

REPORT ON EXAMINATION AS TO THE CONDITION OF

PALISADES INSURANCE COMPANY

WOODBRIIDGE, NEW JERSEY

AS OF DECEMBER 31, 2019

NAIC GROUP CODE 1227

NAIC COMPANY CODE 10791

FILED

JUNE 23, 2021

COMMISSIONER

DEPARTMENT

OF

BANKING AND INSURANCE

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State of New Jersey

DEPARTMENT OF BANKING AND INSURANCE
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June 15, 2021

Honorable Marlene Caride
Commissioner of Banking and Insurance
State of New Jersey
20 West State Street
Trenton, New Jersey 08625

Commissioner:

In compliance with your instructions and pursuant to the Revised Statutes of the State of New Jersey, an examination has been made of the financial condition and affairs of:

PALISADES INSURANCE COMPANY
WOODBIDGE, NJ 07095
NAIC GROUP CODE 1227
NAIC COMPANY CODE 10791

a domestic insurer duly authorized to transact the business of insurance in the State of New Jersey. Hereinafter, the Palisades Insurance Company will be referred to in this report as the "Company", "Palisades" or "PIC".

SCOPE OF EXAMINATION

This risk-focused examination was called by the Commissioner of Banking and Insurance of the State of New Jersey pursuant to the authority granted by N.J.S.A. Section 17:23-22 of the New Jersey Revised Statutes.

The examination was made as of December 31, 2019, and addressed the five-year period from January 1, 2015, to December 31, 2019, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination. During this period, the Company's reported admitted assets increased by \$99,340,752 to \$124,509,687 from \$25,168,935, liabilities increased by \$27,538,810 to \$39,807,944 from \$12,269,134, and total capital and surplus increased by \$71,801,942 to \$84,701,743 from \$12,899,801.

The examination was conducted in accordance with the proposed risk-focused procedures and guidelines prescribed by the National Association of Insurance Commissioners ("NAIC"). According to the NAIC Handbook, "One of the increased benefits of the enhanced risk-focused approach is to include ... consideration of other than financial risks that could impact the insurer's future solvency. By utilizing the enhanced approach, the examiner reviewed the 'financial' and 'enterprise' risks that existed at the examination 'as of' date and will be positioned to assess 'financial' and 'enterprise' risks that extend or commence during the time the examination was conducted and 'prospective' risks which are anticipated to arise or extend past the point of examination completion. Using this approach examiners will be better positioned to make recommendations for appropriate future supervisory plans (i.e., earlier statutory exams, limited-scope exams, key areas for financial analysts to monitor, etc.) for each insurer."

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. The examination report only addresses regulatory information revealed by the examination process in accordance with the NAIC Handbook. All other financial matters were reviewed and determined not to be material for discussion in this report.

The Certified Public Accounting ("CPA") firm of PricewaterhouseCoopers, LLP ("PwC") provided an unqualified audit opinion on the fair presentation of the Company's year-end financial statements based on statutory accounting principles for the reporting year period ending December 31, 2019. Relevant work performed by PwC during its annual audit of the Company was reviewed during the examination and incorporated into the examination work papers whenever feasible to facilitate efficiencies. Certain PwC work papers have been incorporated into the work papers of the examiners and have been utilized in determining the scope and areas of emphasis in conducting the examination.

COMPLIANCE WITH PRIOR REPORT ON EXAMINATION RECOMMENDATIONS

There were no comments and/or recommendations in the Company's prior report on examination as of December 31, 2014.

HISTORY

The Company was formed to write private passenger automobile insurance in the State of New Jersey. The Company is a wholly-owned subsidiary of the Palisades Safety and Insurance

Association (“PSIA”) and is managed by Plymouth Rock Management Company of New Jersey (“PRNJ”), the attorney-in-fact for PSIA.

The Company's original Certificate of Incorporation was signed on October 17, 1996, approved by the New Jersey Deputy Attorney General on November 1, 1996, filed by the Hudson County Clerk on November 13, 1996, and filed by the New Jersey Commissioner of Banking and Insurance on November 19, 1996.

The Company was initially capitalized through the issuance of \$1,500,000 of common stock consisting of one million five hundred thousand (1,500,000) shares of Class A Common Stock with a par value of one dollar (\$1.00) per share for a total capital of one million five hundred thousand dollars (\$1,500,000).

The Company was also authorized to issue seven thousand (7,000) shares of non-cumulative, non-voting, convertible preferred stock having a par value of one hundred (\$100) dollars per share. There is also authorized and reserved for issuance upon conversion of the preferred stock seven hundred thousand (700,000) shares of non-voting Class B common stock having a par value of (\$1.00) dollar per share.

On November 1, 1999, the Company's Certificate of Incorporation was amended to reflect an increase in capital stock. The paragraph Article Five amendment increased the authorized Class A common stock from 1,500,000 shares to 2,600,000 shares; the noncumulative, non-voting, convertible preferred stock (par value \$100 per share) from 7,000 shares to 26,000 shares; and increased the authorized and reserved for issuance upon conversion of non-voting Class B common stock (par value \$1.00 per share) from 700,000 shares to 2,600,000 shares.

The Company's amendment to the Certificate of Incorporation was approved by the New Jersey Deputy Attorney General on November 4, 1999, filed with the Hudson County Clerk on November 9, 1999, and filed with the New Jersey Department of Banking and Insurance (“NJDOBI” or the “Department”) on November 9, 1999.

On April 29, 2003, the Company's Certificate of Incorporation was amended to reflect the change in registered agent to the office of the Corporation and to reflect the change in location of the Corporation's principal office in the State of New Jersey. This amendment was approved by the New Jersey Deputy Attorney General on May 28, 2003, filed with the Union County Clerk on June 24, 2003, and filed with the NJDOBI on June 25, 2003.

On March 29, 2016, the Company's Certificate of Incorporation was amended to reflect an increase in capital stock. The Class A common stock increased from 2,600,000 shares to 2,800,000 shares (par value \$1.00 per share) and additionally authorized the Company to transact the kinds of business specified in paragraph (a), (f), (j), (k), (l) and (o) of N.J.S.A. 17:17-1. The amendment was approved by the New Jersey Attorney General on July 11, 2016, filed with the Monmouth County Clerk on July 21, 2016, and filed with NJDOBI on July 21, 2016.

On August 22, 2017, the Company's Certificate of Incorporation was amended to reflect the change of location of the principal office in the State of New Jersey to Red Bank, New Jersey.

This amendment was approved by the New Jersey Deputy Attorney General on October 19, 2017, filed with the Monmouth County Clerk on December 7, 2017, and filed with NJDOBI on December 7, 2017.

On December 14, 2018, the Company's Certificate of Incorporation was amended to reflect the change of location of the principal office in the State of New Jersey to Woodbridge, New Jersey, and additionally authorized the Company to transact the kinds of business specified in paragraph (i) of N.J.S.A. 17:17-1 et seq., and increased the Class A common stock from 2,800,000 shares to 3,000,000 (par value \$1.00 per share), increased its authority to issue non-cumulative non-voting convertible preferred stock from 28,000 to 30,000 shares (par value \$100), and increased the authorized and reserved for issuance upon conversion of the preferred stock from 2,800,000 shares to 3,000,000 shares of non-voting Class B common stock (\$1.00 par value). This amendment was approved by the New Jersey Deputy Attorney General on December 19, 2018, filed with the Middlesex County Clerk on December 21, 2018, and filed with NJDOBI on December 21, 2018.

The Company, through an amended Certificate of Authority issued by NJDOBI on April 16, 2004, is authorized to write private passenger automobile insurance in the State of New Jersey. The kinds of insurance to be transacted by the Company are the kinds specified in paragraphs "b" and "*e" of N.J.S.A. 17:17-1 et seq., (*except that authority to write workers' compensation and employers' liability insurance is specifically excluded).

The Company's business has grown, in part, through the acquisition of several businesses, as indicated below:

On January 18, 2002, the Company and PSIA finalized agreements with the Harleysville Garden State Insurance Company to assume at renewal a combined \$14.8 million of business. The Company and PSIA received \$7,100,000 from Harleysville to support the transferred business.

On September 6, 2002, the Company and PSIA assumed \$20 million and \$22.6 million of combined business from the Great American Spirit Insurance Company and the Twin Fire Insurance Company, respectively.

On September 30, 2005, NJDOBI granted approval to the Company and PSIA to become the replacement carriers for a portion of the private passenger automobile policies of the Fireman's Fund Insurance Company's subsidiary, the Parkway Insurance Company, at renewal.

On November 28, 2006, NJDOBI granted approval to the Company and PSIA to become the replacement carriers for a portion of the private passenger automobile policies of the Rutgers Casualty Group at renewal.

On September 16, 2008, the Department granted approval to the Company and PSIA to become the replacement carriers for a portion of the private passenger automobile policies of Palisades Property and Casualty Insurance Company at renewal.

On December 31, 2016, the Company received a capital contribution of \$200,000 common stock and \$175,400 preferred stock from its parent, PSIA.

On September 1, 2017, PSIA made a capital contribution of \$5,000,000 to the Company.

On May 1, 2019, High Point Preferred Insurance Company (“HPP”) paid a dividend of \$65,000,000 through its parent, High Point Property or Casualty Insurance Company (“HPC”) up to its ultimate parent, PSIA, which was then contributed to the Company.

STATUTORY DEPOSIT

As of December 31, 2019, the Company, in accordance with N.J.S.A. 17:20-1c., had a market value of \$650,771 for the New Jersey statutory deposit.

TERRITORY AND PLAN OF OPERATIONS

The Company is a New Jersey domestic property and casualty stock insurance company that is licensed in Connecticut, New Hampshire, New Jersey, New York and Pennsylvania to transact the following lines of business: Homeowners, Flood, Earthquake, Commercial Auto, Auto, and Aircraft. The Company is currently writing private passenger and commercial automobile business as well as personal umbrella through a direct channel with broad market non-affinity and internet-based direct distribution channels as well as a consumer interface website for internet application. The Company also writes automobile insurance through independent agents in the Commonwealth of Pennsylvania. In 2017, the Company began writing renters endorsements in the State of New Jersey, and entered into a 100% quota share agreement with High Point Preferred Insurance Company, under which 100% of the underwriting results of renters endorsements are ceded by the Company.

In 2017, the Company became licensed and began writing in the Commonwealth of Pennsylvania. The Company became licensed in the State of Connecticut in 2018, but did not commence writing business until 2019. In 2019, the Company began writing business in the State of New York. Business written in New Jersey and Pennsylvania is 100% ceded to PSIA, while business written in Connecticut and New York is 80% ceded to PSIA with the remaining 20% retained by the Company.

As a result of the reorganization of the Palisades and High Point Group of Companies in 2011, the Companies are now branded as Plymouth Rock Assurance.

The Companies share a property catastrophe contract with High Point Preferred Insurance Company and other entities affiliated with PRNJ. Effective July 2019, the internal layer covers losses up to \$93 million for all companies, subject to retentions of \$5 million each for PSIA, High Point Preferred Insurance Company and the entities affiliated with the management company.

PRNJ provides underwriting, marketing, product management and other administrative services on behalf of the Company. Investment services are contractually provided by SRB Corporation, an affiliate of PRNJ. Custodial investment services are provided by The Northern Trust Company. Information technology services are provided by STG Corporation, an affiliate of PRNJ.

The Company maintains its statutory home office at 581 Main Street, Suite 400, Woodbridge, NJ 07095-1144. The Company conducts its business operations from its main administrative office

at 581 Main Street, Suite 400, Woodbridge, NJ 07095-1144, which serves as the primary location of the Company's accounting books and records.

REINSURANCE

At December 31, 2019, the Company had the following reinsurance in effect:

Homeowner and Misc. Property

Per Risk Excess of Loss

Policy Limit: \$6 million [higher limits on scheduled policies]

Treaty Retention: \$1 million

Treaty Limit: 100% of \$5 million excess of \$1 million per risk with maximum of \$10 million per occurrence and \$20 million per year (NJ & New England combined)

Facultative Per Risk Excess of Loss

Policy Limit: Maximum Limit Offered

Treaty Retention: \$2 million

Treaty Limit: 100% of total coverage insured excess \$2 million

Auto, Homeowner, Misc. Property

Catastrophe Excess of Loss – Internal Layer

Treaty Retention: \$5 million for each HP Group and PSIA Group, as well as for insurance company affiliates of PRNJ

Treaty Limit: \$93 million less applicable retentions; PSIA and HPP assumed 47.0% and 13.7%, respectively, of any loss in this layer as of December 31, 2019.

Catastrophe Excess of Loss

Treaty Retention: \$93 million

Treaty Limit: \$557 million excess of \$93 million

Personal Catastrophe

Quota Share

Policy Limit: Maximum limit offered: \$5 million

Treaty Retention: 10% of first \$1 million per occurrence

Treaty Limit: 90% of the first \$1 million per occurrence and 100% of the excess up to \$5 million

Limousine Liability

Excess of Loss

Policy Limit: \$1.5 million

Treaty Retention: \$1 million

Treaty Limit: 100% of \$500,000 excess of \$1 million per risk

Commercial Auto Facultative Program:

Excess of Loss on Individual Ceded Risk

Policy Limit: \$1.5 million

Treaty Retention: \$500,000

Treaty Limit: 100% of \$1 million excess of \$500,000 per risk

Intercompany Reinsurance:

Under the terms of a Quota Share Reinsurance Agreement, as amended, PSIA assumes 100% of the direct business, net of external reinsurance that inures to the benefit of the contract and involuntary pools and associations, written by Palisades Property and Casualty Insurance Company (“PPCIC”), PIC, HPC, HPP, Teachers Auto Insurance Company of New Jersey (“TAI”), Twin Lights Insurance Company (“TLI”), and Rider Insurance Company, with the exception of: (i) PIC, wherein PSIA assumes 80% of PIC’s direct business written in the states of Connecticut and New York, net of external reinsurance that inures to the benefit of the contract and involuntary pools and associations; and (ii) homeowners business written by PPCIC and homeowners and personal umbrella business written by HPP. PSIA guarantees the collection of all external reinsurance.

CORPORATE RECORDS

The Company’s by-laws stipulate that the annual meeting of the stockholders shall be held at the time and at the place determined by the Board of Directors (the “Board”). The Board shall consist of not less than three or more than twelve Directors. Special meetings of the Directors may be held at any time or any place designated in the call of the meeting.

A review of the minutes of the Board meetings noted that all meetings were well attended. The Board minutes also indicated that the Company’s overall transactions and events were adequately supported and approved.

MANAGEMENT AND CONTROL

The business, property and affairs of the Company are managed by the President and the delegated officers under the guidance and direction of the Board.

The following were Directors of the Company as of December 31, 2019:

<u>Name</u>	<u>Principal Occupation</u>
Gerald I. Wilson	President and CEO, PRNJ
Richard D. Eisenberg	Lawyer, Partner, Eisenberg Tanchum & Levy, LLP
Steven N. Klein	Partner and Managing Director – First Infrastructure, Inc.

The Company is required to comply with the provisions of N.J.S.A. 17:27A-4d(3), which states that “not less than one-third of the directors of a domestic insurer shall be persons who are not officers or employees of that insurer or of any entity controlling, controlled by, or under common control with, that insurer and who are not beneficial owners of a controlling interest in the voting securities of that insurer or any such entity.”

The Company was determined to be in compliance with the provisions of N.J.S.A. 17:27A-4d(3) as of the examination date, as the Board consists of three members of which two are considered outside directors.

Committees

The Audit Committee (the “Committee”) Charter indicates that the size of the Committee is set from time to time by the Board, but will always consist of at least two directors, and the members of the Committee shall be appointed annually by the Board who may replace Committee members at any time. At least one member of the Committee shall be an “audit committee financial expert” as determined by the Board. The Committee shall meet at least two times per year, and shall meet periodically with management, the internal auditors and the independent auditor in separate executive sessions. The Committee shall report directly and regularly to the Board and review any issues that arise with respect to the quality or integrity of the Company’s financial statements; the Company’s compliance with legal or regulatory requirements; and the retention, termination, and performance of the independent auditors.

The following Audit Committee members were appointed and serving at December 31, 2019:

<u>Name</u>	<u>Position</u>
Richard D. Eisenberg	Independent Director
Steven N. Klein	Independent Director

The Company is required to comply with the provisions of N.J.S.A. 17:27A-4d(4), which states that “the board of directors of a domestic insurer shall establish one or more committees comprised solely of directors who are not officers or employees of the insurer or of any entity controlling, controlled by, or under common control with, the insurer and who are not beneficial owners of a controlling interest in the voting securities of the insurer of any such entity. The committee shall be responsible for recommending the selection of independent certified public accountants, reviewing the insurer’s financial condition, the scope and results of the independent audit and any internal audit, nominating candidates for director for election by shareholders or policyholders, evaluating the performance of officers deemed to be principal officers of the insurer and recommending to the board of directors the selection and compensation, including bonuses or other special payments, of the principal officers.”

The Company was determined to be in compliance with the provisions of N.J.S.A. 17:27A-4d(4) as of the examination date, as the Audit Committee is comprised solely of two independent, outside directors who performed the functions indicated in this statute.

Officers

The officers of the Company perform duties as designated by the Company's by-laws with respect to the offices they hold, or as otherwise indicated by the Board. The president, treasurer, and secretary shall be elected annually by the directors at their first meeting following the annual meeting of the stockholders. Other officers, if any, may be elected by the Board at this meeting or at any other time. Any two or more offices may be held by the same person, but no officer shall execute, acknowledge, or verify any instrument in more than one capacity, if such instrument is required by law or by the by-laws to be executed, acknowledged, or verified by two or more officers. Any officer may be required by the directors to give bond for the faithful performance of his duties to the corporation in such amount and with such sureties as the directors may determine.

The following officers were elected and serving the Company at December 31, 2019:

<u>Name</u>	<u>Title</u>
Gerald I. Wilson	Chairman of the Board and President
Yogesh Sharad Deshmukh	Treasurer
Harry M. Baumgartner	Secretary
Vito A. Nigro	Assistant Treasurer
Bonnie Banahan	Assistant Secretary

N.J.S.A. 17:27A-4d(5) states, “The provisions of paragraphs (3) and (4) of this subsection d. shall not apply to a domestic insurer if the person controlling the insurer is an entity having a board of directors and committees thereof that substantially meet the requirements of those paragraphs.”

The Company satisfies the requirements of N.J.S.A. 17:27A-4d(5).

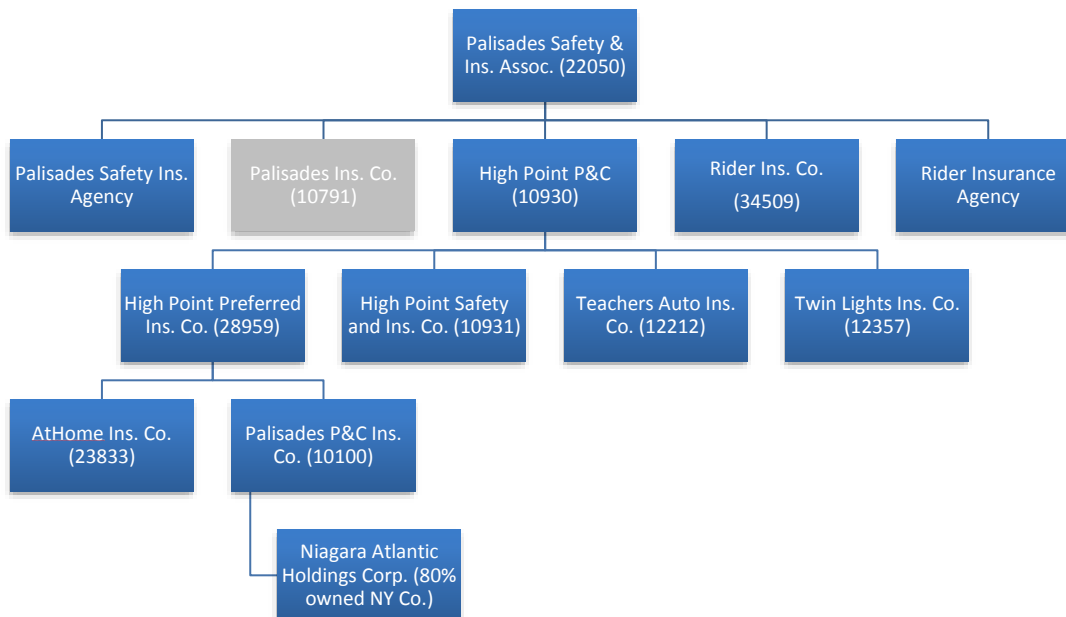
All transactions and actions taken by the officers of the Company on its behalf are ratified by the Board and by the Company shareholders at the Annual Shareholders Meeting.

REGULATION OF INSURANCE HOLDING COMPANY SYSTEMS

The Company is a member of an insurance holding company system as defined by N.J.S.A. 17:27A-1.

A review of the holding company registration statement indicated that the Company was in compliance with N.J.S.A. 17:27A-3, Sections a-j, requiring registration of those insurers who qualify as determined by N.J.S.A. 17:27A-1.

A holding company system organizational chart as of December 31, 2019, follows:



INTER-COMPANY AGREEMENTS / RELATED PARTY TRANSACTIONS

Inter-Company Agreements

The Company was a named party to the following affiliated agreements at the examination date:

Consolidated Federal Income Tax Liability Allocation Agreement:

Effective November 9, 1999, PSIA and affiliates entered into a consolidated tax agreement. Under the terms of this Agreement, the amount of federal income taxes payable by each party to the Agreement shall be equal to the amount of tax liability allocable to it as determined in accordance with the provisions of Treasury Regulation 1.1552-1(a)(2). The method of allocation among companies is subject to a written agreement effective November 1, 2003, which has been approved by NJDOBI. Taxes are allocated based on the separate return calculations of each Company, with current credit for net losses utilized as part of the consolidated return. Inter-company tax balances are settled quarterly through the payable to or receivable from accounts after the tax filing is made in October of each year.

Services Agreement:

The Company entered into a service agreement with the Palisades Safety and Insurance Management Corporation (“PSIMC”) on November 1, 2003. Effective April 20, 2011, PSIMC’s name was changed to PRNJ. Under the terms of this Agreement, PRNJ provides various administrative and employee welfare services to the Company in exchange for a management fee equal to 12.5% of premium written. The services provided include payroll, accounting and tax preparation, human resources, voucher processing and bill payment, appointment and termination of general servicing agents, investigation and defense of claims, policy issuance and administration, marketing development, and other services associated with the production and administration of policies of insurance.

Operating Services Agreement:

Effective January 1, 2009, PSIA entered into an operating services agreement with affiliates. The operating services to be provided by PSIA on behalf of the affiliates, including the Company, include the following:

- Payment of claims arising from any of the Companies’ policy of insurance. The Companies shall retain the ultimate responsibility for all adjustment and claims payments made on their behalf.
- Collection of premiums and payment of premium refunds on behalf of the Companies; provided such premiums shall be held in a fiduciary capacity, and further provided that all such net premiums shall be accounted for, pursuant to accounting procedures approved by the Companies.
- Payment of commissions, fees, assessments, governmental examination expenses, and other general and administrative expenses on behalf of the Companies.
- Payment and collection of external reinsurance amounts on behalf of the Companies; provided such amounts shall be held in fiduciary capacity, and further provided that all such amounts shall be accounted for, pursuant to accounting procedures approved by the Companies.

There will be no fee charged to any party subject to this Agreement. The Companies shall reimburse PSIA for actual costs and expenses paid by PSIA on behalf of the Companies and reimbursement will be within 45 days of the close of each quarter.

Agency Agreement:

Effective January 1, 2009, High Point Preferred Insurance Company on behalf of itself and High Point Property and Casualty Insurance Company, High Point Safety and Insurance Company, Teachers Auto Insurance Company of New Jersey, and, as of March 1, 2014, Palisades Insurance Company (the “HP Insurance”) appointed High Point Brokerage Company, Inc. (“HP Broker”) as their agent. The agreement authorizes HP Broker to solicit, accept and bind risk in respect to private passenger automobile, homeowner and umbrella policies. It also authorizes HP Broker to handle the production, servicing, and administration of private passenger automobile, umbrella and homeowner policies defined as “non-aligned” business, which are policies that are not assigned to a current or former broker with Prudential Insurance Agency, LLC.

HP Broker must promptly notify HP Insurance in writing of all risks that have been written or bound and notify HP Insurance if HP Broker receives notice of any claims, suits or losses on these policies. HP Insurance will directly bill and collect premiums, and also send notices of cancellation, nonrenewal or changes in coverage. If HP Insurance does not directly bill, HP Broker will perform these duties. Also, HP Broker must keep records and accounts of all insurance transactions current, and all transactions must be readily identifiable and accessible for examination by HP Insurance. Commissions are based on the commission rate in effect on the effective date of the policy and commission refunds will be at the same rate originally paid. This agency agreement will automatically terminate if HP Broker has a revoked or suspended license, is dissolved, insolvent, bankrupt, reorganized, has misappropriation of funds, convicted of a dishonest act, or no longer services any HP Insurance business. HP Broker may also terminate without cause upon giving HP Insurance written notice at least 90 days before the date of termination.

100% Quota Share Reinsurance Agreement (Special Treaty):

Effective May 1, 2012, a 100% Quota Share Reinsurance Agreement (Special Treaty), as amended, was entered into by PSIA (Reinsurer) and PPCIC, PIC, HPC, HPP, TAI, and TLI (the Companies). Please see “Reinsurance” section of this report for additional details.

Investment Services Agreement:

The Company entered into an investment services agreement with SRB Corporation, an affiliate of PRNJ, to provide a broad spectrum of investment services, including development of investment objectives, the development of investment policies and guidelines, the selection of investment managers, and investment and management of assets, the measurement and evaluation of investment performance, accounting oversight, cash management of banking relationships, the creation and management of a custodial relationship, administrative support, and investment advice.

Catastrophe Reinsurance (Affiliated):

Effective July 1, 2019, the Company entered into a retention layer catastrophe reinsurance agreement between affiliated companies and their subsidiaries. Please see “Reinsurance” section of this report for additional details.

Related Party Transactions

In 2019, PSIA made a capital contribution to PIC in the amount of \$65,000,000. NJDOBI approved this request on March 29, 2019.

POLICY ON CONFLICT OF INTEREST

On an annual basis the Company’s officers and directors attest to an affirmation of ethical standards and a disclosure of possible activities that could construe as a possible conflict of interest.

The examination team reviewed all Conflict of Interest statements executed by officers and directors for the period under examination, noting that there were no apparent or potential conflicts of interest.

INFORMATION SYSTEMS

Information systems were reviewed at the Group level. The IT examination team's procedures considered a customized range of IT risks contained within the NAIC Exhibit C Part 2 Work Program, focusing on both IT governance and IT operational controls. Overall, the IT examination team concluded that IT General Controls (ITGCs) are *Effective*. IT review conclusions were based on inquiry, inspection of documentation, observation, independent research and a review of third-party work papers. The IT examination team's conclusion regarding control strength was discussed with, and accepted by, the Examiner-in-Charge at the conclusion of the IT review.

CONTINUITY OF OPERATIONS

The Company's by-laws provide for the election of directors and the appointment of officers to fill any vacancies caused by death, resignation, disqualification, or removal by the Board.

The Company has a disaster recovery plan that was reviewed in the course of the coordinated examination IT review. No material findings were noted.

FINANCIAL STATEMENT EXHIBITS

Exhibit A: Statement of Assets, Liabilities, Surplus and Other Funds at
December 31, 2019 11

Exhibit B: Summary of Revenue and Expenses for the
Five-Year Period ending December 31, 201912

Exhibit C: Capital and Surplus Account for the
Five-Year Period ending December 31, 201913

Statement of Assets, Liabilities, Surplus and Other Funds at December 31, 2019

Admitted Assets	Current Examination at 12/31/2019	Balance per Company at 12/31/2019	Examination Change	Note Number
Bonds	\$ 47,839,479	\$ 47,839,479	\$ -	1
Stocks				
Preferred	-	-	-	
Common	31,343,435	31,343,435	-	
Cash, cash equivalents and short-term investments	5,625,914	5,625,914	-	
Other Invested Assets	-	-	-	
Receivable for securities	4,125	4,125	-	
Investment income due and accrued	408,143	408,143	-	
Premiums and Considerations:				
Uncollected premiums and agents' balances in the course of collection	1,924,664	1,924,664	-	
Deferred premiums and agents' balances and installments booked but deferred and not yet due	31,553,960	31,553,960	-	
Amount recoverable from reinsurers	-	-	-	
Current federal and foreign income tax recoverable and interest thereon	-	-	-	
Net deferred tax asset	204,520	204,520	-	
Receivable from parent, subsidiaries and affiliates	5,605,447	5,605,447	-	
Aggregate write-ins for other than invested Assets	-	-	-	
Total net admitted assets	\$ 124,509,687	\$ 124,509,687	\$ -	
Liabilities				
Losses	\$ 170,925	\$ 170,925	\$ -	2
Reinsurance payable on paid losses and loss adjustment expenses	-	-	-	
Loss adjustment expenses	26,331	26,331	-	2
Commissions payable, cotingent commissions and other similar charges	-	-	-	
Other expenses	-	-	-	
Taxes, licenses and fees	-	-	-	
Current federal and foreign income taxes	56,410	56,410	-	
Net deferred tax liability	-	-	-	
Unearned Premiums	344,586	344,586	-	
Advance Premium	720,817	720,817	-	
Ceded reinsurance premiums payable	38,485,370	38,485,370	-	
Funds held by company under reinsurance treaties	-	-	-	
Remittances and items not allocated	-	-	-	
Payable to parent, subsidiaries and affiliates	-	-	-	
Payable for securities	-	-	-	
Aggregate write-ins for other liabilities	3,505	3,505	-	
Total liabilities	39,807,944	39,807,944	-	
Surplus and Other Funds				
Common capital stock	\$ 3,000,000	\$ 3,000,000	\$ -	3
Preferred capital stock	\$ 3,000,000	\$ 3,000,000	\$ -	3
Gross paid in and contributed surplus	74,350,000	74,350,000	-	3
Unassigned funds (surplus)	4,351,743	4,351,743	-	3
Total Capital and Surplus	84,701,743	84,701,743	-	
Total liabilities and surplus as regards policyholders	\$ 124,509,687	\$ 124,509,687	\$ -	

Summary of Revenue and Expenses for the Five-Year Period Ending December 31, 2019

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Total Revenue:					
Premiums earned	\$ -	\$ -	\$ -	\$ -	\$ 227,028
Expenses:					
Losses Incurred	\$ -	\$ -	\$ -	\$ -	\$ 221,736
Loss Adjustment expenses incurred	-	-	-	-	26,611
Other underwriting expenses incurred	-	-	-	-	62,324
Total Underwriting deductions	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>310,671</u>
Net underwriting gain (loss)	-	-	-	-	(83,643)
Investment Income:					
Net investment income earned	160,206	171,177	208,724	328,274	1,210,101
Net realized capital gains or loss (less capital gains tax)	3,599	14,412	7,382	(57,350)	(402,475)
Net Investment gain (loss)	<u>163,805</u>	<u>185,589</u>	<u>216,106</u>	<u>270,924</u>	<u>807,626</u>
Other Income:					
Net gain (Loss) from agents' or premium balance charge off	\$ -	\$ -	\$ -	\$ -	\$ -
Finance and service charges not included in premiums	-	-	-	-	-
Aggregate write-ins for miscellaneous income	-	-	-	202,526	483,521
Total other Income	<u>-</u>	<u>-</u>	<u>-</u>	<u>202,526</u>	<u>483,521</u>
Net Income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	<u>163,805</u>	<u>185,589</u>	<u>216,106</u>	<u>473,450</u>	<u>1,207,504</u>
Dividends to policyholders	-	-	-	-	-
Net Income after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	163,805	185,589	216,106	473,450	1,207,504
Federal and foreign income taxes incurred	60,713	65,598	35,446	83,995	402,010
Net Income	<u>\$ 103,092</u>	<u>\$ 119,991</u>	<u>\$ 180,660</u>	<u>\$ 389,455</u>	<u>\$ 805,494</u>

Capital and Surplus Account for the Five-Year Period Ending December 31, 2019

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Surplus as regards policyholders, December 31 prior year	\$ 12,899,801	\$ 12,255,905	\$ 12,286,254	\$ 16,926,208	\$ 16,401,166
Net income	103,092	119,991	180,660	389,455	805,494
Change in net unrealized capital gains (losses)	(115,922)	109,272	191,779	221,229	11,448,339
Change in net deferred income tax	364,644	349,698	(208,032)	291,724	2,526,007
Change in non-admitted assets	(995,710)	(948,612)	(524,453)	(1,427,450)	(1,584,239)
Capital changes:					
Paid in	-	400,000	-	400,000	-
Surplus adjustments:					
Paid in	-	-	5,000,000	-	65,000,000
Dividends to stockholders	-	-	-	-	-
Aggregate write-ins for gains and losses in surplus	-	-	-	(400,000)	(9,895,024)
Net change in capital and surplus for the year	<u>(643,896)</u>	<u>30,349</u>	<u>4,639,954</u>	<u>(525,042)</u>	<u>68,300,577</u>
Capital and surplus, December 31, current year	<u>\$ 12,255,905</u>	<u>\$ 12,286,254</u>	<u>\$ 16,926,208</u>	<u>\$ 16,401,166</u>	<u>\$ 84,701,743</u>

NOTES TO THE FINANCIAL STATEMENTS

There were no changes made to the assets, liabilities or surplus balances reported by the Company for the year ended December 31, 2019. The surplus as regards policyholders, which totaled \$84,701,743 as of the examination date, was determined to be reasonably stated and in compliance with N.J.S.A 17:17-1 et seq.

Note 1 – Bonds

Bonds totaling \$650,771 in fair value were held as statutory deposits by the NJDOBI on behalf of the Company in accordance with N.J.S.A. 17:20-1c.

Note 2 - Unpaid Losses and Loss Adjustment Expenses

The Company's reported liabilities at December 31, 2019, for unpaid losses and unpaid loss adjustment expenses, net of reinsurance, amounted to \$170,925 and \$26,331, respectively. No adjustments to reserves or surplus were indicated as a result of the actuarial portion of the examination. The assumptions used were generally found to be appropriately conservative.

The examination team collaborated with the actuaries to conduct all of the reviews of internal controls and risk analysis.

The aggregate net amounts reported by the Company, met or exceeded the statutory minimums of the State of New Jersey. The claims reserves and policy reserves, including Incurred but Not Reported ("IBNR"), as reported by the Company were deemed to be reasonable in light of the liabilities they support and materially in compliance with the Statutes of the State of New Jersey. This examination conclusion is not a guarantee that the reserves and any supporting assets will be adequate under every scenario of future experience; the results reached in this analysis are dependent on the assumptions used. Realized results may vary as actual experience differs from the assumptions.

Note 3 – Capital and Surplus

The Company reported total capital and surplus in the amount of \$84,701,743 at December 31, 2019 as summarized:

The Company has 3,000,000 shares of \$1 par value of common stock authorized, issued and outstanding at December 31, 2019. Class A and Class B shares increased by 200,000 shares in each class in 2019 due to the expansion into the State of New York to meet the minimum capital stock required for the lines of business in which the companies are licensed. Common Stock of the Company is 100% owned by PSIA. Preferred Stock is 80% owned by PSIA and consists of 28,000 shares.

During this examination period, the Company received a capital infusion from PSIA of \$65,000,000 for years ended December 31, 2019. These capital contributions were verified as part of this examination bringing the total gross paid in and contributed surplus to \$74,350,000 at December 31, 2019.

At December 31, 2019, the Company had unassigned funds (surplus) of \$4,351,743.

The Company was determined to be in compliance with the minimum capital and surplus requirements of the State of New Jersey at December 31, 2019.

SUMMARY OF EXAMINATION RECOMMENDATIONS

There were no comments and/or recommendations deemed necessary for purposes of this examination report.

COMMITMENTS AND CONTINGENCIES

Palisades Group and its subsidiaries (including the Company, and collectively known as “Palisades”) are routinely involved in numerous claims, lawsuits, regulatory audits, investigations and other legal matters arising, for the most part, in the ordinary course of managing a property and casualty business. Palisades believes that the legal actions, regulatory matters, proceedings and investigations currently pending against it should not have a material adverse effect on Palisades results of operations, financial condition or liquidity based upon current knowledge and taking into consideration current accruals. Disputed tax matters arising from audits by the Internal Revenue Service (“IRS”) or other state and foreign jurisdictions, including those resulting in litigation, are accounted for under the NAIC’s accounting guidance for tax loss contingencies.

SUBSEQUENT EVENTS

On March 11, 2020, the outbreak of a novel strain of coronavirus, COVID-19, was declared a pandemic by the World Health Organization. The extent of the pandemic’s impact on the Company’s operational and financial performance cannot be predicted and will depend on various factors, such as the duration and spread of the outbreak, regulatory developments, and the impact on the financial markets. Due to the uncertainty of the pandemic, it is not feasible to assess the impact at this time.

CONCLUSION

A regular statutory financial condition examination was conducted by the undersigned with the assistance of examiners of the New Jersey Department of Banking and Insurance examination staff.

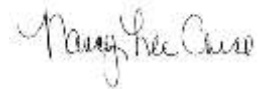
The examination was conducted remotely. The courteous assistance and cooperation of the Company's management is acknowledged.

Respectfully submitted,



Alex Quasnitschka, CFE
Examiner-in-Charge
Risk & Regulatory Consulting, LLC
Representing the New Jersey Department of Banking and Insurance

Under the Supervision of,



Nancy Lee Chice, CFE
CFE Reviewer
New Jersey Department of Banking and Insurance

Palisades Insurance Company.

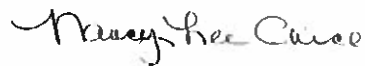
The undersigned hereby certifies that an examination has been made of Palisades Insurance Company and the foregoing report is true to the best of my knowledge and belief.

Respectfully submitted,



Alex Quasnitschka, CFE
Examiner-in-Charge
Risk & Regulatory Consulting, LLC
Representing the New Jersey Department of Banking and Insurance

Under the Supervision of,



Nancy Lee Chice, CFE
CFE Reviewer
New Jersey Department of Banking and Insurance

State of New Jersey
County of Mercer

Subscribed and sworn to before me, on this 28th day of May, 2021.



Notary Public of New Jersey

My commission expires: July 2025