



STATE OF INDIANA ) BEFORE THE INDIANA  
 ) SS:  
COUNTY OF MARION ) COMMISSIONER OF INSURANCE

IN THE MATTER OF: )  
 )  
**Diamond State Insurance Company** )  
**211 North Pennsylvania Street** )  
**Indianapolis, Indiana 46204** )

Examination of: **Diamond State Insurance Company**

### FINDINGS AND FINAL ORDER

The Indiana Department of Insurance conducted an examination into the affairs of the Diamond State Insurance Company (hereinafter “Company”) for the time period January 1, 2013 through December 31, 2017.

The Verified Report of Examination was filed with the Commissioner of the Department of Insurance (hereinafter “Commissioner”) by the Examiner on January 22, 2019.

A copy of the Verified Report of Examination, along with a Notice of Opportunity to Make Written Submission or Rebuttal, was mailed to the Company via Certified Mail on May 21, 2019 and was received by the Company on May 28, 2019.

The Company did not file any objections.

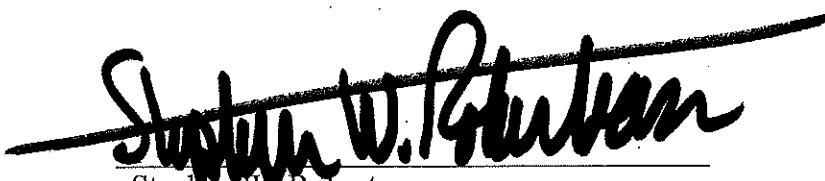
NOW THEREFORE, based on the Verified Report of Examination, I hereby make the following **FINDINGS**:

1. That the Verified Report of Examination is a true and accurate report of the financial condition and affairs of the Diamond State Insurance Company as of December 31, 2017.
2. That the Examiner’s Recommendations are reasonable and necessary in order for the Diamond State Insurance Company to comply with the laws of the State of Indiana.

Based on the FINDINGS, the Commissioner does hereby ORDER:

1. Pursuant to Ind. Code § 27-1-3.1-11(a)(1), the Verified Report of Examination is adopted and shall be filed. Hereafter the Verified Report of Examination, may constitute prima facie evidence of the facts contained therein in any action or proceeding taken by the Indiana Department of Insurance against the Company, its officers, directors, or agents.
2. The Company shall comply with the Examiner's Recommendations enumerated in summary form and throughout the text of the Verified Report of Examination. A written response to these recommendations should be provided to the Department within 30 days of receipt of this order.
3. Compliance with the Examiner's recommendations shall be completed on or before the filing of the subsequent annual statement. In the event it is not feasible to comply with a recommendation before the filing of the subsequent annual statement, the Company shall submit a written explanation as to why it was not feasible with the filing of the annual statement.

Signed this 20 day of June, 2019.

  
Stephen W. Robertson  
Insurance Commissioner  
Indiana Department of Insurance

ABOUT AFFIRMATIONS

The following pages for affirmations need to be signed by each Board Member and returned to the Indiana Department of Insurance within thirty (30) days in accordance with I.C. §27-1-3.1-12(b).

If your affirmations list individuals that are no longer on your Board of Directors, you may simply retype the form on plain white paper with the correct names and a line to the right for signature. If the names are misspelled, you may do the same, simply re-type the corrected form with a line to the right for signature.

Should you have any questions or difficulties with these forms or you require additional time past the thirty (30) day requirement, please do not hesitate to contact this department at (317) 232-2390.

*[Handwritten signature]*

*[Handwritten initials]*

**STATE OF INDIANA**  
**Department of Insurance**  
**REPORT OF EXAMINATION**

**OF**

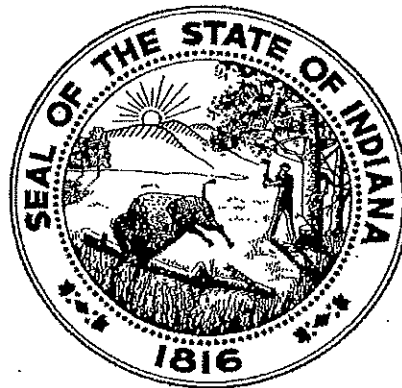
**DIAMOND STATE INSURANCE COMPANY**

NAIC COMPANY CODE 42048

NAIC GROUP CODE 920

As of

December 31, 2017



## TABLE OF CONTENTS

SALUTATION.....	1
SCOPE OF EXAMINATION.....	2
HISTORY.....	2
CAPITAL AND SURPLUS.....	2
DIVIDENDS TO STOCKHOLDERS.....	3
TERRITORY AND PLAN OF OPERATION.....	3
GROWTH OF THE COMPANY.....	3
LOSS EXPERIENCE.....	4
MANAGEMENT AND CONTROL.....	4
Directors.....	4
Officers.....	5
Corporate Governance.....	5
CONFLICT OF INTEREST.....	6
OATH OF OFFICE.....	6
CORPORATE RECORDS.....	6
Articles of Incorporation.....	6
By-laws.....	6
Minutes.....	7
AFFILIATED COMPANIES.....	7
Organizational Structure.....	7
Affiliated Agreements.....	9
FIDELITY BOND AND OTHER INSURANCE.....	10
STATUTORY AND SPECIAL DEPOSITS.....	10
REINSURANCE.....	10
Reinsurance Assumed.....	11
Reinsurance Ceded.....	11
Reinsurance Pooling Agreement.....	12
Reinsurance Intermediary.....	13
RESERVES.....	13
ACCOUNTS AND RECORDS.....	13
FINANCIAL EXHIBITS.....	14
Assets.....	15
Liabilities, Surplus and Other Funds.....	16
Statement of Income.....	17
Capital and Surplus Account.....	18
COMMENTS ON THE FINANCIAL STATEMENTS.....	19
OTHER SIGNIFICANT FINDINGS.....	19
SUBSEQUENT EVENTS.....	19
Fidelity Bond.....	19
Termination of Affiliate Reinsurance Contract.....	19
Casualty Excess of Loss Reinsurance Contract.....	20
Officer Succession.....	20
MANAGEMENT REPRESENTATION.....	20
AFFIDAVIT.....	21



# STATE OF INDIANA

ERIC J. HOLCOMB, GOVERNOR

---

## Indiana Department of Insurance

Stephen W. Robertson, Commissioner  
311 W. Washington Street, Suite 103  
Indianapolis, Indiana 46204-2787  
Telephone: 317-232-2385  
Fax: 317-232-5251  
Website: [in.gov/idoi](http://in.gov/idoi)

January 22, 2019

Honorable Stephen W. Robertson  
Commissioner  
Indiana Department of Insurance  
311 West Washington Street, Suite 300  
Indianapolis, Indiana 46204-2787

Dear Commissioner:

Pursuant to the authority vested in Appointment Number 3981, an examination has been made of the affairs and financial condition of:

**Diamond State Insurance Company**  
**211 North Pennsylvania Street**  
**Indianapolis, Indiana 46204**

an Indiana domestic property and casualty insurance company, hereinafter referred to as the "Company." The examination was conducted at the corporate offices of the Company located at 3 Bala Plaza, Suite 300E, Bala Cynwyd, Pennsylvania 19004.

The Report of Examination, showing the financial status of the Company as of December 31, 2017, is hereby respectfully submitted.

ACCREDITED BY THE NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

AGENCY SERVICES 317-232-2413    COMPANY COMPLIANCE 317-232-3495    CONSUMER SERVICES 317-232-2395/1-800-622-4461    FINANCIAL SERVICES 317-232-2390    MEDICAL MALPRACTICE 317-232-2402    COMPANY RECORDS 317-232-5692    STATE HEALTH INSURANCE PROGRAM 1-800-452-4800

## SCOPE OF EXAMINATION

The Company was last examined by representatives of the Indiana Department of Insurance (INDOI) as of December 31, 2012. The present risk-focused examination was conducted by The Thomas Consulting Group, Inc. (Thomas Consulting) and covered the period from January 1, 2013 through December 31, 2017, and included any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

The examination was performed on a coordinated basis with the Arizona Department of Insurance, the Pennsylvania Insurance Department (PID), and the Virginia Bureau of Insurance. The PID served as the lead state for the coordinated examination. The INDOI relied upon a portion of the coordinated examination work performed by the PID in its examination of the Company's parent, Global Indemnity Limited (GBLI), and GBLI's U.S. domiciled insurers.

In conducting the risk-focused examination, the INDOI, by its representatives, relied upon the independent audit reports and opinions contained therein rendered by PricewaterhouseCoopers LLP for 2013 and 2014 and Ernst & Young LLP for 2015 through 2017. Such reports were prepared on a statutory basis and reconciled to the financial statements contained in the respective Annual Statements.

The actuarial firm of Merlinos & Associates, Inc. was engaged by the PID to conduct a review of the Company's Loss Reserves and Loss Adjustment Expenses as of December 31, 2017.

In accordance with the 2017 NAIC *Financial Condition Examiners Handbook*, Thomas Consulting planned and performed the risk-focused examination to evaluate the financial condition of the Company and to identify prospective risks related to its operations. The examination process included an evaluation of corporate governance, identification and assessment of inherent risks, and documentation of system controls and procedures used to mitigate the identified risks. In addition, the Examiners performed an assessment of the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. The examination also included a review of the Company's compliance with Statutory Accounting Principles, Annual Statement Instructions, and the Indiana Insurance Code (IC). All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

## HISTORY

The Company was incorporated on February 20, 1981 as a domestic property and casualty company under the laws of the State of Delaware and commenced business on April 1, 1982. On July 13, 1993, the Company re-domesticated from the State of Delaware to the State of Indiana. On September 5, 2003, the Company was acquired by Fox Paine & Company, LLC, a private equity group. The Company sold two (2) of its wholly owned subsidiaries, United National Casualty Insurance Company (UNCIC) and United National Specialty Insurance Company, to unrelated parties effective December 31, 2013 and September 30, 2016, respectively.

## CAPITAL AND SURPLUS

Pursuant to the Articles of Incorporation, the capital stock authorized for the Company is 1,000,000 shares of common stock with a par value of \$5 per share. As of December 31, 2017, the Company's total capital



and surplus was \$38,531,056, which included: common stock of \$5,000,000, consisting of 1,000,000 issued and outstanding shares; gross paid-in and contributed surplus of \$22,999,623; and unassigned funds (surplus) of \$10,531,433. All issued and outstanding shares were 100% owned by United National Insurance Company (UNIC) as of December 31, 2017.

### DIVIDENDS TO STOCKHOLDERS

The following exhibit presents the dividends paid by the Company to its sole shareholder, UNIC, during the examination period:

<u>Year</u>	<u>Ordinary Dividends</u>	<u>Extraordinary Dividends</u>
2017	\$ -	\$25,000,000
2016	-	-
2015	6,000,000	-
2014	-	54,700,000
2013	-	-
<b>Totals</b>	<b><u>\$6,000,000</u></b>	<b><u>\$79,700,000</u></b>

The Company notified the INDOI of all declared ordinary dividends to the Parent during the examination period in accordance with the requirements of IC 27-1-23-1.5. The extraordinary dividends were approved by INDOI in accordance with IC 27-1-23-4(g).

### TERRITORY AND PLAN OF OPERATION

The Company is licensed in all fifty (50) states and the District of Columbia. The Company markets its products through professional general agencies that have specific quoting and binding authority, as well as brokerage in which internal personnel underwrite business submitted by wholesale insurance brokers. The Company operates in the surplus lines marketplace and targets various homogenous groups and targeted insured segments generally not served by the standard lines marketplace. The Company primarily writes commercial multiple peril, homeowners and inland marine.

### GROWTH OF THE COMPANY

The following exhibit summarizes the financial results of the Company for the period under examination:

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Surplus as Regards Policyholders</u>	<u>Premiums Earned</u>	<u>Net Income (Loss)</u>
2017	\$ 97,424,830	\$ 58,893,774	\$38,531,056	\$28,424,102	\$ (2,368,694)
2016	122,010,961	58,087,719	63,923,242	30,736,548	15,856,198
2015	130,007,585	71,731,055	58,276,530	26,491,311	2,592,284
2014	123,613,652	63,369,954	60,243,698	14,966,338	(145,962)
2013	172,990,119	121,232,190	51,757,929	14,060,187	52,929,070

Note: Amounts are shown in whole dollars and rows may not total due to rounding.

The 2014 decline in assets and liabilities is primarily attributed to the payment of the extraordinary dividend that was declared and unpaid in 2013. In addition, the 2017 decline in assets and surplus was mostly related to the declaration and payment of an extraordinary dividend in 2017. Please refer to the Dividends to Stockholders section of this report.

The increase in premiums for 2015 is mainly attributed to the increase in pooled premiums that resulted from GBLI's acquisition of American Reliable Insurance Company (ARIC). Please see the Reinsurance section of this report for a description of the Company's intercompany Reinsurance Pooling Agreement.

The higher net income reported in 2013 is due to the increase in investment income from the sale of the Company's subsidiary, UNCIC. Furthermore, the net loss reported in 2017 is primarily attributed to catastrophic storm losses.

### LOSS EXPERIENCE

The following exhibit shows the underwriting results of the Company for the period under examination:

<u>Year</u>	<u>Premiums Earned</u>	<u>Losses and Loss Adjustment Expenses (LAE) Incurred</u>	<u>Other Underwriting Expenses Incurred</u>	<u>Losses and LAE Ratio</u>	<u>Combined Ratio</u>
2017	\$28,424,102	\$23,240,412	\$11,278,200	81.76%	121.44%
2016	30,736,548	20,625,257	12,779,535	67.10%	108.68%
2015	26,491,311	16,031,963	7,914,442	60.52%	90.39%
2014	14,966,338	11,182,644	6,029,237	74.72%	115.00%
2013	14,060,187	10,149,870	6,012,603	72.19%	114.95%

With the exception of 2015, the Company reported underwriting losses in each of the years covered by this examination. The increases in premiums earned, losses, LAE, and other underwriting expenses were attributed to the Company's business assumed through the intercompany Reinsurance Pooling Agreement described in the Reinsurance section of this report.

### MANAGEMENT AND CONTROL

#### **Directors**

The Company's By-laws specify that the Board of Directors (Board) shall consist of not less than five (5) nor more than fifteen (15) persons. Board members are elected at the Annual Meeting of the Shareholders and hold office until the next Annual Meeting or until their successors are duly elected and qualified. The following is a listing of persons serving as directors as of December 31, 2017:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
David C. Elliott Wenonah, New Jersey	Senior Vice President, Claims Global Indemnity Group, Inc.
Michael P. Loftus Phoenixville, Pennsylvania	Vice President and General Auditor Global Indemnity Limited
Thomas M. McGeehan King of Prussia, Pennsylvania	Executive Vice President and Chief Financial Officer Global Indemnity Limited
Ginny L. Peterson Bargersville, Indiana	Partner Associate Kightlinger & Gray LLP
Matthew B. Scott Berwyn, Pennsylvania	Executive Vice President, Commercial Lines Global Indemnity Group, Inc.
Cynthia Y. Valko Collegeville, Pennsylvania	Chief Executive Officer Global Indemnity Limited

## Officers

The Company's By-laws state that the officers of the Company shall consist of a President, who shall be a member of the Board, one (1) or more Vice-Presidents, a Treasurer, one (1) or more Secretaries, Assistant Treasurers and Assistant Secretaries, and such officers as the Board may see fit to elect or appoint. In the absence of a President, the directors shall appoint an Executive Vice President to fulfill the duties of the President. The following is a list of key officers and their respective titles as of December 31, 2017:

<u>Name</u>	<u>Title</u>
Matthew B. Scott	Executive Vice President, Commercial Lines
Thomas M. McGeehan	Treasurer and Chief Financial Officer
Steven W. Ries	Assistant Vice President, Senior Corporate Counsel and Secretary
William J. Devlin Jr.	Executive Vice President, Personal Lines and Agriculture
Thomas P. Gibbons	Chief Actuary
David C. Elliott	Senior Vice President, Claims
Caroline M. Tate	Senior Vice President, Human Resources
Brian J. Riley	Vice President, Finance and Controller

## Corporate Governance

The Company's By-laws provide that the directors may designate one (1) or more Board committees. The two (2) Board committees and the member directors that were elected to serve as of December 31, 2017, were as follows:

Executive Committee:

Thomas M. McGeehan  
Matthew B. Scott  
Cynthia Y. Valko

Finance Committee:

Michael P. Loftus  
Thomas M. McGeehan  
Cynthia Y. Valko

In addition to its Board of Directors and Board committees, the Company receives oversight from the Board and Board committees of GBLI. The GBLI Board committees included an Audit Committee, Executive Committee, Investment Committee, Enterprise Risk Management Committee, Compensation and Benefits Committee, and a Nominating and Governance Committee.

### **CONFLICT OF INTEREST**

The Company's conflict of interest disclosure process requires directors and officers to complete a conflict of interest disclosure statement on an annual basis. From a review of the officers and directors signed statements, there were no material conflicts of interest reported by any of the officers or directors.

### **OATH OF OFFICE**

IC 27-1-7-10(i) requires that every director, when elected, shall take and subscribe to an oath stating that he or she will faithfully, honestly, and diligently administer the affairs of the corporation and will not knowingly violate any of the laws applicable to such corporation. Each director serving as of December 31, 2017, signed an Oath of Office statement when elected.

### **CORPORATE RECORDS**

#### **Articles of Incorporation**

The Company amended its Articles of Incorporation, effective July 2, 2015, to change the address of its statutory home office. The INDOI, Secretary of State, and Attorney General properly approved the amendment in compliance with IC 27-1-6-8, IC 27-1-6-9, and IC 27-1-6-10.

#### **By-laws**

The Company amended its By-laws, effective November 24, 2014, to specify that in the absence of a President, the directors shall appoint an Executive Vice President to fulfill the duties of the President. Additionally, the Company's By-laws were amended and restated to provide greater corporate flexibility and to modernize its By-laws. The amended By-laws were properly filed with the INDOI.

## Minutes

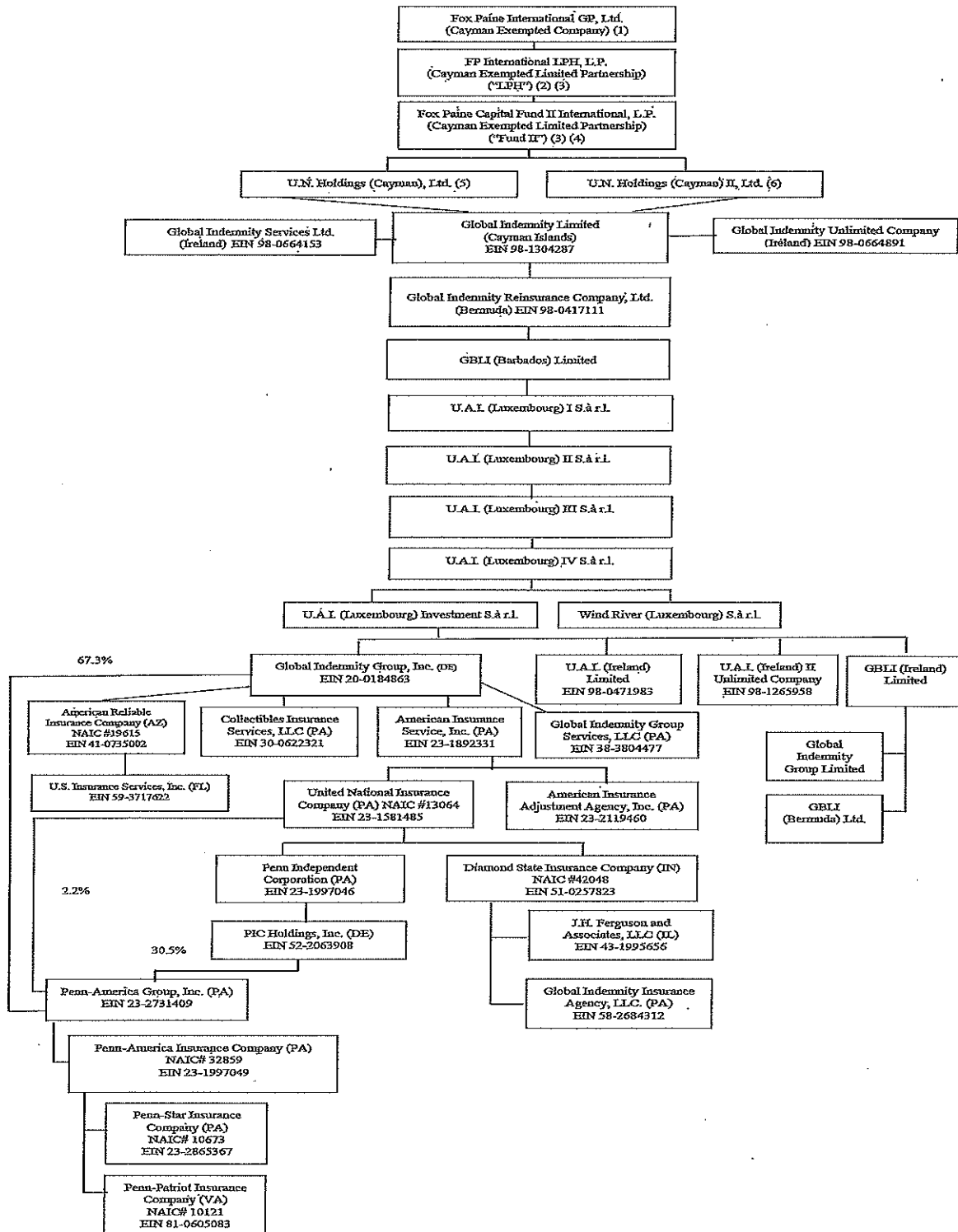
The Board of Directors and Shareholders Meeting minutes were reviewed for the period under examination through the fieldwork completion date and significant actions taken during each meeting were noted. For the period under examination, the Annual Meetings of the Shareholders were held in accordance with IC 27-1-7-7(b) and the Company's By-laws.

Contrary to the requirements of IC 27-1-7-12, the Company did not keep a record of the attendance of the directors at the meetings of the Board showing the names of the directors, the number of meetings of the Board, the number of meetings attended, and the number of meetings from which each director was absent. Furthermore, there was no evidence that the attendance record was reported, read, and incorporated into the minutes of the Annual Meeting of the Shareholders. **(Please see the "Other Significant Findings" section of this report of examination regarding this issue.)**

## AFFILIATED COMPANIES

### Organizational Structure

The Company is a member of an insurance holding company system as defined within IC 27-1-23 and Regulation of Insurance Holding Company Systems. An Insurance Holding Company System Registration Statement was filed annually with the INDOI for each year of the examination period. The following organizational chart depicts the Company's relationship within the holding company system.



## **Affiliated Agreements**

The following significant affiliated agreements were disclosed as part of the Form B Holding Company Registration Statement and were filed with and not disapproved by the INDOI, in accordance with IC 27-1-23-4(b)(4).

### Cost Allocation Agreement

Effective December 1, 2015, and amended on September 30, 2016, the insurers within the holding company system, including the Company, participate in an amended and restated Cost Allocation Agreement among themselves and with their non-insurance affiliates of GBLI, including: Global Indemnity Group, Inc. (GIGI); American Insurance Service, Inc., a stock property and casualty insurance company incorporated in Pennsylvania; Global Indemnity Group Services, LLC, a Pennsylvania limited liability company; American Insurance Adjustment Agency, Inc. (AIAA), a Pennsylvania corporation; Global Indemnity Insurance Agency, LLC., a Pennsylvania limited liability company; J.H. Ferguson & Associates, LLC, an Illinois limited liability company; Penn-America Group, Inc., a Pennsylvania corporation; Penn Independent Corporation, a Pennsylvania corporation; Global Indemnity Collectibles Insurance Services, LLC, a Pennsylvania limited liability company; and U.S. Insurance Services, Inc., a Florida corporation. The parties have agreed to share in the purchase of certain goods and services from third parties and to allocate such expenses in a fair and equitable manner. Each affiliate pays amounts due to each party within sixty (60) days after the end of each calendar quarter.

### Tax Sharing Agreement

The Company is party to an amended and restated Tax Sharing Agreement dated December 1, 2015, and amended on September 30, 2016, by and among the affiliates of GIGI. Under this agreement, the federal tax liability determined at the end of the taxable year of any individual insurer member of the affiliated group will not be more than it would have paid if it had filed on a separate return basis. Intercompany tax balances are settled with payments made within thirty (30) days of the filing of the affiliated groups' return and refunds are paid within thirty (30) days after receipt of any tax refund.

### Claims Service Agreement

Effective October 1, 1999, The Company entered into a Claims Service Agreement with its affiliate, AIAA. Under the terms of this agreement, AIAA agrees to perform certain services for insurance claims investigation and management of insurance claims in exchange for a standard hourly billing rate as established by the Company. In 2017, the Company paid \$698,323 to AIAA for claims services provided under this agreement.

### Reinsurance Contracts

Please refer to the Reinsurance section of this Report of Examination for a summary of intercompany reinsurance contracts.

## FIDELITY BOND AND OTHER INSURANCE

The Company is protected by a Financial Institution Bond of GBLI, whereby the Company is a named insured. The Company is insured for a single loss up to \$15,000,000 and an aggregate loss limit of \$30,000,000 with a \$500,000 deductible. The fidelity bond limit was adequate to meet the prescribed minimum coverage specified by the NAIC. Other various interests of the Company are protected by appropriate policies of insurance.

Contrary to the requirements of IC 27-1-7-14, the Company's Financial Institution Bond was not approved by the Company's Board of Directors at any time during the examination period ending December 31, 2017. (Please see the "Other Significant Findings" section of this report of examination regarding this issue.)

## STATUTORY AND SPECIAL DEPOSITS

The Company reported statutory and special deposits held by various Departments of Insurance in compliance with statutory requirements as of December 31, 2017:

<u>State</u>	<u>Book Value</u>	<u>Fair Value</u>
<b>Deposits for the benefit of all Policyholders:</b>		
Indiana	\$ 2,934,369	\$ 2,944,613
<b>All Other Special Deposits:</b>		
Alabama	1,183,082	1,163,376
Delaware	197,180	193,896
Georgia	147,885	145,422
Indiana	87,936	87,936
Massachusetts	250,906	249,873
Nevada	325,554	324,034
New Mexico	320,418	315,081
North Carolina	320,418	315,081
Oregon	147,885	145,422
South Carolina	246,475	242,370
Tennessee	246,475	242,370
Virginia	<u>274,256</u>	<u>271,398</u>
Total Deposits	<u>\$6,682,839</u>	<u>\$6,640,872</u>

Note: Amounts are shown in whole dollars and columns may not total due to rounding.

## REINSURANCE

The Company's reinsurance program includes excess of loss, quota share, property catastrophe, casualty clash, and facultative contracts. The Company obtains these coverages through reinsurance intermediaries, third-party reinsurance, and through contracts with its reinsurer affiliate, Global Indemnity Reinsurance



Company, Ltd (GIRe). The Company is also a participant in an intercompany Reinsurance Pooling Agreement with its insurer affiliates. The reinsurance program is described below.

### **Reinsurance Assumed**

With the exception of the intercompany Reinsurance Pooling Agreement described below, the Company did not assume any significant reinsurance during the period covered by this examination.

### **Reinsurance Ceded**

#### Property Catastrophe Excess of Loss Reinsurance Contract

Effective June 1, 2017, the Company obtained reinsurance under a Property Catastrophe Excess of Loss Contract with multiple reinsurers brokered through Guy Carpenter & Company, LLC (Guy Carpenter) and procured directly by the Company. The contract provides occurrence coverage for losses of \$260,000,000 per occurrence in excess of \$40,000,000 through two (2) layers for business classified as property. The first layer of coverage provided \$60,000,000 per occurrence in excess of \$40,000,000 in which participation among the brokered and direct reinsurers was 80% and 20%, respectively. The second layer of coverage provided \$200,000,000 per occurrence in excess of \$100,000,000 in which participation among the brokered and direct reinsurers was 80% and 20%, respectively. The contract provides for one (1) full reinstatement of coverage at 100% additional premium as to time and pro rata as to the amount of limit reinstated. This replaced the contract which expired on May 31, 2017 and provided occurrence coverage for losses of \$280,00,000 per occurrence in excess of \$20,000,000.

#### Line-Specific Quota Share Reinsurance Contract

Effective May 1, 2017, the Company entered into a Line-Specific Quota Share Reinsurance Contract with two (2) reinsurers brokered through Guy Carpenter. The contract authorizes the cession of 50% of the net underwriting results for certain Personal Lines products in certain states, subject to an occurrence limit of \$50,000,000 for property coverages and \$1,500,000 for casualty coverages. This replaced an identical contract which expired on April 30, 2017.

#### Catastrophe Quota Share Reinsurance Contract

Effective April 15, 2017, the Company entered into a Catastrophe Quota Share Reinsurance Contract with two (2) reinsurers brokered through Guy Carpenter. The contract authorizes the cession of 50% of all property catastrophe losses with a \$3,000,000 deductible, subject to an occurrence limit of \$40,000,000 and an aggregate limit of \$120,000,000.

#### Property Per Risk Excess of Loss Reinsurance Contract

The Company entered into a Property Per Excess of Loss Reinsurance Contract with multiple reinsurers brokered through Guy Carpenter. The contract had an effective date of January 1, 2017 and expired on December 31, 2017. The contract provided coverage in three (3) sections: 80% of \$4,000,000 per risk in excess of \$1,000,000 per risk for all business except the property brokerage unit and business written by ARIC; 100% of \$4,000,000 per risk in excess of \$1,000,000 per risk for ARIC; and 75% of \$8,000,000 per risk in excess of \$2,000,000 per risk for property brokerage business. The expired contract also provided coverage of 100% of \$20,000,000 per risk in excess of \$10,000,000 per risk and 100% of \$20,000,000 per risk in excess of \$30,000,000 per risk for property brokerage business.

### Casualty and Professional Liability Excess of Loss Reinsurance Contract

During the examination period, the Company was reinsured under a Casualty and Professional Liability Excess of Loss Contract with multiple reinsurers brokered through Guy Carpenter. The contract had an effective date of October 1, 2016 and expired on January 1, 2018. The casualty section of the contract provided coverage for 50% of \$2,000,000 per occurrence in excess of \$1,000,000 per occurrence for general liability and automobile liability. The professional liability section of the contract provided coverage for 50% of \$4,000,000 per policy/occurrence in excess of \$1,000,000 per policy/occurrence. For both sections, the Company retained 50% per occurrence/policy, where applicable and allocated loss adjustment expenses were included within the limits. This contract was replaced with the Casualty Excess of Loss Reinsurance Contract. **(Please see the “Subsequent Events” section of this report.)**

### Casualty Clash Excess of Loss Reinsurance Contract

Effective October 1, 2016, the Company renewed its Casualty Clash Excess of Loss Contract with multiple reinsurers brokered through Guy Carpenter. The contract provided coverage of \$10,000,000 per occurrence in excess of \$3,000,000 per occurrence, subject to an aggregate limit \$20,000,000 limit for all loss occurrences. This contract was terminated effective December 31, 2017 and replaced with the Casualty Excess of Loss Reinsurance Contract. **(Please see the “Subsequent Events” section of this report.)**

### Net Retained Insurance Liability Quota Share Reinsurance Contract

Effective January 1, 2016, the Company amended the Net Retained Insurance Liability Quota Share Reinsurance Contract (GIRe Quota Share) with its Non-U.S. insurance affiliate, GIRe. Under the GIRe Quota Share, the Company ceded 40% of the net unearned premiums as of December 31, 2015 plus 40% of the net retained insurance liability of all new and renewal business bound on or after January 1, 2016 to GIRe. Prior to January 1, 2016, the Company ceded 50% of net insurance liability of new and renewal business bound January 1, 2007 and later to GIRe. The GIRe Quota Share had exclusions for Workers' Compensation policies and Named Storms. The GIRe Quota Share was terminated effective January 1, 2018. **(Please see the “Subsequent Events” section of this report.)**

### **Reinsurance Pooling Agreement**

Effective January 1, 2009, each of the U.S. insurance subsidiary companies of GIGI participate in an intercompany Reinsurance Pooling Agreement, whereby UNIC is the lead company. Under the terms of this agreement, each of the insurers cede 100% of their premiums and liabilities to UNIC net of third-party reinsurance. UNIC then retrocedes pooled business net retained premiums and net retained liabilities to the pool members in the following fixed participation percentages:

United National Insurance Company	30%
American Reliable Insurance Company	25%
Penn-Star Insurance Company	16%
Diamond State Insurance Company	12%
Penn-America Insurance Company	10%
Penn-Patriot Insurance Company	7%

Pool members are required to provide activity statements to the lead company within forty-five (45) days

of the close of a mutually agreed upon period. Pool members are required to pay all amounts shown to be due to the other parties within fifteen days (15) of receipt of the statement. This agreement was amended effective December 31, 2018.

### **Reinsurance Intermediary**

As of December 31, 2017, the Company was utilizing the services of a reinsurance intermediary, Guy Carpenter. It was determined that the reinsurance intermediary was properly licensed in accordance with IC 27-6-9-12. The Company's reinsurance intermediary also has properly executed written authorizations with the Company in accordance with IC-27-6-9-18.

### **RESERVES**

Brian Z. Brown, FCAS, MAAA, of Milliman, Inc., is the Company's Appointed Actuary. Mr. Brown was appointed by the Board to render an actuarial opinion on the statutory-basis reserves of the Company for all years covered by this examination.

The scope of the opinion was to examine the actuarial assumptions and methods used in determining loss and loss adjustment expense reserves and related actuarial items, as shown in the Annual Statement of the Company as prepared for filing with state regulatory officials, as of December 31, 2017. In forming the opinion, information prepared by the Company was relied upon. This information was evaluated for reasonableness and consistency. In other respects, the examination included such review of the actuarial assumptions and methods used, and such tests of the calculations as considered necessary.

The 2017 opinion stated the amounts carried in the balance sheet on account of the actuarial items identified in the opinion; A) meet the requirements of the insurance laws of the State of Indiana, B) are consistent with reserves computed in accordance with Standards of Practice issued by the Actuarial Standards Board (including the Casualty Actuarial Society's Statement of Principles Regarding Property and Casualty Unpaid Claims Estimates), C) make a reasonable provision for all unpaid loss and loss adjustment expense obligations of the Company under the terms of its contracts and agreements, and D) make a reasonable provision for the unearned premium reserves of the Company for long duration contracts of the Company under the terms of its contracts and agreements.

### **ACCOUNTS AND RECORDS**

The Company's accounting procedures, practices, account records, and supporting data were reviewed and tested to the extent deemed necessary. The detail trial balance prepared from the Company's general ledger for the year ending December 31, 2017, was agreed to the Annual Statement without exception. The Company's independent auditors issued unqualified opinions on the Company's audited Statutory Financial Statements for each year during the examination period. The audited Statutory Financial Statements were agreed to the Annual Statement for the year ending December 31, 2017, with no exceptions noted. All of the independent audit work papers were made available to the Examiners during the examination.

Overall, the Examiners determined the Company's accounting procedures, practices, and records were satisfactory.

**FINANCIAL EXHIBITS**

Comparative Exhibit – Statutory Statement of Assets  
Comparative Exhibit – Statutory Statement of Liabilities, Surplus and Other Funds  
Comparative Exhibit - Statutory Statement of Income  
Comparative Exhibit – Statutory Capital and Surplus Account

NOTE: Amounts are shown in whole dollars and columns may not total due to rounding.

**DIAMOND STATE INSURANCE COMPANY**

**FINANCIAL STATEMENTS**

**Assets**

**As of December 31, 2017**

	<b>Per Annual Statement</b>	<b>Examination Adjustments</b>	<b>Per Examination</b>	<b>December 31, Prior Year</b>
Bonds	\$ 80,111,337	\$ -	\$ 80,111,337	\$ 93,796,622
Cash, cash equivalents and short-term investments	1,918,730	-	1,918,730	1,210,319
Receivables for securities	<u>18,484</u>	-	<u>18,484</u>	-
Subtotals, cash and invested assets	<u>\$ 82,048,551</u>	<u>\$ -</u>	<u>\$ 82,048,551</u>	<u>\$ 95,006,940</u>
Investment income due and accrued	\$ 558,504	\$ -	\$ 558,504	\$ 502,545
Uncollected premiums and agents' balances in the course of collection	4,109,405	-	4,109,405	3,172,199
Deferred premiums, agent's balances and installments booked but deferred and not yet due	1,565,340	-	1,565,340	1,758,206
Amounts recoverable from reinsurers	811,739	-	811,739	4,075,689
Funds held by or deposited with reinsured companies	157,308	-	157,308	120,000
Current federal and foreign income tax recoverable and interest	393,833	-	393,833	-
Net deferred tax asset	1,237,648	-	1,237,648	2,080,089
Guaranty funds receivable or on deposit	18,599	-	18,599	16,368
Receivables from parent, subsidiaries and affiliates	6,473,773	-	6,473,773	15,228,169
Aggregate write-ins for other-than-invested assets	<u>50,130</u>	-	<u>50,130</u>	<u>50,756</u>
<b>Totals</b>	<b><u>\$ 97,424,830</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 97,424,830</u></b>	<b><u>\$ 122,010,961</u></b>

**DIAMOND STATE INSURANCE COMPANY**

**FINANCIAL STATEMENTS**

**Liabilities, Surplus and Other Funds**

As of December 31, 2017

	<b>Per Annual Statement</b>	<b>Examination Adjustments</b>	<b>Per Examination</b>	<b>December 31, Prior Year</b>
Losses	\$ 23,458,271	\$ -	\$ 23,458,271	\$ 21,507,612
Reinsurance payable on paid losses and loss adjustment expenses	2,142,986	-	2,142,986	3,847,907
Loss adjustment expenses	10,343,126	-	10,343,126	10,804,514
Commissions payable, contingent commissions and other similar charges	332,111	-	332,111	459,000
Other expenses	20,457	-	20,457	28,011
Taxes, licenses and fees (excluding federal and foreign income taxes)	37,333	-	37,333	43,230
Current federal and foreign income taxes		-		11,366
Unearned premiums	15,195,124	-	15,195,124	15,089,467
Ceded reinsurance premiums payable	677,095	-	677,095	3,083,900
Amounts withheld or retained by company for account of others	1,790,000	-	1,790,000	1,790,000
Remittances and items not allocated	970,674	-	970,674	908,531
Provision for reinsurance	21,000	-	21,000	61,000
Payable to parent, subsidiaries and affiliates	3,647,647	-	3,647,647	195,136
Aggregate write-ins for liabilities	257,950	-	257,950	258,045
Total liabilities	<u>\$ 58,893,774</u>	<u>\$ -</u>	<u>\$ 58,893,774</u>	<u>\$ 58,087,719</u>
Common capital stock	\$ 5,000,000	\$ -	\$ 5,000,000	\$ 5,000,000
Gross paid in and contributed surplus	22,999,623	-	22,999,623	22,999,623
Unassigned funds (surplus)	10,531,433	-	10,531,433	35,923,619
Surplus as regards policyholders	<u>\$ 38,531,056</u>	<u>\$ -</u>	<u>\$ 38,531,056</u>	<u>\$ 63,923,242</u>
Totals	<u>\$ 97,424,830</u>	<u>\$ -</u>	<u>\$ 97,424,830</u>	<u>\$ 122,010,961</u>

**DIAMOND STATE INSURANCE COMPANY**

**FINANCIAL STATEMENTS**

**Statement of Income**

**As of December 31, 2017**

	<b>Per Annual Statement</b>	<b>Examination Adjustments</b>	<b>Per Examination</b>	<b>December 31, Prior Year</b>
<b>Underwriting Income</b>				
Premiums earned	\$ 28,424,102	\$ -	\$ 28,424,102	\$ 30,736,548
<b>DEDUCTIONS</b>				
Losses incurred	19,506,428	-	19,506,428	17,014,917
Loss adjustment expenses incurred	3,733,984	-	3,733,984	3,610,340
Other underwriting expenses	11,278,200	-	11,278,200	12,779,535
Total underwriting deductions	<u>\$ 34,518,612</u>	<u>\$ -</u>	<u>\$ 34,518,612</u>	<u>\$ 33,404,792</u>
<b>Net underwriting gain (loss)</b>	<u>\$ (6,094,510)</u>	<u>\$ -</u>	<u>\$ (6,094,510)</u>	<u>\$ (2,668,244)</u>
<b>Investment income</b>				
Net investment income earned	\$ 2,104,612	\$ -	\$ 2,104,612	\$ 13,576,489
Net realized capital gains (losses)	114,191	-	114,191	57,428
<b>Net investment gain</b>	<u>\$ 2,218,803</u>	<u>\$ -</u>	<u>\$ 2,218,803</u>	<u>\$ 13,633,917</u>
Net gain (loss) from agents' or premium balances charged off	\$ 16,154	\$ -	\$ 16,154	\$ (3,205)
Aggregate write-ins for miscellaneous income	\$ (40,000)	\$ -	\$ (40,000)	\$ 6,812,679
Net income before federal income taxes	\$ (3,899,553)	\$ -	\$ (3,899,553)	\$ 17,775,147
Federal and foreign income taxes incurred	<u>\$ (1,530,859)</u>	<u>\$ -</u>	<u>\$ (1,530,859)</u>	<u>\$ 1,918,949</u>
<b>Net income</b>	<u>\$ (2,368,694)</u>	<u>\$ -</u>	<u>\$ (2,368,694)</u>	<u>\$ 15,856,198</u>

**DIAMOND STATE INSURANCE COMPANY**

**FINANCIAL STATEMENTS**

**Capital and Surplus Account**

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Surplus as regards policyholders, December 31, prior year	\$ 63,923,242	\$58,276,530	\$60,243,698	\$51,757,929	\$101,085,604
Net income	\$ (2,368,694)	\$15,856,198	\$ 2,592,284	\$ (145,962)	\$ 52,929,070
Change in net unrealized capital gains or losses		(7,731,208)	1,434,475	696,031	(48,024,848)
Change in net deferred income tax	(2,078,526)	1,138,276	113,194	(349,031)	391,941
Change in nonadmitted assets	4,015,034	(3,797,554)	50,879	269,731	143,603
Change in provision for reinsurance	40,000	181,000	(158,000)	15,000	(67,441)
Surplus adjustments Paid in Dividends to stockholders	-	-	-	8,000,000	-
	<u>(25,000,000)</u>	<u>-</u>	<u>(6,000,000)</u>	<u>-</u>	<u>(54,700,000)</u>
<b>Change in surplus as regards policyholders for the year</b>	<b><u>\$(25,392,186)</u></b>	<b><u>\$ 5,646,712</u></b>	<b><u>\$(1,967,168)</u></b>	<b><u>\$ 8,485,769</u></b>	<b><u>\$(49,327,675)</u></b>
Surplus as regards policyholders, December 31, current year	<b><u>\$ 38,531,056</u></b>	<b><u>\$63,923,242</u></b>	<b><u>\$58,276,530</u></b>	<b><u>\$60,243,698</u></b>	<b><u>\$ 51,757,929</u></b>



## COMMENTS ON THE FINANCIAL STATEMENTS

There were no recommended adjustments to surplus as of December 31, 2017, based on the results of this examination.

### OTHER SIGNIFICANT FINDINGS

#### Record of Director Attendance

Contrary to the requirements of IC 27-1-7-12, the Company did not keep a record of the attendance of the directors at the meetings of the Board showing the names of the directors, the number of meetings of the Board, the number of meetings attended, and the number of meetings from which each director was absent. Furthermore, there was no evidence that the attendance record was reported, read, and incorporated into the minutes of the Annual Meeting of the Shareholders (See page 7).

**It is recommended that the Company keep a record of the attendance of the directors at the meetings of the Board reflecting the names of the directors, the number of meetings of the Board, the number of meetings attended, and the number of meetings from which each director was absent. This record should be reported, read, and incorporated into the minutes of the Annual Meeting of the Shareholders.**

#### Fidelity Bond

Contrary to the requirements of IC 27-1-7-14, the Company's Financial Institution Bond was not approved by its Board at any time during the five (5) year examination period ending December 31, 2017 (See page 10). See the "Subsequent Events" section of this report of examination.

### SUBSEQUENT EVENTS

#### **Fidelity Bond**

Subsequent to the period covered by this examination, the Company implemented corrective action to comply with the provisions of IC 27-1-7-14. The Board approved the Company's Financial Institution Bond at the Board meeting held on September 20, 2018.

#### **Termination of Affiliate Reinsurance Contract**

As a result of the enactment of the Tax Cuts and Jobs Act, effective December 27, 2017, the Company determined that premiums being ceded under the intercompany GIRE Quota Share may potentially be subject to a 10% base erosion minimum tax. As a result, the parties mutually agreed to terminate the GIRE Quota Share effective January 1, 2018. The termination was made on a run-off basis pursuant to paragraph C of Article III, Commencement and Termination, of the GIRE Quota Share. The termination of the GIRE Quota Share was filed with, and not disapproved by, the INDOI in accordance with IC 27-1-23-4(b)(3).

### **Casualty Excess of Loss Reinsurance Contract**

Effective January 1, 2018, the Company entered into a Casualty Excess of Loss Contract with a reinsurer brokered through Guy Carpenter and a reinsurer procured directly by the Company. The contract provides coverage of \$10,000,000 per occurrence in excess of \$2,000,000 per occurrence for all casualty lines of business, subject to an aggregate limit of \$20,000,000. The Company retains \$2,000,000 per occurrence.

### **Officer Succession**

The Company's Executive Vice President of Commercial Lines, Matthew B. Scott, died on January 3, 2019. On February 4, 2019, Jonathan E. Oltman was appointed as the Company's Executive Vice President of Commercial Lines.

### **MANAGEMENT REPRESENTATION**

In support of contingencies and accuracy of information provided during the course of the examination, the Examiners obtained a management representation letter in the standard NAIC format. This letter was executed by key financial personnel of the Company and provided to the Examiners.

**AFFIDAVIT**

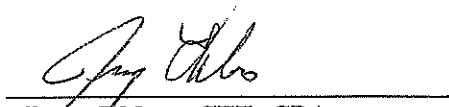
This is to certify that the undersigned is a duly qualified Examiner-In-Charge appointed by the Indiana Department of Insurance and that he, in coordination with staff assistance from The Thomas Consulting Group, Inc., performed an examination of the **Diamond State Insurance Company** as of **December 31, 2017**.

The Indiana Department of Insurance is accredited under the National Association of Insurance Commissioners Financial Regulation Accreditation Standards.

The examination was performed in accordance with those procedures required by the 2017 NAIC *Financial Condition Examiners Handbook* and other procedures tailored for this examination. Such procedures performed on this examination do not constitute an audit made in accordance with generally accepted auditing standard and no audit opinion is expressed on the financial statements contained in this report.

The attached Report of Examination is a true and complete report of condition of the **Diamond State Insurance Company** as of **December 31, 2017**, as determined by the undersigned.

  
\_\_\_\_\_  
**D. Patrick Huth, CFE**  
**The Thomas Consulting Group, Inc.**

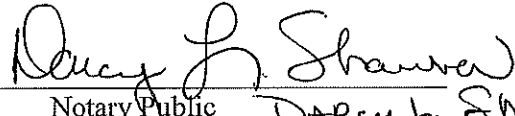
  
\_\_\_\_\_  
**Jerry Ehlers, CFE, CPA**  
**Indiana Department of Insurance**

State of: Indiana  
County of: Marion

DARCY L. SHAWVER  
NOTARY PUBLIC  
**SEAL**  
MARION COUNTY, STATE OF INDIANA  
MY COMMISSION EXPIRES OCTOBER 4, 2025  
COMMISSION NO. 706053

On this 29th day of May, 2019, before me personally appeared, D. Patrick Huth and Jerry Ehlers to sign this document.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my notarial seal in said County and State, the day and year last above written.

My commission expires October 4, 2025   
\_\_\_\_\_  
Notary Public Darcy L. Shawver

