

FORM 10-K  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

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

(NO FEE REQUIRED)

For the fiscal year ended December 31, 1998

OR

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

[NO FEE REQUIRED]

For the transition period from to

Commission File Number 0-24000

ERIE INDEMNITY COMPANY  
(Exact name of registrant as specified in its charter)

Pennsylvania	25-0466020
(State or other jurisdiction	(I.R.S. Employer
of incorporation or organization)	Identification No.)

100 Erie Insurance Place, Erie, Pennsylvania	16530
(Address of principal executive offices)	(Zip code)

Registrant's telephone number, including area code (814) 870-2000

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:

Class A Common Stock, no par value  
Class B Common Stock, no par value  
(Title of class)

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 X

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. ☐

Aggregate market value of voting stock of nonaffiliates: There is no active market for the Class B voting stock and no Class B voting stock has been sold in the last year upon which a price could be established.

Indicate the number of shares outstanding of each of the Registrant's classes of common stock, as of the latest practicable date: 67,007,500 Class A shares and 3,070 Class B shares of Common Stock outstanding on February 26, 1999.

DOCUMENTS INCORPORATED BY REFERENCE:

1. Portions of the Registrant's Annual Report to Shareholders for the fiscal year ended December 31, 1998 (the "Annual Report") are incorporated by reference into Parts I, II and IV of this Form 10-K Report.
2. Portions of the Registrant's proxy statement relating to the annual meeting of shareholders to be held April 27, 1999 are incorporated by reference into Part III of this Form 10-K Report.

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## PART I

### Item 1. Business

Erie Indemnity Company (the "Company") is a Pennsylvania business corporation formed in 1925 to be the attorney-in-fact for Erie Insurance Exchange (the "Exchange"), a Pennsylvania-domiciled reciprocal insurance exchange. The Company's principal business activity consists of management of the Exchange, and management fees received from the Exchange accounted for approximately 75.3% of the Company's consolidated revenues in 1998. The Company is also engaged in the property/casualty insurance business through its wholly-owned subsidiaries, Erie Insurance Company (Erie Insurance Co.), Erie Insurance Company of New York (Erie NY) and Erie Insurance Property & Casualty Company (Erie P&C) and through its management of Flagship City Insurance Company (Flagship), a subsidiary of the Exchange. In addition, the Company holds investments in both affiliated and unaffiliated entities, including a 21.6% common stock interest in Erie Family Life Insurance Company (EFL), an affiliated life insurance company, 52.2% of whose capital stock is owned by the Exchange, accounted for under the equity method of accounting. Together with the Exchange, the Company and its subsidiaries and affiliates operate collectively under the name "Erie Insurance Group". See the chart on the following page which details the organization of the Erie Insurance Group.

As of December 31, 1998, the Company had 3,227 full-time employees. Of that total, 1,588 full-time employees provide claims-specific services exclusively for the Exchange and 89 full-time employees perform general services exclusively for EFL. Both the Exchange and EFL reimburse the Company monthly for these services. None of the Company's employees is covered by a collective bargaining agreement. The Company believes that its relationship with its employees is good.

#### Management Operations

The Exchange, which commenced operations in 1925, underwrites a broad line of personal and commercial property and casualty insurance coverages, including automobile, homeowners, commercial multi-peril and workers' compensation. Erie Insurance Co. was organized in 1972 as a stock casualty insurance company to supplement the lines of business written by the Exchange, and was acquired by the Company from the Exchange as of December 31, 1991. Since January 1, 1992, Erie Insurance Co. and the Exchange have participated in an intercompany reinsurance pool whereby the parties share proportionately in the results of the property/casualty insurance operations conducted by Erie Insurance Co. and the Exchange. Effective January 1, 1995, Erie NY began participating in this intercompany reinsurance pool whereby Erie Insurance Co. maintained its 5% participation in the pool and Erie NY assumed a .5% participation in the pool, thus reducing the Exchange's participation in the pool from 95% to 94.5% at that date. Flagship was organized in 1992 as a stock casualty insurance company to conduct the Exchange's residual automobile market business. Erie P&C was organized in 1993 to conduct Erie Insurance Group's business in West Virginia and to write workers' compensation insurance in Pennsylvania. Erie NY was purchased in 1994 to conduct Erie Insurance Group's business in New York State together with Erie Insurance Company. At December 31, 1998, the Erie Insurance Group conducted business in nine states and the District of Columbia through approximately 1,200 agencies with approximately 5,400 agents.

CORPORATE ORGANIZATION CHART AT DECEMBER 31, 1998

ERIE INDEMNITY COMPANY - Incorporated: April 17, 1925 (PA)  
Total Capital Stock: 75,000,000 @ no par value (74,996,930 shares  
Class A, 3,070, shares Class B)  
Shares Outstanding: 67,032,000 (Class A), 3,070 (Class B)

ERIE INSURANCE EXCHANGE - Began Operation: April 20, 1925  
(A reciprocal Insurance Exchange)

EI HOLDING CORP. - Incorporated: September 28, 1990 (DE)  
Total Capital Stock: 100 @ \$1.00 par value  
Shares Outstanding: 100

EI SERVICE CORP. - Incorporated December 15, 1982 (PA)  
Total Capital Stock: 100 @ \$1.00 par value  
Shares Outstanding: 100

ERIE INSURANCE COMPANY - Incorporated September 11, 1972 (PA)  
Total Capital Stock: 23,500 @ \$100 par value  
Shares Outstanding: 23,500

ERIE INSURANCE COMPANY OF NEW YORK - Incorporated September 15, 1885 (NY)  
Total Capital Stock: 23,500 @ \$100 par value  
Shares Outstanding: 23,500

ERIE INSURANCE PROPERTY & CASUALTY COMPANY - Incorporated January 19, 1993 (PA)  
Total Capital Stock: 23,500 @ \$100 par value  
Shares Outstanding: 23,500

FLAGSHIP CITY INSURANCE COMPANY - Incorporated January 22, 1992 (PA)  
Total Capital Stock: 23,500 @ \$100 par value  
Shares Outstanding: 23,500

ERIE FAMILY LIFE INSURANCE COMPANY - Incorporated May 23, 1967 (PA)  
Total Capital Stock: 15,000,000 @ \$.40 par value  
Shares Outstanding: 9,450,000

The Erie Indemnity Company is the Attorney-in-Fact for the Erie Insurance Exchange. EI Holding Corp., EI Service Corp., Erie Insurance Company and Erie Insurance Property & Casualty Company are owned 100% by the Erie Indemnity Company. The Erie Insurance Company of New York is 100% owned by the Erie Insurance Company. The Flagship City Insurance Company is 100% owned by the Erie Insurance Exchange. The Erie Indemnity Company owns 21.6% of the outstanding stock of the Erie Family Life Insurance Company while the Erie Insurance Exchange owns 52.2% of the outstanding stock of the Erie Family Life Insurance Company.

## Property/Casualty Insurance Operations

One of the distinguishing features of the property/casualty insurance industry is that its products generally are priced before its costs are known, as premium rates usually are determined before losses are reported. Changes in statutory and case law can dramatically affect the liabilities associated with known risks after the insurance contract is in place. The number of competitors and the similarity of products offered, as well as regulatory constraints, limit the ability of property/casualty insurance companies to increase prices in response to declines in profitability.

The profitability of the property/casualty insurance business is generally subject to many factors, including rate competition, the severity and frequency of claims, natural disasters, state regulation of premium rates, defaults of reinsurers, interest rates, general business conditions, regulatory measures and court decisions that define and may expand the extent of coverage and the amount of compensation due for injuries and losses. Historically, the overall financial performance of the property/casualty insurance industry has tended to fluctuate in cyclical market patterns. A typical market cycle has been composed of a period of heightened premium rate competition and depressed underwriting performance, often referred to as a "soft market", followed by a period of constricted industry capital and underwriting capacity, increasing premium rates and underwriting performance, often referred to as a "hard market". During a soft market, competitive conditions can result in premium rates which are inadequate and therefore unprofitable and underwriting terms and conditions which are not as favorable to a property/casualty insurer as during hard markets.

The Exchange, Flagship, Erie Insurance Co., Erie P&C and Erie NY all have current ratings of A++ (Superior) from A.M. Best with respect to their financial strength and claims-paying ability. In evaluating an insurer's financial and operating performance, A.M. Best reviews the insurer's profitability, leverage and liquidity as well as the insurer's book of business, the adequacy and soundness of its reinsurance, the quality and estimated market value of its assets, the adequacy of its loss reserves and the experience and competency of its management. Management believes that this A.M. Best rating of A++ (Superior) is an important factor in marketing Erie Insurance Group's property/casualty insurance to its agents and customers and that insurance carriers with the higher ratings have some competitive advantage. A.M. Best's classifications are A++ and A+ (Superior), A and A- (Excellent), B++ and B+ (Very Good), B and B- (Good), C++ and C+ (Fair), C and C- (Marginal), D (Below Minimum Standards) and E and F (Liquidation). According to A.M. Best, a "Superior" rating is assigned to those companies which, in A.M. Best's opinion, have achieved superior overall performance when compared to the standards established by A.M. Best and have a very strong ability to meet their obligations to policyholders over a long period. A.M. Best's ratings are based upon factors relevant to policyholders and are not directed towards the protection of investors.

The property/casualty insurers managed by the Company are licensed to do business in 15 states and in the District of Columbia, and at December 31, 1998 operated in nine states and the District of Columbia. Erie Insurance Group's business consists primarily of private passenger automobile, homeowners, commercial multi-peril, workers compensation and commercial automobile insurance business written in Pennsylvania, Ohio, Maryland and Virginia.

The Company, in managing the property/casualty insurers of the Erie Insurance Group, has followed several strategies which the management of the Company believes have resulted in underwriting results which are better than those of the property and casualty industry in general. The principal strategies employed by the Company in managing these insurers are:

- o An underwriting philosophy and product mix designed to produce an Erie Insurance Group-wide underwriting profit, i.e., a combined ratio of less than 100%, through careful risk selection and adequate pricing. The careful selection of risks allows for lower claims frequency and loss severity, thereby enabling insurance to be offered at favorable prices.
- o A focus on providing consistent, high quality service to policyholders and agents in both underwriting and claims handling.
- o A business concept designed to provide the advantages of localized marketing, underwriting and claims servicing with the economies of scale from centralized accounting, administrative, investment, data processing and other support services.
- o A careful agent selection process, in which Erie Insurance Group seeks to be the lead underwriter with its agents in order to enhance the agency relationship and the likelihood of receiving the most desirable underwriting opportunities from its agents.

#### Life Insurance Operations

EFL, which was organized in 1967 as a Pennsylvania-domiciled life insurance company, has an A.M. Best rating of A+ (Superior). EFL is primarily engaged in the business of underwriting and selling non-participating individual and group life insurance policies, including universal life and individual and group annuity products in eight states and the District of Columbia. At December