

**EXAMINATION REPORT**  
**OF**  
**SUPERIOR SPECIALTY INSURANCE COMPANY**  
**AS OF**  
**DECEMBER 31, 2020**

TRINIDAD NAVARRO  
COMMISSIONER



STATE OF DELAWARE  
DEPARTMENT OF INSURANCE

REPORT ON EXAMINATION  
OF  
SUPERIOR 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.

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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. 21.007, dated January 6, 2021, an examination has been made of the affairs, financial condition and management of

**SUPERIOR SPECIALTY INSURANCE COMPANY**

hereinafter referred to as SSIC 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 SSIC. The last examination was conducted as of December 31, 2016, by the Missouri Department of Insurance as the Savers Property and Casualty Insurance Company (Savers). The Company was redomesticated to Delaware effective January 31, 2019 and changed its name to SSIC. This examination covered

the period of January 1, 2017 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**

Savers was incorporated on December 17, 1985, as a stock casualty insurance company under the provisions of Missouri Law at Chapter 379 and commenced business effective January 28, 1986. Savers was owned by Franklin Insurance Holdings, Inc. prior to being sold to Star Insurance Company (Star) in 1990. Star is wholly owned by AmeriTrust Group, Inc. (AmeriTrust). AmeriTrust was purchased on July 7, 2015, by Fosun International Limited. Savers was acquired by State National Insurance Company (SNIC) on November 2, 2018. Effective January 31, 2019, Savers re-domesticated to Delaware and changed its name to SSIC.

### **Capitalization**

The Company's Certificate of Incorporation authorizes the issue of 2,500,000 shares of common stock with a \$1.00 par value. As of December 31, 2020, the Company had 2,500,000 common shares issued and outstanding totaling \$2,500,000. All outstanding common shares of the Company are owned by SNIC. As of December 31, 2020, the Company reported gross paid

in and contributed surplus of \$32,568,926.

### Dividends

Since the prior examination of the Company, while still Savers, and examined by the State of Missouri, the Company paid a dividend to its parent Star. This dividend totaled \$9,133,680 in 2017.

Since re-domestication, and name change, 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:

<u>Name</u>	<u>Title</u>
Matthew Anthony Freeman	Chief Executive Officer, Superior Specialty Insurance Company
David Martin Cleff	Executive Vice President, Superior Specialty Insurance Company
Lonnie Kossuth Ledbetter	Executive Vice President, Superior 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 as required by 18 *Del. C.* § 1304. In addition, review of Company files indicated that written correspondence was submitted to the Delaware Department of Insurance (Department) with regards to the changes in officers and directors during the period under examination as required by 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 State National Companies, Inc. and its subsidiaries including SNIC, National Specialty Insurance Company (NSIC) and City National Insurance Company (CNIC), (Texas domiciled insurers) and United Specialty Insurance Company (USIC) and Independent Specialty Insurance Company (ISIC), (Delaware domiciled insurers).

Effective November 2, 2018, SNIC acquired 100% of a Missouri domiciled insurer, Savers. Savers was re-domesticated to Delaware and changed its name to SSIC.

ISIC and USIC were existing pool participants in the State National Pool as

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, 2019, 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 March 31, 2019, 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 March 31, 2019, 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, SSIC was licensed to transact multiple lines of insurance business in the state of Delaware. 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. For the year ending 2020, the Company did not write any direct business. Premiums

written were a result of assumed premiums from the pooling arrangement entered into with SNIC and subsidiary insurers.

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 can write 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	\$	0
Reinsurance Assumed-Affiliates		13,033,569
Reinsurance Assumed-Non-Affiliates		0
Gross Premiums Written	\$	13,033,569
Reinsurance Ceded-Affiliates		0
Reinsurance Ceded-Non-Affiliates		0
Net Premiums Written	\$	<u>13,033,569</u>

#### **Assumed Reinsurance-Affiliates**

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

**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, 2016 to December 31, 2020

Statement of Assets  
as of December 31, 2020

	Assets	Non admitted Assets	Net Admitted Assets
Bonds	\$ 13,429,932	\$ -	\$ 13,429,932
Cash and cash equivalents	54,192,492	-	54,192,492
Subtotals, cash and invested assets	\$ 67,622,424	\$ -	\$ 67,622,424
Investment income due and accrued	\$ 145,350	\$ -	\$ 145,350
Uncollected premiums and agents' balances	5,340,336	-	5,340,336
Net deferred tax asset	2,342,580	596,993	1,745,587
Aggregate write-ins for other than invested assets	289,100	164,825	124,275
Total Assets	<u>\$ 75,739,789</u>	<u>\$ 761,818</u>	<u>\$ 74,977,972</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	396,896	
Unearned Premiums	6,825,688	
Ceded reinsurance premiums payable	(28,314)	
Payable to parent, subsidiaries and affiliates	1,867,716	
Aggregate write-ins for liabilities	4,355,495	
Total liabilities	<u>\$ 17,083,582</u>	
Common capital stock	\$ 2,500,000	
Gross paid in and contributed surplus	32,568,926	
Unassigned funds (surplus)	22,825,464	
Capital and Surplus	<u>\$ 57,894,390</u>	
Total liabilities, surplus and other funds	<u>\$ 74,977,972</u>	

Summary of Income  
for the Year Ended December 31, 2020

Premiums earned	\$	14,278,437
 <b>DEDUCTIONS:</b>		
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>
 <b>INVESTMENT INCOME:</b>		
Net investment income earned	\$	1,097,735
Net realized capital gains		59,311
Net investment gain	<u>\$</u>	<u>1,157,046</u>
 <b>OTHER INCOME (LOSS):</b>		
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	 <u>\$</u>	 <u>3,935,652</u>
 Federal and foreign income taxes incurred		 <u>765,762</u>
Net income	<u>\$</u>	<u><u>3,169,890</u></u>



**Reconciliation of Capital and Surplus  
for the Period from the Prior Examination  
as of December 31, 2016 to December 31, 2020**

	Common Capital Stock	Gross Paid-in & Contributed Surplus	Unassigned Funds	Total
December 31, 2016	2,500,000	32,568,926	22,821,954	57,890,879
2017 Operations (1)	-	-	429,386	429,386
Net Income	-	-	1,120,024	1,120,024
Dividend to Stockholders (2)	-	-	(9,133,680)	(9,133,680)
December 31, 2017	2,500,000	32,568,926	15,237,684	50,306,610
2018 Operations (1)	-	-	(1,025,910)	(1,025,910)
Net Income	-	-	1,450,101	1,450,101
December 31, 2018	2,500,000	32,568,926	15,661,875	50,730,801
2019 Operations (1)	-	-	1,599,230	1,599,230
Net Income	-	-	2,412,936	2,412,936
December 31, 2019	2,500,000	32,568,926	19,674,042	54,742,967
2020 Operations (1)	-	-	(18,468)	(18,468)
Net Income	-	-	3,169,890	3,169,890
December 31, 2020	<u>\$ 2,500,000</u>	<u>\$ 32,568,926</u>	<u>\$ 22,825,464</u>	<u>\$ 57,894,390</u>

(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.

(2) Dividends to Shareholders. Paid on various dates in 2017 to sole stockholder Star, while still named Savers.

**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, the following significant transaction was deemed material for disclosure in this examination report.

SNIC made a contribution of 100% of the issued and outstanding common stock of SSIC, a wholly owned subsidiary of SNIC, to USIC effective December 31, 2021. The estimated final contribution amount was between \$60 million and \$68 million.

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.

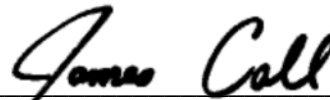
The assistance and cooperation of examiners representing the states on the coordinated examination is acknowledged. In addition, the assistance of the Consulting Actuary, the Company's outside audit firm, KPMG, and the Company's management and staff was appreciated and is acknowledged.

Respectfully submitted,



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Craig Jackson, CFE  
Examiner In-Charge  
State of Delaware

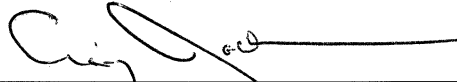


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James Call, CFE  
Supervising Examiner  
State of Delaware

Superior 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. 21.007.

A handwritten signature in black ink, appearing to read "Craig Jackson", is written over a horizontal line. The signature is stylized and includes a long horizontal stroke extending to the right.

Craig Jackson, CFE