

EXAMINATION REPORT OF
TRI-STATE INSURANCE COMPANY OF MINNESOTA
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

TRI-STATE INSURANCE COMPANY OF MINNESOTA

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

Tri-State 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 on April 1, 1974, as a stock insurance company under the provisions of Minnesota Statutes Chapters 60A and 300, successor to Tri-State Mutual Insurance Company, which commenced business in 1902. W. R. Berkley Corporation (WRBC), a publicly traded financial management firm specializing in acquiring, operating and expanding regional insurance companies, sponsored the Company's conversion to a stock carrier. On December 31, 1996, WRBC made a capital contribution consisting of all the common stock of the Company to the Company's immediate parent, Berkley Regional Insurance Company (BRIC). WRBC remains the ultimate controlling person.

Effective December 4, 2014 the Company re-domesticated from Minnesota to Iowa.

CAPITAL STOCK AND DIVIDENDS THEREON

Total authorized capital was \$5,000,000 consisting of 1,000,000 shares of \$5.00 par value common stock. As of December 31, 2018, all common stock was held by BRIC. The Company was also authorized to issue 10,000 shares of \$1.00 par value preferred stock. The gross paid in and contributed surplus was \$6,677,508. 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, 2018, follows:

W. R. Berkley Corporation
 Signet Star Holdings, Inc.
 Berkley Insurance Company (DE)
 Berkley Regional Insurance Company (IA)
 Tri-State Insurance Company of Minnesota (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 nor more than fifteen 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 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.

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 conflict of 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.

CORPORATE RECORDS

The recorded minutes of the stockholders and Board of Directors were read and noted. The minutes were properly attested. The minutes were reviewed and indicated the Board of Directors reviewed and accepted the examination report dated as of December 31, 2013.

RELATED PARTY AGREEMENTS

The Company had the following related party agreements in place as of December 31, 2018:

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

Federal Income Tax Allocation Agreement

The Company and W. R. Berkley Corporation, the ultimate parent, entered into a Tax Allocation Agreement, effective January 1, 2011. Pursuant to the terms of the agreement, 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.

Investment Advisory Agreement

Effective February 23, 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.

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 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.

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 \$2,167,022. The book/adjusted carrying values of special deposits held in trust, totaling \$3,725,515 and not held for the protection of all policyholders of the Company, are as follows:

Arkansas	\$ 160,561	Montana	\$ 30,719
California	101,810	Nevada	287,168
Delaware	100,000	New Mexico	646,873
Florida	203,619	North Carolina	318,588
Georgia	85,000	Oregon	393,327
Idaho	248,436	Virginia	265,464
Massachusetts	167,164	Aggregate alien	
Minnesota	634,843	and other	81,943

TERRITORY AND PLAN OF OPERATION

As of December 31, 2018, the Company licensed in the District of Columbia and all states. The Company specializes in commercial casualty insurance and workers' compensation insurance. States with the greatest premium volume include Texas, Mississippi, Massachusetts, Pennsylvania, Minnesota, and Oklahoma.

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	\$ 36,298,823	\$ 31,563,250	\$ 0	\$ 0	\$ 811,329
2015	42,242,997	32,139,732	0	0	782,413
2016	49,754,537	32,880,933	0	0	782,658
2017	60,101,841	33,448,251	0	0	800,934
2018	72,098,305	33,685,258	0	0	980,380

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

ASSETS

	<u>Ledger</u>	<u>Not Admitted</u>	<u>Admitted</u>
Bonds	\$ 31,740,824	\$	\$ 31,740,824
Cash and short-term investments	1,420,932		1,420,932
Receivable for securities	25,323		25,323
Investment income due and accrued	313,268		313,268
Premiums and considerations:			
Uncollected premiums and agents' balances in the course of collection	15,395,214	322,054	15,073,160
Deferred premiums and agents' balances and installments booked but deferred and not yet due	23,414,741	18,780	23,395,962
Net deferred tax asset	55,620		55,620
Guaranty funds receivable or on deposit	18,419		18,419
Aggregate write-ins for other than invested assets	54,798		54,798
Totals assets	\$ 72,439,138	\$ 340,833	\$ 72,098,305

LIABILITIES, SURPLUS AND OTHER FUNDS

Commissions payable, contingent commissions and other similar charges		\$	704,598
Taxes, licenses and fees			857,785
Current federal and foreign income taxes			1,350
Advance premium			649,135
Ceded reinsurance payable			34,694,480
Payable to parent, subsidiaries and affiliates			835,312
Aggregate write-ins for liabilities			670,388
Total liabilities		\$	38,413,048
Common capital stock		\$	5,000,000
Gross paid in and contributed surplus			6,677,508
Unassigned funds (surplus)			22,007,750
Surplus as regards policyholders		\$	33,685,258
Total liabilities and surplus		\$	72,098,305

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

Investment Income

Net investment income earned	\$ 980,280	
Net realized capital gains (losses)	<u>54,851</u>	
Net investment income		\$ <u>1,035,230</u>

Other Income

Net gain (loss) from agents' or premium balances charged off	\$ (297,427)	
Aggregate write-ins for miscellaneous income	<u>297,427</u>	
Total other income		\$ <u>0</u>
Net income before federal income tax		\$ 1,035,230
Federal and foreign income taxes incurred		<u>162,770</u>
Net income		\$ <u>872,460</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2017		\$ <u>33,448,251</u>
Net income		\$ 872,460
Change in net unrealized capital gains or (losses)		5,498
Change in net deferred income tax		12,915
Change in non-admitted assets		(70,443)
Aggregate write-ins for gains and losses in surplus		<u>(583,424)</u>
Change in surplus as regards policyholders for the year		\$ <u>237,006</u>
Surplus as regards policyholders, December 31, 2018		\$ <u>33,685,258</u>

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

Cash from Operations

Premiums collected net of reinsurance	\$	(675,668)	
Net investment income		<u>1,202,757</u>	
Total			\$ 527,088
Commissions, expenses paid and aggregate write-ins for deductions		(268,314)	
Federal and foreign income taxes paid (recovered)	\$	181,440	
 Total			 <u>(86,874)</u>
Net cash from operations			\$ <u>613,962</u>

Cash from Investments

Proceeds from investments sold, matured or repaid	\$	27,154,039	
Cost of investments acquired (long-term only)		28,277,722	
Misc. Applications		<u>11,676</u>	
Net cash from investments	\$	<u>(1,135,359)</u>	

Cash from Financing and Miscellaneous Sources

Other cash provided (applied)	\$	<u>418,562</u>	
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RECONCILIATION OF CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS

Net change in cash, cash equivalents and short-term investments	\$	(102,835)	
Cash, cash equivalents and short-term investments:			
Beginning of year	\$	<u>1,523,767</u>	
End of period	\$	<u>1,420,932</u>	

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

Underwriting Income

Loss adjustment expenses incurred	7,595	
Other underwriting expenses incurred		
Total underwriting deductions	<u>7,595</u>	
Net underwriting gain (loss)		\$ (7,595)

Investment Income

Net investment income earned	\$ 4,157,715	
Net realized capital gains (losses)	<u>51,712</u>	
Net investment income		4,209,427

Other Income

Net gain or (loss) from agents' balances charged off	\$ (562,972)	
Finance and service charges not included in premiums	24,675	
Aggregate write-ins for miscellaneous income	<u>545,893</u>	
Total other income		<u>7,596</u>
Net income before Federal income tax		\$ 4,209,427
Federal and foreign income taxes incurred		<u>690,824</u>
Net income		\$ <u>3,518,603</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2013	\$ <u>30,926,513</u>
<u>Gains and (Losses) in Surplus</u>	
Net income	\$ 3,518,603
Change in net unrealized capital gains or (losses)	13,113
Change in net deferred income tax	37,665
Change in non-admitted assets	(249,897)
Aggregate write-ins for gains and in surplus	<u>(560,740)</u>
Change in surplus as regard policyholders for the exam period	\$ <u>2,758,744</u>
Surplus as regards policyholders, December 31, 2018	\$ <u><u>33,685,258</u></u>

