Report of the Examination of

Capitol Indemnity Corporation

Middleton, Wisconsin

As of December 31, 2019

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March 31, 2021

Honorable Mark V. Afable
Commissioner of Insurance
State of Wisconsin
125 South Webster Street
Madison, Wisconsin 53703

Commissioner:

In accordance with your instructions, a compliance examination has been made of the affairs and financial condition of:

CAPITOL INDEMNITY CORPORATION
Middleton, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Capitol Indemnity Corporation (CIC or the company) was conducted in 2015 and 2016 as of December 31, 2014. The current examination covered the intervening period ending December 31, 2019, and included a review of such subsequent transactions as deemed necessary to complete the examination.

The examination of the company was conducted concurrently with the examinations of Capitol Specialty Insurance Corporation (CSIC), a Wisconsin domiciled insurer, and Platte River Insurance Corporation (PRIC), a Nebraska domiciled insurer. The three companies are collectively known as CapSpecialty Group. This examination of the CapSpecialty Group was conducted concurrently with the coordinated examination of the Alleghany group of companies which was led by both the New Hampshire Insurance Department and New York Department of Financial Services. Wisconsin acted as the exam facilitator and Nebraska as a participating state in the coordinated examination.

The examination was conducted using a risk-focused approach in accordance with the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook*. This approach sets forth guidance for planning and performing the examination of an insurance company to evaluate the financial condition, assess corporate governance, identify current and prospective risks (including those that might materially affect the financial condition, either currently or prospectively), and evaluate system controls and procedures used to mitigate those risks.

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, annual statement instructions, and Wisconsin laws and regulations. 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 at the end of the "Financial Data" section in the area captioned "Reconciliation of Surplus per Examination."

Emphasis was placed on those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation concerning the alternative or additional examination steps performed during the examination.

Independent Actuary's Review

An independent actuarial firm was engaged under a contract with the Office of the Commissioner of Insurance. The actuary reviewed the adequacy of the company's loss and loss adjustment expense reserves. The actuary's results were reported to the examiner-in-charge. As deemed appropriate, reference is made in this report to the actuary's conclusion.

II. HISTORY AND PLAN OF OPERATION

The company was organized on September 23, 1959, as Capitol Indemnity Corporation and commenced business on June 6, 1960. The company is 100% owned by CapSpecialty, Inc. (CapSpecialty), a Wisconsin holding company which was organized in 1965, under the name of Capitol Transamerica Corporation. In 2014, Capitol Transamerica Corporation changed its name to CapSpecialty, Inc.

Alleghany Corporation (Alleghany) purchased CapSpecialty for approximately $182 million in cash, effective January 4, 2002. This transaction made Alleghany the ultimate parent company of CIC. Prior to the purchase, CapSpecialty was a publicly traded company whose common stock was traded through the National Association of Securities Dealers.

Effective in the first quarter of 2002, CapSpecialty contributed its subsidiary, CSIC, to CIC, which made CSIC a wholly owned subsidiary of CIC.

Effective January 3, 2002, Alleghany purchased 100% of the common stock of Platte River Insurance Company, formerly known as Underwriters Insurance Company. In this way, PRIC became an affiliate of CIC and CSIC; the three insurance companies are collectively known as the CapSpecialty Group within the Alleghany Group. Subsequent to this transaction, CIC and PRIC entered into an affiliated pooling arrangement that was effective January 1, 2002, and amended effective January 1, 2007, to include CSIC as a party to it. The affiliated pooling agreement is outlined in detail in section V of this report titled "Reinsurance."

Effective January 1, 2014, Alleghany Corporation effectuated a reorganization and recapitalization of CapSpecialty. As the result of this reorganization, CapSpecialty purchased 100% of the outstanding shares of Professional Risk Management Services, Inc. (PRMS). PRMS is an agency that specializes in medical malpractice for the psychiatric industry. Further, Alleghany Insurance Holdings, Inc. (AIHL) contributed 100% of PRIC's outstanding stock to CapSpecialty, which in turn contributed the stock to CIC, making PRIC a wholly owned subsidiary of CIC. And finally, the direct ownership of CapSpecialty (before taking into account the shares reserved for issuance to management), was shared between AIHL, with approximately 75.1% and Transatlantic Reinsurance Company (TRC), another wholly owned subsidiary of Alleghany, with 24.9%.

On July 18, 2019, Transatlantic Reinsurance Company notified the Wisconsin Office of the Commissioner of Insurance (OCI) of the proposed divestiture of its 24.9% interest in CapSpecialty and, as such, its interest in CIC. In the transaction, TRC transferred, through the distribution of the stock dividend, its CapSpecialty shares to Transatlantic Holdings, Inc. (TRH), which then transferred the CapSpecialty shares to Alleghany. Alleghany contributed the CapSpecialty shares to AIHL. Following the completion of these transactions, CapSpecialty became a direct, wholly owned subsidiary of AIHL and remained the direct parent of CIC and PRIC, and the indirect parent of CSIC.

In addition, effective October 1, 2019, TRH purchased the outstanding 1,000 shares of common stock of PRMS via a Stock Purchase Agreement between CapSpecialty and TRH.

As of December 31, 2019, the company was licensed in all 50 states. CIC is also licensed in the District of Columbia. In 2019, the company wrote business in every jurisdiction in which it was licensed. The following table is the distribution of direct premium written by state in 2019:

California	$11,175,126	13.6%
Arizona	7,945,617	9.7
New York	5,670,243	6.9
Texas	3,786,928	4.6
Pennsylvania	3,158,215	3.9
Montana	2,837,345	3.5
Florida	2,781,410	3.4
Wisconsin	2,649,313	3.2
Ohio	2,495,143	3.1
Tennessee	2,259,833	2.8
All Other	37,119,696	45.3
Total	$81,878,869	100.0%

. In the state of Wisconsin, the company is licensed to transact the following lines of business as defined by s. Ins 6.75 (2), Wis. Adm. Code:

(a) Fire, Inland Marine, and Other Property
(b) Ocean Marine
(c) Casualty Disability
(d) Liability and Non-auto Incidental Medical Expense
(e) Automobile and Aircraft
(f) Fidelity
(g) Surety
(k) Worker's Compensation
(n) Miscellaneous

The major products marketed by the CapSpecialty Group (the group) can be divided into five segments which include property and casualty, healthcare, specialty casualty, professional liability and surety.

The property and casualty segment accounted for 25% of group premium in 2019, of which approximately 67% was written on a nonadmitted basis on CSIC paper. Within the segment, significant lines of business included general liability, property, and package coverages. The group focuses on several types of risks including, but not limited to, restaurants, taverns, hotels and motels, barber and beauty parlors, and daycare centers.

The healthcare segment accounted for 23% of the group's premium in 2019, of which approximately 56% was written on a nonadmitted basis on CSIC paper. Healthcare includes, but not limited to, Miscellaneous Medical and Human Service coverages.

The specialty casualty segment accounted for 20% of the group's premium in 2019, of which approximately 99% was written on a nonadmitted basis on CSIC paper. Specialty Casualty includes, but is not limited to Special Risks, Construction and Environmental coverages.

The professional liability segment accounted for 17% of the group's premium in 2019, of which approximately 85% was written on a nonadmitted basis on CSIC paper. Professional liability includes, but is not limited to, Miscellaneous and Professional E&O, Miscellaneous and Professional D&O and Financial Institutions.

The surety segment accounted for 15% of the group's premium in 2019. The segment focuses on small to mid-sized standard and nonstandard commercial surety risks. The group recently exited the large construction contract surety market, due to unfavorable results.

As of December 31, 2019, business for the CapSpecialty Group was written through a sales force consisting of general agents licensed to write property and casualty and surety insurance, wholesale producers specializing in property and casualty coverage including professional liability coverage and agents licensed only to write surety insurance. Some commission rates are on a sliding scale that declines with the volume of premium or risk related to a specific policy. Some commission rates differ by product line dependent on the producer (general agent, broker, etc.).

Product Line	Commission Rates
Commercial Surety	6.5% to 40.0%
Non-Standard Surety	20.0% to 42.5%
Fidelity and Crime	6.5% to 40.0%
Property and Casualty	15.0% to 27.5%
Healthcare	5.0% to 25.0%
Specialty Casualty	6.5% to 23.0%
Professional Liability	5.0% to 20.0%

Producers are also eligible to earn contingent commissions based on written premium growth performance and loss performance during a calendar year.

The following table is a summary of the net insurance premiums written by the company in 2019. The growth of the company is discussed in the "Financial Data" section of this report.

Line of Business	Direct Premium	Reinsurance Assumed	Reinsurance Ceded	Net Premium
Fire	$ 43,088	$ 166,150	$ 64,440	$ 144,798
Allied lines	100,153	16,206	38,831	77,528
Commercial multiple peril	28,401,742	25,009,454	17,649,702	35,761,494
Inland marine	295,169	177,306	153,441	319,034
Medical professional liability - occurrence	64,738	6,081,432	1,847,130	4,299,040
Medical professional liability - claims made	295,255	23,917,191	7,278,422	16,934,024
Group accident and health	6,029		1,921	4,108
Worker's compensation		1,308	392	916
Other liability – occurrence	26,263,317	90,052,740	35,829,036	80,487,021
Other liability – claims made	8,093,110	63,385,226	22,157,654	49,320,682
Products liability – occurrence	164,640	16,965,036	5,142,106	11,987,570
Commercial auto liability	7,250,477		2,540,520	4,709,957
Auto physical damage	2,000,292		675,821	1,324,471
Fidelity	109,921	537,803	197,789	449,935
Surety	8,774,189	42,440,143	15,750,248	35,464,084
Burglary and theft	16,749	3,900	6,738	13,911
Total All Lines	$81,878,869	$268,753,895	$109,334,191	$241,298,573

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of five members. Five directors are elected annually to serve a one-year term. Officers are elected at the board's annual meeting. Members of the company's board of directors may also be members of other boards of directors in the holding company group. The board members currently receive no compensation for serving on the board.

Currently, the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
Ryan John Byrnes West Hartford, Connecticut	Senior Vice President, Chief Financial Officer and Treasurer/CapSpecialty	2022
Kerry Josephine Jacobs Brooklyn, New York	Senior Vice President and Chief Financial Officer/Alleghany	2022
Daniel Matthew McGinnis New Hope, Pennsylvania	Executive Vice President, Chief Operating Officer and Chief Underwriting Officer/CapSpecialty	2022
John Langton Sennott Jr. Simsbury, Connecticut	Chief Executive Officer and President/CapSpecialty	2022
John Francis Shannon Somerset, New Jersey	Vice President, Investments-Head of Fixed Income/Alleghany	2022

Officers of the Company

The officers serving as of December 31, 2019, are as follows:

Name	Office
John L. Sennott, Jr.	Chief Executive Officer and President
Daniel M. McGinnis	President of Surety and Fidelity, Chief Operating Officer and Chief Underwriting Officer
Ryan J. Byrnes	Senior Vice President, Chief Financial Officer and Treasurer
Adam L. Sills	Senior Vice President, Head of Specialty Insurance
Andrew B. Diaz-Matos	Senior Vice President, General Counsel and Secretary
Kerry J. Jacobs	Vice President
Todd S. Burrick	Vice President
Doron D. Hai	Vice President
Julianne Splain	Vice President
Richard G. Soule	Controller
Suzanne M. Broadbent	Assistant Secretary
Joshua C. Deno	Assistant Treasurer
Brian A. Wert	Chief Technology and Information Security Officer
Melanie F. Wilhelm	Chief Compliance Officer

Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. The committee at the time of the examination is listed below:

Investments Committee
John F. Shannon, Chair
Kerry J. Jacobs
Ryan J. Byrnes

CapSpecialty's board of directors has established a number of committees that oversees the operations of CIC, CSIC, and PRIC. Members of CapSpecialty's board at the end of 2019 included Kerry J. Jacobs, John L. Sennott Jr., Phillip N. Ben-Zvi, Joseph P. Brandon, Ryan J. Byrnes, Antonio Celii, Weston M. Hicks, Daniel M. McGinnis, and John F. Shannon. As of the date of this report, there are nine directors. At the time of the examination, CapSpecialty's board-appointed committees were as follows:

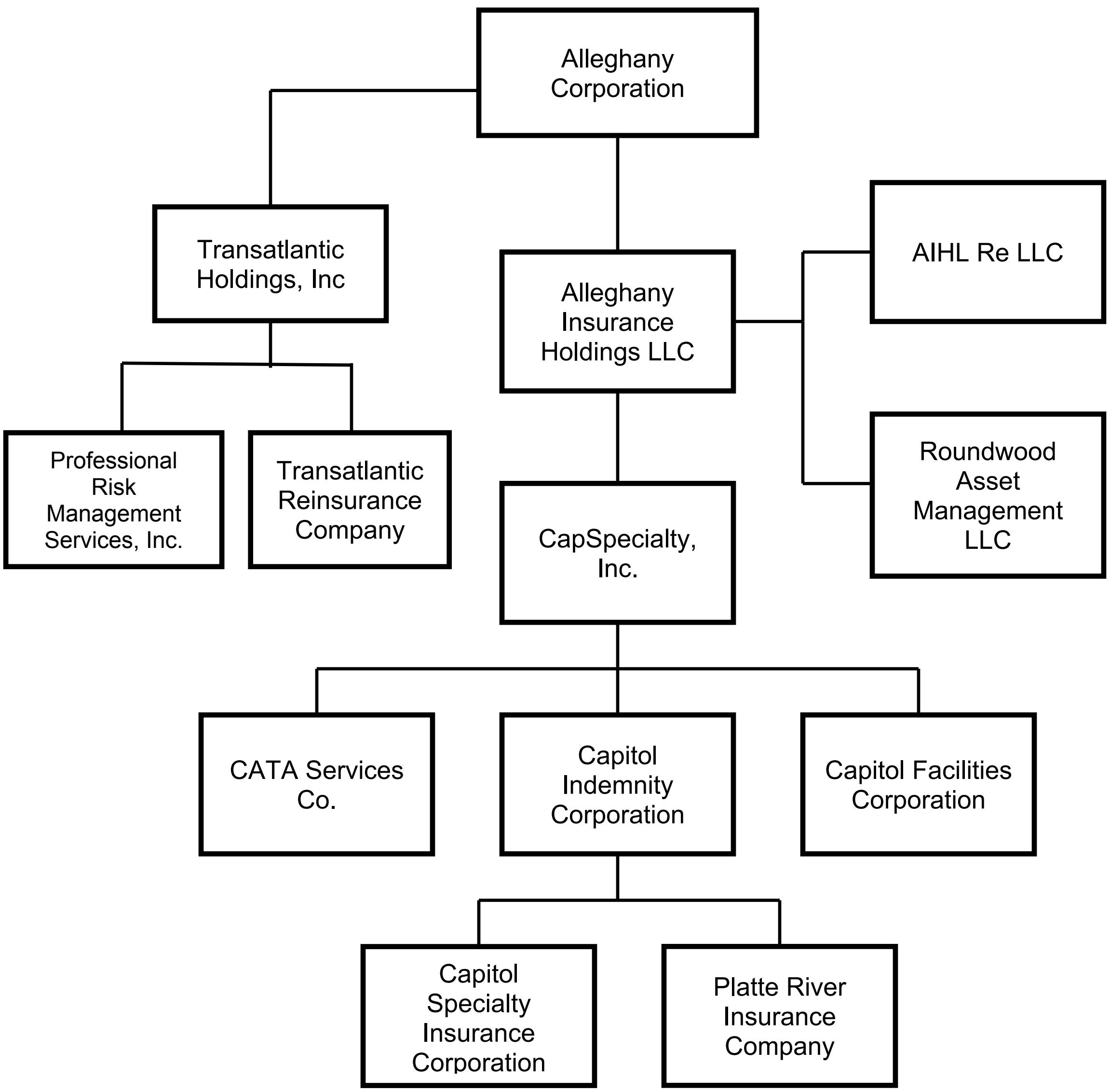
Compensation Committee
Weston M. Hicks, Chair
Joseph P. Brandon
John L. Sennott, Jr.

Audit Committee
Kerry J. Jacobs, Chair
Phillip N. Ben-Zvi
Joseph P. Brandon

IV. AFFILIATED COMPANIES

Capitol Indemnity Corporation is a member of a holding company system. The organizational chart below depicts the relationships among the affiliates in the group. A brief description of the significant affiliates follows the organizational chart.

Organizational Chart
As of December 31, 2019



Note that the above organizational chart is a simplified version of the complete organizational chart due to the size and complexity of the holding company system. The chart includes only affiliates that are part of the immediate holding company structure and ones that directly affect the operations of the CapSpecialty companies.

Alleghany Corporation

Alleghany, a Delaware holding company, was incorporated as a business corporation in 1984 under the laws of the state of Delaware and succeeded the original Alleghany Corporation, of Maryland, which was incorporated in 1929. Alleghany's stock is traded on the New York Stock Exchange under the symbol "Y." Alleghany has three primary reportable segments consisting of reinsurance, insurance, and Alleghany capital. The reinsurance segment operates through Transatlantic Holdings, Inc. (THI), and the insurance segment operates through AIHL. AIHL consists of CapSpecialty, RSUI Group, Inc., AIHL Re LLC (AIHL Re), a Vermont captive reinsurance company, and Roundwood Asset Management LLC (Roundwood). Alleghany also owns Alleghany Properties LLC, which owns and manages properties in Sacramento, California. Alleghany holds significant stake in Stranded Oil Resources Corporation, an exploration and production company focused on enhanced oil recovery.

As of December 31, 2019, Alleghany's audited consolidated financial statement reported assets of $26,931,604,000, liabilities of $17,950,117,000, redeemable noncontrolling interests of $204,753,000, and stockholder equity of $8,776,734,000. Operations for 2019 produced net earnings of $890,201,000.

Alleghany Insurance Holdings LLC

AIHL is a wholly owned subsidiary of Alleghany. AIHL was formed in 1999 in Delaware. AIHL is intended to function as the holding company for the property and casualty insurance segment for Alleghany.

As of December 31, 2019, AIHL's consolidated financial statement reported assets of $7,209,100,000, liabilities of $4,036,149,000, and stockholders' equity of $3,172,951,000. Consolidated operations for 2019 produced net income of $378,574,000.

CapSpecialty, Inc.

CapSpecialty is a wholly owned subsidiary of AIHL. CapSpecialty was organized in 1965 for the purpose of acquiring the outstanding stock of CIC and CSIC. Prior to its purchase by Alleghany, CapSpecialty was a publicly traded company through the National Association of Securities Dealers under the symbol "CATA." Its sources of revenue are investment and dividend income from subsidiaries.

As of December 31, 2019, CapSpecialty's unaudited financial statement reported assets of $1,046,717,000, liabilities of $652,060,000, and stockholders' equity of $394,657,000. Operations for 2019 produced net income of $10,229,000

Platte River Insurance Company

PRIC, formerly known as Underwriters Insurance Company, was incorporated on January 6, 1972, and commenced business on January 14, 1972. It is domiciled in Nebraska. Effective January 3, 2002, PRIC became an affiliate of CIC when it was purchased by Alleghany for approximately $40 million and subsequently changed its name to that currently used. Effective January 1, 2014, AIHL contributed PRIC's stock to CapSpecialty, who in turn contributed the stock to CIC, thereby making PRIC a wholly owned subsidiary of CIC.

PRIC writes miscellaneous surety bond coverages and license and permit bond coverages, and provides pricing flexibility where CIC and CSIC are also licensed. PRIC has a 15% net retention in the affiliated pooling agreement with CIC and CSIC whereby all business written or assumed on a going-forward basis is combined and reapportioned. For additional information related to the affiliated pooling agreement see the section of this report titled "Reinsurance."

As of December 31, 2019, PRIC's audited statutory annual statement reported assets of $172,180,063, liabilities of $120,355,429, and surplus of $51,824,634. Operations for 2019 produced net income of $5,818,515.

Capitol Specialty Insurance Corporation

CSIC is a Wisconsin stock insurance company writing property and casualty coverages. Prior to March 31, 2002, CSIC was a wholly owned subsidiary of CapSpecialty. Effective January 4, 2002, Alleghany Corporation acquired CapSpecialty (the company's ultimate parent at the time) and its subsidiaries, including CSIC. Effective March 31, 2002, CapSpecialty contributed the capital stock of CSIC to CIC. CSIC currently writes commercial property and casualty risks in 50 states and the District of Columbia on a non-admitted basis. CSIC became a domestic surplus lines insurer effective August 21, 2017. Effective January 1, 2007, CSIC has a 15% net retention in the affiliated pooling agreement with CIC and PRIC whereby all business written or assumed on a going-forward basis is combined and reapportioned. For additional information related to the affiliated pooling agreement see the section of this report titled "Reinsurance."

As of December 31, 2019, CSIC's statutory annual statement reported assets of $182,131,916, liabilities of $122,196,999, and surplus of $59,934,917. Operations for 2019 produced a net income of $2,213,961.

Transatlantic Reinsurance Company

TRC, a New York-domiciled reinsurance company, was incorporated on October 29, 1952, and commenced business on January 1, 1953. On March 6, 2012, TRC's direct parent, THI, merged with and into a wholly owned subsidiary of Alleghany that was created to facilitate the merger. After the merger was completed, the surviving subsidiary was renamed Transatlantic Holdings, Inc., and TRC became a downstream affiliate of Alleghany.

As of December 31, 2019, TRC's statutory annual statement reported assets of $14,739,379,069, liabilities of $9,835,247,824, and surplus of $4,904,131,245. Operations for 2019 produced net income of $352,409,485.

AIHL Re LLC

AIHL Re was organized and incorporated under the laws of the state of Vermont on May 25, 2006, and commenced business on June 28, 2006. AIHL Re is a captive reinsurance company which provides reinsurance to Alleghany's insurance operating subsidiaries and affiliates. Effective July 1, 2015, AIHL Re and the CapSpecialty Group entered into an Adverse Development Reinsurance Agreement. The agreement applies only in the event CIC, CSIC, and/or PRIC suffer adverse loss development.

As of December 31, 2019, the audited GAAP financial statements of AIHL Re reported assets of $51,063,056, liabilities of $30,081,005, and stockholders' equity of $20,982,051. Operations for 2019 produced net income of $3,984,562.

Professional Risk Management Services, Inc.

PRMS is an insurance agency that specializes in medical malpractice for the psychiatric industry. All business generated by PRMS is written on Fair American Insurance and Reinsurance Company's (FAIRCO) paper and is reinsured by TRC, which in turn then retrocedes a portion of the business produced by PRMS to CIC. In 2019, the ownership of PRMS was transferred from CapSpecialty to Transatlantic Holdings, Inc.

As of December 31, 2019, PRMS's unaudited GAAP financial statement reported assets of $24,121,241, liabilities of $23,874,668, and stockholders' equity of $246,573. Operations for 2019 produced a net loss of $161,111.

CATA Services Company

CATA Services Company (CSVC) is a wholly owned subsidiary of CapSpecialty. CSVC was incorporated in 2013 to provide management, legal, accounting, and other support services to a risk purchasing group (North American Kiosk RPG) created by members to provide insurance liability coverage for Kiosk operators throughout the United States.

As of December 31, 2019, CSVC's unaudited GAAP financial statement reported assets of $(106,000), liabilities of $(125,000), and stockholders' equity of $19,000. Operations for 2019 produced net income of $16,000.

Roundwood Asset Management LLC

Roundwood Asset Management LLC (Roundwood) is a wholly owned subsidiary of AIHL. Roundwood, a Delaware corporation, was organized in 2008 under the name Alleghany Capital Partners LLC. On January 10, 2014, Alleghany Capital Partners LLC, changed its name to Roundwood Asset Management LLC. Roundwood manages the equity portfolios of CIC and other affiliates within the Alleghany holding company structure, subject to the direction of their respective boards of directors.

As of December 31, 2019, Roundwood's unaudited GAAP financial statement reported assets of $8,266,000, liabilities of $2,926,000, and stockholders' equity of $5,340,000. Operations for 2019 produced a net income of $2,475,000.

Capitol Facilities Corporation

Capitol Facilities Corporation (CFC) is a wholly owned subsidiary of CapSpecialty. CFC historically facilitated premium financing opportunities for its affiliated insurance entities. With the implementation of a direct billing program by its insurance affiliates in 1998-1999, such arrangements were generally no longer necessary. Therefore, operational activity for CFC is currently limited. CFC is licensed as an insurance agency in all 50 states. These licenses are being maintained should there be a business need to utilize CFC in the future.

As of December 31, 2019, CFC's unaudited GAAP financial statement reported assets of $97,000, liabilities of $3,000, and stockholders' equity of $94,000. Operations for 2019 produced net income of $54,000.

Agreements with Affiliates

In addition to common staffing and management control, CIC's relationship to its affiliates is affected by various written agreements and undertakings. Reinsurance agreements are described in section V of the report titled "Reinsurance." A summary of the other agreements and undertakings follows.

CapSpecialty, Inc.

Tax-Sharing Agreement

Effective January 1, 2002, CIC entered into a Tax-Sharing Agreement with CapSpecialty and certain affiliates of the Alleghany Group. CIC is also responsible to CapSpecialty for the income taxes attributable to its subsidiaries, including CSIC and PRIC. Under this agreement, Alleghany Corporation files a consolidated U.S. federal income tax return that includes CIC and other affiliates of the holding company group.

The agreement sets forth the rights and obligations of the parties to the agreement with respect to the determination and settlement of federal income tax liabilities as well as the allocation of Alleghany Group's consolidated U.S. federal income tax liability in accordance with a rational, systematic formula. The agreement provides for computation of tax, settlement of balances between affiliates, tax-sharing, filing the return, audits and other adjustments, dispute resolution, and other administrative requirements. The agreement calls for the prompt settlement of estimated federal tax payments and final year-end calculated adjusted payments on the notified due dates

Administrative Services Agreement

CIC and CapSpecialty entered into an Administrative Services Agreement effective January 1, 2004, and later amended, effective June 6, 2011. Under this agreement, CIC is to provide services essential to the day-to-day operation of CapSpecialty, which include accounting, tax, and auditing services; corporate services (general oversight of non-insurance subsidiaries and required filings under federal and state securities laws); management information systems services; regulatory communications services; treasury services; management reporting services; accounts receivable services; external communications services; internal communication services; legal services; general business services; and additional services that are not otherwise contemplated under this agreement. In consideration of the services provided to CapSpecialty under this agreement, CapSpecialty shall pay to CIC $7,500 per calendar quarter as well as the direct costs and expenses paid by CIC on behalf of CapSpecialty which shall be calculated and reimbursed to CIC on an actual cost basis. Payments are to be made within 15 days of the end of each calendar quarter.

This agreement may be terminated by mutual consent or by either party by giving 120 days' written notice, 90 days' written notice if the other party becomes insolvent or if the other party has materially breached the terms and conditions of the agreement and such breach has not been cured. Additionally, CIC may terminate the agreement by written notice if CapSpecialty fails to make payment of fees and such failure has not been cured within 45 days.

Office Space and Equipment Use Agreement

Effective January 1, 2007, CapSpecialty entered into an Office Space and Equipment Use Agreement with CIC. Under this agreement, CIC agrees to provide all equipment reasonably necessary for the continuing operation of CapSpecialty's insurance business and CIC shall be responsible for all repairs and maintenance. CIC shall provide equipment of reasonable quality and quantity. At the direction of CapSpecialty, CIC shall also provide office space reasonably necessary for the continuing operation of CapSpecialty's business and CIC shall be responsible for all janitorial services, maintenance, repairs, and utilities with regard to the office space. The office space is only to be used for business and professional offices. CapSpecialty shall pay an annual equipment fee of $6,000 and an annual office space fee of $6,000 as consideration for CIC's services. The aforementioned amounts are to be paid within 15 days of the end of each annual period.

This agreement may be terminated by mutual consent or it may be terminated by either party by providing 90 days' written notice, 45 days if the other party is insolvent, files voluntary petition in bankruptcy, rehabilitation, or liquidation, or if the other party materially breaches the contract and the breach has not been cured within the 45 days of the written notice. Additionally, CIC can cancel with 30-days' written notice if CapSpecialty fails to pay for the services or if CapSpecialty is no longer affiliated with CIC.

Capitol Specialty Insurance Corporation

Administrative Services Agreement

CIC and CSIC entered into an Administrative Services Agreement effective January 1, 2004, and later amended, effective January 1, 2007. Under this agreement, CIC is to provide services essential to the day-to-day operation of CSIC, which include sales and underwriting services; claims management services; reinsurance recovery services; ancillary insurance and reinsurance services; accounting, tax and auditing services; litigation services; corporate services; management information systems services; actuarial services; agent- and broker-related services; regulatory communications services; treasury services; management reporting services; accounts receivable services; external communications services; internal communication services; legal services; general business services; and additional services which are not otherwise contemplated under this agreement. The companies are also parties to an affiliated pooling agreement described in section V of this report titled "Reinsurance." In consideration of the services provided to CSIC under this agreement, CSIC shall pay a fee determined by CIC based on the total costs incurred by it in each calendar quarter in connection with the conduct of the pooled business, and CSIC will be responsible for 15% of such total costs (based on its pool participation percentage). CIC shall provide CSIC within 60 days after the end of each quarter the accounting of such total costs. Payments are to be made by CSIC within 20 days after the completion of the aforementioned accounting.

This agreement may be terminated by mutual consent or by either party by giving 90 days' written notice, 45 days' written notice if the other party becomes insolvent or if the other party has materially breached the terms and conditions of the agreement and such breach has not been cured. Additionally, CIC may terminate the agreement by written notice if CSIC fails to make payment of fees and such failure has not been cured within 30 days.

Office Space and Equipment Use Agreement

Effective January 1, 2004, CSIC entered into an Office Space and Equipment Use Agreement with CapSpecialty. As discussed earlier in this report, effective January 1, 2007, CapSpecialty contributed all owned, leased, or controlled business equipment and office space to CIC, which caused CSIC to amend this agreement reassigning the rights, duties, and obligations from CapSpecialty to CIC. Under this agreement, CIC agrees to provide all equipment reasonably necessary for the continuing operation of CSIC's insurance business, and CIC or one of its affiliates shall be responsible for all repairs and maintenance. CIC shall provide equipment of reasonable quality and quantity. At the direction of CSIC, CIC shall also provide office space reasonably necessary for the continuing operation of CSIC's insurance business, and CIC or one of its affiliates shall be responsible for all janitorial services, maintenance, repairs, and utilities with regard to the office space. The office space is only to be used for business and professional offices.

The companies are also parties to an affiliated pooling agreement described in section V of this report titled "Reinsurance." In consideration of the services provided to CSIC under this agreement, CSIC shall pay a fee determined by CIC based on the total costs incurred by it in each calendar quarter in connection with the conduct of the pooled business, and CSIC will be responsible for 15% of such total costs (based on its pool participation percentage). CIC shall provide CSIC within 60 days after the end of each quarter the accounting of such total costs. Payments are to be made by CSIC within 20 days after the completion of the aforementioned accounting.

This agreement may be terminated by mutual consent or it may be terminated by either party by providing 120 days' written notice, 90 days if the other party is insolvent or if the other party materially breaches the contract and the breach has not been cured within the 90 days of the written notice. Additionally, CapSpecialty can cancel with 45 days' written notice if CSIC fails to pay for the services or if CSIC is no longer affiliated with CIC.

Unconditional Financial Guaranty Agreement

CSIC and CIC entered into an Unconditional Financial Guaranty Agreement effective February 25, 2004. This agreement was entered into by the two parties to satisfy statutory requirements of the state of Maine in order for CSIC to obtain approval to transact business in that state. The state of

Maine requires CIC to guarantee that CSIC’s surplus would always meet a $500,000 minimum surplus requirement and exceed the Regulatory Action Risk Based Capital level. Under this agreement CIC is to automatically invest additional capital so that CSIC would continue to meet those levels.

Platte River Insurance Company

Services Agreement

CIC and PRIC entered into a Services Agreement effective January 1, 2002, and later amended, effective January 1, 2007. Under this agreement, CIC is to provide such facilities and services of management and other personnel as may be requested from time to time by PRIC to conduct the business of insurance; maintenance of PRIC's insurance licenses and regulatory compliance; information and record keeping services; document preparation and filing services; portions of premises in Hartford, Connecticut and San Francisco, California; investment management services, and general administrative services. The companies are also parties to an affiliated pooling agreement described in section V of this report titled “Reinsurance.” In consideration of the services provided to PRIC under this agreement, PRIC shall pay a fee determined by CIC based on the total costs incurred by it in each calendar quarter in connection with the conduct of the pooled business, and PRIC will be responsible for 15% of such total costs (based on its pool participation percentage). CIC shall provide PRIC within 60 days after the end of each quarter the accounting of such total costs. Payments are to be made by PRIC within 20 days after the completion of the aforementioned accounting.

This agreement may be terminated by mutual agreement of the parties or by either party on any December 31, provided that the party terminating the agreement has provided at least 90 days' written notice to the other party.

Capitol Facilities Corporation

Administrative Services Agreement

CIC and CFC entered into an Administrative Services Agreement effective February 1, 2018. Under this agreement, CIC agrees to provide services essential to the day-to-day operation of CFC, which include accounting, tax, and auditing services; corporate services (general oversight of non-insurance subsidiaries and required filings under federal and state securities laws); management information systems services; regulatory communications services; treasury services; management reporting services; accounts receivable services; external communications services; internal communication services; legal services; general business services; and additional services that are not otherwise contemplated under this agreement. In consideration of the services provided to CFC under this agreement, CFC shall monthly, on a calendar year basis, pay to CIC $10,000. Payments are to be made within 20 days of the end of each calendar month.

This agreement may be terminated by mutual consent or it may be terminated by either party by providing 90 days' written notice, 45 days if the other party is insolvent, files voluntary petition in bankruptcy, rehabilitation, or liquidation, or if the other party materially breaches the contract and the breach has not been cured within the 45 days of the written notice.

Office Space and Equipment Use Agreement

Effective January 1, 2004, CFC entered into an Office Space and Equipment Use Agreement with CapSpecialty. Effective January 1, 2007, CapSpecialty contributed all owned, leased, or controlled business equipment and office space to CIC, which caused CFC to amend this agreement reassigning the rights, duties, and obligations from CapSpecialty to CIC. Under this agreement, CIC agrees to provide all equipment reasonably necessary for the continuing operation of CFC's insurance business, and CIC or one of its affiliates shall be responsible for all repairs and maintenance. CIC shall provide equipment of reasonable quality and quantity. At the direction of CFC, CIC shall also provide office space reasonably necessary for the continuing operation of CFC's insurance business, and CIC or one of its affiliates shall be responsible for all janitorial services, maintenance, repairs, and utilities with regard to the office space. The office space is only to be used for business and professional offices. CFC shall pay a monthly equipment fee of $100 and a monthly office space fee of $50 as consideration for CIC's services. The aforementioned amounts are to be paid within 15 days of the end of each calendar month.

This agreement may be terminated by mutual consent or it may be terminated by either party by providing 90 days' written notice, 45 days if the other party is insolvent or if the other party materially breaches the contract and the breach has not been cured within the 45 days of the written notice. Additionally, CIC can cancel with 30 days' written notice if CFC fails to pay for the services or if CFC is no longer affiliated with CIC.

Professional Risk Management Services, Inc.

Administrative Services Agreement

CIC and PRMS entered into an Administrative Services Agreement effective June 1, 2014. Under this agreement, CIC is to provide a variety of services, including, but not limited to, accounting, taxes, management information services, communications, and general business services (CIC-Based Services). PRMS will reimburse CIC for all actual operating expenses of CIC-Based Services. In addition, beginning on January 1, 2015, PRMS will pay CIC $175,000 per month for general management expenses that are attributable to PRMS for CIC-Based Services. The amount paid for general management expenses may be adjusted on an annual basis as deemed necessary to accurately reflect the value of the CIC-Based Services provided. Payments are due within 20 days of the end of each calendar month.

This agreement may be terminated by mutual consent or by either party by giving 90 days' written notice, 45 days' written notice if the other party becomes insolvent or if the other party has materially breached the terms and conditions of the agreement and such breach has not been cured. Additionally, CIC may terminate the agreement by written notice if PRMS fails to make payment of fees and such failure has not been cured within 30 days.

Producer Agreement

Effective March 18, 2016, CIC and Platte River entered into a Producer Agreement with Professional Risk Management Services, Inc. Under this agreement Professional Risk Management Services, Inc. acts as an agent to produce business for CIC and Platte River as specified under the agreement.

This agreement may be terminated by mutual written consent or it may be terminated by either party by providing 60 days' written notice, producer to provide CIC and Platte River written notice within 30 days after any change in ownership, may be terminated by CIC and Platte River in the event PRMS becomes insolvent, files for bankruptcy, or if the other party materially breaches the contract.

Transition and Consulting Services

CIC and Fair American Insurance Company (FAIRCO), a direct, wholly owned subsidiary of TRC, entered into a Transition and Consulting Services Agreement effective November 11, 2019.

Effective October 1, 2019, TRH purchased 100% of the share capital of PRMS from CapSpecialty. In connection with this transaction, the parties agreed to provide to each other certain services, access to facilities, equipment, software, and other assistance on a transitional basis to assist with the transition of PRMS to TRH.

FAIRCO agrees to pay $375,000 to CIC within 45 days of each quarterly period end as consideration for providing services and access to the facilities during the term, beginning with the quarterly period ending on December 31, 2019.

The contract may be terminated by either party with 30 days' written notice. This agreement may also be terminated at any time by either party by written notice if either party is in material breach of the agreement and fails to cure the breach within 30 days or in the event of liquidation, reorganization, or bankruptcy.

CATA Services Company

Administrative Services Agreement

CATA Services Company (CSVC) and CIC entered into an Administrative Services Agreement effective December 12, 2012. Under this agreement, CIC is to provide CSVC a variety of services, including, but not limited to: accounting, taxes, management information services, communications, and general business services. In consideration of the services provided to CSVC under this agreement, CSVC shall pay to CIC $20,000 per month. Payments are due within 30 days of the end of each calendar month. A reconciliation of actual expenses incurred by CIC for the benefit of CSVC on a calendar-year basis, compared to actual fees charged to CSVC on a calendar-year basis, shall be prepared by CIC and provided to CSVC within 90 days after the end of each calendar year. Any amount greater than 10% of the monthly fee due to CIC, or any credit with respect to the monthly fee due to CSVC, shall be settled within 60 days after the end of each calendar year.

This agreement may be terminated by mutual consent or by either party by giving 120 days' written notice, 90 days' written notice if the other party becomes insolvent or if the other party has materially breached the terms and conditions of the agreement and such breach has not been cured. Additionally, CIC may terminate the agreement by written notice if CSVC fails to make payment of fees and such failure has not been cured within 45 days.

Roundwood Asset Management LLC

Investment Management Agreement

CIC and Roundwood (previously known as Alleghany Capital Partners LLC) entered into an Investment Management Agreement effective January 1, 2008. The agreement was later amended effective September 9, 2014, to reflect the name change of Alleghany Capital Partners LLC to Roundwood Asset Management LLC. Pursuant to the Investment Management Agreement, CIC appointed Roundwood to act as CIC's investment portfolio manager. Roundwood is to make investment decisions and is responsible for investment and reinvestment of CIC's equity portfolio, in accordance with CIC's investment guidelines/restrictions.

In consideration of the services provided to CIC under this agreement, CIC agrees to pay to Roundwood a fee equal to the percentage of the market value of all assets managed by Roundwood as of the last trading day of each calendar month. CIC shall pay quarterly fees on behalf of CapSpecialty companies based on the following:

For each month in a quarter one-twelfth (1/12) of an amount equal to the sum of (a), (b), and (c)

(a) 1.00% on the first $200,000,000 of the market value of the assets managed for the CapSpecialty Group;

(b) 0.50% on the next $200,000,000 of the market value of the assets managed for the CapSpecialty Group; and

(c) 0.25% on the market value of the remaining assets managed for the CapSpecialty Group.

Settlements are to be made within 30 days after receiving notification from Roundwood. The company is also party to an Affiliated Pooling Agreement with CSIC and PRIC described in section V of this report titled "Reinsurance." Each member of the pool shall be allocated a percentage of the total costs related to their investment management agreements based on each member's pool participation percentage; for CIC it is 70%.

The contract may be terminated by either party with 30 days' written notice. This agreement may also be terminated at any time by CIC by written notice if Roundwood has defaulted under the terms and conditions of the agreement and such default has not been cured within five business days of receipt of written notice.

V. REINSURANCE

The company's reinsurance portfolio and strategy at the time of the examination are described below. A list of the companies that have a significant amount of reinsurance in force at the time of the examination follows. The contracts contained proper insolvency provisions.

Affiliated Pooling Agreement

CIC participates in a pooling arrangement with CSIC and PRIC, both of which are affiliated insurance companies. The pool participants cede 100% of their net premiums written, losses, loss adjustment expenses, underwriting expenses and related balance sheet categories (after nonaffiliated external reinsurance) to CIC, excluding business written on behalf of Darwin National Assurance Company or RSUI Indemnity Company. CIC, as the lead company and pool manager, administers all aspects of the pooled business. CIC distributes the net pooled business according to each pool participant's participation percentage outlined in the contract (70% for CIC and 15% each for CSIC and PRIC).

Scope:	All risks written by the company excluding business written on behalf of Darwin National Assurance Company (hereinafter also DNA) and RSUI Indemnity Corporation
Items included:	Premiums written and earned, losses, loss adjustment expenses, underwriting expenses, commissions, contingent commissions, salvage and subrogation recoveries, assessments, taxes, and policyholder dividends
Effective:	January 1, 2002, as amended effective January 1, 2005, December 31, 2006, January 1, 2007, and December 31, 2012
Termination:	The agreement is continuous. It may be terminated at any time by any party on any December 31 with at least 12 months' prior written notice.

Reinsurance Allocation Agreement

CIC entered into a Reinsurance Allocation Agreement with CSIC and PRIC, effective January 1, 2012. The agreement provides terms and conditions for the allocation of reinsurance premiums and loss recoveries under reinsurance contacts to which CIC and one or more of its affiliates are parties. According to the terms of this agreement, when multiple occurrences covered under a contract occur, each company's retention and the reinsurer's limit of liability for the occurrences shall be proportionate to the losses incurred by each company. Reinsurance premium is calculated so that each company affiliate shall only be responsible for its proportionate share of the reinsurance premium.

The agreement is continuous and may only be terminated by mutual agreement of the parties.

Intercompany Reinsurance Contracts

Effective July 1, 2015, CIC, CSIC, and PRIC entered into an Adverse Development Reinsurance Agreement with AIHL Re. The agreement applies only in the event CIC, CSIC, and/or PRIC suffer adverse loss development. It applies to (1) all claims with a date of loss prior to January 1, 2015, on policies, contracts, and binders of insurance or reinsurance underwritten, renewed, or assumed by CIC, CSIC, or PRIC, and (2) all claims classified as Large Construction Contract Surety, regardless of date of loss. The agreement calls for the AIHL Re to indemnify the group for 100% of the amount by which the group's ultimate net losses exceed the sum of (1) the group's carried reserves as of June 30, 2015, on all business covered, and (2) 32% of the group's net earned premium earned after the effective date on large construction surety business, up to AIHL Re’s aggregate limit of liability of $50 million.

The premium paid by the group under the agreement is 0.1% of the sum of the group’s carried reserves and the group’s net earned premium earned after the effective date on business classified as large construction contract surety.

The agreement is supported by a Keep Well Agreement between AIHL Re and Alleghany Corporation, whereby Alleghany agrees to maintain surplus of $10 million in AIHL Re at all times.

Relating to the Adverse Development Reinsurance Agreement above, a Reinsurance Trust Agreement was entered between CIC, CSIC, Platte River, AIHL Re, and U.S. Bank National Association, which establishes a trust account allowing CIC and CSIC to take credit on its statutory financial statements the full amount of reinsurance provided by the Adverse Development Reinsurance Agreement. The effective date of the Reinsurance Trust Agreement is December 31, 2015.

Affiliated Ceding Contracts

1.	Type:	Large Account Commercial Surety Quota Share Contract
	Reinsurer:	Transatlantic Reinsurance Company
	Scope:	Purpose of the contract is to indemnify the company in respect of liability that may accrue to the company as a result of loss(es) under Bonds for

Commercial Surety Principals with Outstanding Aggregate Bond Penalties greater than $20,000,000 that are written or renewed on or after the effective date of this contract, and Extra Contractual Obligations. Single bond limit written by the company shall not exceed $10,000,000.

Retention and Coverage: Quota share participation of all subject bonds in accordance with the following:

a) When Outstanding Aggregate Bond Penalties for any one Principal is greater than $15,000,000 but less than or equal to $25,000,000, retention is 30% per bond, not to exceed $3,000,000 per bond. Reinsurer accepts 70% per bond, not to exceed $7,000,000 per bond or

b) When Outstanding Aggregate Bond Penalties for any one Principal is greater than $25,000,000 but less than or equal to $45,000,000, retention is 10% per bond, not to exceed $1,000,000 per bond. Reinsurer accepts 90% per bond, not to exceed $9,000,000 per bond.

Effective date: August 1, 2019

Termination: August 1, 2020

2. Type: Property Quota Share Reinsurance Contract - Tier 1 and 2

Reinsurer: Transatlantic Reinsurance Company

Intermediary: Willis Re

Scope: All business and policies underwritten and classified by the company as property business, subject to terms, conditions and limitations. Business written that exceeds the Tier 1 Sublimit for any state shall not be covered unless specially accepted by the reinsurer. Policies that exclude either wind or hail shall not be covered. (Tier 1 counties in coastal states are generally more exposed to hurricane risk than Tier 2 counties.)

Retention: The company shall retain 20% of the net liability in each policy ceded

Coverage: 80% of the company's net liability and LAE, subject to a maximum location limit that can be ceded by the company of $10,000,000 all coverages

Commissions: Provisional ceding commission of 32% on all premiums ceded to the reinsurer, which will be adjusted based on the loss ratio. The ceding commission of 32% will be payable at a loss ratio of 44%. If the loss ratio is greater than 44%, the 32% commission will be reduced by 1% for every 0.8% increase in the loss ratio, subject to a minimum ceding commission of 22% at a loss ratio of 52% or greater.

Effective date: January 1, 2019

Termination: January 1, 2020

Additional comment: Coverage under the company's Property Occurrence Excess of Loss treaty inures to the benefit of this contract. For example, if there is a $7 million loss, the Property Occurrence XOL contract will cover $5.5 million

		(above the company's retention of $1.5 million) and property quota share contract will cover 80% of the remaining $1.5 million. See contract #2 under Nonaffiliated Ceding Contracts.

Nonaffiliated Ceding Contracts

1.	Type:	Large Surety Bond Quota Share
	Reinsurer:	Munich Reinsurance America, Inc.
	Scope:	Applies to those Bonds in force, issued or renewed by the company on or after the Effective Date as specified in Certificates of Reinsurance attached to the Reinsurance Agreement.
	Retention:	With respect to each Bond reinsured under each Certificate, the company shall cede to the Reinsurer a Quota Share Percentage as set forth in "Quota Share Percentage" section in the Certificate
	Coverage:	With respect to each Bond reinsured under each Certificate, the maximum liability for each Principal is set forth in the "Maximum for the Principal" section of the Certificate
	Effective date:	August 1, 2016
	Termination:	Either party may cancel this Reinsurance Agreement: (1) by providing 60 days' notice prior to August 1 or (2) immediately upon giving notice to the other party if the other party is facing either rehabilitation or liquidation proceedings, or has had its authorization to do business withdrawn
2.	Type:	Property Facultative
	Reinsurer:	General Reinsurance Corporation
	Scope:	All business classified by the company as fire, allied lines, inland marine, or commercial multiple peril (property coverages) with certain named exclusions.
	Retention:	$10,000,000 per risk
	Coverage:	Up to $15,000,000 in excess of the company's retention of $10,000,000 per risk
	Effective date:	December 1, 2019
	Termination:	January 1, 2020
3.	Type:	Casualty Excess of Loss
	Reinsurer:	Participation in this contract is as follows:

Reinsurers	Percentage
Brit Global Specialty	4.00%
Endurance Assurance Corporation	25.00
Hannover Ruck SE	5.00
Hiscox Ltd Bermuda	5.00
Partner Reinsurance Company of the U.S.	10.00
Liberty Syndicate #4472	12.00
Hiscox Syndicate #33	10.00
XL Catlin Syndicate 2003	12.00
Acapella Syndicate #2014	6.00
Vibe Syndicate #5678	2.50
Barbican Syndicate #1955	2.50
Renaissance Syndicate #1458	2.00
Brit Global Specialty #2987	4.00
Total	100.00%

Intermediary: Willis Re

Scope: All business classified by the company as casualty business including, but not limited to, primary casualty and excess casualty, general liability, umbrella, employers liability, professional liability, health care professional liability, environmental liability, commercial automobile, and miscellaneous errors and omissions with stated exclusions

Retention: Net loss retention of $1,000,000 in respect to any one risk, any one loss occurrence

Coverage: $10,000,000 in excess of the company’s retention, any one risk, any one loss occurrence.

Reinstatement: Up to four free reinstatements; however, the aggregate liability of the reinsurer should never exceed $50,000,000

Effective date: January 1, 2019

Termination: January 1, 2020

4. Type: Property Occurrence Excess of Loss

Reinsurer: Participants in the contract include:

Reinsurers	Percentage
Allied World Insurance Company	12.50%
Arch Reinsurance Company	21.25
Axis Reinsurance Company	7.50
American Home Assurance Company	10.00
Hannover Ruck SE	16.25
Munich Reinsurance America, Inc.	12.50
Odyssey Reinsurance Company	20.00
Total	100.00%

	Intermediary:	Willis Re
	Scope:	All business classified by the company as property business, including, but not limited to, BOP and CMP property, commercial auto property, automobile physical damage, crime, fire and allied lines, inland marine and glass, and burglary and theft with stated exclusions
	Retention:	$1,500,000 for each and every loss occurrence
	Coverage:	$8,500,000 in excess of the company's retention, for each and every loss occurrence; the reinsurer's liability is limited to $25,500,000 during the term of the contract
	Reinstatement:	Two reinstatements – the first is free, the second is for additional premium
	Effective date:	January 1, 2019
	Termination:	January 1, 2020
5.	Type:	Five Layer Surety and Fidelity Excess of Loss
	Reinsurer:	Participants in the contract include:

Reinsurers	**Percentage**
Arch reinsurance Company	5.00%
Axis Reinsurance	10.00
Liberty Syndicate #4472	2.50
Munich Reinsurance America	25.00
Odyssey Reinsurance Company	20.00
R+V Versicherung A.G.	22.50
Scor Reinsurance Company	5.00
Validus Americas	5.00
Endurance Assurance Corp of America	5.00
Total	100.00%

Intermediary:	Willis Re
Scope:	All bond business classified by the company as contract surety, commercial surety and fidelity under the Manual of Rules, Procedures and Classifications for Fidelity, Forgery and Surety Bonds of The Surety & Fidelity Association of America with exclusions
Retention:	
First layer	$1,500,000 in respect to each loss discovered, each principal – Surety and each event - Fidelity
Second layer	$5,000,000 in respect to each loss discovered, each principal – Surety and each event - Fidelity
Third layer	$10,000,000 in respect to each loss discovered, each principal – Surety and each event - Fidelity

	Fourth layer	$15,000,000 in respect to each loss discovered, each principal – Surety and each event - Fidelity
	Fifth layer	$20,000,000 in respect to each loss discovered, each principal – Surety and each event - Fidelity
	Coverage:	
	First layer	$3,500,000 excess of $1,500,000 in respect to each loss discovered, each principal – Surety and each event – Fidelity; total reinsurers' liability under this layer is $10,500,000 in aggregate for the contract year
	Second layer	$5,000,000 excess of $5,000,000 in respect to each loss discovered, each principal – Surety and each event – Fidelity; total reinsurers' liability under this layer is $10,000,000 in aggregate for the contract year
	Third layer	$5,000,000 excess of $10,000,000 in respect to each loss discovered, each principal – Surety and each event - Fidelity, total reinsurers' liability under this layer is $10,000,000 in aggregate for the contract year
	Fourth layer	$5,000,000 excess of $15,000,000 in respect to each loss discovered, each principal – Surety and each event – Fidelity; total reinsurers' liability under this layer is $10,000,000 in aggregate for the contract year
	Fifth layer	$10,000,000 excess of $20,000,000 in respect to each loss discovered, each principal – Surety and each event – Fidelity; total reinsurers' liability under this layer is $20,000,000 in aggregate for the contract year
	Reinstatement:	Two full reinstatements in the First Layer, and one full reinstatement in each of the remaining layers, all for additional premium
	Effective date:	December 1, 2019
	Termination:	November 30, 2020
6.	Type:	Employment Practices Liability Reinsurance Agreement
	Reinsurer:	Hartford Steam Boiler Inspection and Insurance Company
	Scope:	Covers all of the company's liability for loss under an EPL coverage form attached to new and renewal policies on or after the effective date of the agreement, with stated exclusions
	Coverage:	100% of losses, including defense costs, limited to $250,000 each wrongful employment act, subject to annual aggregate limit in the policy not to exceed $250,000
	Effective date:	February 1, 2014
	Termination:	April 6, 2021
7.	Type:	Equipment Breakdown Reinsurance Agreement
	Reinsurer:	Hartford Steam Boiler Inspection and Insurance Company

	Scope:	All equipment breakdown liability business, with stated exclusions
	Coverage:	100% of losses limited to $25,000,000 for any on accident and any one policy/risk
	Effective date:	March 1, 2010
	Termination:	This agreement is continuous and can be terminated by either party by giving at least 180 days' prior written notice
8.	Type:	Identity Theft Recovery Quota Share
	Reinsurer:	Hartford Steam Boiler Inspection and Insurance Company
	Scope:	100% of the company's liability for losses covered under Identity Recovery Coverage Endorsement attached to new, renewal, and in-force business owner or commercial package policies
	Coverage:	100% of losses limited to $15,000 for any one insured and $15,000 annual aggregate
	Effective date:	June 1, 2005; amended October 1, 2009; May 1, 2011
	Termination:	This agreement is continuous and can be terminated by either party by giving at least 120 days' prior written notice

Affiliated Assuming Contracts

Effective January 1, 2014, the company entered into a quota share retrocession agreement with its affiliate, TRC. Under this agreement, business produced by PRMS is written on FAIRCO paper. Ninety percent of the business is then ceded to TRC, which then, in turn, retrocedes an amount equal to a 20% share of the 100% FAIRCO business that is subject to the original agreement. CIC's share of the final allocation of business produced under the agreement is 20%, TRC's is 70%, and FAIRCO's is 10%.

TRC shall pay or allow the company its pro rata share of all premiums and commissions. Endorsement no 1 amended this agreement effective March 25, 2020, to terminate the agreement effective March 31, 2021.

VI. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported to the Commissioner of Insurance in the December 31, 2019, annual statement. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Surplus per Examination." Also included in this section are schedules that reflect the growth of the company, NAIC Insurance Regulatory Information System (IRIS) ratio results for the period under examination, and the compulsory and security surplus calculation.

Capitol Indemnity Corporation
Assets
As of December 31, 2019

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$432,388,370	$	$432,388,370
Common stocks	111,759,551		111,759,551
Cash, cash equivalents, and short-term investments	101,343,908		101,343,908
Other invested assets	92,790		92,790
Investment income due and accrued	2,700,849		2,700,849
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	43,550,717	1,355,549	42,195,168
Deferred premiums, agents' balances, and installments booked but deferred and not yet due	6,814,670	6,938	6,807,732
Reinsurance:			
Amounts recoverable from reinsurers	4,231,723		4,231,723
Other amounts receivable under reinsurance contracts	21,839		21,839
Current federal and foreign income tax recoverable and interest thereon	1,550,613		1,550,613
Net deferred tax asset	13,785,640	1,637,769	12,147,871
Electronic data processing equipment and software	8,128,550	7,034,897	1,093,653
Furniture and equipment, including health care delivery assets	1,775,284	1,775,284	
Receivable from parent, subsidiaries, and affiliates	700,947		700,947
Write-ins for other than invested assets:			
Other assets	990,165	931,765	58,400
Other intangibles	3,786,150	3,786,150	0
State income taxes recoverable	117,507		117,507
Total Assets	$733,739,273	$16,528,352	$717,210,921

Capitol Indemnity Corporation
Liabilities, Surplus, and Other Funds
As of December 31, 2019

Losses		$226,300,839
Reinsurance payable on paid loss and loss adjustment expenses		23,737,926
Loss adjustment expenses		47,445,751
Commissions payable, contingent commissions, and other similar charges		626,816
Other expenses (excluding taxes, licenses, and fees)		8,401,301
Taxes, licenses, and fees (excluding federal and foreign income taxes)		582,483
Unearned premiums		117,122,645
Ceded reinsurance premiums payable (net of ceding commissions)		2,703,234
Amounts withheld or retained by company for account of others		9,057,726
Payable to parent, subsidiaries, and affiliates		6,302,929
Write-ins for liabilities:		
Funds held – unclaimed property		540,568
Miscellaneous liability		746,472
Total Liabilities		443,568,690
Common capital stock	$ 4,201,416	
Gross paid in and contributed surplus	103,923,753	
Unassigned funds (surplus)	165,517,062	
Surplus as Regards Policyholders		273,642,231
Total Liabilities and Surplus		$717,210,921

Capitol Indemnity Corporation
Summary of Operations
For the Year 2019

Underwriting Income		
Premiums earned		$228,860,922
Deductions:		
Losses incurred	$110,301,867	
Loss adjustment expenses incurred	44,725,166	
Other underwriting expenses incurred	96,816,807	
Total underwriting deductions		251,843,840
Net underwriting gain (loss)		(22,982,918)
Investment Income		
Net investment income earned	14,249,770	
Net realized capital gains (losses)	40,658,263	
Net investment gain (loss)		54,908,033
Other Income		
Net gain (loss) from agents' or premium balances charged off	(361,064)	
Finance and service charges not included in premiums	117,779	
Write-ins for miscellaneous income:	(985,299)	
Total other income		(1,228,584)
Net income (loss) after dividends to policyholders but before federal and foreign income taxes		30,696,531
Federal and foreign income taxes incurred		(1,011,606)
Net Income (Loss)		$ 31,708,137

Capitol Indemnity Corporation
Cash Flow
For the Year 2019

Premiums collected net of reinsurance			$233,646,514
Net investment income			14,939,771
Miscellaneous income			(1,228,584)
Total			247,357,701
Benefit- and loss-related payments		$ 57,967,427	
Commissions, expenses paid, and aggregate write-ins for deductions		131,751,364	
Federal and foreign income taxes paid (recovered)		10,804,949	
Total deductions			200,523,740
Net cash from operations			46,833,961
Proceeds from investments sold, matured, or repaid:			
Bonds	$ 47,230,028		
Stocks	162,987,875		
Other invested assets	13,460		
Net gains (losses) on cash, cash equivalents, and short-term investments	2,439		
Miscellaneous proceeds	426,740		
Total investment proceeds		210,660,542	
Cost of investments acquired (long-term only):			
Bonds	209,404,492		
Stocks	2,592,688		
Total investments acquired		211,997,180	
Net cash from investments			(1,336,638)
Cash from financing and miscellaneous sources:			
Other cash provided (applied)			5,965,108
Reconciliation:			
Net Change in Cash, Cash Equivalents, and Short-Term Investments			51,462,431
Cash, cash equivalents, and short-term investments:			
Beginning of year			49,881,478
End of Year			$101,343,909

Capitol Indemnity Corporation
Compulsory and Security Surplus Calculation
December 31, 2019

Assets			$717,210,921
Less security surplus of insurance subsidiaries			28,925,572
Less liabilities			443,568,690
Adjusted surplus			244,716,659
Annual premium:			
Group accident and health	$ 4,108		
Factor	10%		
Total		$ 410	
Lines other than accident and health	241,398,882		
Factor	20%		
Total		48,279,776	
Compulsory surplus (subject to a minimum of $2 million)			48,280,186
Compulsory Surplus Excess (Deficit)			$196,436,473
Adjusted surplus (from above)			$244,716,659
Security surplus (140% of compulsory surplus, factor reduced 1% for each $33 million in premium written in excess of $10 million, with a minimum factor of 110%)			64,212,647
Security Surplus Excess (Deficit)			$180,504,012

Capitol Indemnity Corporation
Analysis of Surplus
For the Five-Year Period Ending December 31, 2019

The following schedule details items affecting surplus during the period under examination as reported by the company in its filed annual statements:

	2019	**2018**	**2017**	**2016**	**2015**
Surplus, beginning of year	$268,403,079	$265,267,648	$234,240,428	$225,535,716	$221,875,480
Net income	31,708,137	5,750,244	11,245,659	8,474,675	5,071,745
Change in net unrealized capital gains/losses	(26,277,865)	(3,335,687)	31,460,310	(2,647,031)	(277,650)
Change in net deferred income tax	(913,160)	3,281,745	(7,497,694)	176,037	(1,843,116)
Change in nonadmitted assets	722,039	(2,560,871)	(4,388,055)	1,055,031	2,358,257
Change in provision for reinsurance			207,000	1,646,000	(1,649,000)
Surplus, End of Year	$273,642,231	$268,403,079	$265,267,648	$234,240,428	$225,535,716

Capitol Indemnity Corporation
Insurance Regulatory Information System
For the Five-Year Period Ending December 31, 2019

The company's NAIC Insurance Regulatory Information System (IRIS) results for the period under examination are summarized below. Unusual IRIS results are denoted with asterisks and discussed below the table.

	Ratio	**2019**	**2018**	**2017**	**2016**	**2015**
#1	Gross Premium to Surplus	128%	116%	104%	109%	100%
#2	Net Premium to Surplus	88	80	72	75	68
#3	Change in Net Premiums Written	13	13	8	14	14
#4	Surplus Aid to Surplus	0	0	0	0	0
#5	Two-Year Overall Operating Ratio	98	94	95	96	99
#6	Investment Yield	2.3	1.5*	1.3*	1.2*	1.1*
#7	Gross Change in Surplus	2	1	13	4	2
#8	Change in Adjusted Surplus	2	1	13	4	2
#9	Liabilities to Liquid Assets	81	76	73	75	73
#10	Agents' Balances to Surplus	15	11	11	9	10
#11	One-Year Reserve Development to Surplus	7	-1	-1	-1	1
#12	Two-Year Reserve Development to Surplus	4	-1	-3	-0	2
#13	Estimated Current Reserve Deficiency to Surplus	-5	-4	-4	3	11

Ratio No.6 measures the amount of the company's net investment income as a percentage of the average amount of cash and invested assets. The company reported an exceptional ratio in four of the five years under examination. The exceptional ratios are primarily due to low interest rate environment.

Growth of Capitol Indemnity Corporation

Year	Admitted Assets	Liabilities	Surplus as Regards Policyholders	Net Income
2019	$717,210,921	$443,568,688	$273,642,231	$31,708,137
2018	632,913,825	364,510,746	268,403,079	5,750,244
2017	592,841,076	327,573,428	265,267,648	11,245,659
2016	520,005,597	285,765,169	234,240,428	8,474,675
2015	478,842,403	253,306,687	225,535,716	5,071,745
2014	462,393,090	240,517,610	221,875,480	(938,016)

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss and LAE Ratio	Expense Ratio	Combined Ratio
2019	$350,632,764	$241,298,573	$228,860,922	67.7%	40.6%	108.3%
2018	311,327,235	214,199,829	202,897,436	55.2	42.2	97.4
2017	276,639,960	189,800,911	182,587,592	55.6	43.4	99.0
2016	254,870,104	175,017,437	166,206,542	53.1	44.8	97.9
2015	226,022,834	154,192,918	143,340,338	54.8	45.7	100.5
2014	200,075,259	134,697,145	129,048,809	55.8	51.3	107.1

Admitted assets grew 55% during the last five years, to reach $717.2 million on December 31, 2019, compared to $462.4 million on December 31, 2014. Surplus increased steadily during the examination period by 21.3%, with the largest increase of $31.0 million reported in 2017. The increase in surplus in 2017 was largely attributed to unrealized gains on the company's equity portfolio. In 2019, the company sold all of its unaffiliated common stocks realizing approximately $40.7 million in net gains. The company reported the highest combined ratio of 108.3% in 2019 in the last five years. The high combined ratio in 2019 was attributed partially to an increase in the estimated loss and loss adjustment expense reserves related to prior accident years of approximately $20.0 million. The company, however, reported a net income of $31.7 million in 2019, primarily due to net investment gains of $54.9 million.

Dividends were not paid to stockholders over the last five years to further support planned growth for the company.

Due to the pooling agreement between the CapSpecialty companies, gross premium written also includes premium written by CSIC and PRIC. Net premium written increased by 79.1%, and net premium earned increased by 77.3% in the last five years. The growth in net premium written was driven primarily by other liability and products liability lines.

Underwriting expense ratio has been decreasing steadily in the last five years, from 51.3% in 2014 to 40.6% in 2019. The decrease is attributed to growth in net writing premium, which has been disproportionally faster than growth in underwriting expenses.

Reconciliation of Surplus per Examination

No adjustments were made to surplus as a result of the examination. The amount of surplus reported by the company as of December 31, 2019, is accepted.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were two specific comments and recommendations in the previous examination report. Comments and recommendations contained in the last examination report and actions taken by the company are as follows:

1. Investments—It is recommended that the company revise its custodial agreement to include the guideline provisions contained in the NAIC's *Financial Condition Examiners Handbook.*

   Action—Compliance.

2. Unclaimed Funds—It is recommended that the company remit all applicable unclaimed funds over five years old to the Wisconsin Department of Revenue in accordance with the requirements included in ch. 177, Wis. Stat.

   Action—Compliance.

Summary of Current Examination Results

There were no recommendations made as a result of this examination.

VIII. CONCLUSION

Premium growth was steady over the five year examination period, with net premium written growth of 79.1%. Surplus increased steadily during the examination period by 21.3%, with the largest increase of $31.0 million reported in 2017. Admitted assets grew 55% during the last five years, to reach $717.2 million on December 31, 2019, compared to $462.4 million on December 31, 2014.

The company posted mixed financial results over the examination period with a net income in all five years, and underwriting losses in three out of the five years under examination. The examination of Capitol Indemnity Corporation did not result in any recommendation. No adjustments to surplus or reclassifications were made as a result of this examination.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

There were no recommendations made as a result of this examination.

X. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company are acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

Name	Title
Nicholas Barsuli	Insurance Financial Examiner
Gabriel Gorske, AFE	Insurance Financial Examiner
Eleanor Lu, CISA	IT Specialist
Nicholas Hartwig	Quality Control Specialist
Jerry DeArmond, CFE	Reserve Specialist

Respectfully submitted,

Vickie Ostien

Vickie Ostien
Examiner-in-Charge

XI. SUBSEQUENT EVENT

On March 11, 2020, the World Health Organization declared the coronavirus disease (COVID-19) a pandemic. As of the date of this report, there is still significant uncertainty on the effect that the pandemic will have on the insurance industry, economy, and society at large. The examination's review of the impact to the company through April 2021 noted that there has not been a significant impact to the company overall; however, due to various uncertainties with the pandemic, it is unclear whether this will continue to have a minimal impact to the company or if it will escalate. The Office of the Commissioner of Insurance will continue to monitor how the pandemic might impact the company.