EXAMINATION REPORT

OF

NEXT INSURANCE US COMPANY

AS OF

DECEMBER 31, 2021

TRINIDAD NAVARRO
COMMISSIONER

STATE OF DELAWARE
DEPARTMENT OF INSURANCE

REPORT ON EXAMINATION

OF

NEXT INSURANCE US COMPANY

AS OF

DECEMBER 31, 2021

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.

Trinidad Navarro
Insurance Commissioner

Dated this 21st day of June, 2023

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May 23, 2023

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

Dear Commissioner:

In accordance with instructions and pursuant to statutory provisions contained in Examination Certification No. 21.035, dated October 4, 2021, an examination has been made of the affairs, financial condition and management of

NEXT INSURANCE US COMPANY

hereinafter referred to as the Company or Next US. The Company was incorporated under the laws of the State of Delaware as a stock property and casualty insurance company with its registered office located at 251 Little Falls Drive, Wilmington, Delaware 19808. The Company's administrative office is located at 975 California Avenue, Palo Alto, California 94304.

SCOPE OF EXAMINATION

We have performed our multi-state examination of the Company. The last examination of the Company was an organizational examination conducted by the Delaware Department of Insurance (Department) as of November 15, 2017. This examination covered the period of November 16, 2017 through December 31, 2021.

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 Law 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 audit firm, Ernst & Young, LLP (E&Y). Certain auditor work papers of the 2021 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 are no significant findings or material changes to the financial statements as a result of this examination.

COMPANY HISTORY

The Company was incorporated on September 26, 2017, under the laws of the State of Delaware. The Company was authorized to write multiple commercial lines on December 19, 2017. The year ended December 31, 2018, was the first year that the Company wrote business.

Capitalization

As amended, the Company's Certificate of Incorporation authorizes the issuance of forty-two thousand (42,000) common shares of common stock with a $100 par value per share. As of December 31, 2021, the following common stock certificates were issued by the Company to Next-INS Holding, Inc. (Next Holding), a Delaware holding corporation:

Certificate	Shares	Date	Common Capital Stock	Gross Paid In and Contributed Surplus	Total
CS-1	1	10/24/2017	$ 100	$ 50	$ 150
CS-2	30,000	11/13/2017	3,000,000	7,000,000	10,000,000
Total	30,001		$3,000,100	$7,000,050	$10,000,150

Dividends

The Company's Board of Directors (Board) did not approve, authorize, or pay any stockholder dividends during the examination period.

MANAGEMENT AND CONTROL

Directors

Pursuant to the general Corporation Laws of the State of Delaware, as implemented by the Company's articles of incorporation and bylaws, all corporate powers are exercised by or under the direction of its Board. Subject to restrictions imposed by law, the articles of incorporation or the bylaws, the Board can exercise all of the powers of the Company.

The number of directors shall be fixed from time to time by resolution of the Board. A Written Consent in lieu of a Board meeting dated October 27, 2017, fixed the number of directors at four. 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.

As of December 31, 2021, the directors and their principal business affiliations, were as follows:

Name	Principal Business Affiliation
Daniel G. Gibson	Retired Insurance Executive, Consultant
Guy M. Goldstein	Chief Executive Officer and President, Next Insurance, Inc.
Nissim Tapiro	Chief Technology Officer, Next Insurance, Inc.
Matthias L. Weber	Partner, Mighty Capital Former Chief Underwriting Officer, Swiss Re Group

Officers

Officers were elected in accordance with the bylaws during the period under examination. The bylaws require election of a President or Chief Executive Officer, a Treasurer, a Secretary and other officers as deemed necessary, who shall be elected annually 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.

Name	Title
Guy M. Goldstein	President and Chief Executive Officer
Teodora V. Gouneva	Treasurer and Chief Financial Officer
Nissim Tapiro	Secretary and Vice President – Research and Development
Sofya Pogreb	Chief Operating Officer and Chief Underwriting Officer

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, a review of Company files indicated that written correspondence was submitted to the Department with regards to any changes in officers and directors during the period under examination in compliance with 18 *Del. C.* §4919.

Insurance Holding Company System

As of December 31, 2021, the Company was a member of an insurance holding company system as defined under 18 *Del. C.* §5001 of the Delaware Insurance Code. The Company is a wholly-owned subsidiary of Next Holding.

An abbreviated organizational chart of the holding company system as of December 31, 2021, is as follows (with the percentage control of the downstream subsidiary by the upstream direct parent is shown):

Company and Domicile	Equity Control Percent	Voting Control Percent
Munich Re [Germany] {1}	100.00%	100.00%
ERGO Group, AG [Germany]	43.45%	30.45%
Next Insurance, Inc. [DE] {2}	100.00%	100.00%
Next-INS Holding, Inc. [DE]	100.00%	100.00%
Next Insurance US Company [DE]		
Next First Insurance Agency, Inc. [DE]		
Next Claims Management, Inc. [DE]		

{1} Considered the ultimate controlling entity of the Company.
{2} No other person or entity, either individually or collectively, has an economic ownership interest or voting control power greater than 10% of Next Insurance, Inc. (Next Parent) on a fully diluted basis.

Agreements with Affiliates

The Company has no employees and receives most personnel, administrative, facility and equipment needs under various agreements with affiliated entities. The Company was a party to the following affiliated agreements as of December 31 2021:

Management and Services Agreements

Effective January 1, 2018, the Company entered into a Management and Services Agreement among Next Parent, Next Holding and Next First Insurance Agency, Inc. (Next Agency. This agreement was included in a Form D filing on January 24, 2018, and was approved by the Department on February 2, 2018.

This 2018 agreement was replaced with an Amended and Restated Management and Services Agreement effective January 1, 2019, and amended April 23, 2021. The Company, Next Parent, Next Holding, Next Agency and Next Claims Management, Inc. (Next Claims) are all parties to this agreement. This agreement was included as a Form D filing on January 7, 2019 and approved by the Department on January 25, 2019. Addendum C was included as a Form D filing on April 15, 2021, and was approved by the Department on April 23, 2021.

Tax Allocation Agreement

The Company and its affiliates Next Agency and Next Claims entered into a Tax Allocation Agreement with parent, Next Holding, effective March 6, 2018, and amended December 31, 2018. The agreement provides for a method for financial and statutory accounting of allocating the consolidated tax liability among the various members of the affiliated group. The method of allocation among the companies is subject to resolution approved by the Board. The allocation of taxes shall be made on a separate return basis with current credit for any net operating losses or other items utilized in the consolidated tax return. This agreement was included as a Form D filing on January 18, 2018, and approved by the Department on February 1, 2018. Amendment #1 was included as a Form D filing on December 21, 2018, and was approved by the Department on January 3, 2019.

Agency Agreement

The Company entered into an Agency Agreement with affiliate, Next Agency, a wholly-owned subsidiary of Next Holding, effective March 9, 2018, and amended April 23, 2021. The Company pays Next Agency a 25% commission for business produced. This agreement was included as a Form D filing on January 3, 2019, and approved by the Department on January 9, 2019. Addendum #1 was included as a Form D filing on April 15, 2021, and was approved by the Department on April 21, 2021.

Claims Administration Agreement

The Company entered into a Claims Administration Agreement with affiliate, Next Claims, a wholly-owned subsidiary of Next Holding, effective May 15, 2019, and amended April 23, 2021. The Company appointed Next Claims as claims administrator to adjust claims arising from policies issued by the Company. The Company pays a fee per claim handled by Next Claims for the services provided by the agreement. This agreement was included as a Form D filing on May 15, 2019, and was approved by the Department on June 13, 2019. Addendum #1 was included as a Form D filing on April 15, 2021, and was approved by the Department on April 23, 2021.

Capital and Surplus Maintenance Agreements

The Company entered into a Capital and Surplus Maintenance agreement with ultimate parent, Next Parent, effective October 2, 2018, whereby Next Parent will contribute enough assets in order to maintain the Company’s RBC above 350% within 120 days of each year end, if necessary. This agreement was included as a Form D filing on October 2, 2018, and was approved by the Department on October 12, 2018.

The 2018 Capital and Surplus Maintenance Agreement with Next Parent was superseded and replaced with a 2021 Capital and Surplus Maintenance Agreement among ultimate parent, Next Parent and direct parent, Next Holding, effective April 20, 2021, whereby parents will contribute enough assets through March 15, 2025, in order to maintain the Company's RBC ratio above 450% within 15 days of the 2020, 2021, 2022, 2023 and 2024 Annual Statement filings, if necessary. This agreement was included as a Form D filing on April 2, 2021, and was approved by the Department on April 19, 2021.

Intercompany Loan Agreement (and Promissory Note)

Effective December 1, 2018, the Company entered into an Intercompany Loan Agreement with Next Parent whereby the Next Parent would loan the Company up to $5 million maximum. Effective February 11, 2019, the Company issued a promissory note with an interest rate of 3.0% and a maturity date of February 10, 2020, to Next Parent for $1.2 million. The note balance of $1.2 million was paid in full at maturity of February 10, 2020, along with the accrued interest at maturity. The purpose of the note was to maintain the Company's cash position while incurring set-up costs to establish the Company's book of business. This agreement was included as a Form D filing on December 27, 2018, and was approved by the Department on June 13, 2019.

TERRITORY AND PLAN OF OPERATION

Territory

As of December 31, 2021, the Company was licensed in forty (40) states and the District of Columbia. The Company is not licensed in Alaska, Idaho, Iowa, Maine, Minnesota, New Jersey, New York, South Dakota, Vermont and Washington.

Plan of Operation

The Company is authorized as a stock insurer to write property and casualty business. The Company specializes in the small commercial lines marketplace by focusing on small business primarily in the construction and restaurant industries. The Company offers contractors insurance in three levels of coverage for 190 classes including handymen, carpenters, electricians, HVAC technicians, landscapers, janitors and plumbers. All contractor insurance plans include general liability ($5 million limit) and professional liability ($3 million limit) coverages.

In addition to the general liability, professional liability and inland marine coverages, the Company offers the following additional types of commercial insurance to small businesses with $3 million maximum limits, unless indicated otherwise: commercial property, commercial auto.

The Company's affiliated managing general agent (MGA), Next Agency, produces business for the Company. Next Agency developed a web-based underwriting platform that utilizes Insurance Services Office, Inc. (ISO) data and analyzes competitors in the space. The Next Agency's data engineers developed a set of questions and an algorithm that determines whether or not to insure the small business customer based on the answers provided. The algorithm is also then responsible for determining the premium for the potential small business customer. The underwriting and quote development is accomplished 100% on-line. If the quote is approved for binding, the small business customer can input their credit card information and the policy will be issued. If the small business customer does not meet the underwriting criteria, then the risk is declined. Next Parent, has developed a policy administration system, which will be used by the Company to issue ISO-based policies. Additionally, endorsements may be requested on-line by calling Next Agency's customer support center and issued using Next Parent's policy administration system. Cancellation can be done at any time by an insured using the on-line portal.

Next Parent asserts that its web-based underwriting platform allows for less subjectivity, therefore eliminating the chance of discrimination. Underwriting inputs are handled by data engineers.

The Company reported direct written premiums for the year ended December 31, 2021, in the following lines of business:

Line of Business	Premiums	Percent
Other Liability - Occurrence	$95,358,356	86.68%
Commercial Auto Liability	4,524,405	4.11%
Fire	2,476,838	2.25%
Allied Lines	2,476,838	2.25%
Other Liability – Claims Made	1,823,415	1.66%
Auto Physical Damage	1,782,306	1.62%
Commercial Multiple Peril	1,573,517	1.43%
Total	$110,015,675	100.00%

The Company reported direct written premiums for the year ended December 31, 2021, in the following states:

State	Premiums	Percent
Texas	$25,680,782	23.34%
Colorado	8,108,781	7.37%
Georgia	8,044,461	7.31%
Florida	6,938,127	6.31%
Illinois	4,963,863	4.51%
Pennsylvania	4,910,575	4.46%
All Other Jurisdictions Combined (35)	51,369,086	46.70%
Total	$110,015,675	100.00%

REINSURANCE

The Company reported the following distribution of written premiums for the year ended December 31, 2021:

Direct written premiums	$110,015,675
Reinsurance assumed from affiliates	-
Reinsurance assumed from non-affiliates	-
Total gross (direct and assumed)	$110,015,675
Reinsurance ceded to affiliates	$69,190,984
Reinsurance ceded to non-affiliates	19,435,503
Total ceded	$88,626,487
Net written premiums	$21,389,188

The Company retained 19.44% of its gross business in 2021.

Assumed Reinsurance

The Company does not assume any business.

Ceded Reinsurance

The Company entered into an amended and restated multi-line quota share reinsurance agreement effective November 1, 2020, with Digital Advantage Insurance Company (DAIC). DAIC is considered an affiliate as a subsidiary of ERGO Group, AG (ERGO). The Company cedes a 61.5% quota share to DAIC, covering General Liability, Professional Liability, Commercial Auto and Inland Marine. Commercial Property has an 80% quota share. Monthly settlement of ceding commission is at a provisional 32% with a sliding scale based on a target 60% loss ratio, adjusting +/- 0.5% for every percentage of loss ratio adjustment, up to +/- 5%, that is settled three years after the end of the program year. Prior to November 1, 2020, the company had an 80% quota share reinsurance agreement with DAIC effective September 1, 2018.

The Company entered into a multi-line quota share reinsurance agreement effective November 1, 2020, through broker Willis Re Inc. (Willis Re). The Company ceded an 18.5% quota share to three reinsurers, covering General Liability, Professional Liability, Commercial Auto and Inland Marine. The quota share is split between the following reinsurers: 12.5% to Hannover Ruck SE (Hannover Re), 5.0% to Peak Reinsurance Company Limited (Peak Re) and 1% to Convex Re Limited (Convex Re). Monthly settlement of ceding commission is at a provisional 29%, with a sliding scale based on a target 61% loss ratio, up to +/- 5%, that is settled three years after the end of the program year.

Additionally, the Company entered into an aggregate stop loss reinsurance agreement with DAIC effective September 1, 2018, which was amended and restated effective November 1, 2020. The Company retains 100% of the aggregate ultimate net loss (including LAE) up to a loss ratio of 100% for the covered accident year. The company cedes 5% of premium net of the quota share agreements above (i.e. 5% of remaining 20% not ceded or 1% of earned premium).

The Company ceded the following direct written premiums (in 000s) for the year ended December 31, 2021:

Reinsurer	Premiums	Percent
Affiliated		
DAIC	$69,191	62.89%
Non-Affiliated		
Hannover Re	$13,131	11.93%
Peak Re	5,252	4.77%
Convex Re	1,050	0.95%
Mandatory State Pools (2)	2	0.02%
Subtotal	$19,435	17.67%
Total	$88,626	80.56%

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, 2021
- Statement of Liabilities, Surplus and Other Funds as of December 31, 2021
- Statement of Income for the year ended December 31, 2021
- Reconciliation of Capital and Surplus for the Period from the Prior Examination as of November 15, 2017 to December 31, 2021

Statement of Assets
As Of December 31, 2021

	Ledger Assets	Non-admitted Assets	Net Admitted Assets	Note
Bonds	$ 5,849,767	$ -	$ 5,849,767	
Cash, cash equivalents and short-term investments	104,744,785	-	104,744,785	
Investment income due and accrued	2,403	-	2,403	
Uncollected premiums in course of collection	388,741	1,826	386,915	
Deferred premiums	48,364,245	-	48,364,245	
Amounts recoverable from reinsurers	1,194,155	-	1,194,155	
Receivable from parent, subsidiaries and affiliates	10,076,038	-	10,076,038	
Aggregate write-ins for other than invested assets	124,375	124,375	-	
Total Assets	$ 170,744,509	$ 126,201	$ 170,618,308	

Statement of Liabilities, Surplus and Other Funds
As Of December 31, 2021

		Note
Losses	$ 7,263,366	1
Loss adjustment expenses	1,527,610	1
Commissions payable	19,305,738	
Other expenses	344,189	
Taxes, licenses and fees (excluding federal income taxes)	2,035,956	
Unearned premiums	13,166,498	
Advance premiums	777,678	
Ceded reinsurance premiums payable (net of ceding commissions)	31,931,398	
Payable to parent, subsidiaries and affiliates	6,320	
Aggregate write-ins for liabilities	10,858	
Total liabilities	$ 76,369,611	
Common capital stock	$ 3,000,100	
Gross paid in and contributed surplus	102,000,050	
Unassigned funds (surplus)	(10,751,453)	
Surplus as regards policyholders	$ 94,248,697	
Total liabilities & surplus	$ 170,618,308	

Statement of Income
For The Year Ended December 31, 2021

Underwriting Income	
Premiums earned	$ 11,562,425
Deductions	
Losses incurred	$ 8,480,411
Loss adjustment expenses incurred	3,046,595
Other underwriting expenses incurred	8,384,488
Total underwriting deductions	$ 19,911,494
Net underwriting gain (loss)	$ (8,349,069)
Investment Income	
Net investment income earned	$ 32,890
Net realized capital gains (losses) less capital gains tax of $0	-
Net investment gain (loss)	$ 32,890
Other Income	
Net gain (loss) from agents' or premium balances charged off (amount recovered $ 0, amount charged off $20,113)	$ (20,113)
Finance and service charges not included in premium	-
Aggregate write-ins for miscellaneous income	318
Total other income	$ (19,795)
Net income before dividends to policyholders; after capital gains tax and before all other federal and foreign income taxes	$ (8,335,974)
Dividends to policyholders	-
Net income; after dividends to policyholders; after capital gains tax and before all other federal and foreign income taxes	(8,335,974)
Federal and foreign income taxes incurred	-
Net Income	$ (8,335,974)

Reconciliation of Capital and Surplus
For the Period from the Prior Examination
November 15, 2017 to December 31, 2021

	Common Capital Stock	Gross Paid-in and Contributed Surplus		Unassigned Surplus		Total
11/15/2017	$ 3,000,100	$ 7,000,050		$ 775	(1)	$ 10,000,925
12/31/2017	-	-		11,817	(1)	11,817
12/31/2018	-	-		(1,058,788)	(1)	(1,058,788)
12/31/2019	-	-		(218,001)	(1)	(218,001)
12/31/2019	-			66,628	(2)	66,628
12/31/2020	-	5,000,000	(3)	(1,104,367)	(1)	3,895,633
12/31/2020	-	-		2,210	(2)	2,210
12/31/2021	-	90,000,000	(3)	(8,335,974)	(1)	81,664,026
12/31/2021	-	-		(115,753)	(2)	(115,753)
	$ 3,000,100	$ 102,000,050		$ (10,751,453)		$ 94,248,697

(1) Net Income
(2) Represents the compilation of 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, aggregate write-ins for gains and losses in surplus
(3) Capital contributions

ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS RESULTING FROM THE EXAMINATION

There were no changes to the financial statements as a result of this examination.

COMMENTS ON FINANCIAL STATEMENT ITEMS

Note 1

Losses	$7,263,366
Loss Adjustment Expenses	$1,527,610

The examination liabilities for the aforementioned captioned items are the same as those balances reported by the Company as of December 31, 2021. The examination analysis of Loss and Loss Adjustment Expense reserves was conducted in accordance with Actuarial Principles and Standards of Practice and Statutory Accounting Principles, including NAIC *Accounting Practices and Procedures Manual, SSAP No. 55 – Unpaid Claims, Losses and Loss Adjustment Expenses.*

SUBSEQUENT EVENTS

Change in Reinsurance Program

Effective January 1, 2022, the Company entered into an 80% quota share reinsurance agreement for general liability, professional liability, and commercial auto insurance lines as follows:

Reinsurer	9/1/2018 Participation	11/1/2020 Participation	1/1/2022 Participation
DAIC	80.0%	61.5%	29.5%
Hannover Re		12.5%	7.0%
Peak Re		5.0%	10.0%
Convex Re		1.0%	1.0%
Mitsui Sumitomo Marine Management, Inc. (Mitsui)			20.0%
Swiss Re America Corporation (Swiss Re)			10.0%
Transatlantic Reinsurance Company			2.5%

Additionally, the reinsurance agreement with DAIC included an 80% quota share for commercial property lines.

Effective January 1, 2022, the Company entered into an 80% quota share reinsurance agreement for workers' compensation insurance lines with Munich Reinsurance America, Inc. (MRAC) at 30% participation, Swiss Re at 30% participation, and Mitsui at 20% participation.

Effective January 1, 2022, the Company entered into a workers' compensation excess of loss reinsurance agreement with a panel of reinsurers to cover workers' compensation losses in excess of $1 million up to $49 million.

Effective September 1, 2022, the Company entered into a catastrophe excess of loss reinsurance agreement with a panel of reinsurers covering catastrophe events in two tranches with 88.75% covering $9 million excess of $2.5 million and 11.25% covering $8.5 million excess of $3 million. This reinsurance agreement extends through July 1, 2023.

Guaranty and Indemnification Agreement

Effective January 1, 2022, the Company entered into a guaranty and indemnification agreement with non-affiliates State National Insurance Company (SNIC) and National Specialty Insurance Company (NSIC, an affiliate of SNIC), whereby the Company guarantees the payment obligations of affiliate Next Agency in its capacity as general agent for business written with SNIC and NSIC through Next Agency. As a result of the general agency agreement, the Company has assumed residual risk on certain policies that were issued during 2022.

Change in Reserving Actuary

The Company changed its reserving actuary from the firm of Perr & Knight to Milliman, Inc. effective September 14, 2022, and provided notice to the Department of this change on February 15, 2023.

SUMMARY OF RECOMMENDATIONS

There are no recommendations as a result of this examination.

The assistance and cooperation of the consulting actuarial firm, INS Consultants, Inc., the consulting information systems specialist firm, INS Services, Inc., the Company's external audit firm, E&Y and the Company's management and staff was appreciated and is acknowledged.

Respectfully submitted,

Andrew Chiodini, CFE
Examiner In-Charge
State of Delaware

Rich Palmatary, CFE, CPA
Supervising Examiner
State of Delaware

I, Andrew 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 Certification No. 21.035.

Andrew Chiodini, CFE