

ORGANIZATIONAL EXAMINATION
OF
FEDERATED SPECIALTY INSURANCE COMPANY
AS OF
MAY 31, 2022

TRINIDAD NAVARRO
COMMISSIONER



STATE OF DELAWARE
DEPARTMENT OF INSURANCE

REPORT ON ORGANIZATIONAL EXAMINATION
OF
FEDERATED SPECIALTY INSURANCE COMPANY
AS OF
MAY 31, 2022

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 positioned above a horizontal line.

Trinidad Navarro
Insurance Commissioner

Dated this 16th day of September, 2022

TABLE OF CONTENTS

SCOPE OF EXAMINATION	1
HISTORY	2
MANAGEMENT AND CONTROL	2
HOLDING COMPANY SYSTEM	4
FIDELITY BOND	4
AGREEMENTS.....	5
PLAN OF OPERATION	5
REINSURANCE	6
CAPITAL AND SURPLUS REQUIREMENTS	6
FINANCIAL DATA.....	7
NOTES TO FINANCIAL STATEMENTS.....	7
RECOMMENDATIONS.....	8
CONCLUSION.....	8

August 15, 2022

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

Dear Commissioner:

In accordance with instructions and pursuant to statutory provisions contained in Certificate of Authority No. 22.921, dated June 15, 2022, an Organizational Examination has been conducted of

Federated Specialty Insurance Company

hereinafter referred to as FSIC or the Company. The Company was incorporated under the laws of the State of Delaware as a stock property and casualty surplus lines insurance company.

The Company's registered agent is Registered Agent Solutions, Inc. with its registered office located at 9 East Loockerman Street, Suite 311, Dover, Delaware 19901. The Company's administrative office address is located at 121 East Park Square, Owatonna, Minnesota 55060.

The report of such examination is respectfully submitted herewith.

SCOPE OF EXAMINATION

This organizational examination was conducted in conjunction with the Company's application for a property and casualty surplus lines insurer Certificate of Authority in the State of Delaware. The Company's corporate records, records applicable to and attendant with its application, as well as financial data as of May 31, 2022, have been reviewed.

HISTORY

The Company was incorporated on October 18, 2021, under the laws of the State of Delaware and is authorized to issue ten thousand (10,000) common shares with \$1,000 par value per share. The Company issued the following common stock certificates to Federated Mutual Insurance Company (FMIC), a Minnesota mutual insurance company:

<u>Certificate</u>	<u>Shares</u>	<u>Date</u>	<u>Capital</u>	<u>Gross Paid In and Contributed Surplus</u>	<u>Total</u>
#1	1	11/01/2021	\$1,000	\$0	\$1,000
#2	1,499	01/04/2022	\$1,499,000	\$13,500,000	\$14,999,000
#3	100	04/14/2022	\$100,000	\$4,900,000	\$5,000,000
#4	<u>800</u>	05/02/2022	<u>\$800,000</u>	<u>\$9,200,000</u>	<u>\$10,000,000</u>
	<u>2,400</u>		<u>\$2,400,000</u>	<u>\$27,600,000</u>	<u>\$30,000,000</u>

MANAGEMENT AND CONTROL

Board of Directors

In accordance with its bylaws, adopted November 1, 2021, the business and affairs of the Company shall be managed by a Board of Directors (Board). The number of directors shall be no less than nine and fixed or changed from time to time by resolution of the Board. The directors are elected at the annual meeting of the Company's stockholder and shall hold office until the next annual shareholder meeting. The director serving as of the examination date were as follows:

David M. Adcox	James R. Giesler	Darlene M. Miller
Camelia L. Clarke	Michael N. Keller	Thomas E. Nobbe
Jeffrey E. Fetters	Michael G. Kerr	Sarah B. Person
David P. Frame	James H. Lipscomb III	

Committees of the Board of Directors

The Board has constituted the following Committees with members as of the examination date:

Executive Committee

David M. Adcox	David P. Frame	Darlene M. Miller
Camelia L. Clarke	James R. Giesler	Thomas E. Nobbe
Jeffrey E. Fetters, Chair	James H. Lipscomb III	Sarah B. Person

Investment Committee

Camelia L. Clarke	Darlene M. Miller, Chair	Thomas E. Nobbe
David P. Frame		

Audit Committee

David M. Adcox, Chair	James H. Lipscomb III	Sarah B. Person
James R. Giesler	Thomas E. Nobbe	

Officers

In accordance with its bylaws, the officers of the Company shall be a Chair of the Board, Chief Executive Officer, Chief Financial Officer, President, Secretary, Treasurer, Vice Presidents, Assistant Secretaries, Assistant Treasurers and other officers as deemed necessary, who shall hold office until the next annual shareholder meeting. The officers serving as of the examination date were as follows:

<u>Officer</u>	<u>Office</u>
Jeffrey E. Fetters	Chair of the Board
Michael G. Kerr	Chief Executive Officer
Michael N. Keller	Chief Financial Officer
Michael G. Kerr	President
Michael N. Keller	Secretary
Michael N. Keller	Treasurer
Nicholas R. Lower	Chief Operating Officer
Mark D. Heyne	Executive Vice President
Michael N. Keller	Executive Vice President
Nicholas R. Lower	Executive Vice President
Sean G. Pick	Executive Vice President
James A. Thon	Executive Vice President
Jonathan R. Hanson	Assistant Secretary
Jonathan R. Hanson	Assistant Treasurer

The Company completed the National Association of Insurance Commissioners (NAIC) Form 11 - Biographical Affidavit for the director and officer noted above.

The Company completed the NAIC Form 12 - Uniform Consent to Service of Process (Power of Attorney), dated and effective February 28, 2022.

A conflict of interest statement was completed by each of the directors and executive officers noted above. There was no disclosed conflict of interest at the present time.

HOLDING COMPANY SYSTEM

At formation, the Company became a member of an Insurance Holding Company System. 18 *Del. C.* §5001(3) states that “control shall be presumed to exist if any person, directly or indirectly, owns, controls, holds with the power to vote, or holds proxies representing 10% or more of the voting securities of any other person.”

The Company is a wholly-owned subsidiary of FMIC, a Minnesota-domiciled property and casualty mutual insurance company. FMIC is the ultimate controlling entity of the Company. Since FMIC is a mutual company, there are no holders of greater than 10% of FMIC.

FIDELITY BOND

The Company is covered by a financial institution bond through FMIC with an aggregate liability limit of \$10,000,000 and a single loss deductible of \$500,000. Based on the Company’s pro forma information submitted by management, the minimum suggested coverage per the NAIC *Financial Condition Examiners Handbook – Exhibit R* is \$250,000 at year-end 2022, \$250,000 at year-end 2023 and \$300,000 at year-end 20245.

AGREEMENTS

Affiliated

As of the examination date, the Company is a party to an Administrative Support Agreement with FMIC effective November 1, 2021. Upon licensure, this agreement will require a Form D filing with and approval by the Delaware Department of Insurance (Department).

As of the examination date, the Company is not a party to an intercompany tax allocation agreement. However, upon licensure, the Company intends to become a party to FMIC's Tax Allocation Agreement, originally effective January 1, 2000, through a seventh amendment. Upon licensure, this seventh amendment will require a Form D filing with and approval by the Department.

Unaffiliated

As of the examination date, the Company is a party to a custodial agreement with The Northern Trust Company (Northern Trust) effective December 13, 2021.

PLAN OF OPERATION

The Company plans to write excess and surplus lines primarily on commercial property and casualty business. Potential lines of business to be written include the following: boiler and machinery, business owners, commercial auto liability, commercial auto physical damage, commercial multiple peril, commercial umbrella and excess liability, crime (includes fidelity, burglary and theft), cyber security, earthquake, employment related practices liability, environmental liability, errors and omissions and professional liability, fire and allied lines, general liability, inland marine, liquor liability, other liability, products liability, workers compensation and limited personal lines (includes personal auto, personal property and homeowners).

Target types of business will include auto dealers, auto parts stores, auto services and repair, building material and hardware, cabinet shops, contractors, farm and power equipment dealers, funeral services, jewelers, machine and tooling, petroleum marketers, trucking and convenience stores, print shops, retail and wholesale, tire dealers and other industries. A vast majority of the business in some way will be connected to state and national trade association recommendations.

The Company will distribute its specialized products and services through licensed surplus lines brokers and will not solicit sales directly. The Company's appetite will be towards target types of business that need additional coverage options due to the difficulty of finding one or more coverages from the admitted markets. That unavailability may be as a result of unique or non-standard underwriting characteristics, risks requiring higher levels of coverage capacity, risks with elevated loss frequency or loss severity and/or risks engaging in hazardous operations.

REINSURANCE

As of the examination date, the Company is not a party to any reinsurance agreements, either affiliated or unaffiliated. The Company is currently negotiating reinsurance coverage to be effective upon licensure.

CAPITAL AND SURPLUS REQUIREMENTS

18 *Del. C.* §511(a) requires \$500,000 as the minimum common capital stock for a stock insurance company authorized to write multiple lines property and casualty insurance. 18 *Del. C.* §1932(a) requires \$15,000,000 as the minimum policyholder surplus for a domestic surplus lines insurer. The Delaware Domestic/Foreign Insurers Bulletin No. 45 effective October 14, 2011, requires that newly-formed Delaware domestic surplus lines insurers have \$15,000,000 as the

minimum capital and surplus. Consequently, the minimum required amounts for this examination are as follows:

Common Capital Stock	\$ 500,000
Gross Paid-in and Contributed Surplus	<u>14,500,000</u>
Capital and Surplus as Regards Policyholders	<u>\$15,000,000</u>

FINANCIAL DATA

The financial position of the Company as of May 31, 2022, as determined by this organizational examination, was as follows:

<u>Assets</u>		<u>Note</u>
Bonds	\$21,021,768	1
Cash, Cash Equivalents and Short-term Investments	9,386,998	1
Investment Income Due and Accrued	<u>110,409</u>	1
Total Admitted Assets	<u>\$30,519,175</u>	

Liabilities, Capital and Surplus

Current Federal Income Taxes Payable	\$ 23,010	
Payable for Securities	<u>400,485</u>	1
Total Liabilities	<u>\$ 423,495</u>	
Common Capital Stock	\$ 2,400,000	
Gross Paid In and Contributed Surplus	27,600,000	
Unassigned Funds	<u>95,680</u>	
Capital and Surplus as Regards Policyholders	<u>\$ 30,095,680</u>	
Total Liabilities, Capital and Surplus	<u>\$ 30,519,175</u>	

NOTES TO FINANCIAL STATEMENTS

Note 1	Bonds	\$21,021,768
	Cash, Cash Equivalents and Short-term Investments	9,386,998
	Investment Income Due and Accrued	110,409
	Payable for Securities	400,485

The net reported balance of the above four items aggregating \$30,118,690 constituted the custodial holdings at Northern Trust, which was confirmed directly with the financial institution.

RECOMMENDATIONS

There were no recommendations as a result of this examination.

CONCLUSION

Based on the organizational examination conducted as of May 31, 2022, the financial condition of the Company is as follows:

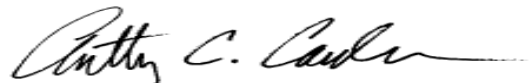
Assets	\$30,519,175
Liabilities	\$ 423,495
Capital and Surplus as Regards Policyholders	\$30,095,680

Upon completion of the organizational examination, the Company has complied with the capitalization requirements for the State of Delaware. The examination was conducted by the undersigned.

Respectfully submitted,



Andrew E. Chiodini, CFE
Examiner In-Charge
Delaware Department of Insurance



Anthony Cardone, CFE, CPA
Supervising Examiner
Delaware Department of Insurance

Federated Specialty Insurance Company

I, Andrew E. Chiodini, 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 22.921.

A handwritten signature in black ink, appearing to read "Andrew E. Chiodini". The signature is written in a cursive style with a prominent initial "A" and "E".

Andrew E. Chiodini, CFE