

**EXAMINATION REPORT**  
**OF**  
**KW SPECIALTY INSURANCE COMPANY**  
**AS OF**  
**DECEMBER 31, 2023**

TRINIDAD NAVARRO  
COMMISSIONER



STATE OF DELAWARE  
DEPARTMENT OF INSURANCE

REPORT ON EXAMINATION  
OF  
KW SPECIALTY INSURANCE COMPANY  
AS OF  
DECEMBER 31, 2023

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, which appears to read "Trinidad Navarro", is positioned above a horizontal line.

Trinidad Navarro  
Insurance Commissioner

Dated this 6 day of June, 2025

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May 28, 2025

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. 24.042, dated May 23, 2024, an examination has been made of the affairs, financial condition and management of

**KW SPECIALTY INSURANCE COMPANY**

hereinafter referred to as the Company or KWSIC. The Company was incorporated under the laws of the State of Delaware as a stock company with its registered office located at 251 Little Falls Drive, Wilmington, Delaware 19808. The administrative office of the Company is located at 14851 North Scottsdale Road, Suite 203, Scottsdale, Arizona 85254.

**SCOPE OF EXAMINATION**

We have performed our multi-state examination of the Company. The last examination was conducted as of December 31, 2019, by the Delaware Department of Insurance (Department) and covered the period of January 1, 2015 through December 31, 2019. This examination covers the period of January 1, 2020 through December 31, 2023.

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 Laws of the State of Delaware, as required by 18 *Del. C.* § 321, along with general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature, are not included within the examination report but separately communicated to other regulators and/or the Company.

During the course of this examination, consideration was given to work performed by the Company's external accounting firm, JLK Rosenberger, LLP (JLK). Certain auditor work papers of the 2023 JLK audit of the Company have been incorporated into the work papers of the examiners. The work papers were 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**

K-W Reinsurance Company Ltd. (K-W Re) was originally incorporated under the laws of the Turks and Caicos Islands on June 22, 1983. On November 1, 2017, K-W Re redomiciled to the State of Delaware and received authority to operate as a surplus lines insurer. At this time, the Company's name was changed from K-W Re to KW Specialty Insurance Company. On December 28, 2021, KW Reinsurance Company, LLC (KW Captive) was formed as a captive reinsurance company domiciled in the State of Delaware. The Company and KW Captive are subsidiaries of Kramer-Wilson Company, Inc. (KW). KW is primarily engaged in the commercial real estate business. KW is ultimately controlled by Weldon Wilson.

### **Capitalization**

The Company's Certificate of Incorporation authorizes the issue of one million shares of common stock with a \$1.00 par value. As of December 31, 2023, the Company had one million common shares issued and outstanding totaling \$1,000,000. All outstanding shares of the Company are owned by KW. As of December 31, 2023, the Company reported gross paid in and contributed surplus of \$81,284,009.

### **Dividends**

The Company's Board of Directors (Board) did not approve or authorize any 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 Certificate of Incorporation and bylaws, the business and affairs of the Company must be managed by or under the direction of its Board. The Company's bylaws require the Board to consist of not less than three or more than fifteen members as determined the Board. Further, the directors are elected for a term of one year and hold office until his or her successor is elected and qualified.

As of December 31, 2023, the members of the Board, together with their principal business occupation, were as follows:

<u>Name</u>	<u>Principal Occupation</u>
Kevin Wilson	Director and President KW
Brian Wilson <sup>1</sup>	Director and Vice President KW
Parker Kelley	Chief Financial Officer and Treasurer KW
Marla Vils	Vice President and Corporate Secretary KW
Gary Romay	President KWSIC

<sup>1</sup>Brian Wilson resigned from the Board subsequent to the examination period and was not replaced.

### Officers

Officers were elected in accordance with the Company's bylaws during the period under examination. The bylaws require election of a President, a Secretary and a Treasurer. The Board may also appoint other officers at its discretion including one or more Executive Vice Presidents and a Chief Executive Officer. The officers shall hold office until their successors are chosen and

qualified or until their earlier resignation or removal. Any number of offices may be held by the same person, though no single officer may execute any one document in more than one capacity. As of December 31, 2023, the Company's principal officers, together with their respective titles, were as follows:

<u>Name</u>	<u>Title</u>
Gary Romay	President
Laurel Weinholdt	Corporate Secretary
Gordon Kefer	Controller / Treasurer
Matt McColley	Executive Vice President - Operations
Brian Murphy	Vice President - Underwriting

#### Corporate Records

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

#### Insurance Holding Company System

The Company is a member of an insurance holding company system as defined under 18 *Del. C.* § 5001(7) of the Delaware Insurance Code. The following is an abbreviated organizational chart of the insurance holding company system as of December 31, 2023:

<u>Company</u>	<u>Domicile</u>
Weldon Wilson	
Kramer-Wilson Company, Inc.	Delaware
<b>KW Specialty Insurance Company</b>	<b>Delaware</b>
Kramer-Wilson Reinsurance Company, LLC	Delaware
KWC Scottsdale Road, LLC	Arizona

Agreements with Affiliates

The following is a summary of the Company's significant affiliated agreements (excluding reinsurance agreements) which were in effect as of December 31, 2023:

*Management Agreement*

Effective October 1, 2021, the Company entered a Supervise the Management Agreement with KW. In accordance with the agreement, KW provides all management services, pays all operating expenses, and provides all employees to supervise the production and service of the Company's business. The Company pays KW actual cost for all services provided and costs incurred under the agreement. This agreement replaced a prior Management agreement between the parties that was originally effective January 1, 2018.

*Tax Allocation Agreement*

Effective December 1, 2017, the Company became a party to a Tax Allocation Agreement with KW and its subsidiaries. The original Agreement was dated January 1, 1987. In accordance with the agreement, each participant calculates its federal corporate tax liability as if it were filing on a separate return basis. KW is responsible for filing and payment of all federal corporate tax liabilities, and each participant makes/receives payment to/from the Company based on a separate return basis. Each subsidiary must pay estimated tax installments due for a tax period within ten days of receiving notice of such payment from KW. Intercompany tax balances are settled annually when the consolidated tax return is filed.

*Office Lease*

Originally effective July 24, 2018, and amended March 17, 2022, January 1, 2023 and November 14, 2023, the Company is a party to a lease agreement with KWC Scottsdale Road, LLC (KWC). In accordance with the agreement, the Company leases office space from KWC and

pays monthly rent in the amount of \$16,351. The monthly rent is subject to annual escalation and expires on January 31, 2029. Future minimum lease obligations under the lease totaled \$1,057,589 as of December 31, 2023.

Originally effective October 1, 2021, and amended November 13, 2023, the Company is party to a Sublease Agreement with KW. In accordance with the agreement, KW subleases office space from the Company under its lease agreement with KWC. KW pays \$750 per month to the Company. The lease term begins October 1, 2021, and continues on a month-to-month basis expiring no later than the expiration of the Company's lease with KWC on January 31, 2029.

### **TERRITORY AND PLAN OF OPERATION**

As of December 31, 2023, the Company is licensed in Delaware as a surplus lines insurer, is eligible to write surplus lines in forty-nine (49) states and is qualified as a reinsurer in Texas and Arizona.

The Company wrote a limited amount of business during 2016 and has no exposure to insurance or reinsurance losses occurring prior to 2016. The Company began writing direct policies with a non-admitted homeowners program in California in February 2020. This surplus lines-based program has expanded to eleven other states from 2021 to 2023. This business is written using proprietary software through a wholesale agent model. The Company maintains a select group of agent relationships. These agents provide local expertise in the state under their authority. Future expansion plans are based on participation in the market as a direct carrier with the wholesale agent model.

The Company added a manufactured home program in June of 2021. This national program is managed by one wholesale agent. This program provides geographic diversity across

forty-five (45) states. The Company began nonrenewing this program subsequent to the examination period beginning November 1, 2024.

**REINSURANCE**

The Company reported the following distribution of premiums written for the year ended December 31, 2023:

	2023	2019
Direct business	\$ 59,915,625	\$ -
Reinsurance assumed (from affiliates)	-	-
Reinsurance assumed (from non-affiliates)	514,878	26,791,542
Gross direct and assumed business	\$ 60,430,503	\$ 26,791,542
Reinsurance ceded (to affiliates)	\$ 1,643,590	\$ -
Reinsurance ceded (to non-affiliates)	4,666,950	-
Gross ceded business	\$ 6,310,540	\$ -
Net premiums written	\$ 54,119,963	\$ 26,791,542

The following is a summary of the Company’s significant assumed and ceded reinsurance programs as of December 31, 2023.

**Assumed Reinsurance**

The Company no longer has an active assumptive reinsurance program as part of its ongoing business strategy. Prior to entering the market as a direct surplus lines carrier in 2020, the Company reinsured risks on a treaty basis in the private passenger auto (liability and physical damage), commercial multi-peril and commercial auto lines of business. The Company non-renewed its participation in the private passenger auto treaty and the commercial multi-peril treaty in 2020. The Company also non-renewed its participation in the commercial auto liability treaty in 2021. In 2022, the Company non-renewed all remaining assumed reinsurance treaties. These treaties include other liability, fidelity and collateral residual value lines of business. Liabilities

associated with the Company's legacy assumed reinsurance business is reinsured by KW Captive under loss portfolio transfer (LPT) agreements.

#### Ceded Reinsurance – Affiliated LPT

The Company has two LPT agreements with KW Captive whereby it cedes substantially all liabilities associated with its legacy assumed reinsurance business.

#### *2021 Loss Portfolio Transfer*

On December 28, 2021, the Company entered into a loss-portfolio transfer reinsurance agreement (2021 LPT) with the KW Captive. In accordance with the 2021 LPT, the Company cedes 100% of reserves for losses and loss adjustment expenses (LAE) and unearned premiums for certain run-off businesses. The Company has established a funds held account that will be used to pay reinsured liabilities payable by KW Captive. On a quarterly basis, interest of 0.375% is credited to the funds held account.

#### *2023 Loss Portfolio Transfer*

On January 1, 2023, the Company entered into another loss-portfolio transfer reinsurance agreement (2023 LPT) with KW Captive. In accordance with the 2023 LPT, the Company cedes 100% of reinsured liabilities for the run-off businesses not covered in the 2021 LPT. The Company utilizes the established funds held account from the 2021 LPT to pay reinsured liabilities payable by KW Captive. On a quarterly basis, interest of 1% will be credited to the funds held account.

#### Ceded Reinsurance – Property Catastrophe

The Company maintains a per event excess of loss property catastrophe reinsurance program whereby it cedes 100% of homeowners insurance losses above its \$5 million retention with a reinstatement at losses over \$40 million. The Company cedes \$5 million in excess of its retention to KW captive. The Company has three additional layers above this retention that are ceded to

third-party reinsurers. These layers are \$5 million in excess of \$10 million; \$10 million in excess of \$15 million and \$15 million in excess of \$25 million.

This program was revised effective April 1, 2024 whereby the Company retains the first \$10 million, KW Captive reinsures \$10 million in excess of \$10 million and the external reinsurance consisted of three layers including: \$10 million excess of \$20 million, \$10 million excess of \$30 million and \$20 million excess of \$40 million. The Company renewed this program effective on April 1, 2025, and purchased an additional \$20 million in excess of \$60 million bringing total limits to \$70 million excess of \$10 million. Terms and rates for the renewal are consistent with prior years.

### **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, 2023
- Statement of Liabilities, Surplus and Other Funds as of December 31, 2023
- Statement of Income for the Year Ended December 31, 2023
- Reconciliation of Capital and Surplus for the Period from the Prior Examination as of December 31, 2019 to December 31, 2023

Statement of Assets  
As of December 31, 2023

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$ 74,321,250	\$ -	\$ 74,321,250
Common stocks	16,884,075	-	16,884,075
Cash	13,150,184	-	13,150,184
Cash equivalents	8,793,008	-	8,793,008
Short-term investments	42,147,948	-	42,147,948
Receivables for securities	60,000	-	60,000
Subtotals, Cash and Invested Assets	<u>\$ 155,356,465</u>	<u>\$ -</u>	<u>\$ 155,356,465</u>
Investment income due and accrued	601,000	-	601,000
Uncollected premiums and agents' balances in the course of collection	1,760,582	59,107	1,701,475
Deferred premiums, agents' balances and installments booked but deferred and not yet due	3,471,516	-	3,471,516
Funds held by or deposited with reinsured companies	355,404	-	355,404
Current federal and foreign income tax recoverable and interest thereon	8,014	-	8,014
Net deferred tax asset	1,364,476	-	1,364,476
Electronic data processing equipment and software	1,804,630	1,804,630	-
Furniture and equipment	93,326	93,326	-
Aggregate write-ins for other-than-invested assets	6,609,784	782,639	5,827,145
Subtotal other assets	<u>\$ 16,068,732</u>	<u>\$ 2,739,702</u>	<u>\$ 13,329,030</u>
Total Assets	<u>\$ 171,425,197</u>	<u>\$ 2,739,702</u>	<u>\$ 168,685,495</u>

Statement of Liabilities, Surplus and Other Funds  
As of December 31, 2023

		<u>Notes</u>
Losses	\$ 8,341,011	1
Reinsurance payable on paid losses and loss adjustment expenses	750,584	
Loss adjustment expenses	1,025,388	1
Commissions payable, contingent commissions and other similar charges	1,558,209	
Other expenses (excluding taxes; licenses and fees)	2,655,330	
Taxes, licenses and fees	-	
Current federal and foreign income taxes	-	
Unearned premiums (after deducting unearned premiums for ceded reinsurance of \$410,494)	33,163,684	
Advance premium	398,419	
Ceded reinsurance premiums payable	2,177,200	
Funds held by company under reinsurance treaties	12,923,762	
Payable to parent, subsidiaries and affiliates	579,394	
Provision for reinsurance	-	
Payable for securities	58,513	
Aggregate write-ins for liabilities	4,534,716	
Total Liabilities	<u>\$ 68,166,210</u>	
Common capital stock	\$ 1,000,000	
Gross paid in and contributed surplus	81,284,009	
Unassigned funds (surplus)	18,235,276	
Surplus as regards policyholders	<u>\$ 100,519,285</u>	
Totals Liabilities, Surplus and Other Funds	<u><u>\$ 168,685,495</u></u>	

Statement of Income  
For the Year Ended December 31, 2023

Underwriting Income	
Premiums earned	\$ <u>38,570,614</u>
Losses incurred	\$ 20,314,812
Loss adjustment expenses incurred	2,933,558
Other underwriting expenses incurred	<u>21,959,684</u>
Total underwriting deductions	\$ <u>45,208,054</u>
Net underwriting gain (loss)	\$ <u>(6,637,440)</u>
Investment Income	
Net investment income earned	\$ 2,933,995
Net realized capital gains (losses) less capital gains tax of \$73,065	<u>(514,653)</u>
Net investment gain (loss)	\$ <u>2,419,342</u>
Other Income	
Finance and service charges not included in premium	156,230
Aggregate write-ins for miscellaneous income	\$ <u>-</u>
Total other income	\$ <u>156,230</u>
Net income before dividends to policyholders; after capital gains tax and before all other federal and foreign income taxes	\$ <u>(4,061,868)</u>
Dividends to policyholders	<u>-</u>
Net income; after dividends to policyholders; after capital gains tax and before all other federal and foreign income taxes	\$ <u>(4,061,868)</u>
Federal and foreign income taxes incurred	<u>251,993</u>
Net income	<u><u>\$ (4,313,861)</u></u>

**Reconciliation of Capital and Surplus**  
**For the Examination Period From the Prior Examination**  
**As of December 31, 2019 to December 31, 2023**

	<b>Common Capital Stock</b>	<b>Paid In &amp; Contributed Surplus</b>	<b>Unassigned Funds (Surplus)</b>	<b>Total</b>
Balance at December 31, 2019	\$ 1,000,000	\$ 81,284,009	\$ 26,356,223	\$ 108,640,232
Net Income (Loss)	-	-	1,494,800	1,494,800
Other Changes <sup>1</sup>	-	-	(1,666,911)	(1,666,911)
Balance at December 31, 2020	<u>\$ 1,000,000</u>	<u>\$ 81,284,009</u>	<u>\$ 26,184,112</u>	<u>\$ 108,468,121</u>
Net Income (Loss)	-	-	(4,615,243)	(4,615,243)
Other Changes <sup>1</sup>	-	-	469,035	469,035
Balance at December 31, 2021	<u>\$ 1,000,000</u>	<u>\$ 81,284,009</u>	<u>\$ 22,037,904</u>	<u>\$ 104,321,913</u>
Net Income (Loss)	-	-	190,455	190,455
Other Changes <sup>1</sup>	-	-	(2,099,314)	(2,099,314)
Balance at December 31, 2022	<u>\$ 1,000,000</u>	<u>\$ 81,284,009</u>	<u>\$ 20,129,045</u>	<u>\$ 102,413,054</u>
Net Income (Loss)	-	-	(4,313,861)	(4,313,861)
Other Changes <sup>1</sup>	-	-	2,420,093	2,420,093
Balance at December 31, 2023	<u>\$ 1,000,000</u>	<u>\$ 81,284,009</u>	<u>\$ 18,235,276</u>	<u>\$ 100,519,285</u>

<sup>1</sup>Other Changes in Unassigned Funds (Surplus) for each year may include: change in net deferred income tax, change in nonadmitted assets and change in provision for reinsurance.

**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	\$ 8,341,011
Loss Adjustment Expenses	1,025,388

The examination liability for the aforementioned captioned items is the same as those balances reported by the Company as of December 31, 2023. 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, Statement of Statutory Accounting Principle No. 55 *Unpaid Claims, Losses and Loss Adjustment Expenses* (SSAP No. 55).

**SUBSEQUENT EVENTS**

Subsequent events were evaluated through the date that this examination report was available to be issued. Based on this evaluation, the following transactions were deemed material for disclosure in this examination report.

Significant Events – Catastrophe Loss

In January 2025, extreme wildfires caused widespread damage across parts of Los Angeles County (Palisades and Eaton). As of March 31, 2025, the Company estimates the Palisades fire gross losses incurred will not exceed the upper limits of the Company's catastrophic excess of loss reinsurance treaty (\$50 million in excess of \$10 million). Due to the nature of the event the Company believes all claims have been reported. As of March 31, 2025, the Company has paid \$43 million in claims with \$12.8 million booked as case reserves. Additionally, the Company

recorded \$4.2 million in incurred but not reported (IBNR) which management believes is a reasonable estimate of potential loss emergence associated with this event.

As of March 31, 2025, the Company has ceded \$50 million under the catastrophic excess of loss reinsurance treaty. Those cessions include \$33 million in paid recoverable, \$12.8 million in case reserves and \$4.2 million of IBNR. Additionally, the current paid recoverable amount is \$12 million. The Company has recognized \$10 million of reinstatement premium associated with the Palisades event. There is a potential for an additional reinstatement premium as the event develops, but maximum additional reinstatement premium exposure is capped at \$1.9 million.

The Eaton fire did not exceed the Company's retention of \$10 million. As of March 31, 2025, the Company reported incurred losses on the Eaton fire in the amount of \$5.2 million. Additionally, the Company has recognized a subrogation recoverable of \$2.6 million for the Eaton event. The Company anticipates recovery against Southern California Edison Company and is joining the class action with other insurance carriers.

#### New Agreement

The Company renewed its per event aggregate catastrophe excess of loss contract effective on April 1, 2025, and purchased an additional \$20 million excess of \$60 million bringing total limits to \$70 million excess of \$10 million. Terms and rates for the renewal are consistent with prior years.

### **SUMMARY OF RECOMMENDATIONS**

There were no recommendations as a result of this examination.

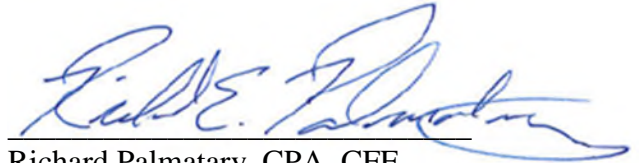
The assistance and cooperation of examiners representing the states on the coordinated examination is acknowledged. In addition, the assistance of the consulting actuarial firm, INS Consultants, Inc., the consulting information systems specialist firm, INS Services, Inc., the Company's outside audit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

Respectfully submitted,



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Patrick White, CFE  
Examiner In-Charge  
State of Delaware



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Richard Palmatary, CPA, CFE  
Supervising Examiner  
State of Delaware

KW Specialty Insurance Company

I, Patrick White, 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. 24.042.

A handwritten signature in black ink that reads "Patrick White". The signature is written in a cursive style with a horizontal line at the end.

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Patrick White, CFE