

Jet Insurance Company

Charlotte, North Carolina

Report on Examination

As of December 31, 2018

TABLE OF CONTENTS

SCOPE OF THE EXAMINATION	1
REPORT ABBREVIATIONS	2
COMPANY HISTORY	3
Capital Stock	3
MANAGEMENT AND CONTROL	3
Corporate Governance	3
Code of Conduct and Conflict of Interest	4
Corporate Records	4
Corporate Organization	5
Organization Chart	5
Statutory Deposits	5
Related Party Agreements	5
Third Party Administrator	6
Fidelity Bonds	6
TERRITORY AND PLAN OF OPERATION	6
Trends of the Company	6
Actuarial Opinion	7
REINSURANCE PROGRAM OVERVIEW	7
Reinsurance Ceded	7
FINANCIAL STATEMENTS	7
COMMENTS ON FINANCIAL STATEMENTS	13
SUBSEQUENT EVENTS	15
DISTRIBUTION OF REPORT ON EXAMINATION	16
CONCLUSION	17

February 14, 2020

Honorable Mike Causey
Commissioner of Insurance
State of North Carolina
Raleigh, North Carolina

Sir:

Pursuant to your instructions and in accordance with Section (“§”) 58-2-131 of the General Statutes of North Carolina (“GS”), the North Carolina Department of Insurance (“Department”) conducted an examination of the records, business affairs and financial condition of

Jet Insurance Company

(hereinafter referred to as the “Company”), at its main administrative and statutory home office located at 11440 Carmel Commons Boulevard, Suite 207, Charlotte, North Carolina 28226.

SCOPE OF THE EXAMINATION

We performed a full-scope statutory examination of the Company. This examination covers the period from June 7, 2018, to December 31, 2018, including any material transactions and events occurring subsequent to the examination date and noted during the course of this examination.

The purpose of this examination is to review and evaluate the Company’s business processes and controls to assist in accessing and monitoring its current financial condition and prospective solvency. Pursuant to GS § 58-2-132, this Report on Examination comprises only facts appearing in the books, records, or other documents of the Company (together with citations of pertinent laws, regulations, and rules) with regard to any material adverse findings disclosed by the examination.

We conducted our examination in accordance with auditing standards established by the Department and the National Association of Insurance Commissioners Financial Condition Examiners Handbook (“Handbook”). The Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company, and evaluate system controls and procedures used to mitigate those risks. 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 Handbook risk-focused surveillance process and the following key functional activities were identified:

**Investments
Premiums
Reserves
Related Parties**

This may include assessing significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with GS Chapter 58 and evaluating management's compliance with Statutory Accounting Principles. This examination does not attest to the fair presentation of the financial statements included herein.

This examination report includes significant findings of fact 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 conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to the Company.

The Company's Annual Statements, work papers, and the independent audit work papers were reviewed and relied upon whenever possible. A trial balance reconciliation of the Annual Statement was performed, as were a verification of ownership and valuation of assets, determination of liabilities and reserves, and an analysis and review of such accounts and records as deemed necessary by the examination team. A management representation letter attesting to the Company's ownership of assets, the nonexistence of unrecorded liabilities and contingent liabilities was received from Company management.

The books and records of the Company were audited by independent certified public accountants in accordance with GS § 58-10-185(a). BDO USA, LLP of Dallas, Texas, the designated independent public accountant of the Company, issued an unqualified opinion for the year ended December 31, 2018.

REPORT ABBREVIATIONS

Board of Directors	"Board"
California Contractors Insurance Services, Inc.	"CCIS"
Continental Surety & Insurance Services, Inc.	"CSIS"
doing business as	"d/b/a"
General Statutes of North Carolina	"GS"
Financial Condition Examiners Handbook	"Handbook"
J.E.P Capital, Inc.	"JEP"
J.E.P. Reinsurance, Inc.	"JEP Re"
Jet Insurance Company	"Company"
Lloyd's syndicates	"Reinsurers"
Net Premiums to Surplus Ratio	"Ratio"
North Carolina Department of Insurance	"Department"
On Point Risk Solutions, Inc.	"On Point"
The Bond Exchange Inc.	"BX"
Third-Party Administrator	"TPA"

SUMMARY OF SIGNIFICANT FINDINGS

The Company did not maintain any fidelity bond coverage from June 7, 2018, through December 31, 2018. The NAIC's recommended minimum range for the Company's fidelity bond coverage is \$75,000 to \$100,000. We recommend that the Company maintain fidelity bond coverage for no less than the minimum recommended by the NAIC.

COMPANY HISTORY

The Company was incorporated on June 7, 2018. J.E.P Capital, Inc. ("JEP"), the Company's parent, capitalized the Company with the purchase of 1,000 shares of the Company's common stock for \$1,000 per share for a total purchase price of \$1,000,000 in cash.

CAPITAL STOCK

As of December 31, 2018, the Company's capitalization consisted of the following:

Description	Value
Number of authorized common capital shares	5,000
Number of shares issued and outstanding	2,500
Total common capital stock	\$2,500,000
Par value per share	Not specified

On September 20, 2018, JEP purchased an additional 1,500 shares of the Company's common stock for \$1,000 per share for a total purchase price of \$1,500,000 in cash. As of December 31, 2018, all outstanding shares were owned by JEP, which is wholly-owned by six ultimate controlling persons. Refer to the Organization Chart.

At December 31, 2018, the Company reported \$3,500,000 in gross paid in and contributed surplus and \$(55,601) in unassigned funds.

MANAGEMENT AND CONTROL

CORPORATE GOVERNANCE

Board of Directors

The business and affairs of the Company are managed by the Board of Directors ("Board"). The bylaws specify that the number of directors shall be three. Directors are divided into three approximately equal classes and designated to serve one, two, or three-year terms at the organizational meeting of the Company. Thereafter, directors are elected at the annual meeting of shareholders for a three-year term.

The following individuals served as directors as of December 31, 2018:

Name	Location	Principal Occupation
Spencer Siino	Dallas, TX	Chief Executive Officer
John Popp	New Albany, OH	Chief Operating Officer
David Gonsalves	Charlotte, NC	Chief Underwriting Officer

The Board has established an Audit Committee to assist with the governance of the Company. As of December 31, 2018, the Company's three directors served on the Audit Committee.

Officers

The bylaws provide that the Board will elect the officers of the Company and that any two or more offices may be held by the same person. The officers of the Company consist of a Chief Executive Officer, Chief Operating Officer, Chief Financial Officer and Chief Underwriting Officer. The officers are elected annually at the regular meeting of the Board held after each annual meeting of the shareholders.

The following individuals served as officers as of December 31, 2018:

Name	Title
Spencer Siino	Chief Executive Officer, Chief Financial Officer
John Popp	Chief Operating Officer
David Gonsalves	Chief Underwriting Officer

CODE OF CONDUCT AND CONFLICT OF INTEREST

The Company has adopted a Code of Ethics which is applicable to and must be complied with by the Company's officers, directors, trustees, attorneys-in-fact, and administrative personnel ("Covered Individuals"). Covered Individuals must execute conflict of interest disclosure statements annually stating they are not aware of any conflict of interest or disclosing any conflicts of interest. A review of the signed conflict of interest disclosure statements for the examination period revealed that the Company was in compliance with its policy and procedures for disclosure of conflicts of interest.

CORPORATE RECORDS

We reviewed the minutes of the meetings of the Board and its committee for the period under examination. Based on our review, it appears that the minutes documented the Company's significant transactions and events, and that the trustees approved these transactions and events.

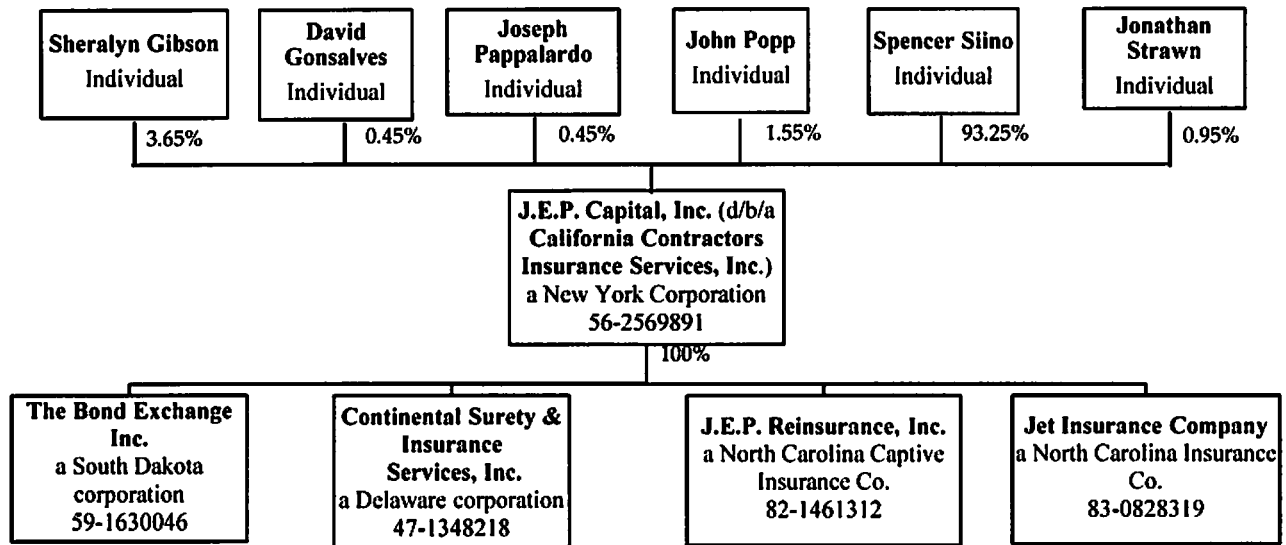
The Company's Articles of Incorporation and bylaws were reviewed for any changes during the period under examination. On September 11, 2018, the Company amended its articles of incorporation to increase the total authorized capital stock and paid-in-surplus from \$1,000,000 and \$1,500,000, respectively, to \$2,500,000 and \$2,500,000, respectively. This amendment was properly filed with and approved by the Department.

CORPORATE ORGANIZATION

The Company is part of an insurance holding company system as defined in GS § 58-19. The Company is a wholly owned subsidiary of JEP, a New York C-corporation, which is owned by six individuals including one ultimate controlling person. In addition to the Company, JEP owns three surety agencies: The Bond Exchange Inc. (“BX”), which is a wholesale insurance agency; California Contractors Insurance Services, Inc. (“CCIS”), the company under which JEP is doing business as (“d/b/a”); and Continental Surety & Insurance Services, Inc. (“CSIS”). JEP also owns J.E.P. Reinsurance, Inc. (“JEP Re”), a North Carolina captive insurance company.

ORGANIZATION CHART

The following is a summarized organizational chart of the Company within the holding company group as of December 31, 2018:



STATUTORY DEPOSITS

Statutory deposits are maintained as required by insurance regulatory agencies for doing business in such jurisdictions. The Company’s 2018 Annual Statement Schedule E, Part 3 contains a complete description and listing of the Company’s statutory deposits by state. The Company maintains a statutory deposit in North Carolina only.

RELATED PARTY AGREEMENTS

The Company has the following related party agreements in place as of December 31, 2018:

The Company has a Capital Maintenance Agreement with JEP, effective June 25, 2018, whereby JEP agrees that should the Company’s Net Premiums to Surplus Ratio (“Ratio”) exceed three-to-one, JEP will provide sufficient funding to the Company to reduce the Ratio below three-to-one in accordance with the Department’s requirements.

The Company is included in a consolidated income tax return in accordance with a tax allocation agreement between JEP, BX, CSIS, and JEP Re, effective November 26, 2018. The agreement sets forth the parties' obligations in connection with their filing as a consolidated tax filing group. Each entity shall remit to JEP any amount determined to be due in accordance with the agreement no more than earlier than 10 days prior to the filing date, and not later than 30 days after the filing date of the consolidated income tax return. Refunds received by JEP resulting from tax savings shall be remitted to the applicable entity no later than 30 days following the date that refund was received. In the event of any adjustment to the tax returns, adjusting payments will be made within 30 days after any such payments are made to or refunds are received from the Internal Revenue Service.

The Company has a General Agency Agreement with BX, effective September 12, 2018, whereby the Company delegates the following functions to BX for a commission payable to BX: underwriting, quoting, billing, issuing, filing bonds as required, cancellation, reinstatement and customer service. The commission payable includes the Company's allocated share of shared expenses. Under this agreement, the Company paid \$9,090 in 2018.

THIRD PARTY ADMINISTRATOR

The Company utilizes On Point Risk Solutions, Inc. ("On Point"), a Third Party Administrator ("TPA"), to provide claims management and other services as requested by the Company. The Company's Claims Services Agreement with On Point lists the services and obligations to be provided by On Point. Services to be provided by On Point also include developing surety claim forms and handling contract and commercial bond claims from first notice to final recovery. The Company did not incur service fees in 2018.

FIDELITY BONDS

Spencer Siino, the Company's majority owner, is the sole employee that has access to the Company's cash and investments. Neither the Company nor Mr. Siino has any fidelity insurance coverage for the period under examination. (Refer to the Summary of Significant Findings)

TERRITORY AND PLAN OF OPERATION

The Company was licensed by the Department on July 1, 2018, to transact fidelity and surety insurance. The Company wrote its first bonds on September 20, 2018. As of December 31, 2018, the Company is licensed and authorized to issue fidelity and surety bonds in Louisiana, North Carolina, and Oklahoma. While the Company ultimately plans to write surety and fidelity bonds in all 50 states and the District of Columbia, the Company wrote exclusively in North Carolina in 2018.

TRENDS OF THE COMPANY

The Company started to write business in 2018. The five-year trend is not available.

ACTUARIAL OPINION

Every property and casualty insurance company doing business in this State, unless otherwise exempted by the Commissioner, shall annually submit the opinion of an appointed actuary and an actuarial opinion summary in accordance with GS § 58-10-150 and GS § 58-10-155.

The statutory reserves and related items for 2018 were reviewed and certified by the Company's Appointed Actuary, Peter S. Rauner, FCAS, MAAA, of RMS Solutions, Inc. The appointed actuary evaluated the data provided by the Company which included copies of all reinsurance contracts, a policy premium bordereau, claim settlement statements, annual reports and financial statements prepared for the Company. Due to the low volume of claim data, the appointed actuary also relied, without audit or verification, on data and information obtained from relevant insurance industry sources to develop the indications presented in his actuarial report. The appointed actuary reported that the Company made a reasonable provision for the unpaid loss and loss adjustment expense liabilities as of December 31, 2018.

REINSURANCE PROGRAM OVERVIEW

REINSURANCE CEDED

The Company has two variable quota share reinsurance contracts with Beazley USA Services Inc. for and on behalf of Lloyd's syndicates ("Reinsurers") covering employee dishonesty policies and fiduciary bonds. Under the employee dishonesty contract, effective December 1, 2018, the Company's single risk retention is no more than \$312,500 and the maximum amount ceded is limited to \$2,500,000 on any single policy. Under the fiduciary contract, effective November 1, 2018, the Company's single risk retention is no more than \$250,000 and the maximum amount ceded is limited to \$2,000,000 on any single bond and \$4,000,000 aggregate bonded liability for any single principal. For both contracts, reinsurance coverage above the contracts' limits may be submitted to the Reinsurers for special acceptance.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the Department and present the financial condition of the Company for the period ending December 31, 2018. The supporting exhibits present the information required to be included, in conformity with reporting practices prescribed by the Department.

Jet Insurance Company
Statutory Statement of Admitted Assets
December 31, 2018

	2018
Cash and cash equivalents	<u>\$6,019,071</u>
Total cash and invested assets	<u>6,019,071</u>
Investment income due and accrued	1,762
Uncollected premiums and agents' balances in course of collection	<u>15,508</u>
Total admitted assets	<u>\$6,036,341</u>

Jet Insurance Company
Statutory Statement of Liabilities Capital and Surplus
December 31, 2018

	2018
Losses	\$548
Loss adjustment expenses	109
Taxes, licenses and fees	923
Net deferred tax liability	2,345
Unearned premiums	36,968
Advance premiums	7,022
Ceded reinsurance premiums payable	108
Payable to parent, subsidiaries and affiliates	43,919
Total Liabilities	91,942
Common capital stock	2,500,000
Gross paid in and contributed surplus	3,500,000
Unassigned funds	(55,601)
Total capital and surplus	5,944,399
Total Liabilities, Capital and Surplus	\$6,036,341

Jet Insurance Company
Statutory Statement of Operations
December 31, 2018

	2018
Underwriting Income	
Premiums Earned	\$4,378
Deductions	
Losses incurred	548
Loss adjustment expenses incurred	109
Other underwriting expenses incurred	26,852
Total underwriting deductions	27,509
Net underwriting (loss)	(23,131)
Investment Income	
Net investment income earned	8,187
Net investment gain	8,187
Net Income	\$(14,944)

Jet Insurance Company
Statutory Statement of Capital and Surplus
December 31, 2018

	2018
Surplus, beginning of year	\$-
Net loss	(14,944)
Change in net deferred income tax	(2,344)
Change in non-admitted assets	(38,313)
Capital changes paid in	2,500,000
Surplus adjustments paid in	3,500,000
Change in surplus as regards policyholders for the year	5,944,399
Surplus, end of year	\$5,944,399

Jet Insurance Company
Statutory Statement of Cash Flow
December 31, 2018

	2018
Cash from Operations	
Premiums collected net of reinsurance	\$27,180
Net investment income	6,425
Total	<u>33,605</u>
Commissions, expenses paid and aggregate write-ins	14,534
Total	<u>14,534</u>
Net cash from operations	<u>19,071</u>
Cash from Financing and Miscellaneous Sources	
Capital and paid in surplus, less treasury stock	6,000,000
Net cash from financing and miscellaneous sources	<u>6,000,000</u>
Reconciliation of Cash and Cash Equivalents	
Net change in cash and cash equivalents	6,019,071
Cash and cash equivalents, end of year	<u>\$6,019,071</u>

COMMENTS ON FINANCIAL STATEMENTS

Basis of Presentation and Summary of Significant Accounting Policies:

The accompanying financial statements have been prepared on the basis of the accounting practices prescribed or permitted by the Department.

The more significant accounting policies followed by the Company are as follows:

Cash equivalents: Money market mutual funds are carried at fair value or net asset value as a practical expedient.

Premiums: Insurance premiums, net of premiums ceded to reinsurers, are earned over the terms of related bonds and reinsurance contracts. Premiums are earned on a pro rata basis.

Reinsurance: Premiums, commissions, expense reimbursements, and reserves are reported for on a basis consistent with the original policies issued and the terms of the reinsurance agreements. Premiums ceded are reported as a reduction of premium income. Losses and loss adjustment expenses are reported as reductions of those items.

Non-admitted assets: Certain assets, such as premiums over 90 days past due, excess of book value over market value for securities, and prepaid expenses are "non-admitted" and are charges against surplus.

Unpaid loss & loss adjustment expense: Includes an amount for losses incurred but not reported. Such liabilities are based on assumptions and estimates and while management believes the amount is adequate, the ultimate liability may be in excess of or less than the amount provided. The methods for making such estimates and for establishing the resulting liability is continually reviewed and any adjustments are reflected in the period determined.

Analysis of Assets

The Company reported the following asset as non-admitted at December 31, 2018: Start-up and organizational costs totaling \$38,313.

Reinsurance Activity:

The Company has variable quota share contracts to minimize its exposure to losses. Reinsurance contracts do not relieve the Company of its primary obligation to policyholders. Failure of the reinsurers to discharge their obligations could result in losses to the Company.

Direct and ceded premiums written and earned are as follows:

	2018
Direct written	\$41,550
Ceded written	204
Net written	41,346
Direct earned	4,402
Ceded earned	24
Net earned	\$4,378

The variable quota share contracts and retention limits are described under the Reinsurance Program Overview.

Summary of Reserves:

The following provides a reconciliation of the Company's reserves for losses and loss adjustment expenses:

	2018
Reserve for losses and loss adjustment expenses, beginning of year	\$-
Add:	
Provision for losses and loss adjustment expenses, current year	657
Total incurred	657
Reserve for losses and loss adjustment expenses, end of year	657
Increase in Reserve for Losses and Loss Adjustment Expenses	\$657

Reserves for losses and loss adjustment expenses are reported net of the amounts that are recoverable under the Company's reinsurance contracts. At December 31, 2018, the liability for losses and loss adjustment expenses was reduced by \$3 for amounts to be recovered from reinsurers.

Contingencies and Commitments:

The Company has not been involved in any legal and administrative proceedings since inception.

SUBSEQUENT EVENTS

On February 28, 2019, the JEP common stock held by Jonathan Strawn, former Chief Financial Officer of the Company, was repurchased by JEP.

On February 7, 2020, the Department approved the Company's Form A Exemption Request to make a change to its corporate structure where the Company's current parent, JEP, would be replaced by a new parent company with the same ultimate controlling persons, whose ownership percentage would not change.

Jet Insurance Company
DISTRIBUTION OF REPORT ON EXAMINATION
December 31, 2018

Spencer Siino
Chief Executive Officer and Chief Financial Officer
11440 Carmel Commons Boulevard, Suite 207
Charlotte, North Carolina 28226

John Popp
Chief Operating Officer
11440 Carmel Commons Boulevard, Suite 207
Charlotte, North Carolina 28226

CONCLUSION

The examination procedures, described, herein, revealed no material adverse findings or adjustments to surplus.

We conclude that the Company complies with the minimum capital and surplus requirements of GS § 58-7-75 for the kinds of insurance that the Company has been authorized to write, which is \$1,000,000 and \$250,000, respectively.

The courteous cooperation and assistance extended by the officers and employees of the Company during the examination is hereby acknowledged.

Respectfully submitted,




Ke Xu, CPA, CFE
Chief Financial Examiner
North Carolina Department of Insurance

February 13, 2020

STATE OF NORTH CAROLINA

COUNTY OF WAKE

Robert Armbruster, North Carolina Department of Insurance, being first, duly sworn, deposes and says that this report on examination, subscribed by him, is true and correct to the best of his knowledge and belief.

Signature:  Date: 2/14/2020
Robert Armbruster

Sworn and subscribed before me this 14th day of February, 2020.

Notary Public Signature:  Notary Public Seal:

