tait concluded that the reserves make a reasonable provision for all unpaid loss and loss adjustment expense obligations of the Company under the terms of its contracts and agreements.

The CPA firm, Baker Tilly, engaged Ms. Leslie Marlo, FCAS, MAAA, of the Madison Consulting Group, Inc. to assist with reserve analysis in support of the statutory audit. The examiners considered the supporting workpapers of Ms. Marlo, who also concluded that the recorded loss and LAE reserves make a reasonable provision for all outstanding liabilities as of December 31, 2016.

Based upon procedures performed and the results obtained from the appointed actuary and the CPA’s engaged actuary, the Department actuarial and examination staff obtained sufficient evidence to support the conclusion that the Company’s net loss and LAE reserves are reasonably stated as of December 31, 2016.

**SUBSEQUENT EVENTS**

There were no subsequent events noted or detected.

For Informational Purposes Only



## RECOMMENDATIONS

### PRIOR EXAMINATION

The prior examination contained the following recommendations:

1. It is recommended that the Company should formally document the election of their directors on an annual basis in accordance with section 3.1 of their By-Laws.

*The Company has complied with this recommendation.*

2. It is recommended that the Company obtain an independent custodian for their certificated securities to be in compliance with 31 Pa. Code 148(a).

*The Company has complied with this recommendation.*

3. It is recommended that the Company should formally review and approve its investment policy on an annual basis in accordance with 40 P.S. 653b, section 518B.

*The Company has complied with this recommendation.*

4. It is recommended that the Company document within board minutes that the Actuarial Opinion and Actuarial Report have been made available to the Board of Directors, in compliance with Statement Instructions.

*The Company has complied with this recommendation.*

### CURRENT EXAMINATION

As a result of the current examination, the following recommendation is being made:

1. It is recommended that the Company comply with 40 P.S. § 991.1405(c)(5) and maintain signed agreements for all management services provided. (See "Service and Operating Agreements", page 6)

# Freedom Advantage Insurance Company

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## CONCLUSION

As a result of this examination, the financial condition of Freedom Advantage Insurance Company, as of December 31, 2016, was determined to be as follows:

	Amount	Percentage
Admitted assets	\$ 11,032,388	100 0 %
Liabilities	\$ 6,854,014	62 1 %
Surplus as regards policyholders	4,178,374	37 9 %
Total liabilities and surplus	\$ 11,032,388	100 0 %


Since the previous examination, made as of December 31, 2011, the Company's assets increased by \$699,148, its liabilities increased by \$109,434, and its surplus increased by \$589,714.

This examination was conducted by Elizabeth McGarry and Robert W. Smith, CFE, with the latter in charge.

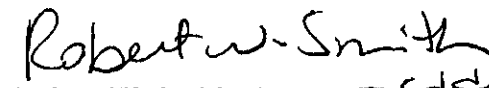
Respectfully,



Melissa L. Greiner  
Director  
Bureau of Financial Examinations



Philip M. Judge, CFE  
Examination Manager



Robert W. Smith, CFE  
Examiner-in-Charge