IFIC Surety GROUP

1 3 2 8 5 2 0 1 6 3 5 0 0 0 1 0 0
Management's Discussion and Analysis of Operations
ALLEGHENY CASUALTY COMPANY
Entity:13285 Yr:2016 Doc:350 Type:NAIC Annual

ALLEGHENY CASUALTY COMPANY

One Newark Center
Newark, NJ 07102

Management Discussion and Analysis of Financial Condition and Results of Operations

For the year ending December 31, 2016

March 22, 2017

Contact:

Maria Dulce Costa
Treasurer

NAIC Group Code: 4705
NAIC Company Code: 13285

OVERVIEW

Allegheny Casualty Company (ACC) (the company), a wholly owned subsidiary of The Chestnut Group Inc., a non-insurer parent, is a specialized company writing surety bonds only. On October 1, 2009, The Chestnut Group Inc. became a wholly owned subsidiary of International Fidelity Insurance Company (IFIC). In 2015 the IFIC Surety Group was formed, a non- insurer parent of IFIC. For 2015 IFIC Surety Group (which includes the groups writings IFIC and ACC) was ranked number eight largest writers of Surety bonds in the US. ACC is rated A- (Excellent) by A.M. Best.

The Company is licensed in all 50 states, the District of Columbia, and Puerto Rico. The company is treasury listed by the United States Treasury Department and is an authorized surety in all Federal Courts.

ACC has two main lines of surety: Bail, which continues to be the main driver of revenue for the company, and Non Standard Civil (Specialty).

HISTORY

ACC is the successor to Allegheny Mutual Casualty Company which was incorporated in 1936 and which demutualized in 1998 to become the present Allegheny Casualty Company. On December 31, 2015, the Company was redomiciled from the Commonwealth of Pennsylvania to the State of New Jersey.

STRATEGY

Over the past years Management's focus has been on integrating the ACC Non Standard Surety business line into the IFIC control and risk management structure. Management feels that ACC will benefit greatly from being able to leverage the financial and system controls and robust risk management processes developed by its parent, IFIC. This challenging strategy will enable the company to obtain meaningful profitable growth in its market when the insurance cycle turns from "soft" to "hard."

FINANCIAL POSITION

Assets

The Company's assets are very liquid with very little leverage. Cash and invested assets decreased to $33,455,000 in 2016 from $36,547,000 in 2015 and comprise 95.7% of net admitted assets at December 31, 2016, and 92.5% as of December 31, 2015. The decrease in invested assets is due to a decrease in collateral funds received from bonded principals (policyholders). The company promises to return the collateral once the bonded principal completes his obligation under the bond policy. Liabilities decreased similarly.

Net admitted assets decreased by 11.5% from $39,501,000 in 2015 to $34,944,000 in 2016. This decrease is primarily due to the return of collateral funds held from policyholders and from a decrease in receivables from agents and reinsurers.

Liabilities
At 12/31/16, total liabilities decreased by 28.5% from $16,899,599 to $12,100,181. Ceded reinsurance premium payable and collateral funds held continue to comprise the significant balance sheet liabilities. Collateral funds held for the payment of potential losses decreased to $9,707,000 from $13,568,000.

Surplus
The Company's Policyholders' Surplus is 65.4% of the total admitted assets. In 2016, surplus increased by $242,000 to $22,844,000 from $22,602,000 for the prior year. This is due to a 5.5% increase in net underwriting gain and 48.2% increase in net investment gain.

Management feels that ACC is sufficiently capitalized for its current level of premium.

For the year ended December 31, 2016, ACC had Total Adjusted Capital of $22,843,978 and an Authorized Control Level RBC of $6,245,609. Adjusted Capital represents 365.7% of the Authorized Control Level RBC, which is above any threshold that requires company or regulatory action. This ratio is consistent with the prior year's ratio of 381%.

RESULTS OF OPERATIONS

The Company's net income after tax decreased by 4.7% from $521,000 in 2015 to $497,000 in 2016. The major components of income are as follows:

Premiums
The company writes specialty contract and bail bonds. Direct writings increased in 2016 as the company grew its bail business. ACC continues to act as a major producer of bail bonds throughout the country. Bail has always been profitable for the company.

Contract and Miscellaneous Surety Bonds:

Civil business accounts for 27.4% of ACC's direct written premiums.

Management believes that the acquisition of ACC by IFIC will continue to have a significant positive impact on the Contract Surety business line. ACC is paid a fee of three percent on all Contract Surety written on ACC paper. ACC is fully indemnified for any losses for bonds written on its paper by its parent (IFIC). Therefore over time ACCs balance sheet and financial ratios will continue to improve while the company takes on very little risk exposure. The Revenues and Net Income of the company should continue to grow as the level of Direct Written Premium grows.

Incurred Loss & LAE
The liabilities for unpaid losses and loss expenses are determined using case basis evaluations, and represent estimates to the ultimate net cost of all unpaid losses and loss expenses for each year. These estimates are continually reviewed as historical experience develops. The liabilities are adjusted based on Management's best estimate of the ultimate net loss, with such adjustments being charged to current year operations.

Effective 1/1/2010 ACC's civil business is 100% reinsured by its Parent, IFIC. In 2016, the company's incurred loss and LAE expense is $(26,074).

CASH FLOW and LIQUIDITY

Net cash from operations in 2016 increased by $14,840 to $1,243,088 in 2016.

Cash flow from investments decreased due to the company retaining all of its earnings and cash flow and using these monies to fund increases in its investments. During 2016, a large portion of the cash and short term securities were invested in high grade bonds and therefore the net Cash Flow decreased by $11.8 million from the prior year.

The fixed income portfolio (including short-term securities) is comprised primarily of securities with maturities of five years or less, as shown below

	Adjusted Carrying Value	
	2016	**2015**
One year or less	$ 8,459,924	$ 1,526,965
One year through five years	16,187,541	11,859,939
Five years through ten years	1,755,004	1,728,768
Ten years through twenty years	400,163	
Total - Fixed Income Portfolio	$26,802,632	$15,115,672

Management believes that future cash flow needs can be met from operations and that the mix of short-term investments and the maturity of fixed income investments will provide adequate liquid resources to meet its cash needs. Furthermore, the company has no significant material commitments or plans for future capital expenditures.

CONCLUSION

ACC will continue to write Specialty and Bail business and will continue its reinsurance relationship with its parent IFIC. Its investment portfolio is secure and conservative in nature. ACC continues to write good solid business with excellent underwriting results and will continue to operate in the same manner during 2017. This will ensure continued financial stability for the Company.