

**ORGANIZATIONAL EXAMINATION
OF
VICTOR INSURANCE EXCHANGE
AS OF
JULY 27, 2023**

TRINIDAD NAVARRO
COMMISSIONER



STATE OF DELAWARE
DEPARTMENT OF INSURANCE

REPORT ON ORGANIZATIONAL EXAMINATION
OF
VICTOR INSURANCE EXCHANGE
AS OF
JULY 27, 2023

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, which appears to read "Trinidad Navarro", is written over a horizontal line.

Trinidad Navarro
Insurance Commissioner

Dated this 31st day of August, 2023

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July 27, 2023

Honorable Trinidad Navarro
Insurance Commissioner
State of Delaware
1351 West North Street, Suite 201
Dover, DE 19904

Dear Commissioner:

In accordance with instructions and pursuant to statutory provisions contained in Examination Certification No. 23.914, dated June 22, 2023, an Organizational Examination has been conducted of

Victor Insurance Exchange

hereinafter referred to as VIE or the Exchange. The Exchange's attorney-in-fact manager, Victor Attorney-In-Fact LLC (VAIF), was formed under the laws of the State of Delaware. The Exchange will be a Delaware surplus lines reciprocal exchange insurer.

VAIF's registered agent is The Corporation Trust Company with its registered office located at 1209 Orange Street, Wilmington, Delaware 19801. The Exchange's administrative office address is located at 385 Interlocken Crescent, Suite 1100, Broomfield, Colorado 80021.

The report of such examination is respectfully submitted herewith.

SCOPE OF EXAMINATION

This organizational examination was conducted in conjunction with VAIF's and the Exchange's application for a surplus lines reciprocal exchange insurer Certificate of Authority in

the State of Delaware. The Exchange's corporate records, records applicable to and attendant with its application, as well as financial data as of July 27, 2023, have been reviewed.

HISTORY

VAIF is a Delaware limited liability company that was formed on November 9, 2022, for the purpose of serving as the attorney-in-fact manager for the Exchange. As the Exchange's attorney-in-fact, VAIF will be authorized by the subscribers of the Exchange to carry out the Exchange's day-to-day business operations, subject to the oversight of the Subscriber Advisory Committee as provided in the Exchange's Subscription Agreement and Power of Attorney. VAIF, as a limited liability company, does not have certificated shares. VAIF's name was changed from Victor Holdco, LLC to Victor Attorney-In-Fact shortly after the Exchange received a Certificate of Authority from the Delaware Department of Insurance (Department).

Since the Exchange will be owned by its subscribers, it will not have any certificated shares and will be managed by VAIF. The Exchange has filed to obtain its own Federal Employer Identification Number (FEIN) with the United States Treasury, however, this has not been received yet.

It is recommended that the Exchange provide such documentation to the Department as soon as possible.

MANAGEMENT AND CONTROL

Members

The business and affairs of VAIF shall be managed by its current sole member, Victor Insurance Managers Inc. (VIM).

Officers

In accordance with a resolution of VIM, the sole member of VAIF, dated March 17, 2023, pursuant to its Limited Liability Agreement, the following officers of VAIF were elected and serving as of the examination date:

<u>Officer</u>	<u>Office</u>
Paul Horgan	President and Chief Underwriting Officer
James Camerino	Chief Operating Officer and Chief Claims Officer
Paul Noffke	Secretary and Chief Financial Officer

Corporate Records

Each of the officers noted above completed the National Association of Insurance Commissioners (NAIC) Form 11 - Biographical Affidavit.

VAIF completed the NAIC Form 12 - Uniform Consent to Service of Process (Power of Attorney), dated and effective March 17, 2023.

VAIF has a Conflicts of Interest Policy, however, as of the examination date, no annual conflict of interest disclosure statement was prepared or signed by any of the officers noted above.

It is recommended that each of the VAIF officers complete and sign an annual conflict of interest disclosure statement and provide such documentation to the Department as soon as possible.

HOLDING COMPANY SYSTEM

At formation, VAIF became a member of an Insurance Holding Company System. 18 *Del. C.* §5001(3) states that “control shall be presumed to exist if any person, directly or indirectly, owns, controls, holds with the power to vote, or holds proxies representing 10% or more of the voting securities of any other person.”

VIM, a Delaware corporation, for a capital investment of \$623,270 out of a total of \$1,065,420 infused into VAIF, owns 58.5% of the equity interest and controls 65% of the common voting interest, respectively, of VAIF. Marsh & McLennan Companies, Inc. (MMC), a publicly-traded Delaware corporation, owns 100% of the issued and outstanding voting and equity interests of VIM. No individual person or entity owns or controls greater than 10% of MMC. As such, MMC is considered an ultimate controlling entity of VAIF and the Exchange.

GPC Partners Investments (Mercury) LP (Partners), a Delaware limited partnership, is a subsidiary of Gallatin Point Capital LLC (Gallatin Point), a Delaware limited liability company. There are three funds in the Gallatin Point organization that have provided funding of VAIF and the Exchange. The following Partner’s capital was noted in the most recent Audited Financial Statements for the three Gallatin Point funds: Gallatin Point Capital Partners II LP - \$182,847,647; Gallatin Point Capital Partners Parallel-A II LP - \$79,934,583; Gallatin Point Capital Partners Parallel-B II LP - \$79,940,599. The two individuals at the top of the Gallatin Point organizational chart, Matthew B. Botein and Lewis A. Sachs, own the general partnership interests of Gallatin Point. The biographical affidavits of Matthew B. Botein and Lewis A. Sachs have been received by the Department.

Partners, through the three Gallatin Point funds, for a capital investment of \$442,150 out of a total of \$1,065,420 infused into VAIF, owns 41.5% of the equity interest and controls 35% of

the common voting interest, respectively, of VAIF. \$106,000 of the \$442,150 invested Partner funds are for the one preferred non-voting unit and the remaining \$336,150 of the \$442,150 Partner funding is for the common voting interests, respectively, of VAIF. As such, the three Gallatin Point funds, collectively, are considered an ultimate controlling entity of VAIF and the Exchange.

On June 23, 2023, the Exchange has issued \$102,500,000 in Surplus Notes to the Gallatin Point funds in exchange for cash, and as of the examination date, the funds are held with VAIF in a fiduciary account for the benefit of the Exchange at JP Morgan Chase Bank, N.A. (Chase). VIM has provided a Guaranty Agreement on the Surplus Notes effective June 23, 2023, however, the guaranty is limited to the occurrence of a subsequent specified trigger event and is further limited to guaranty only up to \$15,000,000 of the Surplus Notes. The Department has approved the terms of the Surplus Notes and Guaranty Agreement.

FIDELITY BOND

VAIF is covered by a financial institution bond with an aggregate liability limit of \$25,000. Based on the Exchange's submitted pro forma information on its application to the Department for licensure, the minimum suggested coverage per the NAIC *Financial Condition Examiners Handbook – Exhibit R* is \$700,000 at year-end 2023, \$800,000 at year-end 2024 and \$900,000 at year-end 2025.

It is recommended that VAIF and the Exchange obtain the required minimum NAIC fidelity coverage and provide such documentation to the Department as soon as possible.

AGREEMENTS

Affiliated

VAIF and the Exchange will have no employees. VAIF acting on behalf of the Exchange, will outsource any needed services.

Effective June 16, 2023, affiliate MMC and VAIF, acting on behalf of the Exchange, entered into a Master Shared Services Agreement whereby MMC will provide VAIF and the Exchange with the following services: affiliate Marsh Captive Solutions (MCS) to provide statutory accounting services; affiliates Marsh USA Inc. and/or Marsh & McLennan Agency to provide insurance brokerage services to prospective subscribers; affiliate Guy Carpenter & Company, LLC (Guy Carpenter) to provide reinsurance brokerage services. MCS and Guy Carpenter are wholly-owned subsidiaries of MMC. The Department approved this agreement on June 26, 2023.

Effective June 16, 2023, affiliate International Catastrophe Insurance Managers, LLC (ICAT) and VAIF, acting on behalf of the Exchange, entered into a Program Administrator Agreement whereby ICAT will provide VAIF and the Exchange with underwriting and marketing services. ICAT is wholly-owned by VIM. The Department approved this agreement on June 16, 2023.

Effective June 16, 2023, affiliate Boulder Claims, LLC (Boulder Claims) and VAIF, acting on behalf of the Exchange, entered into a Third Party Claims Administration Agreement whereby Boulder Claims will provide VAIF and the Exchange with claims processing, adjudicating and administration services. Boulder Claims is wholly-owned by ICAT. The Department approved this agreement on June 16, 2023.

Effective June 16, 2023, affiliate Guy Carpenter and VAIF, acting on behalf of the Exchange, entered into a Reinsurance Intermediary Authorization Agreement whereby Guy Carpenter will act as an authorized reinsurance intermediary for VAIF and the Exchange. The Department approved this agreement on June 23, 2023.

Unaffiliated

As of the examination date, VAIF nor the Exchange is yet a party to a custodial agreement with a financial institution for the Exchange's invested assets.

It is recommended that a copy of any executed custodial agreement for the Exchange's invested assets is provided to the Department as soon as possible.

PLAN OF OPERATION

MMC has filed to form a Delaware reciprocal insurer with the intent to do business as a Delaware domestic surplus lines insurer and write coastal and earthquake business. The Exchange will be authorized to write Property, Casualty including Liability, Burglary & Theft, Boiler & Machinery, Leakage & Fire Extinguisher Equipment and Miscellaneous.

The Exchange is being established to provide a well-capitalized, stable underwriting vehicle to serve the small commercial and residential marketplace located in catastrophe-prone areas of the United States. The Exchange intends to operate in every state where ICAT currently provides small commercial and coastal residential products, and on a non-admitted basis under the Non-admitted and Reinsurance Reform Act of 2010 (NRRA), 15 USC § 8201, *et seq.* In the future, more states may be added or subtracted from the applicable active territory.

For commercial policies generally, the Exchange intends to offer policies on a "subscription" basis, where individual risks are shared among multiple carriers. It is referred to as a subscription policy because the insurers participate in the policy by "subscribing" to it on a pro-rata basis, akin to a panel approach. Coverage will be provided on the Exchange's policy form on

a “not joint, but severable basis” ensuring that the carriers, including the Exchange, participating on the policy are only liable for their portion of the risk. Often, coverage by peril may vary by carrier. Subscription policies thus deliver adequate policy limits to subscribers without gaps in coverage, while controlling the exposure of the Exchange to any one risk. For example, while the Exchange’s maximum limit of insurance for a single small commercial risk is expected to be up to \$5,000,000, the expected average limit deployed on a per risk basis is expected to be less than \$1,000,000.

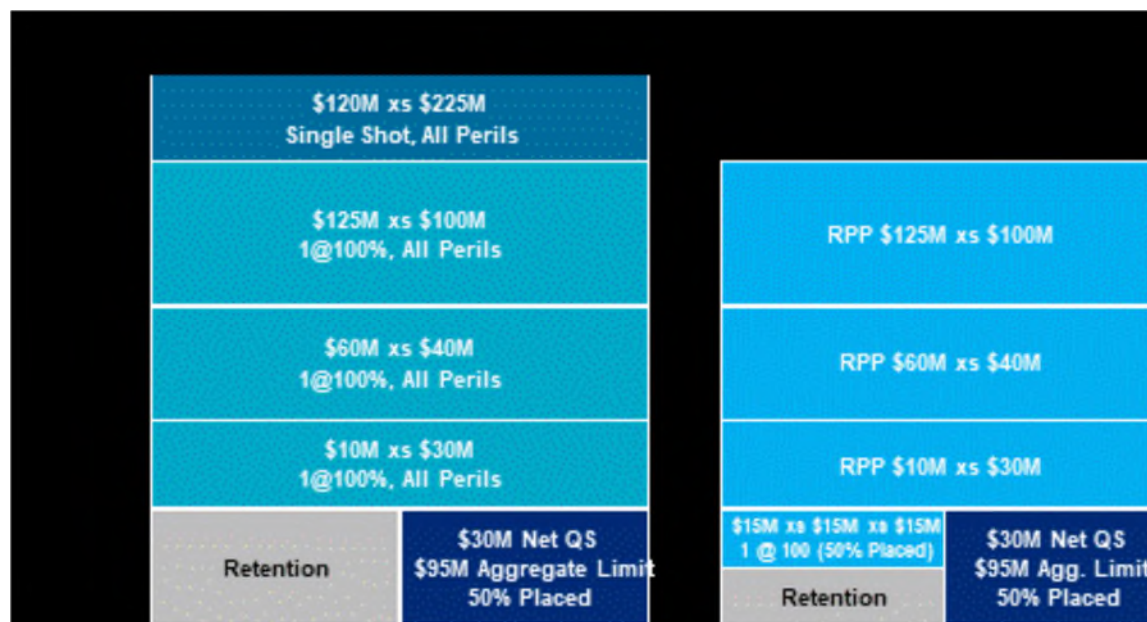
It is intended that a significant amount of business currently underwritten by ICAT will be made available to the Exchange for quoting and binding, which will allow the Exchange to reach “critical mass” in short order. This will be achieved by a combination of both new marketing and renewal-based marketing targeted at ICAT’s current book of business.

ICAT has a defined underwriting risk appetite associated with general commercial, commercial residential or single family dwelling. Complex manufacturing and risks with significant time-element exposures are avoided, as are distressed risks or high-profile insureds.

REINSURANCE

As of the examination date, the Exchange is not a party to any reinsurance agreements, affiliated or unaffiliated.

Critical to the on-going financial stability of the Exchange is the protection provided via catastrophe reinsurance. VAIF has worked closely with Guy Carpenter to develop a reinsurance program for the Exchange that responds to both moderate and severe catastrophe events, as well as multiple events in a single year. The figure below shows the contemplated reinsurance stack for the Exchange:



The proposed structure limits the impact of a single event on the Exchange’s earnings to \$15 million, with subsequent events capped at \$7.5 million. The reinsurance is designed to cover greater than or equal to a 1-in-250-year modeled event, with reinstatable protection greater than or equal to a 1-in-100-year modeled event. The Exchange is expected to maintain this relatively conservative structure until there is a build-up of retained earnings over multiple years.

It is recommended the Exchange provide the reinsurance agreements to the Department when placed.

CAPITAL AND SURPLUS REQUIREMENTS

18 Del. C. §511(a) requires \$1,000,000 as the minimum surplus for a reciprocal exchange authorized to write multiple lines insurance: \$650,000 in basic surplus and \$350,000 in free surplus. 18 Del. C. §1932 requires \$15,000,000 as the minimum surplus for a domestic surplus lines insurer. The Delaware Domestic/Foreign Insurers Bulletin No. 45 effective October 14, 2011, requires that newly-formed Delaware domestic surplus lines insurers have \$15,000,000 as the minimum capital and surplus. Consequently, the minimum required amounts for this examination are as follows:

Minimum Paid In and Contributed Surplus (reciprocal exchange)	\$1,000,000
Additional Paid-in and Contributed Surplus (surplus lines writer)	14,000,000
Surplus as Regards Subscribers	<u>\$15,000,000</u>

FINANCIAL DATA

The financial position of the Exchange as of June 30, 2023, as determined by this organizational examination, was as follows:

<u>Assets</u>		<u>Note</u>
Cash, Cash Equivalents and Short-term Investments	\$102,541,107	1
Federal Income Tax Recoverable	<u>525,000</u>	
Total Admitted Assets	<u>\$103,066,107</u>	
 <u>Liabilities, Capital and Surplus</u> 		
General Expenses Due and Accrued	<u>\$ 2,500,000</u>	
Total Liabilities	<u>\$ 2,500,000</u>	
Paid In and Contributed Surplus	\$1,000,000	
Surplus Notes	102,500,000	
Unassigned Funds	<u>(2,933,893)</u>	
Surplus as Regards Subscribers	<u>\$100,566,107</u>	
Total Liabilities and Surplus	<u>\$103,066,107</u>	

NOTES TO FINANCIAL STATEMENTS

Note 1 Cash, Cash Equivalents and Short-term Investments \$102,541,107

The reported balance of \$102,541,107 consists of \$102,441,107 in cash in a VAIF fiduciary operating checking account for the benefit of the Exchange at JP Morgan Chase Bank, N.A. and \$100,000 in cash in a special deposit account at Bank of New York Mellon Trust of Delaware for the benefit of Delaware policyholders. These balances have been confirmed directly with the financial institutions.

RECOMMENDATIONS

The following recommendations are made as a result of this examination:

History

The Exchange has filed to obtain its own Federal Employer Identification Number (FEIN) with the United States Treasury, however, this has not been received yet. It is recommended that the Exchange provide such documentation to the Department as soon as possible.

Management and Control – Corporate Records

It is recommended that each of the VAIF officers complete and sign an annual conflict of interest disclosure statement and provide such documentation to the Department as soon as possible.

Fidelity Bond

It is recommended that VAIF and the Exchange obtain the required minimum NAIC fidelity coverage and provide such documentation to the Department as soon as possible.

Agreements - Unaffiliated

It is recommended that a copy of any executed custodial agreement for the Exchange's invested assets is provided to the Department as soon as possible.

Reinsurance

It is recommended the Exchange provide the reinsurance agreements to the Department when placed.

CONCLUSION

Based on the organizational examination conducted as of July 27, 2023, the financial condition of the Exchange is as follows:

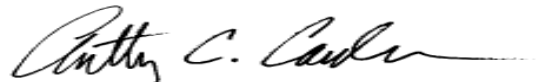
Assets	\$103,066,107
Liabilities	\$2,500,000
Capital as Regards Subscribers	\$100,566,107

Upon completion of the organizational examination and verification of compliance with the recommendations, the Exchange will have complied with the capitalization requirements for the State of Delaware. The examination was conducted by the undersigned.

Respectfully submitted,



Andrew E. Chiodini, CFE
Examiner In-Charge
Delaware Department of Insurance



Anthony Cardone, CFE, CPA
Supervising Examiner
Delaware Department of Insurance

Victor Insurance Exchange

I, Andrew E. Chiodini, 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 Certification No. 23.914.

A handwritten signature in black ink, appearing to read "Andrew E. Chiodini". The signature is written in a cursive style with a horizontal line under the name.

Andrew E. Chiodini, CFE