

Global Indemnity Ltd
Form 10-K
March 14, 2019

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended December 31, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF
1934

For the Transition Period from _____ to _____

001-34809

Commission File Number

GLOBAL INDEMNITY LIMITED

(Exact name of registrant as specified in its charter)

Cayman Islands

98-1304287

(State or other jurisdiction

(I.R.S. Employer Identification No.)

of incorporation or organization)

27 HOSPITAL ROAD

GEORGE TOWN, GRAND CAYMAN

KY1-9008

CAYMAN ISLANDS

(Address of principal executive office including zip code)

Registrant's telephone number, including area code: (345) 949-0100

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

Title of Each Class	Name of Exchange on Which Registered
A Ordinary shares, \$0.0001 Par Value	The Nasdaq Global Select Market
7.75% Subordinated Notes due 2045	The Nasdaq Global Select Market
7.875% Subordinated Notes due 2047	The Nasdaq Global Select Market

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT: NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES NO

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES NO

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). YES NO

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.:

Large accelerated filer ; Accelerated filer ; Non-accelerated filer ; Smaller reporting company ; Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). YES [] NO [X]

The aggregate market value of the common equity held by non-affiliates of the registrant, computed by reference to the price of the registrant's A ordinary shares as of the last business day of the registrant's most recently completed second fiscal quarter (based on the last reported sale price on the Nasdaq Global Select Market as of such date), was \$331,987,829. There are no B ordinary shares held by non-affiliates of the registrant.

As of March 1, 2019, the registrant had outstanding 10,070,518 A ordinary shares and 4,133,366 B ordinary shares.

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DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Proxy Statement relating to the 2018 Annual Meeting of Shareholders to be filed with the SEC within 120 days of the fiscal year ended December 31, 2018 are incorporated by reference into Part III of this report.

TABLE OF CONTENTS

	Page
PART I	
Item 1. <u>BUSINESS</u>	3
Item 1A. <u>RISK FACTORS</u>	28
Item 1B. <u>UNRESOLVED STAFF COMMENTS</u>	41
Item 2. <u>PROPERTIES</u>	41
Item 3. <u>LEGAL PROCEEDINGS</u>	42
Item 4. <u>MINE SAFETY DISCLOSURES</u>	42
PART II	
Item 5. <u>MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES</u>	43
Item 6. <u>SELECTED FINANCIAL DATA</u>	46
Item 7. <u>MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	48
Item 7A. <u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	74
Item 8. <u>FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA</u>	77
Item 9. <u>CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE</u>	148
Item 9A. <u>CONTROLS AND PROCEDURES</u>	148
Item 9B. <u>OTHER INFORMATION</u>	150
PART III	
Item 10. <u>DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE</u>	151
<u>EXECUTIVE COMPENSATION</u>	151

Item		
11.		
Item	<u>SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT, AND</u>	
12.	<u>RELATED STOCKHOLDER MATTERS</u>	151
Item	<u>CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR</u>	
13.	<u>INDEPENDENCE</u>	151
Item		
14.	<u>PRINCIPAL ACCOUNTING FEES AND SERVICES</u>	151
	PART IV	
Item		
15.	<u>EXHIBITS, FINANCIAL STATEMENT SCHEDULES</u>	152
Item		
16.	<u>FORM 10-K SUMMARY</u>	154

PART I

Item 1. BUSINESS

Some of the information contained in this Item 1 or set forth elsewhere in this report, including information with respect to the Company's plans and strategy, constitutes forward-looking statements that involve risks and uncertainties. Please see "Cautionary Note Regarding Forward-Looking Statements" at the end of Item 7 of Part II and "Risk Factors" in Item 1A of Part I for a discussion of important factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained herein.

References to the Company refer to Global Indemnity Limited and its subsidiaries or, prior to November 7, 2016, to Global Indemnity plc and its subsidiaries.

History

Global Indemnity Limited ("Global Indemnity") is a holding company formed on February 9, 2016 under the laws of the Cayman Islands. On November 7, 2016, Global Indemnity Limited replaced Global Indemnity plc, an Irish company, as the ultimate parent company pursuant to a scheme of arrangement whereby all of Global Indemnity plc's A ordinary shares were cancelled and replaced with one A ordinary share of Global Indemnity Limited on a one for one basis and each B ordinary share of Global Indemnity plc was cancelled and replaced with one B ordinary share of Global Indemnity Limited on a one for one basis. Global Indemnity's A ordinary shares are publicly traded on the NASDAQ Global Select Market under the trading symbol "GBLI." Please see Note 12 of the notes to consolidated financial statements in Item 8 of Part II of this report for additional information on the cancellation of Global Indemnity plc ordinary shares and the replacement of these shares with ordinary shares of Global Indemnity Limited.

Subsequent to the completion of the redomestication, several of the Company's subsidiaries, including Global Indemnity plc, were placed into liquidation, liquidated, or merged out of existence. In addition, substantially all of the assets of these companies, including intellectual property, were transferred to Global Indemnity Limited.

General

Global Indemnity provides its insurance products across a distribution network that includes binding authority, program, brokerage, and reinsurance. The Company manages the distribution of these products through three business segments: Commercial Lines offers specialty property and casualty products designed for product lines such as Small Business Binding Authority, Property Brokerage, Vacant Express, and Programs; Personal Lines offers specialty personal lines and agricultural coverage; and Reinsurance Operations provides reinsurance solutions through brokers and primary writers including insurance and reinsurance companies. The Commercial Lines and Personal Lines segments comprise the Company's U.S. Insurance Operations ("Insurance Operations").

Business Segments

See Note 19 of the notes to consolidated financial statements in Item 8 of Part II of this report for gross and net premiums written, income and total assets of each operating segment for the years ended December 31, 2018, 2017 and 2016. For a discussion of the variances between years, see "Results of Operations" in Item 7 of Part II of this report.

During the 1st quarter of 2017, the Company re-evaluated its Commercial Lines and Personal Lines segments and determined that certain portions of business will be managed, operated and reported by including them in the other segment. As a result, the composition of the Company's reportable segments changed slightly. Premium that is written through a wholly owned agency that mainly sells to individuals, which was previously included as part of the

Commercial Lines segment, is now included within the Personal Lines segment. In addition, one of the small commercial programs written by American Reliable Insurance Company “American Reliable,” which was previously included within the Personal Lines segment, is now aggregated within the Commercial Lines segment. Accordingly, the segment results for 2016 have been revised to reflect these changes.

Commercial Lines

The Company’s Commercial Lines distribute property and casualty insurance products and operate predominantly in the excess and surplus lines marketplace. The excess and surplus lines market differs significantly from the standard property and casualty insurance market. For additional information on the standard property and casualty insurance market, see “Personal Lines” below.

The excess and surplus lines market provides coverage for businesses that often do not fit the underwriting criteria of an insurance company operating in the standard markets due to their relatively greater unpredictable loss patterns and unique niches of exposure requiring rate and policy form flexibility. Without the excess and surplus lines market, certain businesses would have to self-insure their exposures, or seek coverage outside the U.S. market.

Competition in the excess and surplus lines market tends to focus less on price and more on availability, service, and other considerations. While excess and surplus lines market exposures may have higher perceived insurance risk than their standard market counterparts, excess and surplus lines market underwriters historically have been able to generate underwriting profitability superior to standard market underwriters.

A portion of the Company's Commercial Lines is written on a specialty admitted basis. When writing on a specialty admitted basis, the Company's focus is on writing insurance for insureds that engage in similar but often highly specialized types of activities. The specialty admitted market is subject to greater state regulation than the surplus lines market, particularly with regard to rate and form filing requirements and the ability to enter and exit lines of business. Insureds purchasing coverage from specialty admitted insurance companies do so because the insurance product is not otherwise available from standard market insurers. Yet, for regulatory or marketing reasons, these insureds require products that are written by an admitted insurance company.

The Commercial Lines' insurance products target specific, defined groups of insureds with customized coverage to meet their needs. To manage operations, the Commercial Lines segment differentiates its products by product classification. These product classifications are as follows:

- Penn-America Group distributes property and general liability products for small commercial businesses through a select network of wholesale general agents with specific binding authority;
 - United National Group distributes property, general liability, and professional lines products through program administrators with specific binding authority; and
 - Diamond State Group distributes property, casualty, and professional lines products through wholesale brokers that are underwritten by the Company's personnel and selected brokers with specific binding authority.
- Vacant Express primarily distributes products for dwellings which are currently vacant, undergoing renovations, or are under construction through aggregators, brokers, and retail agents.

These product classifications comprise the Commercial Lines business segment and are not considered individual business segments because each product has similar economic characteristics, distribution, and coverage.

The Company's Commercial Lines provide property, casualty, and professional liability products utilizing customized guidelines, rates, and forms tailored to the Company's risk and underwriting philosophy. See "Underwriting" below for a discussion on how the Company's insurance products are underwritten.

In 2018, gross premiums written for the Commercial Lines were \$249.9 million compared to \$212.7 million for 2017. For 2018, surplus lines business accounts for approximately 87.2% of the business written while specialty admitted business accounts for the remaining 12.8%.

Personal Lines

The Company's Personal Lines distribute property and casualty insurance products and operate primarily in the admitted markets. In this standard property and casualty insurance market, insurance rates and forms are highly regulated; products and coverage are largely uniform and have relatively predictable exposures. In the standard market, policies must be written by insurance companies that are admitted to transact business in the state in which the policy is issued. As a result, in the standard property and casualty insurance market, insurance companies tend to compete for customers primarily on the basis of price, coverage, value-added service, and financial strength.

The Company's Personal Lines writes specialty products such as agriculture, mobile homes, manufactured homes, homeowners, collectibles, and watercraft via American Reliable. These products are distributed through retail agents, wholesale general agents, and brokers. The insurance products are either underwritten via specific binding authority or by internal personnel.

See "Underwriting" below for additional discussion on how the Company's insurance products are underwritten.

4

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In 2018 and 2017, gross premiums written for the Personal Lines were \$249.9 million and \$249.8 million, respectively, and includes business written by American Reliable that is ceded to insurance companies owned by Assurant under a 100% quota share reinsurance agreement in the amount of (\$2.1) million and (\$1.3) million, respectively.

Reinsurance Operations

Global Indemnity Reinsurance Company, Ltd. (“Global Indemnity Reinsurance”), a direct subsidiary of the Company, is a Bermuda based treaty reinsurer of specialty property and casualty insurance and reinsurance companies. The Company’s Reinsurance Operations segment provides reinsurance solutions through brokers and primary writers including insurance and reinsurance companies, and consists solely of the operations of Global Indemnity Reinsurance.

The reinsurance markets face many of the same issues confronted in the primary insurance markets including excess capital capacity, low investment returns and increased pressure on generating acceptable return on investment.

The availability of capacity in the market has continued to put pressure on pricing levels and new opportunities. Global Indemnity Reinsurance is focused on using its capital capacity to write catastrophe-oriented placements and other niche or specialty-focused excess of loss contracts meeting the Company’s risk tolerance and return thresholds.

In 2018, gross premiums written from third parties were \$48.0 million compared to \$53.9 million for 2017.

Products and Product Development

The Company’s U.S. Insurance Operations distribute property and casualty insurance products. Its Personal Lines operate primarily in the admitted marketplace; whereas, its Commercial Lines operate predominantly in the excess and surplus lines marketplace. To manage its operations, the Company seeks to differentiate its products by product classification. See “Commercial Lines” and “Personal Lines” above for a description of these product classifications. The U.S. Insurance Operations are licensed to write on a surplus lines (non-admitted) basis and/or an admitted basis in all 50 U.S. States, the District of Columbia, Puerto Rico, and the U.S. Virgin Islands, which provides the Company with flexibility in designing products and programs, and in determining rates to meet emerging risks and discontinuities in the marketplace.

The Company’s Reinsurance Operations offer third party treaty reinsurance for specialty property and casualty insurance and reinsurance companies as well as professional liability products to companies. Prior to January 1, 2018, the Company’s Reinsurance Operations also provided reinsurance to its Insurance Operations in the form of quota share arrangements. As a result of the enactment of the Tax Cuts and Jobs Act (“TCJA”), effective January 1, 2018, premiums being ceded under the quota share arrangement could have potentially been subject to a 10% base erosion minimum tax (“BEAT”). As a result, Global Indemnity Reinsurance and the Company’s U.S. insurance companies terminated the quota share arrangement effective January 1, 2018.

Geographic Concentration

The following table sets forth the geographic distribution of gross premiums written for the periods indicated:

		For the Years Ended December 31,					
		2018		2017		2016	
(Dollars in thousands)	Amount	Percent	Amount	Percent	Amount	Percent	

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California	\$58,744	10.8	%	\$58,669	11.4	%	\$62,010	11.0	%
Texas	49,544	9.1		44,420	8.6		48,183	8.5	
Florida	42,116	7.7		36,922	7.1		36,683	6.5	