

EXAMINATION REPORT

OF

KW SPECIALTY INSURANCE COMPANY

AS OF

DECEMBER 31, 2019

Office of the
Commissioner



Delaware
Department of Insurance

REPORT ON EXAMINATION
OF
KW SPECIALTY INSURANCE COMPANY
AS OF
DECEMBER 31, 2019

The above-captioned report was completed by examiners of the Delaware Department of Insurance.

Consideration has been duly given to the comments, conclusions and recommendations of the examiners regarding the status of the company as reflected in the report.

This report is hereby accepted, adopted and filed as an official record of this Department.

A handwritten signature in blue ink, reading "Trinidad Navarro".

Trinidad Navarro
Insurance Commissioner

Dated this 14 day of June, 2021

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May 26, 2021

Honorable Trinidad Navarro
Commissioner of Insurance
Delaware Department of Insurance
1351 West North Street, Suite 101
Dover, Delaware 19904

Dear Commissioner:

In compliance with instructions and pursuant to statutory provision contained in Exam Authority No. 20.035, dated December 16, 2020 an examination has been made of the affairs financial condition and management of

KW SPECIALTY INSURANCE COMPANY

hereinafter referred to as KWS or the Company. KWS was incorporated under the laws of the State of Delaware as a stock company with its registered office located at 501 Silverside Road, Suite 57, Wilmington, DE 19809. Due to the COVID-19 Pandemic, the examination was conducted offsite. The administrative office of the Company is located at 6345 Balboa Blvd. Suite 190 Encino, CA 91316. The report of examination thereon is respectfully submitted.

SCOPE OF EXAMINATION

The Delaware Department of Insurance (Department) performed a risk-focused financial examination of the Company. This is the initial financial condition examination of the Company. This examination covered the period from July 1, 2017 through December 31, 2019 and encompasses a general review of transactions during the period, the Company's business policies

and practices, as well as management and relevant corporate matters, with a determination of the financial condition of the Company as of December 31, 2019.

We conducted our examination in accordance with the *National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook* (Handbook) and generally accepted statutory insurance examination standards consistent with the Insurance Code and Regulations of the State of Delaware. The NAIC Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the company and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements.

This examination report includes significant findings of fact, pursuant to the General Corporation Law of the State of Delaware as required by 18 *Del. C.* §321, along with general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the Company. During the course of this examination, consideration was

given to work performed by the Company's external accounting firm, JLK Rosenberger. Certain auditor work papers have been incorporated into the examination work papers.

SUMMARY OF SIGNIFICANT FINDINGS

There were no significant findings or material changes in financial statements as a result of this examination.

COMPANY HISTORY

K-W Reinsurance Company Ltd. (K-W Re) was incorporated on June 22, 1983 under the laws of the Turks and Caicos Islands and authorized to issue five thousand (5,000) common shares with a par value of \$1, per share. The common stock certificate was issued by the Company to Kramer-Wilson Company, Inc. (KW) a Delaware Corporation. On May 10, 2017, K-W Re issued 999,900 common shares to KW. The re-domestication and name change to KWS was approved by the Department on November 1, 2017.

Capitalization

As amended on April 11, 2017, the Company's Articles of Association authorizes the share capital of the Company be increased from \$5,000 divided into 5,000 Ordinary shares of \$1.00 each to \$1,000,000.00 divided into 1,000,000 Ordinary Shares of \$1.00 each with a par value of \$1.00 each.

On November 30, 2017, the Company's parent made a capital contribution of \$72,104,109. On December 27, 2019, the Company received a capital contribution from its parent of \$5,000,000.

Dividends

The Company did not pay any dividends during the examination period.

MANAGEMENT AND CONTROL

Directors

Pursuant to the general Corporation Laws of the State of Delaware, as implemented by the Company's Certificate of Incorporation and bylaws, the business and affairs of the Company must be exercised by, or under the authority of, its Board of Directors (Board). The Company's bylaws require that its Board consist of not less than three or more than fifteen members, as shall be designated by the Board. As of December 31, 2019, the Board was comprised of the following members:

<u>Name</u>	<u>Business Affiliation</u>
Weldon Wilson	Chairman of the Board
Kevin Wilson	Chief Executive Officer
Brian Wilson	Vice President

On March 1, 2021 Gary Romay and Marla Vils were elected directors of the Company.

Officers

Officers were appointed in accordance with the Company's bylaws during the period under examination. The bylaws indicate the following executive officers may be elected by the Board a Chairman of the Board, a President, a Chief Executive Officer, a Vice President, a Secretary and a Treasurer. The Board may appoint other officers and agents at its discretion. Any number of offices may be held by the same person. The primary officers of the Company serving as of December 31, 2019, were as follows:

<u>Name</u>	<u>Title</u>
Weldon Wilson	Chairman of the Board
Gary Romay	President
Kevin Wilson	Chief Executive Officer

Parker Kelley¹

Chief Financial Officer

Marla Vils

Corporate Secretary

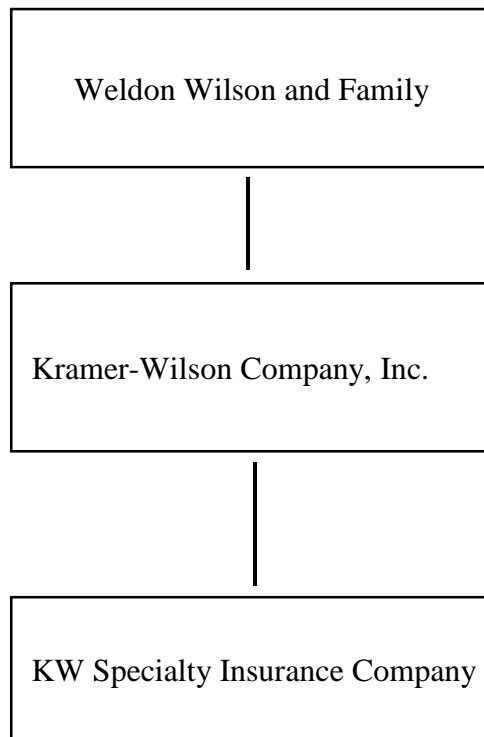
¹ On March 1, 2021, Parker Kelley was appointed Treasurer

Corporate Records

The recorded minutes of the sole shareholder and Board were reviewed for the period under examination. The minutes adequately documented and approved Company transactions and events, including the Board approval of investment transactions in accordance with 18 *Del. C.* §1304.

Insurance Holding Company System

The Company is a member of an insurance holding company system as defined under 18 *Del. C.* §5001 of the Delaware Insurance Code. Weldon Wilson and family own 100% of KW, which owns 100% of KWS.



KW, is primarily engage in the business of real estate, with ownership of several office buildings throughout the southwestern part of the United States.

Agreements with Affiliates

Management Agreement

Effective January 1, 2018, the Company entered an affiliated Management Agreement with KW. In accordance with the agreement, KW provides all services for the Company to engage in the business of surplus lines insurance and reinsurance wherever the Company is authorized to do business. Management services include but are not limited to equipment, management and labor, administration systems, collection of accounts receivable, compliance with requirements of all State, Federal and local agencies having jurisdiction over the Company, maintenance of all records and prepare and file all financial and other reports in compliance with the requirements of any State, Federal or local agency having jurisdiction over the Company. KW, using the Company funds, shall process payments for all of the following expenses: premium taxes, claims, loss adjustment expenses, investment expenses, expenses not contracted for or approved of by KW and management fee.

KW is authorized to carry out the following duties: file applications to transact business of insurance in states, appoint and terminate agents and brokers, adopt policy, applications, endorsement, cancellation and other forms to filed when and where lawfully required, establish, adopt and change premium rates and rules, establish and adopt underwriting standards and rules, bind and terminate insurance coverage, receive and deposit premiums, draw checks on checking account, adjust claims, establish reserves, arrange for defense of any litigation against the Company, file state and local tax returns, keep or maintain books of original entry, to produce

insurance business for which purpose the Company hereby appoints KW as a general agent and execute and deliver any instrument necessary to carry out the purposes of the agreement.

Tax Allocation Agreement

Effective December 1, 2017, KWS per an Addendum entered into a Tax Allocation Agreement with KW and their subsidiaries. The original Agreement was dated January 1, 1987. In accordance with the agreement each participant calculates its federal corporate tax liability as if it were filing in a separate return basis. KW is responsible to file and pay all federal corporate tax liabilities, and each participant makes/receives payment to/from the Company based on a separate return basis. Each subsidiary shall pay estimated tax installments due for a tax period within ten days of receiving notice of such payment from KW.

Office Lease

Effective July 24, 2018, this agreement is entered into by and between KWC Scottsdale Road LLC (Landlord) and KWS (Tenant). Beginning August 1, 2018, KWS leased office space from an affiliate, Landlord. The agreement provided the Company with free rent for the first five months. The term of the lease is 65 months with the monthly base rent increasing approximately \$204 a month each year. The Company's rental expense in 2019 was \$117,025.

TERRITORY AND PLAN OF OPERATION

The Company is a Delaware domestic surplus lines insurer, licensed insurance carrier in one state and an eligible to write surplus lines in 5 additional states. As of December 31, 2020, the Company was eligible to write surplus lines in 29 states.

The Company's distribution strategy is to partner with wholesale agencies that have a proven track record of providing long-term profitable business to the markets they represent. The initial goal is to spread premiums equally between personal lines; commercial lines and assumed

reinsurance. Assumed reinsurance will focus on lines and classes of business the Company does not write on a primary basis to provide a well-diversified portfolio of risk perils and geographic spread of risk.

As of the examination date the Company did not write any direct business. In 2020 the Company began to write homeowners multiple peril in California. Lines of business assumed the year ended December 31, 2019 were as follows:

Line of Business	Premiums Written	% of Gross Written Premium
Commercial multiple peril	\$ 1,509,139	5.63%
Other liability - occurrence	83,998	0.31%
Private passenger auto liability	10,148,962	37.88%
Commercial auto liability	10,606,339	39.59%
Auto physical damage	<u>4,443,104</u>	<u>16.58%</u>
Total Premiums	<u>\$ 26,791,542</u>	<u>100.00%</u>

REINSURANCE

The Company does not cede any business. The Company assumes business via several quota share reinsurance agreements. Assumed reinsurance will be used in the future to supplement the direct business to produce a desired risk profile and geographic mix.

	<u>12/31/2019</u>	<u>% of Written and Assumed Premium</u>
Total assumed premium	<u>\$ 26,791,542</u>	<u>100%</u>
Ceded to affiliates	0	0.0%
Ceded to non-affiliates	<u>0</u>	<u>0.0%</u>
Total ceded	\$0	0.0%
Net written and assumed premium	<u>\$ 26,791,542</u>	<u>100.0%</u>

FINANCIAL STATEMENTS

Financial statements, as reported and filed by the Company with the Department, are presented in the following:

- Statement of Assets as of December 31, 2019
- Statement of Liabilities, Surplus and Other Funds as of December 31, 2019
- Statement of Income for the Year Ended December 31, 2019
- Statement of Capital and Surplus Account for the Year Ended December 31, 2019
- Reconciliation of Capital and Surplus for the Period from the Prior Examination as of December 31, 2016 to December 31, 2019

KW Specialty Insurance Company
Statement of Assets
As of December 31, 2019

	<u>Assets</u>	Nonadmitted <u>Assets</u>	Net Admitted <u>Assets</u>	<u>Notes</u>
Bonds	\$ 69,650,311	\$	\$ 69,650,311	
Stocks:				
Common stocks	28,466,176		28,466,176	
Cash, cash equivalents and short-term investments	28,342,728		28,342,728	
Receivable for securities	<u>2,266,929</u>	<u> </u>	<u>2,266,929</u>	
Subtotals, cash and invested assets	<u>\$ 128,726,143</u>	<u>\$</u>	<u>\$ 128,726,143</u>	
Investment income due and accrued	520,355		520,355	
Premiums and considerations				
Uncollected premiums and agents' balances in course of collection	1,206,480		1,206,480	
Deferred premiums, agents' balances and installments book but deferred and not yet due	3,824,639		3,824,639	
Reinsurance:				
Funds held by or deposited with reinsured companies	101,500		101,500	
Net deferred tax asset	608,819		608,819	
Electronic data processing equipment and software	2,497,187	2,497,187	-	
Furniture and equipment	91,549	91,549	-	
Receivable from parent, subsidiaries and affiliates	1,249,869		1,249,869	
Aggregate write-ins for other-than-invested assets	<u>30,097</u>	<u>30,097</u>	<u>-</u>	
Total assets excluding Separate Accounts	<u>\$ 138,856,638</u>	<u>\$ 2,618,833</u>	<u>\$ 136,237,805</u>	
From Separate Accounts				
Total	<u>\$ 138,856,638</u>	<u>\$ 2,618,833</u>	<u>\$ 136,237,805</u>	

KW Specialty Insurance Company
Statement of Liabilities, Surplus and Other Funds
As of December 31, 2019

		<u>Notes</u>
Losses	\$ 13,080,007	1
Reinsurance payable on paid losses and loss adjustment	849,494	
Loss adjustment expenses	2,109,899	1
Other expenses	343,251	
Unearned premiums	9,902,671	
Payable to parent, subsidiaries and affiliates	318,444	
Payable for securities	<u>843,807</u>	
Aggregate write-ins for liabilities	\$ 150,000	
Total liabilities excluding protected cells liabilities	<u>\$ 27,597,573</u>	
Protected cells liabilities	<u>-</u>	
Total Liabilities	<u>\$ 27,597,573</u>	
Aggregate write-ins for special surplus funds	\$ -	
Common capital stock	1,000,000	
Gross paid-in and contributed surplus	81,284,009	
Unassigned funds	<u>26,356,223</u>	
Surplus as regards to policyholders	<u>\$ 108,640,232</u>	
Total Liabilities, Capital and Surplus	<u>\$ 136,237,805</u>	

KW Specialty Insurance Company
Statement of Income
For the Year Ended December 31, 2019

Underwriting Income	
Premiums earned	<u>\$ 27,860,767</u>
Deductions	
Losses incurred	\$ 20,473,819
Loss adjustment expenses incurred	3,844,071
Other underwriting expenses	<u>9,936,390</u>
Total Underwriting Deductions	<u>\$ 34,254,280</u>
Net underwriting gain or (loss)	\$ (6,393,513)
Investment Income	
Net investment income earned	2,499,359
Net realized capital gains	<u>350,115</u>
Net investment gain or (loss)	<u>\$ 2,849,474</u>
Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	\$ (3,544,039)
Dividends to policyholders	<u>0</u>
Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	\$ (3,544,039)
Federal and foreign taxes incurred	<u>(192,649)</u>
Net income	<u><u>\$ (3,351,390)</u></u>

KW Specialty Insurance Company
Capital and Surplus Account
For the Year Ended December 31, 2019

Surplus as regards policyholders, December 31 prior year	\$ 103,486,986
Net income	(3,351,390)
Change in net unrealized capital gains or (losses) less capital gains tax of \$ 1,253,584	4,715,860
Change in net deferred income tax	1,243,872
Change in nonadmitted assets	(2,455,096)
Surplus adjustments: Paid in	<u>5,000,000</u>
Net change in capital and surplus for the year	<u>\$ 5,153,246</u>
Surplus as regards policyholders, December 31 current year	<u><u>\$ 108,640,232</u></u>

KW Specialty Insurance Company
Reconciliation of Capital and Surplus
As of July 1, 2017 to December 31, 2019

Date	Common Capital Stock	Gross Paid-in and Contributed Surplus	Unassigned Surplus	Total
7/1/2017	\$ 1,000,000	\$ 4,099,900	\$ 29,291,130	\$ 34,391,030
12/31/2017		72,184,109	(238,880) ¹	71,945,229
12/31/2018			(2,849,273) ¹	(2,849,273)
12/31/2019	<u> </u>	<u>5,000,000</u>	<u>153,246</u> ¹	<u>5,153,246</u>
Total	<u>\$ 1,000,000</u>	<u>\$ 81,284,009</u>	<u>\$ 26,356,223</u>	<u>\$ 108,640,232</u>

¹Represents net income, changes in net unrealized capital gains/losses, change in net deferred income tax and changes in non-admitted assets.

**ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS RESULTING
FROM THE EXAMINATION**

There were no changes made to the Company’s financial statements as reported in its 2019 NAIC Annual Statement as a result of this examination.

COMMENTS ON FINANCIAL STATEMENT ITEMS

Note 1:	
Losses	\$ 13,080,007
Loss Adjustment Expenses	\$ 849,494

The examination liability for the aforementioned captioned items of \$13,080,007 and \$849,494 are the same as reported by the Company as of December 31, 2019. The examination analysis of Loss and Loss Adjustment Expense reserves was conducted in accordance with Statutory Accounting Principles, including *NAIC Accounting Practices and Procedures Manual, Statement of Statutory Accounting Principal No. 55* (SSAP # 55).

SUBSEQUENT EVENTS

On March 1, 2021 Gary Romay and Marla Vils were elected directors and Parker Kelly was appointed Treasurer of the Company.

SUMMARY OF RECOMMENDATIONS

There were no recommendations as a result of this examination.

The assistance and cooperation of the consulting actuarial firm, INS Consultants, Inc., the consulting information systems specialist firm, INS Services, Inc., and the Company's management and staff was appreciated and is acknowledged.

Respectfully submitted,



Richard Randour, CPA, CFE
Examiner In-Charge
State of Delaware



James Call, CFE
Supervising Examiner
State of Delaware

I, Richard Randour, hereby verify and attest, under penalty of perjury, that the above is a true and correct copy of the examination report and findings submitted to the Delaware Department of Insurance pursuant to examination authority 20.035.

A handwritten signature in black ink that reads "Richard Randour". The signature is written in a cursive style with a horizontal line underneath the text.

Richard Randour, CPA, CFE