

**EXAMINATION REPORT**  
**OF**  
**KNIGHTBROOK INSURANCE COMPANY**  
**AS OF**  
**DECEMBER 31, 2022**

TRINIDAD NAVARRO  
COMMISSIONER



STATE OF DELAWARE  
DEPARTMENT OF INSURANCE

REPORT ON EXAMINATION  
OF  
KNIGHTBROOK INSURANCE COMPANY  
AS OF  
DECEMBER 31, 2022

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, reading "Trinidad Navarro", is written over a horizontal line.

Trinidad Navarro  
Insurance Commissioner

Dated this   3   day of   June  , 2024

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May 22, 2024

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. 23.025, dated January 13, 2023, an examination has been made of the affairs, financial condition and management of

**KNIGHTBROOK INSURANCE COMPANY**

hereinafter referred to as the Company or KBIC. The Company was incorporated under the laws of the State of Delaware as a stock company with its registered office located at 1807 North Market Street, Wilmington, Delaware 19802. The administrative offices of the Company are located at 4751 Wilshire Boulevard #111, Los Angeles, California 90010.

**SCOPE OF EXAMINATION**

We have performed our multi-state examination of the Company. The last examination was conducted as of December 31, 2019, and covered the three-year period from January 1, 2017 through December 31, 2019. This examination covers the three-year period from January 1, 2020 through December 31, 2022, and encompasses a general review of transactions during the period, the Company's business policies and practices, as well as management and relevant corporate

matters, with a determination of the financial condition of the Company as of December 31, 2022. Transactions subsequent to the examination date were reviewed where deemed necessary.

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 are 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, RSM US LLP (RSM). Certain auditor work papers from

the December 31, 2022, and 2021 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**

The examination found the Company's investment in Hankey Capital, LLC (HC) in the amount of \$21.4 million as of December 31, 2022, did not comply with 18 *Del. C.* § 1328 (2). The investment was subsequently disposed of and replaced with qualifying assets. As a result, there was no adjustment to the financial statements as reported by the Company as of December 31, 2022.

The examination found the Company's investment in Hankey Cash Management LLC (HCM) in the amount of \$68.2 million as of December 31, 2022, did not comply with 18 *Del. C.* § 1328 (2). The investment was subsequently disposed of and replaced with qualifying assets. As a result, there was no adjustment to the financial statements as reported by the Company as of December 31, 2022.

The examination found the trust agreement supporting the Company's reinsurance with Knight Insurance Company Segregated Portfolio Company (KIC SPC) for the benefit of Hankey Re Segregated Portfolio Company (Hankey Re SPC) and Wilshire Re Segregated Portfolio Company (Wilshire Re SPC) did not comply with 18 *Del. C.* § 912, § 913 and 18 *Del. Admin. Code* § 1003-7.0 as of December 31, 2022. The trust agreement was subsequently terminated and replaced with a funds withheld arrangement, requiring a transfer of funds back to the Company from the reinsurer. The form of underlying collateral complies with all statutes and regulations. As a result, there was no adjustment to the financial statements as reported by the Company as of December 31, 2022.

## **COMPANY HISTORY**

The Company was incorporated on December 17, 1934, under the laws of the State of Delaware as a mutual property and casualty reinsurance company. The Company's original name was Excess Mutual Reinsurance Company. As of December 31, 1995, the Company was converted to a stock company and its name was changed to Excess Reinsurance Company. On July 1, 2008, the Company was acquired by KnightBrook LLC (KB LLC). Simultaneous to this transaction, Northwestern Insurance Company, an insurer domiciled in the State of Pennsylvania, was merged into the Company. On July 21, 2008, the Company was renamed to KnightBrook Insurance Company.

KB LLC was originally structured as a joint venture between Don Robert Hankey and the owners of Venbrook Insurance Holdings, LLC (Venbrook), whereby Mr. Hankey, along with other related party minority shareholders, ultimately owned and controlled 68% of KB LLC and Venbrook owned the remaining 32%. Effective October 2, 2015, Venbrook was completely divested of its ownership in KB LLC and the Company. After the Venbrook divestiture, various intermediate holding companies were dissolved, and the insurance holding company structure was simplified. On December 31, 2020, KB LLC was merged into Knight Insurance Company, Ltd (KIC) with KIC as the surviving company owning all outstanding common shares of KBIC.

### **Capitalization**

The Company's Certificate of Incorporation authorizes the issue of 3,000,000 shares of common stock with a par value of \$3.73292 per share. As of December 31, 2022, the Company had 1,130,000 common shares issued and outstanding totaling \$4,218,200. As of December 31, 2022, the Company reported gross paid-in and contributed surplus of \$114,331,396. There were no changes in capitalization during the examination period.

Dividends

No stockholder dividends were declared or paid 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 Certificate of Incorporation and bylaws, the business and affairs of the Company are managed by or under the direction of its Board of Directors (Board). The Company's bylaws require that its Board consists of not less than five (5) or more than thirteen (13) 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 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, 2022, were as follows:

<u>Name</u>	<u>Title</u>
Don Robert Hankey	Chairman of the Board and Chief Executive Officer Hankey Group
Bret Conrad Hankey	President, Hankey Group
Amit Bharatkumar Shah	President, Knight Insurance Group
Gracia Slamet	Chief Financial Officer, Hankey Investment Company
John Martin Rygh	Secretary and General Counsel, Knight Insurance Group

Officers

Officers were elected by the Board in accordance with the bylaws during the period under examination. Elected officers may be a Chairman of the Board, President, Chief Executive Officer, Vice-President, Secretary and Treasurer. The Board may also elect or appoint additional Vice-Presidents, one or more Assistant Secretaries and Assistant Treasurers or other officers as



deemed necessary. Any number of offices may be held by the same person. The primary officers serving as of December 31, 2022, were as follows:

<u>Name</u>	<u>Title</u>
Don Robert Hankey	Chairman and Chief Executive Officer
Amit Bharkat Kumar Shah	President
Jacqueline Leung	Chief Financial Officer and Treasurer
Robert Witold Jozwik *	Secretary and General Counsel
Bret Conrad Hankey	Assistant Secretary

\* Mr. Jozwik resigned effective at the close of business on November 30, 2023.

### Corporate Records

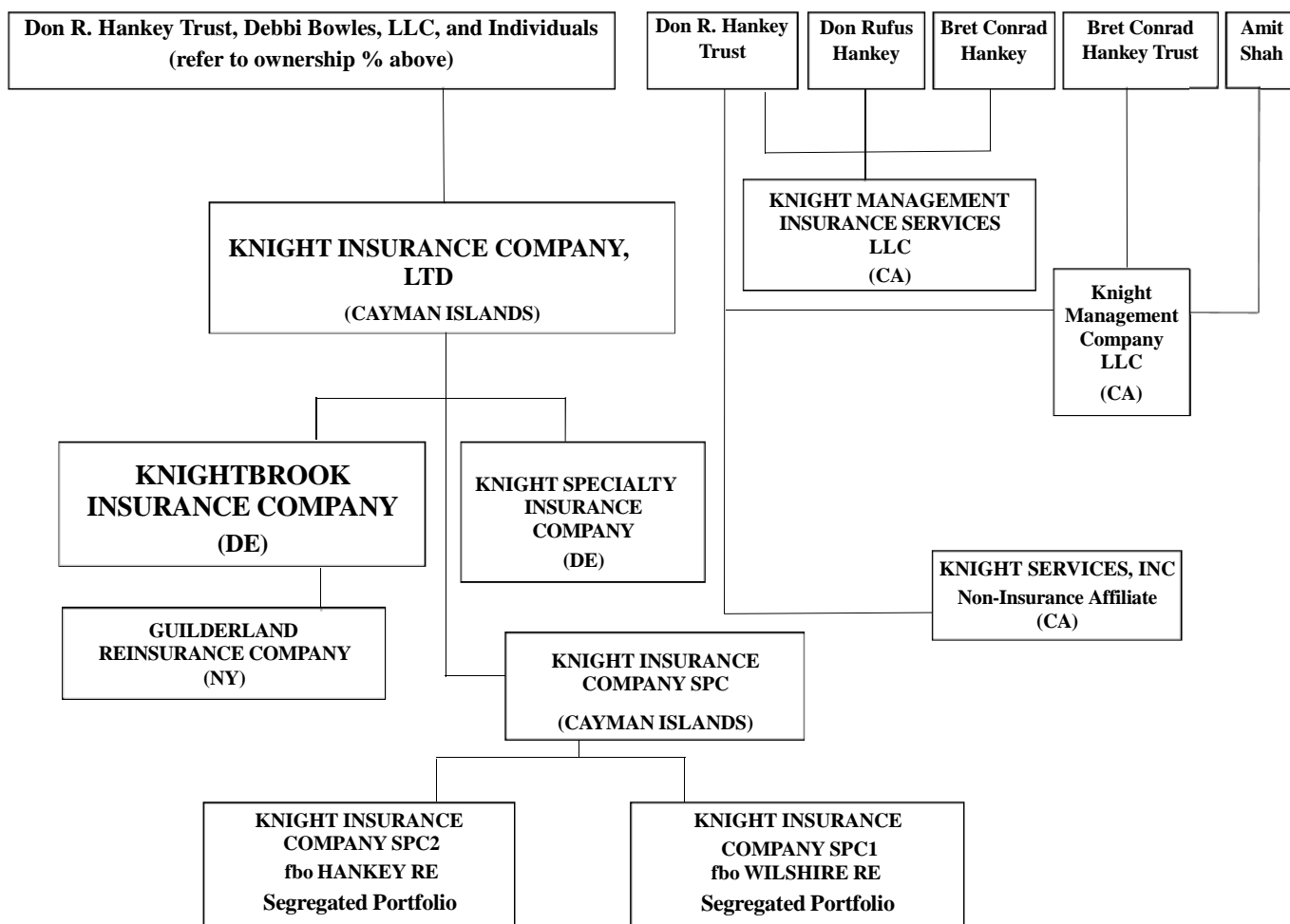
The recorded minutes of the shareholder and Board were reviewed for the period under examination. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions and events including approval of investment transactions in accordance with 18 *Del. C.* § 1304. In addition, review of Company files indicated that written correspondence was submitted to the Department regarding changes in officers and directors during the period under examination in compliance with 18 *Del. C.* § 4919.

### Insurance Holding Company System

The Company is a member of an insurance holding company system known as the Knight Insurance Group (Group) as defined under 18 *Del. C.* § 5001 of the Delaware Insurance Code. The ultimate controlling parties of the Group wholly owns KBIC's direct parent KIC, as follows: 94.25% by Don R. Hankey Trust, 2.29% by Debbi Bowles, LLC, 1.42% by Amit Bharkat Kumar Shah, 1.14% by Bret Conrad Hankey, 0.78% by Don Rufus Hankey, 0.10% by Jacqueline Leung, 0.01% by Aditya Samanta and 0.01% by Letian Zhao. KBIC wholly owns Guilderland Reinsurance Company (GIC), its only subsidiary. GIC is a New York domicile reinsurance

company that ceased writing business in 2004 and is in run-off. GIC’s previously written business expired in October of 2006.

The following organizational chart of the Group reflects the legal entities and affiliated relationships within the insurance holding company system as of December 31, 2022:



Agreements with Affiliates

The following agreements with affiliates were in effect as of December 31, 2022:

*Management Agreement*

Effective July 1, 2008, and last amended September 1, 2011, KBIC and Knight Management Insurance Services, LLC (KMIS) are parties to an agreement, whereby KMIS

provides KBIC underwriting risk management services, regulatory services, home office services, accounting services, claims management services and accounting and cash records services. In return, KBIC reimburses KMIS for ordinary and necessary expenses associated with the services provided. Expenses may include identifiable expenses paid or incurred by KMIS on KBIC's behalf and non-identifiable expenses allocated and charged to KBIC based on the total net written premiums of the KBIC. The agreement further defines direct and indirect costs and requires KMIS to invoice KBIC monthly. Outstanding balances under the agreement require settlement within forty-five (45) days following the close of each calendar month.

*Amended and Restated Underwriting Management Agreement*

Effective June 1, 2020, KBIC entered into an agreement with Knight Management Company LLC (KMC). Under the terms of the agreement, KMC will solicit, accept and receive applications for KSIC's authorized classes of coverage. KMC at its own expense, will secure reasonable underwriting information related to each risk insured by KSIC and when authorized, issue, renew and countersign policies, certificates, endorsements and binders. KMC will collect premium and has authority to adjust and pay claims and appoint subagents. Business produced and issued or renewed prior to the date of this agreement will be administered under the Management Agreement with KMIS.

*Cash Management Agreement*

Effective August 20, 2019, Knight Services, Inc. (KSI) and KBIC entered into an agreement with respect to certain centralized cash management services to be performed by KSI from a deposit account established by KSI for the benefit of KBIC. KBIC is entitled to withdraw funds from the deposit account at any time, with no credit limit. On May 2, 2023, the agreement was amended to reflect an account restructuring that cancelled the original KSI bank account and

replaced it with a new bank account established by HCM, who performs the cash management functions under the amended agreement.

*Investment Management Agreement*

Effective January 2, 2019, KIC and its subsidiaries, to include KBIC, entered into an Investment Management Agreement with Don Hankey as the Investment Advisor. The agreement sets forth the terms by which Mr. Hankey shall manage the invested assets of KIC and its subsidiaries.

*Tax Sharing Agreement*

KBIC entered into a Tax Allocation Agreement for taxable years commencing on and after January 1, 2020, with other affiliates that together with KIC form entities in accordance with Internal Revenue Service Code. Under the terms of the agreement, each party calculates its federal corporate tax liability as if it were filing a separate return. KIC is responsible for filing and paying the federal corporate tax liabilities of the tax entities. If KBIC owes a tax amount if filed on a separate return, it shall pay KIC the amount due. If KBIC would be entitled to a refund if filed on a separate return, or generated losses or credits used to reduce the tax of the consolidated entities, KIC shall pay KBIC the amount due. All settlements under this agreement shall be made within 30 days of the filing of the estimated or actual consolidated federal corporate income tax return, except where a refund is due KIC, in which case, it may defer payments to KBIC within 30 days of receipt of such refund.

**TERRITORY AND PLAN OF OPERATION**

KBIC is a licensed insurance carrier in all fifty (50) states and is a qualified/accredited reinsurer in the state of New York. KBIC provides specialized insurance products on a program

basis. KBIC partners with Managing General Agents and program administrators to participate in various affiliated and unaffiliated insurance programs.

In 2022, approximately 91.4% of KBIC’s direct written premium was in the following three (3) lines of business: private passenger auto liability (44.7%), commercial auto liability (29.5%) and private passenger auto physical damage (17.3%). Also, in 2022 approximately 87.7% of KBIC’s direct business was written in the following three (3) states: California (38.9%), Illinois (28.0%) and Texas (20.9%).

### **REINSURANCE**

The Company reported the following distribution of premiums written for the years ended December 31, 2022, and the prior examination date of December 31, 2019:

	2022	2019
Direct premiums written	\$ 74,156,634	\$ 41,617,411
Assumed premiums (from affiliates)	17,365,000	23,684,341
Assumed premiums (from non-affiliates)	-	-
Gross premiums written	\$ 91,521,634	\$ 65,301,752
Ceded premiums (to affiliates)	34,122,715	20,608,790
Ceded premiums (to non-affiliates)	1,642,306	(32,461)
Net premiums written	\$ 55,756,613	\$ 44,725,423

The Company’s primary reinsurance business consists of an active affiliated assumed reinsurance arrangement with KIC, an affiliated multi-line quota share (QS) agreement with KIC that terminated in 2017 and had no premium during the year, and an affiliated variable QS agreement entered into in 2018 with KIC. In addition, in 2022, KBIC started ceding business to affiliated and unaffiliated segregated portfolio companies sponsored by KIC SPC. Following is a summary of each significant reinsurance arrangement:

*Assumed Reinsurance (Affiliates)*

Effective April 1, 2017, KBIC and KIC entered into a Retrocession Agreement, whereby the Company assumes 100% of the premiums and losses from KIC issued under the general liability Equity Protection Program (EPP) by State National Insurance Company. All of KBIC's assumed premiums in 2022 are associated with this agreement.

*Ceded Reinsurance (Affiliates)*

Effective July 1, 2009, with amendment #9 terminating the agreement on April 1, 2017, KBIC and KIC were party to a multi-line QS agreement that is still supported by a funds withheld account to secure and collateralize all obligations of KIC under the agreement.

Effective April 1, 2018, KBIC and KIC entered into an affiliated variable QS agreement, whereby KBIC cedes to KIC 100% of the liability related to the GO program (personal lines auto physical damage) and 80% of the liability related to the Bridger program (personal auto liability and physical damage). The Bridger program was responsible for over 90% of the ceded premiums to affiliates in 2022 and the GO program had no ceded premiums in 2022. These programs are supported by a funds withheld account to secure all obligations of KIC under the agreement.

Effective November 1, 2021, KBIC entered into an 80% QS agreement with KIC SPC, for and on behalf of Wilshire Re SPC, covering KBIC's Onward PPA program. This program is supported by a beneficiary trust account to secure and collateralize all obligations of KIC SPC under the agreement.

Effective August 1, 2022, KBIC entered into a 50% QS reinsurance agreement with KIC SPC, for and on behalf of Wilshire Re SPC, covering KBIC's Allstar Trucking and TIE programs. These programs are supported by a beneficiary trust account to secure and collateralize all obligations of KIC SPC under the agreement.

Effective August 1, 2022, KBIC entered into a 20% QS reinsurance agreement with KIC SPC, for and on behalf of Hankey Re SPC, covering KBIC's Allstar Trucking, TIE and EPP programs. These programs are supported by a beneficiary trust account to secure and collateralize all obligations of KIC SPC under the agreement.

*Ceded Reinsurance (Non-Affiliates)*

Effective October 1, 2021, KBIC entered into a 50% QS agreement with KIC SPC for and on behalf of unaffiliated company Goodcover SP, for business produced under the Renters Insurance Program pursuant to a General Agency Agreement between KBIC and general agent Goodcover Insurance Solutions, LLC. Effective November 1, 2022, the agreement was amended to reduce the Company's QS participation to 20%. All of KBIC's ceded premiums to non-affiliates in 2022 were associated with this agreement. This business is supported by a beneficiary trust and/or funds withheld account to secure all obligations of KIC SPC under the agreement.

**FINANCIAL STATEMENTS**

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

- Assets as of December 31, 2022
- Liabilities, Capital, and Surplus as of December 31, 2022
- Statement of Income for the Year Ended December 31, 2022
- Reconciliation of Capital and Surplus for the Period from the Prior Examination as of December 31, 2019 to December 31, 2022

KnightBrook Insurance Company

Assets  
As of December 31, 2022

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$ 77,690,378	\$ -	\$ 77,690,378
Preferred stocks	125,250		125,250
Common stocks	54,192,016		54,192,016
Real Estate - Properties occupied by the Company	37,707		37,707
Cash (\$69,290,175); cash equivalents (\$0); and short-term investments (\$0)	69,290,175		69,290,175
Other invested assets (Schedule BA)	21,353,703		21,353,703
Investment income due and accrued	283,086		283,086
Uncollected premiums and agents' balances in the course of collection	11,334,488	765,420	10,569,068
Amounts recoverable from reinsurers	2,234,648		2,234,648
Receivables from parent; subsidiaries and affiliates	1,701,424		1,701,424
Aggregate write-ins for other than invested assets:			
Other Assets	7,731,143		7,731,143
Other Receivable	7,252,488		7,252,488
Premium Tax Receivable	569,388		569,388
Totals	<u>\$ 253,795,894</u>	<u>\$ 765,420</u>	<u>\$ 253,030,474</u>



Liabilities, Capital, and Surplus  
As of December 31, 2022

		<u>Note</u>
Losses	\$ 41,110,007	1
Reinsurance payable on paid losses and loss adjustment expenses	451,937	
Loss adjustment expenses	4,201,065	1
Commissions payable, contingent commissions & other similar charges	1,392,516	
Other expenses	353,593	
Taxes, licenses, and fees (excluding fed and foreign income taxes)	593,438	
Current federal and foreign income taxes	1,022,042	
Net deferred tax liability	578,075	
Unearned premium reserve	12,131,694	
Ceded reinsurance premiums payable	6,890,850	
Funds held by company under reinsurance treaties	42,783,218	
Payable to parent, subsidiaries and affiliates	83,052	
Payable for securities	530,744	
Total Liabilities	<u>\$ 112,122,231</u>	
Common capital stock	4,218,200	
Gross paid in and contributed surplus	114,331,396	
Unassigned funds (surplus)	<u>22,358,647</u>	
Surplus as regards policyholders	<u>\$ 140,908,243</u>	
Total Liabilities, Capital and Surplus	<u><u>\$ 253,030,474</u></u>	

Statement of Income  
For the Year Ended December 31, 2022

<b>Underwriting Income</b>	
Premiums earned	<u>\$ 57,688,026</u>
<b>Deductions</b>	
Losses incurred	28,564,035
Loss adjustment expenses incurred	3,497,148
Other underwriting expenses incurred	<u>17,387,264</u>
Total underwriting deductions	<u>\$ 49,448,447</u>
Net underwriting gain or (loss)	<u>\$ 8,239,579</u>
<b>Investment Income</b>	
Net investment income earned	5,510,862
Net realized capital gains or (losses) less capital gains tax of \$453,065	<u>(1,704,387)</u>
Net investment gain or (loss)	<u>\$ 3,806,475</u>
<b>Other Income</b>	
Net gain (loss) from agents' or premium balances charged off	302,516
Finance and service charges not included in premiums	19,966
Aggregate write-ins for miscellaneous income: Other Income	<u>1,783,855</u>
Total other income	<u>\$ 2,106,337</u>
Net income before dividends to policyholders	<u>\$ 14,152,391</u>
Net income after dividends to policyholders	<u>\$ 14,152,391</u>
Federal and foreign income taxes incurred	<u>3,394,709</u>
Net Income	<u><u>\$ 10,757,682</u></u>

Reconciliation of Capital and Surplus  
For the Period from the Prior Examination  
As of December 31, 2019 to December 31, 2022

	Common Capital Stock	Gross Paid-in and Contributed Surplus	Unassigned Surplus	Total
12/31/19	\$ 4,218,200	\$ 114,331,396	\$ (17,095,057)	\$ 101,454,539
12/31/20 (1)			17,314,228	17,314,228
12/31/20 (2)			(2,900,258)	(2,900,258)
12/31/21 (1)			11,259,015	11,259,015
12/31/21 (2)			7,387,688	7,387,688
12/31/22 (1)			10,757,682	10,757,682
12/31/22 (2)			(4,364,651)	(4,364,651)
	<u>\$ 4,218,200</u>	<u>\$ 114,331,396</u>	<u>\$ 22,358,647</u>	<u>\$ 140,908,243</u>

(1) Net income

(2) Change in net unrealized capital gains or (losses), change in net deferred income tax, and change in nonadmitted assets

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

There were adjustments to the Company's 2022 NAIC Annual Statement financial statements acknowledged during this examination. The Company's 2022 statutory audit report issued by RSM reflected adjustments that are associated with securities held under reinsurance treaties and cash transferred to an affiliate. Refer below to the financial statement adjustments as of December 31, 2022.

Statements of Admitted Assets, Liabilities, Capital and Surplus:	Per 2022 Audited Financial Report	Per 2022 NAIC Annual Statement	Variance
Equity securities	\$ 31,910,991	\$ 54,317,266	\$ (22,406,275)
Cash and cash equivalents	58,153,100	69,290,175	(11,137,075)
Receivables from parent, subsidiaries, and affiliates	15,701,424	1,701,424	14,000,000
Funds held by company under reinsurance treaties	23,239,868	42,783,218	(19,543,350)

**COMMENTS ON FINANCIAL STATEMENT ITEMS**

Note 1:

Losses	\$ 41,110,007
Loss Adjustment Expenses	\$ 4,201,065

The examination liability for the aforementioned captioned items of \$41,110,007 and \$4,201,065 are the same as reported by the Company as of December 31, 2022. 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**

Review of significant events subsequent to the examination date identified the following:

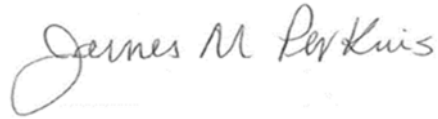
- The Company's investment in HC as of December 31, 2022, was subsequently disposed of and replaced with qualifying assets.
- The Company's investment in HCM as of December 31, 2022, was subsequently disposed of and replaced with qualifying assets.
- The trust agreement supporting the Company's reinsurance with KIC SPC for and on behalf of Hankey Re SPC and Wilshire Re SPC as of December 31, 2022, was subsequently terminated and replaced with a funds withheld arrangement, requiring a transfer of funds back to the Company from the reinsurer. The form of underlying collateral complies with all statutes and regulations.

**SUMMARY OF RECOMMENDATIONS**

There were no recommendations resulting from this examination.

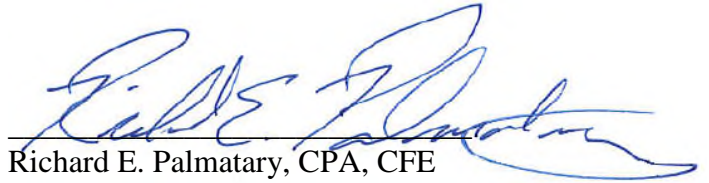
The assistance and cooperation of the consulting information systems firm, INS Services, Inc., the consulting actuarial firm, INS Consultants, Inc., the Company's outside audit firm, RSM, and the Company's management and staff was appreciated and is acknowledged.

Respectfully submitted,



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James M. Perkins, CFE  
Examiner-In-Charge  
State of Delaware



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Richard E. Palmatary, CPA, CFE  
Supervising Examiner  
State of Delaware

KnightBrook Insurance Company

I, James M. Perkins, 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. 23.025.

A handwritten signature in cursive script that reads "James M. Perkins". The signature is written in dark ink and is positioned above a solid horizontal line.

James M. Perkins, CFE  
Examiner-In-Charge  
State of Delaware