

ORGANIZATIONAL EXAMINATION
OF
OBSIDIAN SPECIALTY INSURANCE COMPANY
AS OF
AUGUST 31, 2020

Office of the
Commissioner



Delaware
Department of Insurance

REPORT ON ORGANIZATIONAL EXAMINATION
OF
OBSIDIAN SPECIALTY INSURANCE COMPANY
AS OF
AUGUST 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 that reads "Trinidad Navarro".

Trinidad Navarro
Insurance Commissioner

Dated this 8th day of October, 2020

TABLE OF CONTENTS

SCOPE OF EXAMINATION.....	2
HISTORY	2
MANAGEMENT AND CONTROL	2
HOLDING COMPANY SYSTEM	4
FIDELITY BOND AND OTHER INSURANCE COVERAGE.....	5
AGREEMENTS.....	5
PLAN OF OPERATION	6
REINSURANCE.....	6
CAPITAL AND SURPLUS REQUIREMENTS.....	7
FINANCIAL DATA.....	8
NOTES TO FINANCIAL STATEMENTS.....	8
RECOMMENDATIONS	9
CONCLUSION.....	9

August 31, 2020

Honorable Trinidad Navarro
Insurance Commissioner
State of Delaware
1351 West North Street, Suite 201
Dover, DE 19904

Dear Commissioner:

In accordance with instructions and pursuant to statutory provisions contained in Certificate of Authority No. 20.908, dated August 17, 2020, an Organizational Examination has been conducted of the

Obsidian Specialty Insurance Company

hereinafter referred to as OSIC or the Company. OSIC 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 Corporation Service Company with its registered office located at 251 Little Falls Drive, Wilmington, DE 19808. The Company's administrative office address is located at 1330 Avenue of the Americas, Suite 23A, New York, NY 10019.

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 surplus line 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 August 31, 2020, have been reviewed.

HISTORY

The Company was incorporated on June 16, 2020, under the laws of the State of Delaware and is authorized to issue one hundred thousand (100,000) common shares with \$50 par value per share. The following common stock certificates were issued by the Company to Obsidian Insurance Holdings, Inc. (Obsidian Holdings), a Delaware holding corporation:

<u>Certificate</u>	<u>Shares</u>	<u>Date</u>	<u>Capital</u>	<u>Surplus</u>	<u>Total</u>
#1	100,000	08/24/2020	\$5,000,000	\$24,454,197	\$29,454,197

MANAGEMENT AND CONTROL

Board of Directors

In accordance with its bylaws, adopted June 23, 2020, 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 five nor more than fifteen and may be fixed from time to time by the stockholder or Board. The directors are to be elected at the annual meeting of the Company's stockholder and shall hold office until his successor shall be elected and qualified.

The directors serving as of the examination date were as follows:

James R. Clark, Chairman of the Board
William M. Jewett
Craig M. Rappaport
Emily Canelo
Scott A. Niehaus

Committees of the Board of Directors

No committees of the Board have been constituted as of the examination date.

Officers

In accordance with its bylaws, the officers of the Company shall be a President, a Secretary, a Treasurer, and other officers as deemed necessary, who shall be elected by the Board and who shall hold office until their successors are elected and qualified. Any number of offices may be held by the same person unless the certificate of incorporation or the bylaws otherwise provide. The officers serving as of the examination date were as follows:

<u>Officer</u>	<u>Office</u>
William M. Jewett	President & CEO
Craig M. Rappaport	Treasurer, CFO & COO
Emily Canelo	Secretary & Chief Legal Officer

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

The Company completed the NAIC Form 12 - Uniform Consent to Service of Process (Power of Attorney), dated and effective August 12, 2020.

Conflict of interest statements were completed by the officers listed above and will be executed by the remaining directors upon licensure. There were no disclosed conflicts 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 organizational structure as of the examination date with control percentages of the upstream entities’ control of the downstream entity [and domicile in brackets] is presented below:

	<u>Ownership Control Percent</u>	<u>Voting Control Percent</u>
The Genstar IX Funds {1}	100%	100%
Genstar OBS Holdings, L.P. {2}	97%	97%
OBS Holdings, L.P. {3}	100%	100%
OBS Intermediate I, Inc. [DE]	100%	100%
OBS Intermediate II, Inc. [DE]	100%	100%
Obsidian Insurance Holdings, Inc. [DE]	100%	100%
Obsidian Insurance Company [OH]		
Obsidian Specialty Insurance Company [DE]		
Obsidian Management	100%	100%
Dunlap Street LLC [NJ] {4}	3%	3%
OBS Holdings, L.P. {3}	100%	100%
OBS Intermediate I, Inc. [DE]	100%	100%
OBS Intermediate II, Inc. [DE]	100%	100%
Obsidian Insurance Holdings, Inc. [DE]	100%	100%
Obsidian Insurance Company [OH]		
Obsidian Specialty Insurance Company [DE]		

- {1} Consists of Genstar Capital Partners IX, L.P., Genstar Capital Partners IX (EU), L.P., Stargen IX, L.P., and Genstar IX Employee Co-Invest, L.P., collectively, considered the ultimate controlling entities of the Company. Genstar Capital IX, L.P. manages these four funds. Each fund’s percentage ownership of Genstar OBS Holdings, L.P. and the most recent financial statements of the largest of two of these four funds have been provided to the Delaware Department of Insurance (Genstar Capital Partners IX, L.P. at 69.77% and Genstar Capital Partners IS (EU), L.P. at 24.80%). Management reports that there is no individual that owns greater than 5% of any of the four funds.
- {2} Owns 97% of the Class A units of OBS Holdings, L.P.
- {3} OBS Holdings, LLC is the general partner of this entity.

- {4} Owns 3% of the Class A units of OBS Holdings, L.P. William Jewett, the managing member of this entity, is the President and CEO of the Company. Officers Craig Rappaport and Emily Canelo are also members of this entity.

FIDELITY BOND AND OTHER INSURANCE COVERAGE

The Company is covered by a financial institution bond through parent Obsidian Holdings with an aggregate liability limit of \$500,000. Based on the pro forma information submitted by management, the minimum suggested coverage per the NAIC *Financial Condition Examiners Handbook – Exhibit R* is \$350,000 at year-end 2020 and \$450,000 at year-end 2021.

AGREEMENTS

As of the examination date, the Company is not a party to any intercompany tax allocation agreement, claim services agreement, management agreement or administrative services agreement.

The Company has proposed an Administrative Services and Cost Sharing Agreement with affiliates Obsidian Insurance Company (OIC) and Obsidian Holdings. Upon licensure, the Company intends to file and obtain approval of this affiliated agreement through a Form D filing with the Delaware Department of Insurance (Department).

The Company has proposed a Tax Sharing and Allocation Agreement with affiliates OBS Intermediate I, Inc., OBS Intermediate II, Inc., OIC and Obsidian Holdings. Upon licensure, the Company intends to file and obtain approval of this affiliated agreement through a Form D filing with the Department.

The Company entered into a Custodial Agreement with non-affiliate U.S. Bank National Association effective July 23, 2020.

The Company's parent, Obsidian Holdings, entered into an investment management agreement with non-affiliate New England Asset Management, Inc. effective March 10, 2020.

PLAN OF OPERATION

The Company intends to seek program business opportunities in the following lines of business: commercial multi-peril, general liability, professional liability, commercial auto physical damage, homeowners multi-peril, ocean marine, inland marine, and boiler and machinery. The Company intends to write these product lines on a non-admitted basis in all 50 U.S. States and the District of Columbia.

The Company will seek surplus lines program business through management's extensive relationships with both national and regional reinsurance brokerage companies, such as AON, Guy Carpenter, Willis, BMS, and Lockton, as well as the management team's knowledge of the general agency market. Each management team member has a diverse range of relationships with reinsurers, wholesale brokerages, general agents, program administrators, and insurance brokers that will deliver a steady stream of transactions to the Company.

The Company does not plan to advertise directly to consumers. Instead, the Company plans to use a modest amount of general promotional advertising in specialty publications focusing on the insurance and reinsurance industry, including program administrators and general agents.

REINSURANCE

Upon licensure by the Department, the Company anticipates entering into a proposed Reinsurance Pooling Agreement with affiliate OIC and other affiliates to be named at a later date. Upon licensure, the Company intends to file and obtain approval of this reinsurance agreement through a Form D filing with the Department.

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>

RECOMMENDATIONS

There are no recommendations with regard to the examination.

CONCLUSION

Based on the organizational examination conducted as of August 31, 2020, the financial condition of the Company is as follows:

Assets	\$29,460,687
Liabilities	<u>0</u>
Capital and Surplus as Regards Policyholders	<u>\$29,460,687</u>

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,

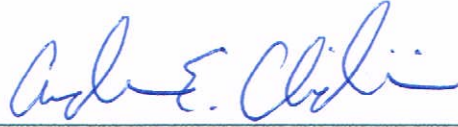


Andrew E. Chiodini, CFE
Examiner In-Charge
Delaware Department of Insurance



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

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 20.098.



Andrew E. Chiodini, CFE