

EXAMINATION REPORT
OF
INDEPENDENT SPECIALTY INSURANCE COMPANY
AS OF
DECEMBER 31, 2020

TRINIDAD NAVARRO
COMMISSIONER



STATE OF DELAWARE
DEPARTMENT OF INSURANCE

REPORT ON EXAMINATION
OF
INDEPENDENT SPECIALTY INSURANCE COMPANY
AS OF
DECEMBER 31, 2020

The above-captioned report was completed by examiners of the Delaware Department of Insurance.

Consideration has been duly given to the comments, conclusions and recommendations of the examiners regarding the status of the company as reflected in the report.

This report is hereby accepted, adopted and filed as an official record of this Department.

A handwritten signature in blue ink, which appears to read "Trinidad Navarro", is written over a horizontal line.

Trinidad Navarro
Insurance Commissioner

Dated this 9th day of May, 2022

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March 15, 2022

Honorable Trinidad Navarro
Commissioner of Insurance
Delaware Department of Insurance
1351 West North Street, Suite 101
Dover, Delaware 19904

Dear Commissioner:

In compliance with instructions and pursuant to statutory provisions contained in Examination Certification No. 21.005, dated January 6, 2021, an examination has been made of the affairs, financial condition and management of

INDEPENDENT SPECIALTY INSURANCE COMPANY

hereinafter referred to as ISIC or the Company. The Company was incorporated under the laws of the State of Delaware as a stock company with its registered office located at 160 Greentree Drive, Suite 101, Dover, Delaware 19904. The administrative offices of the Company are located at 1900 L. Don Dodson, Bedford, Texas 76021. The examination was conducted remotely given office closures and travel restrictions in connection with the COVID-19 pandemic. The report of examination thereon is respectfully submitted.

SCOPE OF EXAMINATION

We have performed our multi-state examination of ISIC. The last examination was conducted as of December 31, 2017, by the Delaware Department of Insurance (Department). This examination covered the period of January 1, 2018 through December 31, 2020. Our examination was performed as part of the coordinated examination of Markel Corporation (Markel) group of

regulated entities, wherein the State of Illinois Insurance Department is the lead state and Delaware is a participating state. To the fullest extent, the efforts, resources, project material and findings were coordinated and made available to all examination participants.

We conducted our examination in accordance with the *National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook* (Handbook) and generally accepted statutory insurance examination standards consistent with the Insurance Code and Regulations of the State of Delaware. 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 risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements.

This examination report includes significant findings of fact, pursuant to the *General Corporation Laws* of the State of Delaware, as required by 18 *Del. C.* § 321, along with general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature, are not included within the examination report but separately communicated to other regulators and/or the Company.

During the course of this examination, consideration was given to work performed by the Company's external accounting firm, KPMG, LLP (KPMG). Certain work papers for KPMG's 2020 audit of the Company and certain of its affiliates have been incorporated into the work papers of the examiners and have been utilized in determining the scope, areas of emphasis in conducting the examination and in the area of risk mitigation and substantive testing.

SUMMARY OF SIGNIFICANT FINDINGS

There were no significant findings or material changes in the Company's Financial Statements as a result of this examination.

COMPANY HISTORY

The Company was incorporated on April 27, 1959, as a stock property and casualty company under the laws of the State of Ohio in the name of Investment Life Insurance Company of America. A number of amendments have thereafter been made to the said Certificate of Incorporation by means of various Articles of Amendment, which included the change of the name of the company to Fireman's Fund Insurance Company of Ohio, all of which were filed in the State of Ohio. The Company was acquired along with its parent, Fireman's Fund Insurance Company, by Allianz Global Corporate & Specialty (Allianz) on April 1, 2015. As an Ohio domiciled company, the Company was engaged in the business of providing property and casualty insurance until January 30, 2017, when it re-domesticated to the State of Delaware.

On January 1, 2017, Allianz sold all of the common stock of the Company to United Specialty Insurance Company (USIC), a wholly-owned subsidiary of the ultimate parent, State National Companies, Inc. (SNC). On November 17, 2017, the Company was indirectly acquired by Markel, as a result of its acquisition of SNC, the previous ultimate parent.

Capitalization

The Company's Certificate of Incorporation authorizes the issuance of 5,000,000 shares of common stock with a \$1.00 par value. As of December 31, 2020, the Company had 4,500,000 common shares issued and outstanding totaling \$4,500,000. All outstanding common shares of the Company are owned by USIC. As of December 31, 2020, the Company reported gross paid in and contributed surplus of \$21,000,310.

Dividends

Since the prior examination of the Company, the Company's Board of Directors (Board) did not approve or authorize any dividends during the exam period.

MANAGEMENT AND CONTROL

Directors

Pursuant to the general Corporation Laws of the State of Delaware, as implemented by the Company's Certificate of Incorporation and bylaws, the property and affairs of the Company must be managed by or under the direction of its Board. In accordance with the Company's bylaws, the shareholders shall elect a Board consisting not less than three (3) nor more than twenty-one (21) members.

Each Director is elected annually by the stockholder and holds office until the next annual election and until their successors are elected and qualified. Directors duly elected and serving as of December 31, 2020, were as follows:

Independent Specialty Insurance Company

<u>Name</u>	<u>Title</u>
Matthew Anthony Freeman	Chief Executive Officer, Independent Specialty Insurance Company
David Martin Cleff	Executive Vice President, Independent Specialty Insurance Company
Lonnie Kossuth Ledbetter	Executive Vice President, Independent Specialty Insurance Company
April Lynn Duff	Senior Vice President, Markel Corporation
Robin Lee Russo	Executive Vice President, Markel Corporation
Richard Randolph Grinnan	Senior Vice President, Markel Corporation
Bradley James Kiscaden	President, Insurance Operations, Markel Corporation

Officers

Officers were elected in accordance with the bylaws during the period under examination. The Company's bylaws state that the Board shall elect a President, one or more Vice-Presidents, a Secretary and a Treasurer. Other officers may be elected as deemed necessary by the Board.

The primary officers serving as of December 31, 2020, were as follows:

<u>Name</u>	<u>Title</u>
Mathew Anthony Freeman	President and CEO
David Martin Cleff	Secretary
April Lynn Duff	Treasurer
Richard Randolph Grinnan	Assistant Secretary
Karl Murray Strait	Assistant Secretary
Kathleen Anne Sturgeon	Assistant Secretary
Kelli Sue Plusch	Assistant Secretary
Justin Patrick Broussard	Assistant Treasurer
Rod Alan Newcomer	Assistant Treasurer
Shelley Dianne McChesney	Assistant Contoller

Corporate Records

The recorded minutes of the shareholder and Board were reviewed for the period under examination. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions and events including approval of investment transactions in accordance with 18 *Del. C.* § 1304. In addition, review of Company files indicated that written

Independent Specialty Insurance Company

correspondence was submitted to the Department with regards to the changes in officers and directors during the period under examination in compliance with 18 *Del. C.* § 4919.

Insurance Holding Company System

The Company is a member of an insurance holding company system known as Markel as defined under 18 *Del. C.* § 5001 of the Delaware Insurance Code. The Company is an indirect subsidiary of Markel. The following is an abbreviated organizational chart of the insurance holding company system as of December 31, 2020:

Markel Corporation

- Markel Ventures, Inc. (100%)
- Markel Service, Incorporated (100%)
- Nephila Holdings, Ltd. (100%)
- Essentia Insurance Company (MO 37915) (100%)
- Evanston Insurance Company (IL 35378) (100%)
- Markel Insurance Company (IL 38970) (100%)
 - Markel Global Reinsurance Company (DE 10829) (100%)
- Markel American Insurance Company (VA 28932) (100%)
- Markel Aspen, Inc.
 - FirstComp Insurance Company (NE 27626) (100%)
- Markel Surety Holding Corporation
 - SureTec Insurance Company (TX 10916) (100%)
- State National Companies, Inc.
 - T.B.A. Insurance Group Ltd.
 - State National Intermediate Holdings, Inc.
 - State National Insurance Company, Inc. (TX 12831) (100%)
 - National Specialty Insurance Company (TX 22608) (100%)
 - Pinnacle National Insurance Company (TX 21296) (100%)
 - Superior Specialty Insurance Company (DE 16551) (100%)
 - United Specialty Insurance Company (DE 12537) (100%)
 - City National Insurance Company (TX 41335) (100%)
 - Independent Specialty Insurance Co. (DE 39640) (100%)**

Agreements with Affiliates

State National Pooling Agreement

Effective November 17, 2017, Markel acquired 100% of SNC and its subsidiaries including State National Insurance Company, Inc. (SNIC), National Specialty Insurance Company (NSIC) and City National Insurance Company (CNIC)(TX domiciled

insurers) and USIC and the Company (Delaware domiciled insurers).

Effective November 2, 2018, SNIC acquired 100% of a Missouri domiciled insurer, Savers Property and Casualty Insurance Company (Savers). Savers was re-domesticated to Delaware and changed its name to Superior Specialty Insurance Company (SSIC).

ISIC and USIC were existing pool participants in the State National Pool prior to Markel's acquisition of the State National Group. SNIC is acting as the lead company. Effective January 1, 2019, SNIC's intercompany pooling arrangement added new affiliates, SSIC and Pinnacle National Insurance Company (PNIC). The 2019 and 2018 results include the accounts of SNIC, NSIC, USIC, CNIC and ISIC. The 2020 results also include SSIC and PNIC.

The pooling participation for the period ended December 31, 2020, is as follows:

Participant	NAIC #	2020 Pooling Percentage
State National Insurance Co.	12831	30%
National Specialty Insurance Co.	22608	15%
United Specialty Insurance Co.	12537	25%
City National Insurance Co.	41335	5%
Independent Specialty Insurance Co.	39640	10%
Superior Specialty Insurance Co.	16551	10%
Pinnacle National Insurance Co.	21296	5%

Intercompany Management Agreement

Effective January 1, 2017, the Company, by amendment, joined into a management agreement with TBA Insurance Group, Ltd (TBA). Originally SNIC and TBA entered into a management agreement effective December 29, 1999, for the purpose of providing TBA fair and equitable compensation for the services provided SNIC by TBA in the administration of the

insurance business of SNIC.

Tax Allocation Agreement

Effective February 23, 2018, the Company became a party to the Tax Allocation Agreement among Markel and its affiliates which is a standard form tax allocation agreement that sets forth the basis on which those Markel entities joining in Markel's annual consolidated federal income tax returns are to share in the tax liabilities, losses, deductions, tax credits and other tax attributes associated with Markel's consolidated tax returns. The general rule applicable under the agreement is that each entity's share of the consolidated federal income tax liability of the affiliated group is to be equal to the federal income tax liability it would incur had it filed a separate tax return.

Investment Management Services Agreement

Effective February 28, 2018, the Company entered into an Investment Advisory Agreement with Markel-Gayner Asset Management Corporation (Markel-Gayner). Markel-Gayner provides investment advisory services to the Company with respect to its debt and equity investment portfolio.

External Agreements

In addition to the above intercompany agreements, the Company had the following external agreements in effect at December 31, 2020:

Custodial

The Company is party to a custodial agreement with The Bank of New York Mellon for the purpose of safekeeping invested assets. A review of the agreement showed that it contained necessary and required safeguards protecting the Company's investments being held by the custodian according to the guidelines of the NAIC Handbook.

TERRITORY AND PLAN OF OPERATION

Territory

As of December 31, 2020, ISIC was licensed to transact multiple lines of insurance business in the state of Delaware. Effective January 30, 2017, via re-domestication to Delaware, ISIC converted from a domestic property and casualty insurer to a domestic surplus lines insurer. The Company was eligible to write in the remaining 49 states and in the District of Columbia on a surplus lines basis.

Plan of Operation

The Company utilizes an intercompany pooling agreement with SNIC acting as the lead company. Effective January 1, 2019, the Company's intercompany pooling arrangement added new affiliates, SSIC and PNIC.

The Company writes Collateral Protection Insurance and Guaranteed Auto Protection through TBA. These books of business are collectively referred to as Lender Services. The Company also writes distinct books of commercial and personal lines business produced primarily by unaffiliated program managers (also called Program Services). All reinsurers are either rated A- or better by A.M. Best or have secured recoverables with security trust funds, letters of credit or funds held. When deemed necessary, either due to ratings downgrades or other solvency issues, collateral is obtained for reinsured balances.

On a surplus lines basis, the Company writes the following business: general liability, commercial automobile, excess liability, personal liability, professional liability and inland marine.

The Company markets its products through program managers and/or managing general agents.

REINSURANCE

The Company reported the following premiums written for the year ended December 31, 2020:

Direct Premiums Written	\$ 113,687,625
Reinsurance Assumed-Affiliates	13,033,570
Reinsurance Assumed-Non-Affiliates	<u>141,867</u>
Gross Premiums Written	\$ 126,863,062
Reinsurance Ceded-Affiliates	943,836
Reinsurance Ceded-Non-Affiliates	<u>112,885,657</u>
Net Premiums Written	<u><u>\$ 13,033,569</u></u>

Assumed Reinsurance - Affiliates

The Company reported \$13 million for assumed premiums related to the State National Pooling Agreement.

Assumed Reinsurance – Non-Affiliates

The Company reported \$141,867 for assumed premiums from non-affiliates primarily for pools and associations.

Ceded Reinsurance – Affiliates

The Company reported ceded premiums of \$943,836 to Markel Global Reinsurance Company.

Ceded Reinsurance – Non-Affiliates

The Company primarily operates as a fronting company for its program business. For the Program Services business, the Company generally enters into a 100% quota share reinsurance agreement whereby the Company cedes to the reinsurer substantially all of the gross liability under all policies issued by and on behalf of the Company by the producer. The reinsurer is generally entitled to 100 percent of the net premiums received on policies reinsured, less the ceding fee, commission to the producer and premium taxes on the policies. The Company also enters into

general agency agreements with the producer and reinsurer. Additional coverage includes a property aggregate excess of loss contract. Also, any excess not covered by the underlying contracts, such as tail risk, are protected from excess losses through various reinsurance facilities of the Markel Group.

As of the examination date, the Company reported approximately \$112.8 million in ceded reinsurance premium to non-affiliates, of which \$108.2 million ceded to authorized reinsurers, and \$4.6 million ceded to unauthorized reinsurers. Reserves are collateralized by letters of credit or trust agreements for reserve credit taken from unauthorized reinsurers.

FINANCIAL STATEMENTS

Financial Statements as reported and filed by the Company with the Department are reflected in the following:

- Statement of Assets as of December 31, 2020
- Statement of Liabilities, Surplus and Other Funds as of December 31, 2020
- Summary of Income for the Year Ended December 31, 2020
- Reconciliation of Capital and Surplus for the Period from the Prior Examination as of December 31, 2017 to December 31, 2020

Statement of Assets
as of December 31, 2020

	Assets	Non admitted Assets	Net Admitted Assets
Bonds	\$ 43,687,229	\$ -	\$ 43,687,229
Cash and cash equivalents	25,943,615	-	25,943,615
Subtotals, cash and invested assets	<u>\$ 69,630,844</u>	<u>\$ -</u>	<u>\$ 69,630,844</u>
Investment income due and accrued	195,562	-	195,562
Uncollected premiums and agents' balances in course of collection	5,340,336		5,340,336
Net deferred tax asset	1,643,494	129,487	1,514,007
Receivable from parent, subsidiaries and affiliates	104		
Aggregate write-ins for other than invested assets	939,858	-	939,858
Total Assets	<u><u>\$ 77,750,197</u></u>	<u><u>\$ 129,487</u></u>	<u><u>\$ 77,620,711</u></u>

Statement of Liabilities, Surplus and Other Funds
as of December 31, 2020

		<u>Notes</u>
Losses	\$ 1,781,175	1
Reinsurance payable on paid losses and loss adjustment expense	1,473,236	
Loss adjustment expense	237,549	1
Commissions payable, contingent commissions and other similar charges	174,141	
Current federal and foreign income taxes	191,869	
Unearned Premiums	6,825,688	
Ceded reinsurance premiums payable	654,386	
Payable to parent, subsidiaries and affiliates	1,907,378	
Aggregate write-ins for liabilities	5,024,172	
Total liabilities	<u>\$ 18,269,594</u>	
Common capital stock	\$ 4,500,000	
Gross paid in and contributed surplus	21,000,310	
Unassigned funds (surplus)	33,850,807	
Capital and Surplus	<u>\$ 59,351,117</u>	
Total liabilities, surplus and other funds	<u>\$ 77,620,711</u>	

Summary of Income
for the Year Ended December 31, 2020

Premiums earned	\$	14,278,437
 DEDUCTIONS:		
Losses incurred	\$	6,099,526
Loss adjustment expenses incurred		861,981
Other underwriting expenses incurred		4,529,390
Total underwriting deductions	<u>\$</u>	<u>11,490,897</u>
 Net underwriting gains (losses)	 <u>\$</u>	 <u>2,787,540</u>
 INVESTMENT INCOME:		
Net investment income earned	\$	1,357,256
Net realized capital gains		19,441
Net investment gain	<u>\$</u>	<u>1,376,697</u>
 OTHER INCOME (LOSS):		
Net gain (loss) from agents' or premium balances charged off	<u>\$</u>	<u>(8,933)</u>
Total other income	<u>\$</u>	<u>(8,933)</u>
 Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	 \$	 4,155,304
 Federal and foreign income taxes incurred		 827,813
Net income	<u>\$</u>	<u>3,327,491</u>

**Reconciliation of Capital and Surplus
for the Period from the Prior Examination
as of December 31, 2017 to December 31, 2020**

	Common Capital Stock	Gross Paid-in & Contributed Surplus	Unassigned Funds	Total
December 31, 2017	4,500,000	21,000,310	22,946,737	48,447,047
2018 Operations (1)	-	-	467,925	467,925
Net Income	-	-	3,424,430	3,424,430
December 31, 2018	4,500,000	21,000,310	26,839,092	52,339,402
2019 Operations (1)	-	-	(438,878)	(438,878)
Net Income	-	-	4,055,871	4,055,871
December 31, 2019	4,500,000	21,000,310	30,456,085	55,956,395
2020 Operations (1)	-	-	67,231	67,231
Net Income	-	-	3,327,491	3,327,491
December 31, 2020	\$4,500,000	\$21,000,310	33,850,807	59,351,117

(1) Change in net unrealized capital gains (losses less capital gains tax, change in net unrealized foreign exchange capital gains (losses), change in net deferred income taxes, change in non-admitted assets and change in provision for reinsurance.

ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS RESULTING FROM THE EXAMINATION

There were no changes made to the Company's Financial Statements as a result of this examination.

COMMENTS ON FINANCIAL STATEMENT ITEMS

Note 1:

Losses	\$ 1,781,175
Loss Adjustment Expenses	237,549

In order for the examination team to gain an adequate comfort level with the Company's loss and loss adjustment expense (LAE) reserve estimates, the Department retained the actuarial services of INS Consultants Inc. (Consulting Actuary) to perform a limited risk-focused review of the Company's significant reserving activities. The Consulting Actuary assisted in review of the inherent risks, management oversight and other mitigating controls over the Company's actuarial

processes and procedures. The Consulting Actuary performed a peer review of the actuarial work performed by the State of Illinois on behalf of the coordinated examination for the Group.

Based on the procedures performed and results obtained by the Consulting Actuary, the examination team obtained sufficient evidence to support the conclusion that the Company's net loss and LAE reserves are reasonably stated as of December 31, 2020.

SUBSEQUENT EVENTS

Subsequent events were evaluated through March 15, 2022, the date that this examination report was available to be issued. Based on this evaluation, no significant transactions were deemed material for disclosure in this examination report.

Other Significant Events

Beginning in March of 2020, the world has experienced, and continues to experience a pandemic related to the COVID-19 virus. As of the date of this examination report, the Company's operations and financial condition had not been materially impacted.

SUMMARY OF RECOMMENDATIONS

There were no recommendations as a result of this examination.

The assistance and cooperation of examiners representing the states on the coordinated examination is acknowledged. In addition, the assistance of the Consulting Actuary, the Company's outside audit firm, KPMG, and the Company's management and staff was appreciated and is acknowledged.

Respectfully submitted,




Craig Jackson, CFE
Examiner In-Charge
State of Delaware



James Call, CFE
Supervising Examiner
State of Delaware

Independent Specialty Insurance Company

I, Craig Jackson, hereby verify and attest, under penalty of perjury, that the above is a true and correct copy of the examination report and findings submitted to the Delaware Department of Insurance pursuant to Examination Authority No. 21.005.



Craig Jackson, CFE