

**EXAMINATION REPORT**  
**OF**  
**INDEPENDENT SPECIALTY INSURANCE COMPANY**  
**AS OF**  
**DECEMBER 31, 2017**

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, 2017 of

**INDEPENDENT SPECIALTY INSURANCE COMPANY**

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

Attest By: Rafaym Brown

Date: 18<sup>th</sup> day of June, 2019



In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 18 day of June, 2019.

Trinidad Navarro  
Trinidad Navarro  
Insurance Commissioner

Trinidad Navarro  
Commissioner



Delaware Department of Insurance

REPORT ON EXAMINATION  
OF  
INDEPENDENT SPECIALTY INSURANCE COMPANY  
AS OF  
DECEMBER 31, 2017

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".

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Trinidad Navarro  
Insurance Commissioner

Dated this 18 day of June, 2019

**TABLE OF CONTENTS**

**SALUTATION ..... 1**

**SCOPE OF EXAMINATION..... 1**

**SUMMARY OF SIGNIFICANT FINDINGS ..... 3**

**COMPANY HISTORY ..... 3**

**CAPITALIZATION ..... 4**

**DIVIDENDS ..... 4**

**MANAGEMENT AND CONTROL ..... 4**

**DIRECTORS ..... 4**

**OFFICERS ..... 5**

**CORPORATE RECORDS ..... 5**

**INSURANCE HOLDING COMPANY SYSTEM ..... 6**

**AGREEMENTS WITH AFFILIATES ..... 7**

**EXTERNAL AGREEMENTS ..... 8**

**TERRITORY AND PLAN OF OPERATION ..... 9**

**REINSURANCE ..... 10**

**REINSURANCE ASSUMED ..... 10**

**CEDED REINSURANCE ..... 11**

**FINANCIAL STATEMENTS..... 11**

**STATEMENT OF ASSETS AND LIABILITIES ..... 12**

**STATEMENT OF INCOME ..... 14**

**RECONCILIATION OF CAPITAL AND SURPLUS ..... 15**

**ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS RESULTING FROM THE  
EXAMINATION..... 15**

**COMMENTS ON FINANCIAL STATEMENT ITEMS..... 15**

**SUBSEQUENT EVENTS..... 16**

**SUMMARY OF RECOMMENDATIONS..... 17**

**CONCLUSION ..... 17**

## **SALUTATION**

May 31, 2019

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

Dear Commissioner:

In compliance with instructions and pursuant to statutory provisions contained in Exam Authority No. 18.012, dated March 14, 2018, an examination has been made of the affairs, financial condition and management of

### **INDEPENDENT SPECIALTY INSURANCE COMPANY**

hereinafter referred to as the Company or ISIC and 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 examination was conducted at the administrative office of the Company located at 1900 L. Don Dodson Drive, Bedford, Texas, 76021. The report of examination thereon is respectfully submitted.

### **SCOPE OF EXAMINATION**

We have performed our multi-state examination of ISIC. The last examination was conducted as of December 31, 2013, by the Ohio Department of Insurance. This examination covered the period of January 1, 2014 through December 31, 2017. Our examination was performed as part of the multi-state coordinated examination of the State National Group of regulated entities wherein Texas is the lead state prior to Illinois after its acquisition by Markel

Corporation (Markel). The examination was conducted concurrently with that of the Company's Texas domiciled affiliate, City National Insurance Company (CNIC). 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 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 accounting firm, Ernst and Young, LLP (EY). Certain auditor work papers of the December 31, 2017, 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 on April 27, 1959, as a stock property and casualty company under the laws of the State of Ohio in the name of Investment Life Insurance Company of America. A number of amendments have thereafter been made to the said Certificate of Incorporation by means of various Articles of Amendment, which included the change of the name of the company to Fireman's Fund Insurance Company of Ohio, all of which were filed in the State of Ohio. The Company was acquired along with its parent, Fireman's Fund Insurance Company (Fireman's), by Allianz Global Corporate & Specialty (Allianz) on April 1, 2015. As an Ohio domiciled company, the Company was engaged in the business of providing property and casualty insurance until January 30, 2017, when it re-domesticated to the State of Delaware.

On January 1, 2017, Allianz sold all of the common stock of the Company to United Specialty Insurance Company (USIC), a wholly-owned subsidiary of the ultimate parent, State National Companies, Inc. (SNC). On November 17, 2017, the Company was

indirectly acquired by Markel, as a result of its acquisition of SNC, the previous ultimate parent.

### Capitalization

The Company's Certificate of Incorporation authorizes the issue of 5,000,000 shares of common stock with a \$1.00 par value. As of December 31, 2017, the Company had 4,500,000 common shares issued and outstanding totaling \$4,500,000. All outstanding common shares of the Company are owned by USIC. As of December 31, 2017, the Company reported gross paid in and contributed surplus of \$21,000,310.

### Dividends

The Company's current Board of Directors (Board) did not approve or authorize any dividends during the exam period. However, on October 27, 2016, the Company paid dividends in the amount of \$4,000,000 to its former parent, Fireman's.

## **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. The Board shall not have less than three members and not more than 21 and the total number of directors shall be determined by the Shareholder(s).

Each Director is elected annually by the stockholder and holds office until the next annual election and until their successors are elected and qualified except as removed for cause and the successor elected by a special meeting of the stockholder. Directors duly elected and serving as of December 31, 2017, are as follows:

<u>Name</u>	<u>Title</u>
Terry Lee Ledbetter,	Chairman and Chief Executive Officer
David Martin Cleff	Secretary; General Counsel
Matthew Anthony Freeman	President
David Donaldson Hale*	Treasurer
Richard Randolph Grinnan	General Counsel and Secretary, Markel
Robin Russo	SVP, Chief Underwriting Officer, Markel
Richard Reeves Whitt III	Co-Chief Executive Officer, Markel

\* David Hale retired and was replaced by April Lynn Duff as Treasurer

### Officers

Officers were elected in accordance with the bylaws during the period under examination. The bylaws require election of a President, Secretary and Treasurer. Any number of offices may be held by the same person. The primary officers serving as of December 31, 2017, were as follows:

<u>Name</u>	<u>Title</u>
Terry Lee Ledbetter	Chief Executive Officer
Matthew Anthony Freeman	President
David Donaldson Hale*	Treasurer
David Martin Cleff	Secretary

\*David Hale retired; replaced by April Lynn Duff on November 15, 2018

### 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, 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 in compliance with 18 *Del. C.* § 4919.

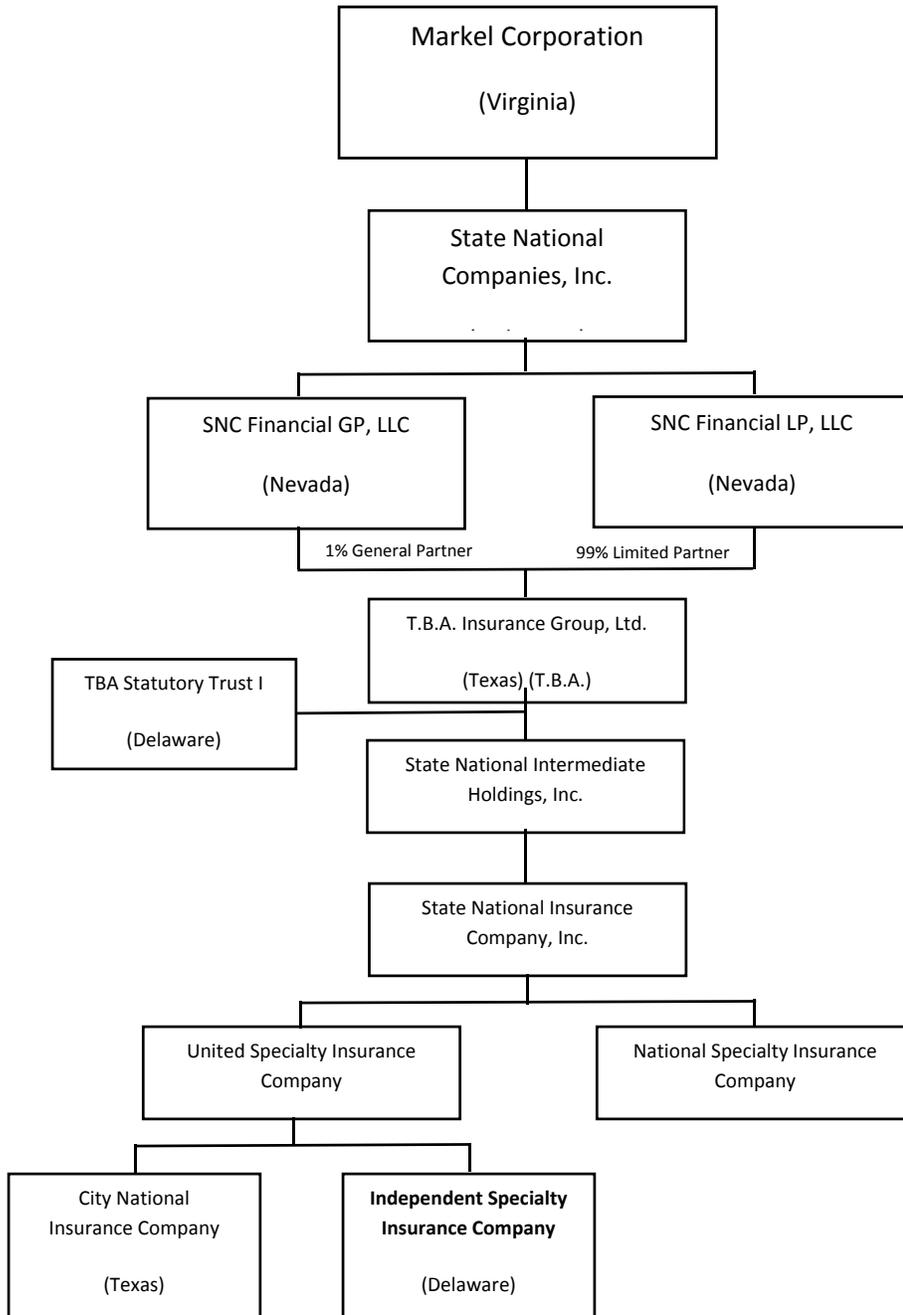
Independent Specialty Insurance Company

### 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 became a member of the insurance holding company system on January 1, 2017, when USIC acquired 100% of the issued and outstanding capital stock of the Registrant from Fireman's. The Company was a wholly-owned subsidiary of USIC, which is a wholly-owned subsidiary of State National Insurance Company (SNIC), which is ultimately wholly owned by SNC until purchased by Markel on November 17, 2017.

An abbreviated organizational chart of the Markel holding company system as of December 31, 2017, is as follows (ownership of subsidiaries is 100% unless otherwise noted):

Independent Specialty Insurance Company



Agreements with Affiliates

The Company was a party to numerous intercompany agreements after its acquisition and was disclosed by the Company in its initial Form B Registration Statement filing with the Department. The agreements of significance are summarized as follows:

*Management Services Agreement*

Effective January 1, 2017, by Addendum 6, the Company entered into an existing agreement (dated December 29, 1999) and addendums for management services with its upstream parent, T.B.A. Insurance Group, Ltd (T.B.A.) that included all insurance subsidiary insurers. T.B.A. provides management services to all of the insurance companies for the oversight of the Companies' underwriting operations. This agreement was approved by the Department on February 7, 2017. Fees incurred by the Company for such services were approximately \$4,980,752 for 2017.

*Tax Allocation Agreement*

Effective January 1, 2017, by Addendum 1, the Company entered into an existing agreement tax sharing agreement (dated June 24, 2014) with SNC and its subsidiaries. This addendum was approval by the Department on February 7, 2017.

External Agreements

In addition to the above intercompany agreements, the Company had the following external agreements in effect at December 31, 2017:

*Custodial*

The Company is party to a custodial agreement with Frost Bank, NA (Frost) 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.

Independent Specialty Insurance Company

### *Investment Management*

Effective January 1, 2017, the Company entered into an investment management agreement with Asset Allocation Management, Inc. (AAM) as investment manager and to provide investment advisory services.

### *Program Manager/MGA Agreement*

Effective February 1, 2017, by Addendum, the Company was added to a General Agency Agreement with Velocity Risk Underwriters, LLC. No business was written during the year.

## **TERRITORY AND PLAN OF OPERATION**

### Territory

As of December 31, 2017, ISIC was licensed to transact multiple lines of insurance business in the state of Delaware. Effective January 30, 2017, via redomestication to Delaware, ISIC converted from a domestic property and casualty insurer to a domestic surplus lines insurer.

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

For the year ending 2017, the Company did not write any direct business. Premiums written were a result of assumed premiums from a pooling arrangement entered into with SNIC and subsidiary insurers.

On a surplus lines basis, the Company intends to write the following business: general liability; commercial automobile; excess liability; personal liability; professional liability; and inland marine.

The Company intends to market its products through program managers and/or managing general agents (MGAs).

**REINSURANCE**

As of December 31, 2017, the Company's reinsurance program consisted primarily of assumed business. ISIC did not write any direct business in 2017. In the ordinary course of business, the Company will reinsure certain property risks to limit its maximum losses and protect itself from catastrophes.

**Reinsurance Assumed***Affiliated: Intercompany Pooling Agreement*

The Company is a member of an intercompany pooling agreement (Pooling Agreement) with its parents SNIC and USIC and affiliates NSIC and CNIC, by Addendum, effective January 1, 2017. Under the Pooling Agreement, SNIC cedes 15% of all remaining policy liabilities after cession to non-affiliates, to the Company. The impact of reinsurance on the premiums of the Company based on the Pooling Agreement in 2017 is shown below:

	<b><u>ISIC</u></b>	<b><u>SNIC</u></b>
Direct Written Premiums	\$ 0	\$707,631,094
Assumed (other than inter-company)	0	10,602,954
Gross Written Premiums	<u>\$ 0</u>	<u>\$718,234,048</u>
Ceded:		
Property and casualty (program business)	0	584,435,637
Quota Share Base	<u>\$ 0</u>	<u>\$133,798,411</u>
Assumed from (ceded to) pool	<u>22,516,654</u>	<u>16,312,613</u>
Total Pool*	<u>\$22,516,654</u>	<u>\$150,111,024</u>
Pooling Percentage*	15%	85%
Net before Pooling Adjustment*	\$22,516,654	\$ 150,111,024
Adjustment (percentage change)*	<u>9,987,635</u>	<u>0</u>
Net Pool per Annual Statement	<u>\$32,413,988</u>	<u>\$ 150,111,024</u>

\*Net pooled for SNIC includes USIC; NSIC; CNIC before adjustments due to pooling percentage change which distorts amounts pooled.

Ceded Reinsurance

The Company did not directly write business in 2017; thus did not cede business to SNIC per the Pooling Agreement.

**FINANCIAL STATEMENTS**

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

- Statement of Assets and Liabilities as of December 31, 2017
- Statement of Income for the year ended December 31, 2017
- Reconciliation of Capital and Surplus for the Period from the Prior Examination as of December 31, 2013 to December 31, 2017

**Statement of Assets and Liabilities**  
**As of December 31, 2017**

	<u>Assets</u>	<u>Non admitted Assets</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 59,484,624		\$ 59,484,624	
Common stocks	0		0	
Cash	5,472,238		5,472,238	
Short-term Investments	500,042		500,042	
Other invested assets				
Receivables for securities	2,365		2,365	
Subtotals, cash and invested assets	<u>\$ 65,459,269</u>	<u>\$ -</u>	<u>\$ 65,459,269</u>	
Investment income due and accrued	296,610		296,610	
Uncollected premiums and agents' balances in the course of collection	1,309,339		1,309,339	
Deferred Premiums, Agents' Balance booked but not due				
Accrued retrospective premiums				
Amounts recoverable from reinsurers				
Funds held by or deposited with reinsured companies				
Current federal and foreign income tax recoverable and interest thereon				
Net deferred tax asset	1,986,586	265,605	1,720,981	
Furniture and equipment				
Receivable from parent, subsidiaries and affiliates	665,614		665,614	
Aggregate write-in: Ceded reinsurance recoverables	3,286		3,286	
Totals	<u><u>\$ 69,720,704</u></u>	<u><u>\$ 265,605</u></u>	<u><u>\$ 69,455,099</u></u>	

Independent Specialty Insurance Company

		<u>Notes</u>
Losses	\$ 1,813,389	1
Reinsurance payable on paid losses and LAE	2,498,796	
Loss adjustment expenses	275,053	1
Commissions payable, contingent commissions	195,091	
Other expenses		
Taxes, licenses and fees		
Current federal and foreign income taxes	23,154	
Unearned premiums	10,671,362	
Ceded reinsurance premiums payable		
Funds held by company under reinsurance treaties		
Amounts withheld or retained by company for account of others		
Remittances and items not allocated	257	
Provisions for reinsurance		
Payable to parent, subsidiaries, and affiliates		
Aggregative write-ins:		
Deferred ceding fees	5,530,950	
Deferred ceding commission		
Escheat payable		
Total liabilities	<u>\$ 21,008,052</u>	
Retroactive reinsurance gain		
Common capital stock	4,500,000	
Gross paid in and contributed surplus	21,000,310	
Unassigned funds (surplus)	22,946,737	
Surplus as regards policyholders	<u>\$ 48,447,047</u>	
Totals	<u><u>\$ 69,455,099</u></u>	

**Statement of Income**  
**For the Year Ended December 31, 2017**

Notes

Premiums earned	\$ 21,742,626
Losses incurred	<u>\$ 9,442,891</u>
Loss adjustment expenses incurred	1,289,661
Other underwriting expenses incurred	9,349,824
Total underwriting deductions	<u>\$ 20,082,375</u>
Net underwriting gain (loss)	<u>\$ 1,660,251</u>
Net investment income earned	1,216,502
Net realized capital gains or (losses)	129,987
Net investment gain (loss)	<u>\$ 1,346,489</u>
Net gain (loss) from agents' or premiums balances charged off	\$ 1,524
Miscellaneous and foreign exchange fund	
Net interest on funds held	
Retroactive reinsurance losses	
Total other income	<u>\$ 1,524</u>
Net income after dividends to policyholders	<u>\$ 3,008,263</u>
Dividends to policyholders	
Net income, after dividends to policyholders	<u>\$ 3,008,263</u>
Federal and foreign income taxes incurred	3,620,786
Net income	<u>\$ (612,523)</u>
Surplus as regards policyholders, December 31, 2016	<u>\$ 47,025,587</u>
Net income (losses)	\$ (612,523)
Change in net unrealized capital gains (losses)	247,272
Change in net unrealized foreign exchange gains (losses)	
Change in net deferred income tax	2,052,316
Change in non-admitted assets	(265,605)
Change in provision for reinsurance	
Surplus adjustment: Paid in	
Dividends to stockholders	
Prior period correction on an error	
Net change in capital and surplus for the year	<u>\$ 1,421,460</u>
Surplus as regards policyholders, December 31, 2017	<u><u>\$ 48,447,047</u></u>

**Reconciliation of Capital and Surplus**  
 For the Period from the Prior Examination  
 As of December 31, 2013 to December 31, 2017

	Retroactive Reinsurance Gain	Common Capital Stock	Gross Paid-in and Contributed Surplus	Unassigned Surplus	Total
12/31/13		\$ 4,500,000	\$ 21,000,310	\$ 22,504,839	\$ 48,005,149
12/31/14 1				980,720	980,720
12/31/15 1				982,114	982,114
12/31/16 1				1,057,604	1,057,604
12/31/16 2				(4,000,000)	(4,000,000)
12/31/17 1				1,421,460	1,421,460
Rounding					-
	\$ -	\$ 4,500,000	\$ 21,000,310	\$ 22,946,737	\$ 48,447,047

1 Represents net income, change in unrealized capital gains (losses), change in unrealized foreign exchange gains/(losses), change in net deferred income tax, change in non- admitted assets, change in provisions for reinsurance.

2 Dividends to stockholder – this amount represents a \$4 million ordinary dividend paid to former parent Fireman’s.

**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:

Losses	\$ 1,813,389
Loss Adjustment Expenses	\$ 275,053

The examination liability for the aforementioned captioned items of \$1,813,389 and \$275,053 are the same as reported by the Company as of December 31, 2017. The examination analysis of Loss and Loss Adjustment Expense reserves was conducted in accordance with Generally Accepted Actuarial Principles and Statutory Accounting Principles, including NAIC *Accounting Practices and Procedures Manual*, Statement of Statutory Accounting Principle No. 55 (SSAP No. 55).

## **SUBSEQUENT EVENTS**

Significant events subsequent to the examination date include the following:

### SNC/Acquisition:

- Effective November 2, 2018, and December 1, 2018, SNC acquired two additional insurers: Savers Property and Casualty Insurance Company (Savers) and Alterra America Insurance Company (Alterra), respectively. The Missouri Department of Insurance approved the acquisition via Form A and Delaware approved the redomestication of Savers via Order No. 4014-2018 including conversion as a domestic surplus lines insurer. Also, the name of the Company was changed to Superior Specialty Insurance Company as noted on the Certificate of Authority and became effective as of April 16, 2019.

### Markel/Nephila Acquisition:

- Effective November 14, 2018, Markel acquired 100% of Nephila Holdings, Ltd. (Bermuda), an insurance linked securities manager and its affiliates including its U.S. subsidiaries. Velocity Risk, a subsidiary of Nephila, wrote catastrophic property business for ISIC in 2018 which was reinsured by Lloyd Syndicate #2358. The Lloyd's is a subsidiary company of Markel.

### Tax Allocation Agreement:

- Effective February 23, 2018, the Company became a party to an accompanying Joinder to the Tax Allocation Agreement to which Markel and its other consolidated subsidiaries are parties. The agreement with ISIC will govern its tax sharing arrangement with the affiliates of Markel that file a consolidated federal tax return. This agreement was approved by the Department on December 5, 2017.

### Investment Advisory Agreement:

- Effective February 28, 2018, the Company entered into an Investment Advisory Agreement with Markel-Gayner (MG). Under this agreement, MG will provide investment advisory services to the Company.

### Custodial Agreement:

- Effective, February 23, 2018, the Company entered into a custody agreement with Bank of New York Mellon (BNY) for its invested assets. Effective, May 1, 2018, Frost was removed as custodian.

**SUMMARY OF RECOMMENDATIONS**

There were no recommendations as a result of this examination.

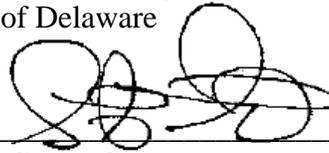
**CONCLUSION**

The assistance and cooperation of examiners representing the states on the coordinated examination is acknowledged. In addition, the assistance of the consulting actuarial firm, INS Consultants, Inc., the Company's outside audit firm, EY, and the Company's management and staff was appreciated and is acknowledged.

Respectfully submitted,



\_\_\_\_\_  
Darryl Reese, CFE  
Examiner In-Charge  
State of Delaware



\_\_\_\_\_  
Steve Guest, CFE  
Supervising Examiner  
State of Delaware