

**REPORT ON EXAMINATION**  
**OF**  
**CANOPIUS U.S. INSURANCE, INC.**  
**AS OF**  
**DECEMBER 31, 2016**

Trinidad Navarro  
Commissioner



Delaware Department of Insurance

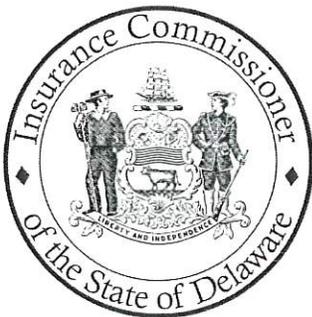
I, Trinidad Navarro, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of December 31, 2016 of the

**CANOPIUS U.S. INSURANCE, INC.**

is a true and correct copy of the document filed with this Department.

Attest By: Raymond Brown

Date: June 1, 2018



In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 8th day of June, 2018.

Trinidad Navarro  
Trinidad Navarro  
Insurance Commissioner

Trinidad Navarro  
Commissioner



Delaware Department of Insurance

REPORT ON EXAMINATION  
OF THE  
CANOPIUS U.S. INSURANCE, INC.  
AS OF  
DECEMBER 31, 2016

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 8<sup>th</sup> day of June, 2018

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## **SALUTATION**

May 3, 2018

Honorable Trinidad Navarro  
Delaware Insurance Commissioner  
Delaware Department of Insurance  
Rodney Building  
841 Silver Lake Blvd.  
Dover, Delaware 19904

Dear Commissioner;

In compliance with instructions and pursuant to statutory provisions contained in Exam Authority No. 17.040, dated October 6, 2017, an examination has been made of the affairs, financial condition and management of the

### **CANOPIUS U.S. INSURANCE, INC.**

hereinafter referred to as the “Company” or “CUSI” and incorporated under the laws of the state of Delaware. The examination was conducted at the administrative offices of the Company, located at 200 South Wacker Drive, Suite 950 Chicago, Illinois 60606. 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 Company’s registered office is in the State of Delaware at 1209 Orange Street, Wilmington, Delaware 19801. The last examination covered the period of January 1, 2008 through December 31, 2012. This examination covers the period of January 1, 2013 through December 31, 2016 and encompassed 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, 2016. Transactions after the examination date were reviewed where deemed necessary.

We conducted the 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 the Department 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 auditing firm, Ernst & Young LLP ("E&Y"), Chicago, Illinois. Certain auditor work papers have been incorporated into the work papers of the examination.

### **SUMMARY OF SIGNIFICANT FINDINGS**

This examination had no material adverse findings, significant non-compliance findings, material changes in financial statements or updates on other significant regulatory information disclosed in the previous examination.

### **COMPANY HISTORY**

The Company was originally formed as Omega US Insurance, Inc. under the laws of the State of Delaware on September 5, 2006. The Omega Group was a publicly traded international insurance and reinsurance group based in Bermuda. The Company received its license as a domestic insurer from the Delaware Insurance Commissioner on May 14, 2007. Effective August 20, 2012 the Company's ultimate parent, Omega Insurance Holdings Limited ("OIHL"), domiciled in Bermuda, was acquired by Canopus Group Limited ("CGL"), domiciled in Guernsey. Concurrently, the Company's immediate parent's name was changed from Omega US Holdings, Inc. to Canopus US Holdings, Inc. ("Canopus Holdings") and the name of the Company was changed to CUSI.

On May 1, 2014 CGL was acquired by Sompo Japan Nipponkoa Insurance Inc. ("Sompo Japan"), a subsidiary of Sompo Japan Nipponkoa Holdings Inc. On December 31, 2014, Canopus Holdings acquired Bracken Hill Specialty Insurance Company, Inc. ("Bracken Hill"), an affiliated subsidiary of Sompo Japan Insurance Company of America. On December 31, 2014 CUSI was merged with Bracken Hill. The merged company remained CUSI and retained its

Canopus U.S. Insurance, Inc.

officers and directors. As a result of the merger, CUSI's statutory surplus increased approximately \$44.8 million.

### Capitalization

The Company is authorized to issue 10,000 shares of common capital stock with a par value of \$350 per share. As of December 31, 2016 all 10,000 common stock shares are issued, outstanding.

The following table reflects the Company's capitalization activity since the prior examination:

	<u>Common Stock</u>	<u>Gross Paid-in &amp; Contributed Surplus</u>
December 31, 2012	\$3,500,000	\$66,500,000
2014 Acquisition of Bracken Hill		44,750,000
Contributions from Current Parent		<u>48,400,000</u>
December 31, 2016	<u>\$3,500,000</u>	<u>\$159,650,000</u>

The following capital contributions were received by the Company during the exam period:

2013	\$6,400,000
2014	17,000,000
2015	<u>25,000,000</u>
Total	<u>\$48,400,000</u>

### Dividends and Distributions

According to Company records, as reflected in the Board of Directors ("Board") meeting minutes, no dividends or other distributions were paid to the sole stockholder during the examination period.

## **MANAGEMENT AND CONTROL**

Pursuant to the General Corporation Law 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. The Board shall consist of at least one member and subject to a maximum of fifteen members.

The Board as of December 31, 2016, was comprised of four members, each elected or appointed in accordance with Company bylaws. Each Director shall hold office until his successor is elected and qualified, or until earlier resignation or removal.

#### Directors

The Board, duly elected in accordance with the Company's bylaws and serving as of December 31, 2016, was as follows:

<u>Director Name</u>	<u>Principal Business Affiliation</u>
Steven C. Bird	Chairman, Group Head of North American Facilities - Sompo Canopus AG
Andrew R. Fowles	President & Chief Underwriting Officer - CUSI
Bradley T. Cass	Head of Governance - Sompo Canopus AG
Paul D. Cooper	Chief Financial Officer – CUSI

#### Committees

The Company's Board does not have any direct committees. The Company's Board has adopted the following group committees: Audit Committee, Risk Committee, Investment Committee and Remuneration and Nominations Committee. The role of the committees is to make recommendations to the Board, supported by evidence, to enable the Board to reach a decision.

#### Officers

The bylaws of the Company state that the principal officers shall be a President, one or more Vice-Presidents, a Secretary, and Treasurer, one or more Assistant Vice Presidents, one or more Assistant Secretaries, one or more Assistant Treasurers, and such other officers as the Board from time to time may determine.

As of December 31, 2016 the Company's principal officers and their respective titles were as follows:

<u>Officer Name</u>	<u>Title</u>
Andrew R. Fowles	President & Chief Underwriting Officer
Sherri L. Olsen	Vice President of Claims
Brett Saternus	Chief Actuary
Mike Pratten	Chief Investment Officer - Sompo Canopus
Paul D. Cooper	Chief Financial Officer
Amy K. Egelston	Financial Controller

The minutes of the meetings of the Stockholder and Board, which were held during the period of examination, were reviewed. Attendance at meetings, election of directors and officers and approval of investment transactions were also noted.

A review was performed for compliance with 18 *Del. C.* § 4919. Based on our review, the Company was not in compliance.

#### Corporate Records

The recorded minutes of the Board were reviewed for the period under examination. It was observed that the Board did not consistently approve investment transactions in accordance with 18 *Del. C.* § 1304 “Authorization; record of investments”. Therefore:

**It is recommended that the Board comply with 18 Del. C. § 1304 and consistently approve investment transactions.**

#### Insurance Holding Company System

The Company is a member of an Insurance Holding Company System as defined under 18 *Del. C.* § 5001 of the Delaware Insurance Code. The immediate parent of the Company as of December 31, 2016 was Canopus Holdings and the ultimate parent was Sompo Holdings, Inc. (“Sompo Holdings”). An abbreviated organizational chart of Sompo Holdings as of December

Canopus U.S. Insurance, Inc.

31, 2016 with domicile in parentheses along with the control percentages of the upstream affiliates' control of the downstream affiliate is presented below:

	<u>Economic Control</u>	<u>Voting Control</u>
Sompo Holdings, Inc.	100.0%	100.0%
Sompo Japan Nipponkoa Insurance, Inc. (Japan)	100.0%	100.0%
Sompo Canopus AG (Switzerland)	100.0%	100.0%
Canopus US Holdings, Inc. (US)	100.0%	100.0%
Canopus US Insurance, Inc. (Delaware)	100.0%	100.0%

The Company filed the required Annual Form B and Form C filings for all of the years under examination, which were reviewed for compliance with the Delaware Insurance code.

### Affiliated Agreements

#### *Tax Allocation Agreement*

Effective February 24, 2009, the Company entered into a tax allocation agreement among the Company and its immediate parent, Omega US Holdings, Inc. (currently known as Canopus Holdings) for tax years ending December 31, 2009 and later. Under this agreement, income tax expenses are computed on a separate company basis as if each affiliate filed a separate tax return. Intercompany balances are settled on a quarterly basis. The tax allocation agreement was approved by the Department on June 1, 2009.

#### *Administrative Services Agreements*

Effective August 31, 2012, the Company entered into an administrative services agreement among Canopus Holdings, Canopus Group Limited and Canopus Services Limited (“Canopus Services”) wherein Canopus Services, as administrator, will provide the following services on behalf of its affiliates: general accounting services, tax return preparation, investigations of books and records, assist outside auditors, legal, investment, human resource,

actuarial and risk management services and settlement of balances occurs monthly. The administrative services agreement was approved by the Department on August 31, 2012.

### Unaffiliated Agreements

#### *Custodial Agreement*

Effective January 23, 2013 the Company entered into a custodial agreement with Brown Brothers Harriman and Company (“BBH”) which provides for the safekeeping of the Company’s invested assets. The most recent SSAE16 Report for BBH was obtained and reviewed without exception.

Based upon a review of the custodial agreement it was noted that the arrangement did not include several of the safeguard language sections recommended by NAIC Handbook. Therefore:

**It is recommended that the Company amend its custodial agreement to comply with NAIC Handbook guidelines.**

#### *MGA Agreements*

The Company wrote fourteen Managing General Agent (“MGA”) agreements since the date of the last examination. The agreements state the binding limits, compensation and agent authority level. All agents with each agency must be properly licensed. The MGA agreements require agents to carry \$1,000,000 of errors and omission insurance per claim and in the aggregate and agents must carry \$250,000 of fidelity bond insurance. The MGA’s are required to submit a monthly premium bordereau, no later than 15 days after the end of the month. Each agent is required to set up a separate bank account for premium deposits.

### *TPA Agreements*

The Company has eight Third Party Administration (“TPA”) agreements. The agreements call for the TPA to perform all claims management services on behalf of the Company in respect of claims in accordance with all applicable laws and regulations and accepted claims practices. The TPA’s are required to carry errors and omissions insurance coverage in the amount of not less than \$1,000,000 with a per clam deductible not to exceed \$25,000. The TPA’s are required to carry fidelity bond coverage in the amount not less than \$100,000 with a deductible not to exceed \$25,000. Each TPA must provide a monthly claim bordereau electronically, no later than 10 working after the end of each month.

### *Investment Advisory Agreement*

The Company entered into an Investment Advisory Agreement with Neuberger Berman Fixed Income LLC (“Investment Advisor”) on January 16, 2008. The Investment Advisor supervises and directs the investments in compliance with the investment guidelines and special instructions from the Company.

## **TERRITORY AND PLAN OF OPERATION**

### Territory

The Company is licensed in Delaware. It also operates on a surplus lines or non-admitted basis in the remaining forty-nine states and the District of Columbia.

### Plan of Operation

The Company writes non-marine property, commercial multi-peril and liability insurance. It targets small to medium sized accounts through a surplus lines producer distribution channel with average annual premium of less than \$5,000 per risk. CUSI commenced underwriting in the first quarter of 2008. An affiliated company, Canopus

Managing Agents Limited, is the managing agent for Syndicates 4444, 958 and 260 at Lloyd's of London. Since its acquisition by CGL, CUSI has benefited from significantly enhanced modeling capabilities, improved capital resources and has obtained access to more diverse reinsurers.

The primary lines of business are undergoing a shift intended to minimize variability in the underwriting results. The strategic objective is to move the Company to a book of business which is predominately property oriented, with liability exposures comprising a small portion of the premium and risks.

#### A.M. Best Rating

Based on A.M. Best's current opinion of the consolidated financial condition and operating performance, the Company was assigned an A.M. Best rating of A- (Excellent) for the year ended 2016. A.M. Best notes that the Company takes into consideration its supportive risk-adjusted capitalization and the recognition of its importance within the Sompo Canopus Group. These factors are offset by execution risk as the Company takes strategic initiatives to address financial performance.

### **REINSURANCE**

The Company reported the following distribution of premiums written in 2016:

Direct	\$33,698,341
Reinsurance assumed from affiliates	\$ 0
Reinsurance assumed from non-affiliates	<u>0</u>
Total gross (direct and assumed)	\$ 33,698,341
Reinsurance ceded to affiliates	\$ 497,605
Reinsurance ceded to non-affiliates	<u>3,808,438</u>
Total ceded	<u>\$ 4,306,043</u>
Net premiums written	<u>\$29,392,298</u>

The Company retained 87% of its gross business in 2016.

Assumed

The Company does not assume any business.

Ceded to Affiliates

The Company ceded \$497,605 of its gross premiums to affiliate Sompo Japan Canopus Reinsurance AG (“SJCR”) in 2016 under the 30% quota share reinsurance agreement. The cessions under the affiliated reinsurance agreement represent approximately 11.5% of the \$4,306,043 total written premiums ceded for 2016.

CUSI maintains excess of loss reinsurance agreements for all individual property and casualty loss exposure. Individual risk excess of loss reinsurance is triggered once a property claim has exceeded \$200,000 for the 2008 and 2009 accident years, \$300,000 for the 2010 accident year, and \$500,000 for the 2011 and 2012 accident years. There is no individual excess of loss property reinsurance for the 2013, 2014 and 2015 accident year claims. Individual risk excess of loss reinsurance is triggered once a liability claim has exceeded \$500,000 for the 2008 and 2009 accident years and \$1,000,000 for the 2010 through 2015 accident years.

Ceded to Non-affiliates

The Company utilizes non-affiliated reinsurers who are selected by the Outward Reinsurance Department of the immediate parent, Sompo Canopus AG. The non-affiliated reinsurers must meet strict credit requirements as part of the reinsurer selection process.

As noted above, the Company ceded \$3,808,438 in written premiums to non-affiliated reinsurers in 2016, which represents 11.3% of the \$33,698,341 total written premiums ceded for 2016.

The Company participates, with its affiliates, in a group global property program made up of four underlying books and two umbrella coverages. The Company's excess of loss ("EX") reinsurance coverage is follows:

North American Facility/ CUSI two layers:

\$20 million XS \$17.5 million

\$25 million XS \$37.5 million

Treaty Tower (US and Europe)

\$150 million XS \$70 million

Umbrella (all companies)

\$140 million XS incurring to underlying retentions, per occurrence

Aggregate layers - \$100 million XS \$92.5 million with a \$20 million deductible (each loss)

### **FINANCIAL STATEMENTS**

The following pages contain the Company's Financial Statements for the year ended December 31, 2016, as determined by this examination, with supporting exhibits as detailed below:

Analysis of Assets,

Statement of Liabilities, Surplus and Other Funds

Underwriting and Investment Exhibit - Statement of Income

Reconciliation of Surplus since last Examination

Schedule of Examination Adjustments

Analysis of Assets  
As of December 31, 2016

<u>Assets</u>	<u>Assets</u>	<u>Nonadmitted Assets</u>	<u>Net Admitted Assets</u>	<u>Note</u>
Bonds	\$186,641,671		\$186,641,671	1
Common stocks	2,691,776		2,691,776	
Cash, cash equivalents and short-term investments	6,106,937		6,106,937	
Receivables for securities	705,000		705,000	
Investment income due and accrued	825,634		825,634	
Uncollected premiums and agents' balances in the course of collection	3,750,143		3,750,143	
Amounts recoverable from reinsurers	2,914,848		2,914,848	
Other amounts receivable under reinsurance contracts	25,000		25,000	
Electronic data processing equipment and software	97,456	21,812	75,644	
Furniture and equipment	120,397	120,397	0	
Receivable from parent, subsidiaries and affiliates	22,109		22,109	
Aggregate write-ins for other than invested assets	218,225	184,862	33,363	
	<hr/>	<hr/>	<hr/>	
<b>Total Assets</b>	<b><u><u>\$204,119,196</u></u></b>	<b><u><u>\$327,071</u></u></b>	<b><u><u>\$203,792,125</u></u></b>	

Statement of Liabilities, Surplus and Other Funds  
As of December 31, 2016

		<u>Note</u>
Losses	\$ 59,854,092	2
Loss adjustment expenses	11,728,216	2
Commissions payable, contingent commissions & other similar	750,000	
Other expenses	1,526,494	
Taxes, licenses and fees	950	
Current federal and foreign income taxes	126,204	
Unearned premium reserve	14,039,602	
Ceded reinsurance premiums payable	541,073	
Provision for reinsurance	100,000	
Payable to parent, subsidiaries and affiliates	<u>296,510</u>	
Total Liabilities	<u>\$ 88,963,141</u>	
Common capital stock	\$ 3,500,000	
Gross paid in and contributed surplus	159,650,000	
Unassigned funds (surplus)	<u>(48,321,017)</u>	
Surplus as regards policyholders	<u>\$ 114,828,983</u>	
Total Liabilities, Capital and Surplus	<u>\$ 203,792,124</u>	

Underwriting and Investment Exhibit - Statement of Income  
For the Year Ended December 31, 2016

**UNDERWRITING INCOME**

Premiums earned	\$ <u>41,322,423</u>
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**DEDUCTIONS**

Losses incurred	\$ 9,866,644
Loss adjustment expenses incurred	9,191,509
Other underwriting expenses incurred	15,359,907
Aggregate write-ins for underwriting deductions	<u>-</u>
Total underwriting deductions	\$ <u>34,418,060</u>
Net underwriting gain or (loss)	\$ <u>6,904,363</u>

**INVESTMENT INCOME**

Net investment income earned	\$ 2,709,002
Net realized capital gains or (losses) less capital gains tax of \$0	<u>423,311</u>
Net investment gain or (loss)	\$ <u>3,132,313</u>

**Other Income**

Net gain (loss) from agents' or premium balances charged off (amount recovered \$0 amount charged off \$0)	\$ -
Aggregate write-ins for miscellaneous income	<u>341,024</u>
Total other income	\$ <u>341,024</u>
Net income before dividends to policyholders; after capital gains tax and before all other federal and foreign income taxes	\$ <u>10,377,700</u>
Net income; after dividends to policyholders; after capital gains tax and before all other federal and foreign income taxes	10,377,700
Federal and foreign income taxes incurred	<u>126,204</u>
Net Income	\$ <u><u>10,251,496</u></u>

Reconciliation of Surplus Since last Exam  
As of December 31, 2016

	<u>Capital Stock</u>	<u>Gross Paid in and Contributed Capital</u>	<u>Unassigned Surplus</u>	<u>Total</u>
<b>Beginnng Balance (2007)</b>	\$ 500,000	\$ 49,500,000	\$ (2,429,387)	\$ 47,570,613
2008	1 3,000,000		(5,285,554)	(2,285,554)
2009	2,3	5,000,000	(4,835,128)	164,872
2010	2,3	3,000,000	(1,508,167)	1,491,833
2011	2,3	2,000,000	(2,223,069)	(223,069)
2012	2,3	7,000,000	(5,967,268)	1,032,732
2013	2,3	6,400,000	(5,911,945)	488,055
2014	2,3	17,000,000	(3,732,833)	13,267,167
2014	4	44,750,000	31,893,351	76,643,351
2015	2,3	25,000,000	(61,577,410)	(36,577,410)
2016	3		13,256,393	13,256,393
<b>Ending Balance (2016)</b>	<u>\$ 3,500,000</u>	<u>\$ 159,650,000</u>	<u>\$ (48,321,017)</u>	<u>\$ 114,828,983</u>

- (1) On April 8, 2008 the CUSI Board authorized the Company to retire the existing 1,000 shares of common stock totaling \$500,000. The CUSI Board then authorized 10,000 shares of common stock with a par value of \$350 per share totaling \$3,500,000 of capital stock.
- (2) Capital contributions received from parent.
- (3) Aggregates net income, change in unrealized capital gains(losses), change in net underwriting gain(losses), change in non- admitted assets, change in reinsurance for unauthorized reinsurers.
- (4) CUSI acquired Bracken Hill December 31, 2014 which increased capital \$44,750,000. The transaction was approved by the Department.

**SCHEDULE OF EXAMINATION ADJUSTMENTS**

No examination changes were made as a result of this examination.

**NOTES TO FINANCIAL STATEMENTS**

**Note 1 - Bonds**

**\$186,641,671**

The above-captioned amount, which is the same as that reported by the Company in its Annual Statement, has been accepted for purposes of this report. With the exception of bonds held for statutory purposes, investments are held by BBH under a custodial agreement. A review of corporate records indicates that the Board has approved the Company's investment transactions made during the examination period in accordance with 18 *Del. C.* § 1304.

Bonds designations as rated by the NAIC are as follows:

<u>Designation</u>	<u>Book Value</u>	<u>Percentage of Portfolio</u>
NAIC 1	\$155,845,795	83.50%
NAIC 2	30,795,876	16.50%
Totals	<u>\$186,641,671</u>	<u>100.00%</u>

The Bond portfolio as of December 31, 2016, consisted of the following classes:

<u>Description</u>	<u>Book/Adjusted Carrying Value</u>	<u>Percent of Total</u>
US Government Bonds	\$77,537,226	41.50%
Canadian Government Bonds	0	0.00%
Foreign Government Bonds	0	0.00%
US Political Subdivisions	0	0.00%
US Special Revenue	5,474,397	2.90%
US Industrial and Miscellaneous	103,630,048	55.60%
Canadian Industrial and Miscellaneous	0	0.00%
Foreign Industrial and Miscellaneous	<u>0</u>	<u>0.00%</u>
Total	<u>\$186,641,671</u>	<u>100.00%</u>

<b><u>Note 2 - Losses</u></b>	<b><u>\$59,854,092</u></b>
<b><u>Loss Adjustment Expenses</u></b>	<b><u>\$11,728,216</u></b>

The above-captioned amounts, which are the same as those reported by the Company in its Annual Statement, have been accepted for purposes of this report.

Losses

<u>Reported Losses (Case)</u>	
Direct	\$26,683,629
Reinsurance Assumed	0
Reinsurance Ceded	(4,835,925)
Net Reported Losses	<u>\$21,847,704</u>
<u>Incurred but not reported (IBNR)</u>	
Direct	\$46,703,578
Reinsurance Assumed	0
Reinsurance Ceded	(8,697,190)
Net IBNR	<u>\$38,006,388</u>
Net Losses Unpaid	<u>\$59,854,092</u>
<u>Loss Adjustment Expenses (LAE)</u>	<u>\$11,728,216</u>

The Department retained the firm of INS Consultants, Inc. (“INS”) to review the Company’s stated reserves. INS was provided with the Company’s statement of actuarial opinion and an actuarial report as supporting documentation of the actuarial opinion with loss and loss adjustment expense reserves evaluated as of December 31, 2016. In addition, INS was provided with other reports, schedules, exhibits and relevant information as requested.

INS’ review of loss and allocated loss adjustment expenses reserves consisted of separately analyzing the Company’s property and casualty books of business on a gross and net basis. In addition, for unallocated loss adjustment expenses, INS reviewed the methodology employed by the Company’s actuaries. INS accepted the methodology and factor selections utilized by the Company’s actuaries and ultimately found the Company’s reserves to be reasonable.

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

There were no financial adjustments to the Company’s financial statements as a result of this examination.

#### **SUBSEQUENT EVENTS**

##### *Management Buyout*

On March 8, 2018, the Company was acquired by a private equity consortium led by Centerbridge Partners, L.P. following the approval of a Form A filing by the Department on February 14, 2018.

In a separate announcement, Sompo Japan completed the transfer of 100 percent of the shares of Sompo Canopus AG to Fortuna Holdings Ltd., which is registered and incorporated in the Island of Jersey and owned by the fund managed by an affiliate of Centerbridge Partners.

As part of the transaction, a Net Worth Maintenance Agreement was entered into to maintain CUSI's surplus at not less than \$100 million.

*Commutation of Quota Share Agreement*

On November 15, 2017, a commutation of the 30% quota share agreement between CUSI and SJCR was approved by the Department. The commutation is to take effect on September 30, 2017.

**COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS**

There were no prior examination recommendations.

**SUMMARY OF RECOMMENDATIONS**

The custodial agreement does not contain five of the recommended protective language clauses specified in the NAIC Examiners Handbook.

**It is recommended that the Company amend its custodial agreement to comply with NAIC Handbook guidelines.**

The recorded minutes of the Board were reviewed for the period under examination. Based upon a review of the meeting minutes it was observed that the Board did not consistently approve investment transactions in accordance with 18 *Del. C.* § 1304.

**It is recommended that the Board comply with 18 *Del. C.* §1304 and consistently approve investment transactions.**

The Company experienced several departures of directors and senior officers during the examination period however, the Department was not notified of the departures pursuant to 18 *Del. C.* § 4919.

**It is recommended that the Company comply with 18 *Del. C.* §4919 and properly notify the Department of such changes.**

**CONCLUSION**

The assistance of Delaware's consulting actuarial firm, INS Consultants, Inc. and INS Services, Inc. is acknowledged. In addition, the assistance and cooperation of the Company's outside audit firm, Ernest and Young, and the Company's management and staff were appreciated and are acknowledged.

Respectfully submitted,



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Examiner-In-Charge  
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