

**REPORT ON EXAMINATION
OF
WILMINGTON INSURANCE COMPANY
AS OF
DECEMBER 31, 2019**

Office of the
Commissioner



Delaware
Department of Insurance

REPORT ON EXAMINATION
OF
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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 1st day of April, 2021

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March 25, 2021

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

Dear Commissioner:

In compliance with instructions and pursuant to statutory provisions contained in Exam Authority No. 20.037, dated March 31, 2020, an examination has been made of the affairs, financial condition and management of

WILMINGTON INSURANCE COMPANY

hereinafter referred to as the Company or WIC. The Company was incorporated under the laws of the State of Delaware as a stock company with its registered office located at 1403 Silverside Road, Wilmington, Delaware 19810. Due to the COVID-19 Pandemic, the examination was conducted offsite. The administrative office of the Company is located at 1403 Silverside Road, Wilmington, Delaware 19810. The report of examination thereon is respectfully submitted.

SCOPE OF EXAMINATION

The Delaware Department of Insurance (Department) performed a risk-focused financial examination of the Company. The previous regulatory examination of the Company covered the four-year period from January 1, 2011 through December 31, 2014. This examination will cover the five-year period from January 1, 2015 through December 31,

2019, and encompasses a general review of transactions during the period, the Company's business policies and practices as well as management and relevant corporate matters, with a determination of the financial condition of the Company as of December 31, 2019. Transactions subsequent to the examination date were reviewed where deemed necessary. The examination of the Company was performed as a single state examination.

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 NAIC 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 Cover & Rossiter (C&R). Certain auditor work papers of the 2019 C&R audit of the Company 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 financial statements as a result of this examination.

COMPANY HISTORY

The Company was incorporated in August of 1995 and received its Certificate of Authority from the Delaware Insurance Commissioner in January of 1997. WIC is a wholly owned subsidiary of Wilmington Holdings Corporation (WHC) whose parent company is Gearson Limited Partners Holdings, LP (Gearson). WIC is a middle market property and casualty privately held insurance company, domiciled in Delaware. WIC currently writes property business and manages closed blocks of Long-Term Care (LTC) and Long-Term Disability (LTD) business. All property underwriting and property claim processing are performed in the Wilmington, DE office. During 2018, the Company agreed to a plan of merger. The Company merged with and into National Insurance Company of Wisconsin, Inc. (NICW), a Wisconsin domiciled Company. As a result of the merger, the surviving company is NICW. The original Company WIC, ceased to exist. The surviving company was then renamed Wilmington Insurance Company and was re-domesticated from Wisconsin to Delaware. As a result of the merger, all issued and

outstanding stock of WIC was converted into fully paid shares of common stock, with a par value of \$100 per share of the surviving company, WIC.

On December 31, 2019, the Company purchased 100% of the outstanding capital stock of Freedom Advantage Insurance Company (FAIC), a Pennsylvania domiciliary with home offices in Pittsburgh, PA. FAIC is a monoline workers' compensation company writing solely in Pennsylvania.

Capitalization

Prior to the merger, WIC had 14,800 shares of \$100 par value common stock, issued and outstanding. Subsequent to the merger and after a stock conversion, the surviving Company NICW (renamed WIC) had 14,800 shares of \$100 par value common stock issued and outstanding. The Company has no preferred stock.

The Company paid dividends for the years indicated, as reflected in the Board of Director (Board) meeting minutes, dividends were paid to the sole stockholder and approved by the Department as follows:

<u>Declared Date</u>	<u>Paid Date</u>	<u>Paid Amount</u>	<u>Type</u>
March 10, 2015	March 27, 2015	\$150,072	Ordinary
August 11, 2016	August 31, 2016	\$85,100	Ordinary
February 25, 2017	March 2, 2017	\$29,896	Ordinary
April 10, 2018	May 2, 2018	\$199,948	Ordinary
July 19, 2019	June 4, 2019	\$3,130,052	Extrordinary
February 8, 2019	June 4, 2019	\$5,500,000	Extrordinary

Note: Dividends paid in 2019 were part of the merger that was finalized on June 4, 2019.

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, all corporate powers and its business property and affairs are managed by or under the direction of its Board.

Directors shall be elected annually by the sole shareholder and the number of directors who will constitute the entire Board, shall consist of no more than five members. The directors shall hold office until the next Annual Shareholders Meeting or until their successors are elected or appointed. The Board, duly elected in accordance with its bylaws and serving at December 31, 2019, was as follows:

<u>Name</u>	<u>Occupation</u>
Daniel Koch*	President and CEO Wilmington Insurance Company
David Gearhart	Investment Manager Gearson Partners Holdings, LP
Clifford Rafael Thompson	President Thompson Traders, Inc.
Marshall Poston Schutt	Financial Advisor Schutt Capital Management
Brad Hogan	CEO Badger International

*Retired in 2020, Scott Foltz, CPCU was named President

Officers

In accordance with its bylaws, officers serving the Company shall be a Chairman of the Board, a President, one or more Vice Presidents (as determined by the Board), a Controller, a Corporate Secretary, and other officers as may from time to time be appointed by the Board. The Vice Presidents may include Executive Vice Presidents and Senior Vice

Presidents. The most senior officers, duly appointed in accordance with the bylaws and serving at December 31, 2019, are as follows:

<u>Name</u>	<u>Title</u>
Daniel Koch*	President, Chief Executive Officer & Assistant Corporate Secretary
Scott Foltz, CPCU	Senior Vice President
Kate Wright-Menase, CPA	CFO and Treasurer
David Gearhart	Chairman

Committees of the Board

The Company has not appointed any members to the three authorized committees, Audit, Investment, and Compensation.

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, the review of Company files indicated that written 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 Wilmington Holdings Corporation as defined under 18 *Del. C.* §5001 of the Delaware Insurance Code. The Company's ultimate controlling entity is WHC, which is owned by Gearson. Gearson is an investment partnership controlled by David Gearson, Clifford Thompson and Marshall Schutt.

An organizational chart as of December 31, 2019, with domicile in brackets, along with the control percentages of the upstream affiliates' control of the downstream affiliate is presented below:

	<u>Ownership</u>
Gearson Limited Partners Holdings, LP.	(DE)
Wilmington Holdings Corporation	(DE) 100%
Wilmington Insurance Agency	(DE) 100%
Wilmington Insurance Company	(DE) 100%
Freedom Advantage Insurance Company	(PA) 100%

Agreements with Affiliates

Surplus Maintenance Agreement

As part of the final order approving the merger, a Surplus Maintenance Agreement was put in force whereby Gearson shall financially support WIC to the greater of a surplus of \$250,000 or 200% of the RBC authorized control level.

Tax Allocation Agreement

Most recently updated, effective January 1, 2020, the company has a written agreement with WHC whereby current consolidated income taxes are allocated on a separate return basis and are settled annually.

Asset Management Agreements

Asset Management Agreement with Gearson Investments Partners

Asset Management Agreement with Schutt Capital

WIC entered into an Asset Management Agreement with both Schutt Capital Management and Gearson Investment Partners on December 19, 2017 to provide investment management services and have the authority to make investment decisions on behalf of WIC regarding stocks, bonds, and other securities. The total payments during 2019 for investment management services was \$83,400.

TERRITORY AND PLAN OF OPERATION

Territory

At December 31, 2019, the Company has a certificate of authority to write business in nineteen states. For 2019, the Company wrote 92% of its direct business in Delaware. The remaining 8% of direct business was written in five other states.

Plan of Operation

The Company writes property and casualty products on a direct basis and runs off closed blocks of LTD and LTC business.

WIC distributes its property products through independent agencies in Delaware, with over 30 appointed producers. The Company does not use third party administrators or managing general agents. There are no exclusive agency agreements. NICW historically provided group LTD insurance to school districts, municipalities, and other political subdivisions. NICW wrote direct and assumed business in eight states: primarily Wisconsin and Minnesota. The LTD business is in run-off. In 2015, NICW contracted with Madison National Life Insurance Company to administer the claim run off of the LTD business. Additionally, NICW only wrote renewal long-term care coverage. This business is managed by Life Plans, and is in run-off.

Net written premium in 2019 by line of business (top 4) was as follows:

Lines of Business	Premiums	Percentage of Total
Commercial multiple peril	\$ 2,725,759	64%
Home owners multiple peril	1,043,409	24%
Other accident and health	337,738	8%
Fire	72,003	2%
Other	87,766	2%
Total	<u>\$ 4,266,675</u>	<u>100%</u>

REINSURANCE

WIC reported the following distribution of net premium written for 2019:

Direct	\$4,266,675
Reinsurance assumed from non-affiliates	<u>825,162</u>
Total gross (direct and assumed)	<u>\$5,091,837</u>
Reinsurance ceded to non-affiliates	<u>2,892,169</u>
Net premium written	<u>\$ 2,199,688</u>

WIC retained 43% of its gross business in 2019.

WIC Assumed

WIC assumed \$825,162 of business from Home State County Mutual Insurance Company during 2019. The contract was terminated in 2020.

WIC Ceded

Property Ceded

Reinsurance is ceded by the Company principally on pro rata and excess of loss bases with the Company's retention at 10% per occurrence for property risks (to a maximum retention of \$300,000) and \$50,000 per occurrence for casualty risks. Cessions are to unaffiliated third parties.

As of December 31, 2019, the Company had two significant non-affiliated reinsurance agreements covering the property book of business. Of the Company's \$2.8 million in premiums ceded to non-affiliates in 2019, \$2.4 million was ceded to Lloyd's of London syndicates and \$505,000 was ceded to Trans Reinsurance Company (Trans Re). The Company protects itself through the following agreements:

Wilmington Insurance Company

Lloyd's of London

Multi-line Property Quota Share Reinsurance Treaty. Effective January 1, 2019, five Lloyds' syndicates participate in a treaty that provides the following: 90% Quota Share of all premiums and losses with a limit of \$3.5 million any one location.

Trans Reinsurance Company

Multi-line Umbrella Quota Share Reinsurance Agreement - Effective October 1, 2018 (continuous contract). The Company reinsured 90% of the umbrella business it writes \$900,000 per occurrence \$1,000,000 one location. Trans Re will allow WIC to write a \$2,000,000 umbrella with prior approval. Trans Re will write 100% of the additional \$1,000,000 layer and has stipulated a \$1,500 minimum premium would apply to any \$2,000,000 umbrella policy.

Multi-line Casualty Treaty - Effective October 1, 2018 (continuous contract). The reinsurer will provide excess of loss coverage totaling \$950,000 in excess of the Company's retention of \$50,000. Additionally, the Company coverage includes a \$1,000,000 excess of \$1,000,000 loss for Clash coverage.

Property Casualty Reinsurance – Other Reinsurers

Property Catastrophe

The Company obtains coverage for property catastrophe business in two layers. Effective July 1, 2019, the reinsurers provide 100% of \$600,000 in excess of the Company's retention of \$300,000 per occurrence and 100% in excess of \$150,000 of the Company's retention of \$200,000 per risk.

LTD

Effective January 1, 1999, the Company has coverage for LTD business from RGA Reinsurance Company for 50% of all policies written prior to July 1, 2013, up to a maximum

Wilmington Insurance Company

of \$12,000 gross monthly benefit. Additionally, Effective January 1, 2013, the Company has LTD coverage from Reliance Standard Life Insurance Company for 50% of its liability on policies written prior to March 13, 2015, up to a maximum of \$15,000 gross monthly benefit. As per amendment 1, the coverage is extended to 100% of its liability for policies issued from March 14, 2015 thru April 1, 2015.

LTC

Effective May 1, 2002, the Company has coverage for LTC business from Munich America Reassurance Company for 100% of all policies written prior to February 1, 2011.

FINANCIAL STATEMENTS

The following financial statements, as reported and filed by the Company with the Department, are reflected in the following:

- Statement of Assets as of December 31, 2019
- Statement of Liabilities and Surplus as of December 31, 2019
- Statement of Income for the year ended December 31, 2019
- Statement of Capital and Surplus Account for the year ended December 31, 2019
- Reconciliation of Capital and Surplus for the Period January 1, 2015 to December 31, 2019

WILMINGTON INSURANCE COMPANY
STATEMENT OF ASSETS
AS OF DECEMBER 31, 2019

	Ledger Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$ 3,602,259	\$ -	\$ 3,602,259
Common Stocks	5,001,107		5,001,107
Mortgage loans on real estate first lien	212,679		212,679
Real estate: Properties occupied by company	363,862		363,862
Cash, Cash equivalents, Short Term Investments	1,941,315	-	1,941,315
Other invested Assets	50,000	50,000	-
Subtotals, Cash and Invested Assets	<u>\$ 11,171,222</u>	<u>\$ 50,000</u>	<u>\$ 11,121,222</u>
Investment income due and accrued	31,528	-	31,528
Uncollected premiums	258,403	126,469	131,934
Deferred premiums	1,038,676	715	1,037,961
Amounts recoverable from reinsurers	152,915	-	152,915
Net deferred tax asset	219,110	2,477	216,633
Furniture and Equipment	203	203	-
Receivables from parent; subsidiaries and affiliates	65,105	-	65,105
Aggregate write-ins for other than invested assets	223,542	194,927	28,615
Total Assets	<u><u>\$ 13,160,704</u></u>	<u><u>\$ 374,791</u></u>	<u><u>\$ 12,785,913</u></u>

**WILMINGTON INSURANCE COMPANY
STATEMENT OF LIABILITIES AND SURPLUS
AS OF DECEMBER 31, 2019**

	<u>2019</u>
Losses	\$ 1,754,029
Loss adjustment expenses	338,923
Commissions payable, contingent commissions and other similar charges	162,813
Other expenses (excluding taxes; licenses and fees)	131,857
Taxes, Licenses and fees	2,373
Current federal and foreign income taxes	29,889
Unearned premiums (after deducting unearned premiums for ceded reinsurance of \$1,729,300 and including warranty reserves of \$0)	3,121,149
Advance Premium	39,182
Ceded reinsurance premiums payable (net of ceding commissions)	881,656
Remittances and items not allocated	9,981
Payable to parent; subsidiaries and affiliates	18,947
Total liabilities excluding protected cell liabilities	<u>\$ 6,490,799</u>
Total liabilities	<u>\$ 6,490,799</u>
Aggregate write-ins for special surplus funds	-
Common capital stock	\$ 1,480,000
Gross paid in and contributed surplus	4,627,405
Unassigned funds (surplus)	<u>187,709</u>
Surplus as regards policyholders	<u>\$ 6,295,114</u>
Totals of liabilities & surplus	<u><u>\$ 12,785,913</u></u>

**WILMINGTON INSURANCE COMPANY
STATEMENT OF INCOME
AS OF December 31, 2019**

Underwriting Income	<u>2019</u>
Premiums earned	\$ 1,894,149
Deductions	
Losses incurred	\$ 1,136,480
Loss adjustment expenses incurred	270,486
Other underwriting expenses incurred	863,175
Total underwriting deductions	<u>\$ 2,270,141</u>
Net underwriting gain (loss)	<u>\$ (375,992)</u>
Investment Income	
Net investment income earned	\$ (6,795)
Net realized capital gains (losses) of \$ (4,903) less capital gains tax of \$0	<u>(18,445)</u>
Net investment gain (loss)	<u>\$ (25,240)</u>
Other Income	
Net gain (loss) from agents' or premium balances charged off (amount recovered \$917)	\$ 917
Finance and service charges not included in premium	74,348
Aggregate write-ins for miscellaneous income	<u>(4,308)</u>
Total other income	<u>\$ 70,957</u>
Net income before dividends to policyholders; after capital gains tax and before all other federal and foreign income taxes	<u>\$ (330,275)</u>
Dividends to policyholders	<u>-</u>
Net income; after dividends to policyholders; after capital gains tax and before all other federal and foreign income taxes	\$ (330,275)
Federal and foreign income taxes incurred	<u>33,509</u>
Net Income	<u><u>\$ (363,784)</u></u>

**WILMINGTON INSURANCE COMPANY
CAPITAL & SURPLUS ACCOUNT
AS OF DECEMBER 31, 2019**

	<u>2019</u>
Surplus as regards to policyholders December 31, 2018	\$ 14,889,595
Net income	(363,784)
Change in net unrealized capital gains (losses) less capital gains tax of \$27,657	186,883
Change in net deferred income tax	44,874
Change in nonadmitted assets	167,600
Capital Changes: Paid in	(2,000,000)
Surplus Adjustments: Paid in	2,000,000
Dividends to stockholders	(8,630,052)
Aggregate write-ins for gains and losses in surplus	(2)
Net change in capital and surplus for the year	<u>\$ (8,594,481)</u>
Capital and surplus December 31, 2019	<u>\$ 6,295,114</u>

**WILMINGTON INSURANCE COMPANY
RECONCILIATION OF CAPITAL AND SURPLUS
JANUARY 1, 2015 to DECEMBER 31, 2019**

	<u>Common Capital Stock</u>	<u>Gross Paid-in and Contributed Surplus</u>	<u>Unassigned Surplus</u>		<u>Total</u>
1/1/2015	1,480,000	1,627,405	209,521		3,316,926
12/31/2015	-	-	96,103	(1)	96,103
12/31/2015			(150,072)	(2)	(150,072)
12/31/2016	-	-	493,132	(1)	493,132
12/31/2016			(85,100)	(2)	(85,100)
12/31/2016			(215,125)	(3)	(215,125)
12/31/2017	-	-	(55,585)	(1)	(55,585)
12/31/2017			(29,896)	(2)	(29,896)
NICW	2,000,000	1,000,000	8,799,142	(4)	11,799,142
12/31/2018			(79,983)	(1)	(79,983)
12/31/2018			(199,948)	(2)	(199,948)
12/31/2019			35,573	(1)	35,573
12/31/2019			(8,630,052)	(2)	(8,630,052)
12/31/2019	(2,000,000)	2,000,000		(5)	0
	<u>\$ 1,480,000</u>	<u>\$ 4,627,405</u>	<u>\$ 187,710</u>		<u>\$ 6,295,115</u>

(1) Represents: Net income; Change in unrealized capital gains/(losses); Change in net unrealized foreign exchange capital gain; Change in net deferred income tax; Change in non-admitted assets; Change in provision for reinsurance; and Aggregate write-ins for gains and losses in surplus.

(2) Dividends to stockholders

(3) Prior Period Adjustment

(4) Capital adjustment to reflect statutory merger of NICW

(5) Capital transfer

**ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS RESULTING FROM
THE EXAMINATION**

There were no changes made to the Financial Statements as a result of this Examination.

COMMENTS ON FINANCIAL STATEMENT ITEMS

Note 1:

<u>Losses</u>	<u>\$1,754,029</u>
<u>Loss Adjustment Expenses</u>	<u>\$338,923</u>

The examination liability for the aforementioned captioned items is the same as those balances reported by the Company as of December 31, 2019. The examination analysis of Loss and Loss Adjustment Expense reserves was conducted in accordance with Statutory Accounting Principles, including NAIC *Accounting Practices and Procedures Manual*, SSAP No. 55.

SUBSEQUENT EVENTS

During March of 2020, the World experienced a pandemic related to the COVID-19 virus. At the date of this report, the Company has not been able to quantify the effects of this pandemic on its current or future financial statements. As of the date of this report, the Company was also fully operational and was providing services to its policyholders.

There were no other material subsequent events noted.

COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS

There were no recommendations contained in the prior examination report issued by the Department as of December 31, 2014.

SUMMARY OF RECOMMENDATIONS

There were no recommendations as a result of this examination.

CONCLUSION

The assistance and cooperation of the consulting actuarial firm, INS Consultants, Inc., the Company's outside audit firm, C&R, and the Company's management and staff was appreciated and is acknowledged.

Respectfully submitted,



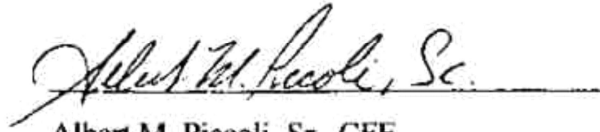
Albert M. Piccoli, Sr., CFE
Examiner In-Charge
State of Delaware



Anthony Cardone, CPA, CFE
Supervising Examiner
State of Delaware

Wilmington Insurance Company

I, Albert M. Piccoli, Sr., 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 20.037.


Albert M. Piccoli, Sr., CFE