

EXAMINATION REPORT OF
KEY RISK INSURANCE COMPANY
URBANDALE, IOWA
AS OF DECEMBER 31, 2022

Urbandale, Iowa
May 13, 2024

HONORABLE DOUG OMMEN
Commissioner of Insurance
State of Iowa
Des Moines, Iowa

Commissioner:

In accordance with your authorization and pursuant to Iowa statutory provisions, an examination has been made of the records, business affairs and financial condition of

KEY RISK INSURANCE COMPANY

URBANDALE, IOWA

AS OF DECEMBER 31, 2022

at its home office located at 11201 Douglas Avenue, Urbandale, Iowa.

INTRODUCTION

Key Risk Insurance Company, hereinafter referred to as the “Company”, was last examined as of December 31, 2018. The examination reported herein was conducted as a coordinated examination of the W. R. Berkley Corporation (“WRBC”) with the Delaware Insurance Department serving as the lead state. Representatives from the states of Arizona, California, North Dakota, and Texas also participated.

The following Iowa insurance entities were examined as part of the coordinated examination, with separate examination reports prepared for each entity.

Acadia Insurance Company
Berkley Assurance Company
Berkley Casualty Company/Formerly known as American Mining Insurance Company
Berkley Life and Health Insurance Company
Berkley National Insurance Company
Berkley Prestige Insurance Company
Berkley Regional Insurance Company
Carolina Casualty Insurance Company
Clermont Insurance Company
Continental Western Insurance Company
Intrepid Casualty Company
Intrepid Insurance Company
Intrepid Specialty Insurance Company
Key Risk Insurance Company
Riverport Insurance Company
StarNet Insurance Company
Tri-State Insurance Company of Minnesota
Union Insurance Company

SCOPE OF EXAMINATION

This is the regular comprehensive financial examination of the Company covering the intervening period from January 1, 2019, to the close of business on December 31, 2022, including any material transactions and events occurring and noted subsequent to the examination period.

The examination was conducted in accordance with the National Association of Insurance Commissioners ("NAIC") Financial Condition Examiners Handbook ("Handbook"). The Handbook requires that the Division plan and perform the examination to evaluate the financial condition, 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.

The examination report includes significant findings of fact and general information about the insurer and its financial condition.

HISTORY

The Company was incorporated on December 10, 1997, under the laws of the State of North Carolina as a stock insurance company. The Company was established to write property and casualty insurance policies. The first policies were issued effective July 1, 1998, for workers' compensation.

The Company commenced business on January 22, 1998, with 4 million shares of \$1 par value capital common stock authorized. On December 31, 1997, the Company issued 1.8 million shares of its \$1 par value common stock to its ultimate parent, WRBC.

On August 1, 2000, WRBC transferred the Company's shares of capital common stock to an affiliate, Signet Star Reinsurance Co., which was subsequently renamed Berkley Insurance Company ("BIC"), the direct parent of the Company.

Effective December 31, 2015, the Company re-domesticated from North Carolina to Iowa.

CAPITAL STOCK AND DIVIDENDS

Total authorized capital was \$4,500,000 consisting of 1,800,000 shares of \$2.50 par value common stock. All authorized capital stock was issued to BIC. The gross paid in and contributed surplus was \$20,750,000 for all years covered by the examination. No dividends were issued during the examination period.

INSURANCE HOLDING COMPANY SYSTEM

The Company is a member of a holding company system as defined by Chapter 521A, Code of Iowa. The ultimate controlling entity is WRBC, a Delaware corporation based in Greenwich, Connecticut and traded on the New York Stock Exchange under the symbol WRB.

An abbreviated organizational chart identifying the location of the Iowa insurance company within the holding company system, as of December 31, 2022, is as follows:

W. R. Berkley Corporation
 Signet Star Holdings, Inc.
 Berkley Insurance Company (DE)
 Key Risk Insurance Company (IA)

MANAGEMENT AND CONTROL

SHAREHOLDERS

The corporate bylaws provide that the annual meeting of the shareholders shall be held not sooner than the 15th day of March nor later than the 30th day of June in each year, the date of the meeting within such period is to be determined by the board of directors of the corporation and with proper notice to be provided to shareholders and directors. At each annual meeting, the election of the directors shall occur. If the election of the directors is not held on the designated day, the board of directors shall cause the election to be held during a special meeting of the shareholders.

BOARD OF DIRECTORS

Pursuant to the Company's bylaws, management of the Company is vested in an annually elected board of directors consisting of not fewer than five members as fixed by the bylaws.

The directors duly elected and serving as of December 31, 2022, were as follows:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>	<u>Term Expires</u>
Richard M. Baio West Harrison, NY	Executive Vice President – Treasurer W. R. Berkley Corporation	2023
William R. Berkley, Jr. Greenwich, CT	President and Chief Executive Officer W. R. Berkley Corporation	2023
Paul J. Hancock Brookfield, CT	Senior Vice President – Chief Actuary W. R. Berkley Corporation	2023
Carol J. LaPunzina Demarest, NJ	Senior Vice President – Human Resources W. R. Berkley Corporation	2023
James G. Shiel Pound Ridge, NY	Executive Vice President – Investments W. R. Berkley Corporation	2023
Philip S. Welt Stamford, CT	Executive Vice President – Secretary W. R. Berkley Corporation	2023

OFFICERS

The bylaws provide that the officers of the Company shall be a President, a Treasurer, and Secretary, and may be a Chairman of the Board, one or more executive vice presidents, one or more senior vice presidents, one or more vice presidents, assistant secretaries or assistant treasurers, or other such officers determined by the Board of Directors. Any two or more offices may be held by the same person, except for the offices of President and Secretary. No officer need be a Director or shareholder.

The principal officers elected and serving as of December 31, 2022, were as follows:

<u>Officers</u>	<u>Title</u>
William R. Berkley, Jr.	President
Richard M. Baio	Treasurer
Philip S. Welt	Secretary
Bertman A. Braud, Jr.	Assistant Treasurer
Thomas A. Pearce*	Assistant Secretary
Ted W. Rogers	Assistant Treasurer

*Thomas A. Pearce departed the Company in 2023 and was replaced by Michelle R. Rodemyer.

CONFLICT OF INTEREST

The Company has an established procedure for annual disclosure to its Board of Directors of any material interest or affiliation on the part of its officers, directors, or key employees that is in, or likely to, conflict with the official duties of such person. The Company requires its officers and directors to sign conflict-of-interest statements and disclose any known or potential conflict of interest as part of the annual disclosure process. An examination review of these statements indicated there were no conflicts of interest reported during the period covered by this examination.

CORPORATE RECORDS

The Articles of Incorporation and the Bylaws were not amended during the period under review. The minutes of the meetings of the stockholders, the Board of Directors and the committees of the Board were reviewed for the examination period. All minutes provided were signed and properly attested.

The minutes of the Board meetings showed that the Report of Examination as of December 31, 2018, by the Iowa Insurance Division was received by the Board.

FIDELITY BONDS AND OTHER INSURANCE

Under a financial institution bond, the Company is protected against loss from any fraudulent or dishonest act of any employee up to \$15,000,000 each loss occurrence and \$30,000,000 aggregate limit of liability which meets the NAIC recommended minimum amount.

The other interests of the Company appear to be adequately protected through coverages afforded by policies in force with admitted insurers.

INTERCOMPANY AGREEMENTS

Intercompany Pooling and Quota Share Agreements

The Company is party to an intercompany reinsurance Pooling Agreement with Berkley Insurance Company (“BIC”), an affiliate. The Company has 0% net retention with the lead entity, BIC, retaining 100% of the pool. The agreement allows BIC to act as manager on the Company’s behalf to administer and conduct business of the various pool affiliates. These duties include acting as an agent to collect and disperse funds (including premiums and claims payments); performing accounting functions; computing reinsurance ceded and reinsurance assumed adjustments associated with the pooling agreement; computing, billing, and collection of transfer settlement balances among the pool members; furnishing personnel and facilities to carry out all necessary functions, underwriting all risks and the issuing policies; obtaining and maintaining systems necessary to perform its duties; and, finally, it allows for BIC to perform any and all other duties necessary in the operation and management of the business of the pool affiliates. This agreement has been amended to include any new subsidiaries.

Additionally, three other insurance subsidiaries and Union Standard Lloyds, an affiliated Lloyd’s entity, have separate 100% quota share reinsurance agreements in place with BIC. Therefore, all reserves are at the BIC level and there are minimal expenses at the subsidiaries.

As of December 31, 2022, the Affiliates in the Pooling Agreement are as follows:

- Acadia Insurance Company
- Admiral Insurance Company
- Berkley Assurance Company
- Berkley Casualty Company
- Berkley National Insurance Company
- Berkley Prestige Insurance Company
- Berkley Regional Insurance Company
- Berkley Specialty Insurance Company
- Carolina Casualty Insurance Company
- Continental Western Insurance Company
- Firemen’s Insurance Company of Washington, D.C.
- Gemini Insurance Company
- Great Divide Insurance Company
- Intrepid Casualty Company
- Intrepid Insurance Company
- Intrepid Specialty Insurance Company
- Key Risk Insurance Company**
- Midwest Employers Casualty Company
- Nautilus Insurance Company
- Riverport Insurance Company
- StarNet Insurance Company
- Tri-State Insurance Company of Minnesota
- Union Insurance Company

Investment Advisory Agreement

The Company is party to an investment management agreement with its affiliate, Berkley Dean & Company (“Berkley Dean”). Under the terms of the agreement, Berkley Dean shall provide investment advisory and management services to the Company and have the authority to supervise and direct the investment and reinvestment of all Company securities, subject to investment limitations established pursuant to the terms of the agreement. The Company has ultimate and final authority over decisions and policies on purchases and sales of securities.

Berkley Technology Services Agreement

The Company is party to a computer services agreement with an affiliate, Berkley Technology Services, LLC (“BTS”). Under the terms of the contract, BTS is responsible for providing computer and data processing services including programming, network management, operations, and consulting services to the Company.

Intercompany Management and Service Agreement

The Company is party to a Management Agreement with BIC and several affiliated limited liability companies (Profit Centers) that perform or contract to perform certain services including underwriting, claims, and other management services to BIC and its insurance subsidiaries.

Tax Allocation Agreement

The Company and WRBC are party to a Tax Allocation Agreement. The tax allocation is based upon separate return calculations with the current credit for losses subject to the availability of the previous taxable income. WRBC is authorized to file a consolidated federal income tax return on behalf of the Company and its affiliates for the current and future taxable years.

Claims Administration Agreement

BIC entered into a Claims Management Services Agreement on behalf of affiliate Berkley subsidiaries, including the Company, with Berkley Claims Solutions LLC (“BCS”). BCS is to perform certain claims handling, management, adjustment, and related services on behalf of BIC and its insurance affiliates concerning certain insurance policies issued.

Berkley Connect Broker-Agent Agreement

BIC entered into a Broker-Agent Agreement on behalf of affiliate Berkley subsidiaries, including the Company, with Berkley Connect Insurance Solutions, LLC (“Berkley Connect”). Berkley Connect is licensed as an insurance broker-agent and surplus lines broker and will perform insurance marketing, brokerage, and related services.

EMPLOYEES' WELFARE

The Company does not have any direct employees. All personnel services and associated cost allocations are managed through the Reinsurance Pooling Agreement with Berkley Insurance Company and in some instances may be charged to the Company via the various underwriting and management agreements with the WRBC limited liability companies.

REINSURANCE

The reinsurance contracts of the Company were reviewed and no contract provisions were found to be outside the custom of the industry. All contracts had acceptable insolvency clauses and transfer of risk.

ASSUMED

As of December 31, 2022, the Company does not assume any business.

Non-Affiliated Assumed Reinsurance

The Company assumes an immaterial amount of workers’ compensation, commercial auto liability, and commercial auto physical damage business equaling less than 3% of premiums from a small number of non-affiliated insurers.

CEDED

The Company is party to an intercompany reinsurance pooling agreement and Quota Share Agreement. See the affiliated intercompany pooling and quota share agreements noted under 'Intercompany Agreements'.

STATUTORY DEPOSIT

As of December 31, 2022, the book/adjusted carrying value of special deposits held in trust for the benefit of all policyholders totaled \$2,903,903. The book/adjusted carrying value of special deposits held in trust not for the protection of all policyholders of the Company totaled \$3,522,275 and was distributed as follows:

Arizona	\$ 569,524
Arkansas	155,571
California	103,714
Delaware	103,714
Florida	155,571
Georgia	93,343
Idaho	250,558
Iowa	103,714
Massachusetts	155,571
Nevada	333,746
North Carolina	312,155
Oregon	362,023
Virginia	303,406
US Department of Labor	519,665

TERRITORY AND PLAN OF OPERATION

As of December 31, 2022, the Company was licensed in all states and the District of Columbia. The Company specializes in workers' compensation insurance.

The five states with the largest direct premium collected in 2022 were:

<u>State</u>	<u>Direct Premium Written</u>	<u>Percentage of Total</u>
California	\$ 16,366,489	9.0%
Florida	16,951,501	9.4%
Georgia	14,536,725	8.0%
New Jersey	12,505,778	6.9%
Texas	22,101,879	12.2%
Total all states	\$ 181,260,504	100.0%

GROWTH OF COMPANY

The growth of the Company is reflected by the following data obtained from the Company's filed annual statements and covers the examination period:

(000's Omitted)

<u>Year</u>	<u>Admitted Assets</u>	<u>Surplus As Regards Policyholders</u>	<u>Gross Premiums Written</u>	<u>Net Investment Income Gain</u>	<u>Net Income</u>
2019	\$ 53,467	\$ 33,559	\$ 58,714	\$ 954	\$ 743
2020	59,733	34,325	96,004	805	734
2021	66,223	34,771	132,780	904	766
2022	76,098	34,805	182,997	645	526

ACCOUNTS AND RECORDS

Trial balances of the Company's general ledgers were taken for each year under examination and were found to be in agreement with the office copies of the filed annual statements for those years. Cash receipts and disbursements were tested to the extent deemed necessary.

During the course of the examination, no material aggregate surplus difference was identified from the amount reflected in the financial statements, as presented in the annual statement at December 31, 2022.

SUBSEQUENT EVENTS

The Inflation Reduction Act (Act) was enacted on August 16, 2022, and included a new corporate alternative minimum tax (CAMT). The Act and the CAMT go into effect for tax years beginning after 2022. The Company has determined that it does not expect to be liable for CAMT in 2023 however, it is awaiting further clarification from the United States Treasury with regard to application of the rules which were outlined in the Act.

FINANCIAL STATEMENTS
AND COMMENTS THEREON

NOTE: The following financial statements are based on the statutory financial statements filed by the Company with the Iowa Insurance Division and present the financial condition of the Company for the period ending December 31, 2022.

STATEMENT OF ASSETS AND LIABILITIES

ASSETS

	<u>Assets</u>	<u>Non-Admitted</u>	<u>Admitted</u>
Bonds	\$ 27,456,496	\$	\$ 27,456,496
Cash, cash equivalents and short-term investments	11,086,225		11,086,225
Receivable for securities	25,631		25,631
Investment income due and accrued	135,302		135,302
Uncollected premiums and agents' balances in the course of collection	20,208,812	1,025,386	19,183,426
Deferred premiums, agents' balances and installments booked but deferred and not yet due	18,493,638	39,189	18,454,448
Current federal and foreign income tax recoverable	18,364		18,364
Net deferred tax asset	228,451		228,451
Guaranty funds receivable or on deposit	(496,288)		(496,288)
Receivable from parent, subsidiaries and affiliates	16,110	10,404	5,707
Miscellaneous receivables	2,113	2,113	-
	<hr/>	<hr/>	<hr/>
Total Assets	\$ 77,174,854	\$ 1,077,091	\$ 76,097,763

LIABILITIES, SURPLUS AND OTHER FUNDS

Commissions payable	\$ 2,237,766
Other expenses	200,543
Taxes, licenses and fees due or accrued, excluding federal income taxes	2,159,070
Advance premium	448,517
Dividends declared and unpaid: Policyholders	1,541,855
Ceded reinsurance premiums payable, net of ceding commissions	34,409,272
Miscellaneous liabilities	270,909
Deferred revenue on investments	24,675
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Total Liabilities	\$ 41,292,608
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Common capital stock	4,500,000
Gross paid in and contributed surplus	20,750,000
Unassigned funds (surplus)	9,555,155
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Surplus as regards policyholders	\$ 34,805,155
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Total Liabilities and Surplus	\$ 76,097,763

STATEMENT OF INCOME

Investment Income

Net investment income earned	\$ 636,631
Net realized capital gains (losses)	7,945
Net investment gain (loss)	<u>\$ 644,576</u>

Other Income

Net gain (loss) from agents' or premium balances charged off	(21,249)
Miscellaneous income	21,249
Total other income	<u>\$ 0</u>

Net income before dividends to policyholders, after capital gains tax and before all other federal income taxes	644,576
Federal and foreign income taxes incurred	118,383
Net income	<u>\$ 526,193</u>

CAPITAL AND SURPLUS ACCOUNT

Capital and surplus prior reporting year	<u>\$ 34,771,400</u>
Net income	526,193
Change in net deferred income tax	153,540
Change in non-admitted assets	(716,111)
Deferred intercompany gain	70,133
Net change in capital and surplus for the year	<u>\$ 33,755</u>
Capital and surplus end of reporting period	<u>\$ 34,805,155</u>

CASH FLOW

Cash from Operations

Premiums collected net of reinsurance	\$ (1,130,307)	
Net investment income	802,080	
Total		<u>\$ (328,227)</u>
Commissions, expenses paid and aggregate write-ins for deductions	(1,048,342)	
Dividends paid to policyholders	113,238	
Federal and foreign income taxes paid (recovered)	106,000	
Total		<u>(829,104)</u>
Net cash from operations		<u>\$ 500,877</u>

Cash from Investments

Proceeds from investments sold, matured or repaid:		
Bonds	\$ 26,317,423	
Miscellaneous proceeds	22,000	
Total investment proceeds		<u>\$ 26,339,423</u>
Cost of investments acquired:		
Bonds	\$ 19,310,349	
Total investments acquired		<u>19,310,349</u>
Net cash from investments		<u>\$ 7,029,074</u>

Cash from Financing and Miscellaneous Sources

Other cash provided (applied)	\$ 184,115	
Net cash from financing and miscellaneous sources		<u>\$ 184,115</u>

Reconciliation of Cash, Cash Equivalents, and Short-Term Investments

Net change in cash, cash equivalents and short-term investments		\$ 7,714,066
Cash, cash equivalents and short-term investments:		
Beginning of year		3,372,160
End of year		<u>\$ 11,086,226</u>

CONCLUSION

The cooperation and assistance extended by the officers and employees of the Company during the course of this examination is hereby acknowledged.

In addition to the undersigned, examiners, information systems specialists, and actuarial specialists The INS Companies (INS Regulatory Insurance Services, Inc., INS Services, Inc., and INS Consultants, Inc.), participated in the examination and the preparation of this report.

Respectfully submitted,

/s/ Cecilee Diamond-Houdek _____
Cecilee Diamond-Houdek, CFE, CPA, MCM
Examiner-in-Charge
INS Regulatory Insurance Services, Inc.
on behalf of the Insurance Division
State of Iowa

/s/ Amanda Theisen _____
Amanda Theisen, CFE, PIR, MCM
Supervisor and Assistant Chief – Examinations
Insurance Division
State of Iowa