

EXAMINATION REPORT OF
UNION INSURANCE COMPANY
URBANDALE, IOWA
AS OF DECEMBER 31, 2018

Urbandale, Iowa
April 6, 2020

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, affairs and financial condition of

UNION INSURANCE COMPANY

URBANDALE, IOWA

AS OF DECEMBER 31, 2018

at the Company's Home Office located at 11201 Douglas Avenue, Urbandale, Iowa. The report of such examination, containing applicable comments, explanations and financial data, is presented herein. The report on examination thereon is respectfully submitted.

INTRODUCTION

Union Insurance Company, hereinafter referred to as the "Company", was last examined as of December 31, 2013, and is domiciled and licensed as a property and casualty insurance company in the State of Iowa. In conjunction with this examination, a coordinated examination of the W. R. Berkley Corporation's ("WRBC") property and casualty companies was conducted in cooperation with the Delaware Insurance Department, the lead state.

SCOPE OF EXAMINATION

This is the regular comprehensive financial examination of the Company covering the intervening period from January 1, 2014 to the close of business on December 31, 2018, including any material transactions and/or 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. The Handbook requires that we 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.

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

HISTORY

The Company was incorporated under the laws of the State of Nebraska on September 1, 1886, and commenced business in 1887 as a mutual assessment fire insurance company under the name Farmers Union Insurance Company of Plum Creek, Nebraska. By amendment to its articles of incorporation in 1917, the Company changed to a legal reserve company with authority to write fire, marine, and automobile insurance. On January 10, 1952, the charter was amended to change the name to Union Insurance Company and corporate authorization was expanded to write all fire, marine and casualty lines of business under the laws of the State of Nebraska.

On March 19, 1973, Union Insurance Company ("UIC") became a stock company after receiving approval of a bulk reinsurance agreement from the Nebraska Department of Insurance and the Union Insurance Company policyholders whereby the business of UIC was bulk reinsured by the new Union Insurance Company. The stock company was capitalized by ("WRBC"), the ultimate parent.

As of December 31, 1996, WRBC contributed the Company's stock to Berkley Regional Insurance Company ("BRIC"), a subsidiary of WRBC.

On December 27, 2006, pursuant to an amendment to the articles of incorporation, filed with and approved by the Iowa Insurance Commissioner, the Company re-domesticated from the State of Nebraska to the State of Iowa.

CAPITAL STOCK AND DIVIDENDS THEREON

Total authorized capital was \$31,000,000 consisting of 60,000 shares of \$500 par value common stock and 10,000 shares of \$100 par value preferred stock. Issued and outstanding capital was 10,000 shares of common stock totaling \$5,000,000. The gross paid in and contributed surplus was \$22,009,385. No dividends were issued during the examination period.

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 companies within the holding company system, as of December 31, 2013, follows:

W. R. Berkley Corporation
 Signet Star Holdings, Inc.
 Berkley Insurance Company (DE)
 Berkley Regional Insurance Company (IA)
 Union 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 less than five members nor more than twenty-one members as fixed by the bylaws. Elected members serving at December 31, 2018, were as follows:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Richard M. Baio West Harrison, New York	Senior Vice President - Treasurer W. R. Berkley Corporation
William R. Berkley, Jr. Greenwich, Connecticut	President and Chief Executive Officer W. R. Berkley Corporation
Paul J. Hancock Brookfield, Connecticut	Senior Vice President - Chief Actuary W. R. Berkley Corporation
Carol J. LaPunzina Demarest, New Jersey	Senior Vice President - Human Resources W. R. Berkley Corporation
Ira S. Lederman Bedford, New York	Executive Vice President - Secretary W. R. Berkley Corporation
Matthew M. Ricciardi Port Washington, New York	Senior Vice President - General Counsel W. R. Berkley Corporation
James G. Shiel Pound Ridge, New York	Executive Vice President - Investments W. R. Berkley Corporation

The bylaws provide that the officers of the Company shall consist of a President, one or more Vice Presidents, a Secretary, and a Treasurer, and such assistant secretaries and assistant treasurers or any other officers as may be elected or appointed by the board by resolution. Any two or more offices may be held by the same person, except for the offices of President and Secretary. The President shall also serve as a director.

The principal officers elected and serving as of December 31, 2018, were as follows:

<u>Officers</u>	<u>Title</u>
William R. Berkley, Jr.	President
Richard M. Baio	Treasurer
Ira S. Lederman	Secretary
Bertram A. Braud, Jr.	Assistant Treasurer
Ann M. Collins	Assistant Treasurer
Susan P. Tingleff	Assistant Treasurer

CONFLICTS 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 which is in, or likely to, conflict with the official duties of such person. While disclosures were made, none were found to have a

material impact on the Company.

CORPORATE RECORDS

The bylaws were amended effective January 1, 2018, to revise the number of Board of Directors to be not less than five nor more than twenty-one. The directors are to be elected by the stockholders of the corporation and serve a term of one year.

The recorded minutes of the stockholders and Board of Directors were read and noted. The Iowa Insurance Division's examination report, dated as of December 31, 2013, was discussed and accepted by the Board of Directors as written.

RELATED PARTY AGREEMENTS

The Company had the following significant related party agreements in place during the exam period.

Reinsurance Pooling Agreement

Effective January 1, 2013, the Company entered into a 100% Reinsurance Pooling Agreement with Berkley Insurance Company ("BIC"), an affiliate. The Company has 0% net retention with the lead entity Berkley Insurance Company 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 collecting 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.

The agreement was amended on April 17, 2013, to clarify that the business and affairs of the Company shall be managed by the Company's Board of Directors, and, to the extent delegated by the board, by its appropriately designated officers. The Pooling Agreement was approved by the Iowa Insurance Division.

In July, 2016 the Pooling Agreement was amended to include Intrepid Insurance Company.

Commercial property and casualty lines of business subject to the pooling include general liability, excess, umbrella, automobile, property, products liability, workers' compensation and professional liability lines. These are written on both a surplus lines or admitted basis.

The Affiliates in the Pooling Agreement are as follows:

- Acadia Insurance Company
- Admiral Insurance Company
- American Mining Insurance Company
- Berkley Assurance Company
- Berkley National 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 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

Tax Allocation Agreement

The Group has a tax sharing agreement with, and is included in the consolidated federal income tax return of, WRBC and its subsidiaries. The method of allocation between the companies is subject to the tax sharing agreement. The Group's tax allocation is based upon separate return calculations with the current credit for losses subject to the availability of the previous taxable income.

Investment Advisory Agreement

Effective February 26, 1996, the Company entered into an Investment Advisory Agreement with Berkley Dean & Company, Inc., an affiliate. Under the terms of the agreement, Berkley Dean & Company 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.

Computer Services Agreement

Effective February 1, 2002, the Company entered into a Computer Services Agreement with Berkley Technology Services, an affiliate. Under the terms of the contract Berkley Technology Services is responsible to provide computer and data processing services including programming, network management, operations and consulting services to the Company.

FIDELITY BONDS AND OTHER INSURANCE

W. R. Berkley Corporation, along with its subsidiaries as named insureds, is protected by a blanket bond which covers the fidelity of each officer and employee up to \$15,000,000 for any one occurrence. The bond is written by an authorized insurer with a closed expiration date. The coverage meets the NAIC suggested minimum amount of fidelity insurance for the Company.

The other insurable interests appeared to be adequately protected by insurance policies currently in force with policies written by companies authorized to transact business in the State of Iowa.

EMPLOYEES' WELFARE

The Company has no direct employees. All management and administrative services are managed through the Reinsurance Pooling Agreement with Berkley Insurance Company and in some instances may be provided by the parent and other affiliated companies under the administrative services agreement and management agreement.

STATUTORY DEPOSITS

As of December 31, 2018, the book/adjusted carrying value of special deposits held in trust for the benefit of all policyholders totaled \$2,659,919. The book/adjusted carrying values of special deposits held in trust, totaling \$3,325,814 and not held for the protection of all policyholders of the Company, are as follows:

Arkansas	\$ 205,000	Nevada	\$ 300,431
Delaware	110,000	New Mexico	683,330
Florida	213,100	North Carolina	389,064
Georgia	350,000	Oregon	372,696
Idaho	255,135	Virginia	280,856
Massachusetts	166,202		

TERRITORY AND PLAN OF OPERATION

As of December 31, 2018, the Company was authorized to transact business in the District of Columbia and all states except California. Direct business is produced through a network of independent producers.

There are numerous regional and specialized operating units utilizing the Union Insurance Company charter. Each of these operating units has been assigned a specific profit center and may produce direct business on multiple legal entities. Under the structure, the regional and specialized operating units are responsible for directly marketing, selling and servicing the business they produce.

The Acadia Insurance, Berkley Mid-Atlantic Group and Union Standard profit centers produced the majority (93%) of direct business for Union Insurance Company. Acadia Insurance is a northeast regional property casualty underwriter offering a broad portfolio of products exclusively through local independent agents in Connecticut, Maine, Massachusetts, New Hampshire, New York and Vermont. In addition to its general offerings, Acadia has specialized expertise in insuring regional businesses and industries such as construction, lumber and fishing. Berkley Mid-Atlantic Group provides commercial property casualty coverages to a wide variety of businesses in Delaware, the District of Columbia, Maryland, Ohio, Pennsylvania, and Virginia. Union Standard's strategy is built around relationships and service. In 2013, Union Standard formed Berkley Fire & Marine as a separate division to offer a wider range of inland marine products nationwide.

GROWTH OF COMPANY

The following information was obtained from the Company's filed Annual Statements and covers the examination period:

<u>Year</u>	<u>Admitted Assets</u>	<u>Surplus As Regards Policyholders</u>	<u>Net Premiums Earned</u>	<u>Net Losses Incurred</u>	<u>Investment Income Earned</u>
2014	\$115,793,078	\$28,832,751	\$ 0	\$ 0	\$ 973,419
2015	118,620,841	29,679,638	0	0	845,410
2016	137,099,564	44,787,494	0	0	898,200
2017	137,593,271	45,735,364	0	0	1,079,751
2018	144,904,623	46,711,853	0	0	1,199,170

The \$0 reported in 2018 for net premiums earned and net losses incurred were a result of the 100% reinsurance pooling agreement.

ACCOUNTS AND RECORDS

The Company's general ledger is maintained on an accrual basis. A trial balance was prepared for 2018. Amounts from the general ledger accounts were reconciled and found to be in agreement with balances reported on the filed Annual Statements for assets, liabilities, income or disbursements.

During the course of the examination, no differences with the amounts in the financial statements, as presented in the Annual Statement at December 31, 2018, were noted.

SUBSEQUENT EVENTS

In March 2020, the World Health Organization declared Coronavirus disease (COVID-19) a pandemic. As of the date of this report, there is significant uncertainty as to the impact the pandemic will have on the economy, insurance industry and the Company. In addition, this uncertainty has contributed to extreme volatility in the financial markets. As such, the Iowa Insurance Division will continue to monitor COVID-19 developments.

F I N A N C I A L S T A T E M E N T S
A N D C O M M E N T S T H E R E O N

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, 2018.

STATEMENT OF ASSETS AND LIABILITIES
EXAMINATION PERIOD ENDING DECEMBER 31, 2018

	<u>ASSETS</u>	Not	
	<u>Ledger</u>	<u>Admitted</u>	<u>Admitted</u>
Bonds	\$43,376,681		\$ 43,376,681
Cash and short-term investments	3,015,646		3,015,646
Receivable for securities	31,659		31,659
Investment income due and accrued	307,941		307,941
Premiums and considerations:			
Uncollected premiums and agents' balances in the course of collection	17,072,030	684,486	16,387,545
Deferred premiums, agents' balances and installments booked but differed and not yet due	80,155,687		80,155,687
Current federal and foreign income tax recoverable	10,519		10,519
Net deferred tax asset	177,330		177,330
Guaranty funds receivable or on deposit	413,294		413,294
Aggregate write-ins for other than invested assets	1,028,323		1,028,323
Total assets	\$ <u>145,589,109</u>	\$ <u>684,486</u>	\$ <u>144,904,623</u>

LIABILITIES, SURPLUS AND OTHER FUNDS

Reinsurance payables on paid losses and loss adjustment expenses	\$ (12,285)
Commissions payable, contingent commissions and other similar charges	3,573,075
Taxes, licenses and fees	1,542,050
Advance premium	694,862
Ceded reinsurance premiums payable	91,879,557
Remittances and items not allocated	10,472
Payable to parent, subsidiaries and affiliates	24,423
Aggregate write-ins for liabilities	<u>480,616</u>
 Total liabilities	 \$ <u>98,192,770</u>
 Common capital stock	 \$ 5,000,000
Gross paid in and contributed surplus	22,009,385
Unassigned funds (surplus)	<u>19,702,468</u>
 Surplus as regards policyholders	 \$ <u>46,711,853</u>
 Total liabilities and surplus	 \$ <u>144,904,623</u>

STATEMENT OF INCOME
ONE-YEAR PERIOD ENDING DECEMBER 31, 2018

Investment Income

Net investment income earned	\$ 1,199,170
Net realized capital gains (losses)	<u>(29,104)</u>
Net investment income	\$ <u>1,170,066</u>

Other Income

Net gain (loss) from agents' and premium balances charged off	\$ (521,699)
Aggregate write-ins for miscellaneous income	<u>521,699</u>
Total other income	\$ <u>0</u>
Net income before Federal income tax	\$ 1,170,066
Federal and foreign income taxes incurred	<u>173,217</u>
Net income	\$ <u>996,849</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2017	\$ <u>45,735,364</u>
Net income	\$ 996,849
Change in net deferred income tax	(5,930)
Change in non-admitted assets	(22,576)
Aggregate write-ins for gains or losses in surplus	<u>8,146</u>
Change in surplus as regards policyholders for the year	\$ <u>976,489</u>
Surplus as regards policyholders, December 31, 2018	\$ <u>46,711,853</u>

CASH FLOW STATEMENT
ONE-YEAR PERIOD ENDING DECEMBER 31, 2018

Cash from Operations

Premiums collected net of reinsurance	\$	(429,716)	
Net investment income		<u>1,527,191</u>	
Total	\$		1,097,475
Benefit and loss related payments	\$	61,527	
Commissions, expenses paid and aggregate write-ins for deductions		(201,814)	
Federal and foreign income taxes paid (recovered)		<u>179,478</u>	
Total	\$		<u>39,191</u>
Net cash from operations			1,058,284

Cash from Investments

Proceeds from investments sold, matured or repaid	\$	24,889,073	
Cost of investments acquired (long-term only)		<u>24,897,673</u>	
Net cash from investments	\$		(8,600)

Cash from Financing and Miscellaneous Sources

Net cash from financing and miscellaneous sources			<u>305,258</u>
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RECONCILIATION OF CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS

Net change in cash, cash equivalents and short-term investments	\$	<u>1,354,942</u>	
Cash, cash equivalents and short-term investments:			
Beginning of year	\$	<u>1,660,705</u>	
End of period	\$	<u>3,015,646</u>	

STATEMENT OF INCOME
FIVE-YEAR PERIOD ENDING DECEMBER 31, 2018

Underwriting Income

Other underwriting deductions	\$ 143,675	
Total underwriting deductions		\$ <u>143,675</u>
Net underwriting gain (loss)		\$ <u>(143,675)</u>

Investment Income

Net investment income earned	\$ 4,995,950	
Net realized capital gain	79,559	
Net investment gain (loss)		\$ <u>5,075,509</u>

Other Income

Net gain or (loss) from agents' or premium balances charged off	\$ (882,054)	
Finance and service charges not included in premiums	495,247	
Aggregate write-ins for miscellaneous income	<u>530,481</u>	
Total other income (loss)		\$ <u>143,674</u>
Net income after dividends to policyholders but before federal and foreign income taxes		\$ 5,075,509
Federal and foreign income taxes incurred		<u>866,717</u>
Net Income		\$ <u>4,208,791</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2013		\$ <u>28,229,336</u>
<u>Gains and (Losses) in Surplus</u>		
Net income		\$ 4,208,791
Change in net deferred income tax		(151,397)
Change in non-admitted assets		(94,262)
Surplus adjustments: paid in		15,000,000
Aggregate write-ins for gains and losses in surplus		(480,616)
Change in surplus as regards policyholders		\$ <u>18,482,517</u>
Surplus as regards policyholders, December 31, 2018		\$ <u>46,711,853</u>

