

STATE OF INDIANA)
) SS: BEFORE THE INDIANA
COUNTY OF MARION) COMMISSIONER OF INSURANCE

IN THE MATTER OF:)
)
Protective Specialty Insurance Company)
111 Congressional Boulevard, Suite 500)
Carmel, IN 46032)

Examination of: **Protective Specialty Insurance Company**

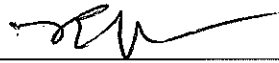
NOTICE OF ENTRY OF ORDER

Enclosed is the Final Order entered by Stephen W. Robertson, Commissioner of the Indiana Department of Insurance, after fully considering and reviewing the Verified Report of Examination of Protective Specialty Insurance Company, any relevant examination work papers, and any written submissions or rebuttals. The Verified Report of Examination, as sent to you on May 21, 2018, has been adopted by the Commissioner.

Pursuant to Ind. Code § 27-1-3.1-12(b), within thirty (30) days of receipt of the Final Order, each director of Protective Specialty Insurance Company shall file an affidavit with the Indiana Department of Insurance stating that he/she has received a copy of the Verified Report of Examination and the Final Order.

The Final Order is a final administrative decision that may be appealed pursuant to Ind. Code § 4-21.5-5.

June 25, 2018
Date


Roy Eft
Chief Financial Examiner

CERTIFIED MAIL NUMBER: 7005 3110 0002 4444 0113

STATE OF INDIANA) BEFORE THE INDIANA
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COUNTY OF MARION) COMMISSIONER OF INSURANCE

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111 Congressional Boulevard, Suite 500)
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Examination of: **Protective Specialty Insurance Company**

FINDINGS AND FINAL ORDER

The Indiana Department of Insurance conducted an examination into the affairs of the Protective Specialty Insurance Company (hereinafter “Company”) for the time period January 1, 2012 through December 31, 2016.

The Verified Report of Examination was filed with the Commissioner of the Department of Insurance (hereinafter “Commissioner”) by the Examiner on January 24, 2018.

A copy of the Verified Report of Examination, along with a Notice of Opportunity to Make Written Submission or Rebuttal, was mailed to the Company via Certified Mail on May 21, 2018 and was received by the Company on May 29, 2018.

The Company did not file any objections.


NOW THEREFORE, based on the Verified Report of Examination, I hereby make the following **FINDINGS**:

1. That the Verified Report of Examination is a true and accurate report of the financial condition and affairs of the Protective Specialty Insurance Company as of December 31, 2016.
2. That the Examiner’s Recommendations are reasonable and necessary in order for the Protective Specialty Insurance Company to comply with the laws of the State of Indiana.

Based on the FINDINGS, the Commissioner does hereby ORDER:

1. Pursuant to Ind. Code § 27-1-3.1-11(a)(1), the Verified Report of Examination is adopted and shall be filed. Hereafter the Verified Report of Examination, may constitute prima facie evidence of the facts contained therein in any action or proceeding taken by the Indiana Department of Insurance against the Company, its officers, directors, or agents.
2. The Company shall comply with the Examiner's Recommendations enumerated in summary form and throughout the text of the Verified Report of Examination. A written response to these recommendations should be provided to the Department within 30 days of receipt of this order.
3. Compliance with the Examiner's recommendations shall be completed on or before the filing of the subsequent annual statement. In the event it is not feasible to comply with a recommendation before the filing of the subsequent annual statement, the Company shall submit a written explanation as to why it was not feasible with the filing of the annual statement.

Signe this 25 day of June, 2018.

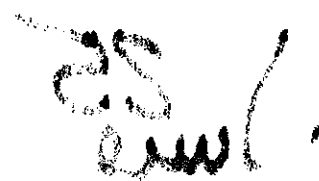

Stephen W. Robertson
Insurance Commissioner
Indiana Department of Insurance

ABOUT AFFIRMATIONS

The following pages for affirmations need to be signed by each Board Member and returned to the Indiana Department of Insurance within thirty (30) days in accordance with I.C. §27-1-3.1-12(b).

If your affirmations list individuals that are no longer on your Board of Directors, you may simply retype the form on plain white paper with the correct names and a line to the right for signature. If the names are misspelled, you may do the same, simply re-type the corrected form with a line to the right for signature.

Should you have any questions or difficulties with these forms or you require additional time past the thirty (30) day requirement, please do not hesitate to contact this department at (317) 232-2390.

A handwritten signature in black ink, appearing to be "Michael J. ...".A handwritten signature in black ink, appearing to be "J. ...".

STATE OF INDIANA
Department of Insurance
REPORT OF EXAMINATION
OF

PROTECTIVE SPECIALTY INSURANCE COMPANY

NAIC Co. CODE 13149
NAIC GROUP CODE 0867

As of

December 31, 2016

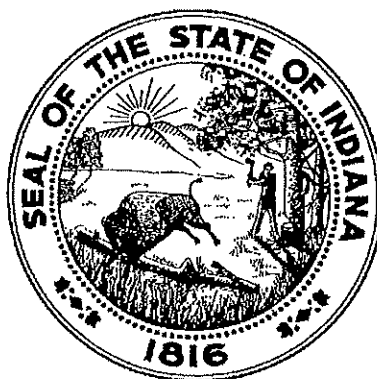


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STATE OF INDIANA

ERIC J. HOLCOMB, GOVERNOR

Indiana Department of Insurance

Stephen W. Robertson, Commissioner
311 W. Washington Street, Suite 103
Indianapolis, Indiana 46204-2787
Telephone: 317-232-2385
Fax: 317-232-5251
Website: in.gov/idoi

January 24, 2018

Honorable Stephen W. Robertson, Commissioner
Indiana Department of Insurance
311 West Washington Street, Suite 300
Indianapolis, Indiana 46204-2787

Dear Commissioner:

Pursuant to the authority vested in Appointment Number 3942, an examination has been made of the affairs and financial condition of:

**Protective Specialty Insurance Company
111 Congressional Boulevard
Suite 500
Carmel, Indiana 46032**

hereinafter referred to as the "Company", or "PSIC", an Indiana domestic stock, property and casualty insurance company. The examination was conducted at the corporate offices of the Company in Carmel, Indiana.

The Report of Examination, reflecting the status of the Company as of December 31, 2016, is hereby respectfully submitted.

ACCREDITED BY THE NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

AGENCY SERVICES 317-232-2413	COMPANY COMPLIANCE 317-232-3495	CONSUMER SERVICES 317-232-2395/1-800-622-4461	FINANCIAL SERVICES 317-232-2390	MEDICAL MALPRACTICE 317-232-2402	COMPANY RECORDS 317-232-5692	STATE HEALTH INSURANCE PROGRAM 1-800-452-4800
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SCOPE OF EXAMINATION

The Company was last examined by representatives of the Indiana Department of Insurance (INDOI), and covered the period from January 1, 2007 through December 31, 2011. The present risk-focused examination was conducted by Noble Consulting Services, Inc., and covered the period from January 1, 2012 through December 31, 2016, and included any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

The examination was conducted in accordance with the NAIC *Financial Condition Examiners Handbook* (Handbook). The Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company, and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

Tony Alfieri, ACAS, MAAA, of Merlinos & Associates, Inc., provided all actuarial services throughout the examination and conducted a review of the Company's actuarial related risks as of December 31, 2016.

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

This examination report includes significant findings of fact, as in the Indiana Code (IC) 27-1-3.1-10 and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the Company.

HISTORY

PSIC was incorporated on May 1, 2008, and is wholly owned by Protective Insurance Company (PIC). The Company functions primarily as a surplus lines writer for non-traditional trucking coverages.

CAPITAL AND SURPLUS

As of December 31, 2016, the Company had 60,000 common shares authorized, issued, and outstanding, with a par value of \$100 each. PSIC has no preferred stock authorized, issued, or outstanding. All issued and outstanding common shares have been owned by PIC throughout the examination period.

DIVIDENDS TO STOCKHOLDERS

The Company paid no dividends during the examination period.

TERRITORY AND PLAN OF OPERATION

PSIC is a surplus lines writer and underwrites “unique risks” faced by its clients. During 2012, PSIC’s business plans focused on two (2) business lines – Florida business-owners’ policies (BOP) and miscellaneous professional liability errors and omissions coverages. The BOP business was being fronted by Sagamore Insurance Company (SIC) and 100% ceded to PSIC. Due to potential catastrophe exposures, this business was heavily reinsured. Effective December 31, 2012, the BOP line was discontinued with runoff continuing through 2014. PSIC is a direct writer of selected professional liability products through wholesale and retail agents on both an admitted and surplus lines basis throughout the U.S., specializing in smaller insureds. In the fourth quarter of 2016, the Company discontinued its professional liability line of products. Some professional liability products will renew in 2017 as required by state regulations and existing policies will remain in-force through 2017.

GROWTH OF THE COMPANY

The following exhibit summarizes the financial results of the Company during the examination period:

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Surplus and Other Funds</u>	<u>Premiums Earned</u>	<u>Net Income</u>
2016	\$ 68,355,593	\$ 8,292,810	\$ 60,062,783	\$ 1,399,351	\$ 682,114
2015	69,123,765	9,653,378	59,470,387	1,489,647	212,910
2014	74,471,281	15,317,662	59,153,619	4,127,945	518,858
2013	79,480,593	20,704,924	58,775,669	8,607,298	436,385
2012	87,778,786	29,321,879	58,456,907	16,474,754	2,529,552

Bonds are the largest asset of the Company and have decreased during the examination period, to \$57.4 million or 84% of admitted assets. In 2016, the equity portfolio was completely liquidated for reallocation due to a change in asset manager. Liabilities and premiums decreased during the examination period due to PSIC discontinuing its Florida BOP line of business as of December 31, 2012. This business was in runoff through the end of 2014. The decrease in net income and improvement in surplus during the examination period is also due to the discontinuance of the BOP line.

MANAGEMENT AND CONTROL

Directors

The Bylaws provide that the business affairs of the Company are to be managed by a Board of Directors (Board) consisting of no less than seven (7) and no more than twelve (12) directors. At least one (1) of the directors must be a resident of Indiana. The shareholders, at each annual meeting, elect the members of the Board.

The following is a listing of directors as of December 31, 2016, and their principal occupations as of that date:

Name and Address	Principal Occupation
W. Randall Birchfield Carmel, Indiana	President and Chief Executive Officer Baldwin & Lyons, Inc.
Michael J. Case Zionsville, Indiana	Executive Vice President and Chief Operating Officer Baldwin & Lyons, Inc.
Michael B. Edwards Avon, Indiana	Treasurer Baldwin & Lyons, Inc.
Jeremy F. Goldstein Indianapolis, Indiana	Senior Vice President, Claims and General Counsel Baldwin & Lyons, Inc.
John E. Mitchell Indianapolis, Indiana	Chief Risk Officer Baldwin & Lyons, Inc.
Tonya S. Peacock Fishers, Indiana	Vice President, Human Resources Baldwin & Lyons, Inc.
William C. Vens Zionsville, Indiana	Chief Financial Officer Baldwin & Lyons, Inc.
Sally B. Wignall Indianapolis, Indiana	Vice President, Legal, and Secretary Baldwin & Lyons, Inc.

Officers

The Bylaws state that the elected officers of the Company shall consist of a Chairman, a Chief Executive Officer, a President, one (1) or more Executive Vice Presidents, one (1) or more Senior Vice Presidents, one (1) or more Vice Presidents, a Secretary, a Treasurer, and such assistant officers as the Board shall designate. Any two (2) or more offices may be held by the same person, except that the duties of the President and Secretary shall not be performed by the same person. Each officer (other than assistant officers) of the corporation shall be elected annually by the Board at its annual meeting and shall hold office for a term of one (1) year.

The following is a list of key officers and their respective titles as of December 31, 2016:

<u>Name</u>	<u>Office</u>
W. Randall Birchfield	Chairman, President, and Chief Executive Officer
Michael J. Case	Executive Vice President and Chief Operating Officer
Michael B. Edwards	Chief Accounting Officer
John E. Mitchell	Chief Risk Officer
Jeremy F. Goldstein	Senior Vice President, Claims and General Counsel
William C. Reid	Executive Vice President, Programs
Tonya S. Peacock	Vice President, Human Resources
Matthew A. Thompson	Executive Vice President, Sales and Marketing
William C. Vens	Vice President, Chief Financial Officer
Sally B. Wignall	Vice President, Legal, and Secretary
Ronald A. Goshen	Treasurer

OATH OF OFFICE

IC 27-1-7-10(i) stipulates that every director, when elected, shall take and subscribe to an oath stating that he or she will faithfully, honestly, and diligently administer the affairs of the Company and will not knowingly violate any of the laws applicable to such Company. It was determined that all directors listed in the Management and Control section of this Report of Examination have subscribed to an oath as of December 31, 2016.

CORPORATE RECORDS

Articles of Incorporation

There were no amendments made to the Articles of Incorporation during the examination period.

Bylaws

PSIC's Bylaws were amended in May 2014 to reflect the move of the Company's principal office. In addition, the Bylaws were amended in August 2015 to change the number of directors to as many as twelve (12), but no less than seven (7) directors.

Minutes

The Board and shareholders meeting minutes were reviewed for the period under examination through the fieldwork date. Significant actions taken during each meeting were noted.

The Corporation committee meeting minutes for the examination period, and through the fieldwork date, were reviewed for the Audit Committee and Investment Committee.

AFFILIATED COMPANIES

Organizational Structure

The following organizational chart shows the Company's parent and affiliates as of December 31, 2016:

	NAIC Co. Code	Domiciliary State/Country
Baldwin & Lyons, Inc.		IN
B&L Insurance, Ltd.		BMU*
Protective Insurance Company	12416	IN
Sagamore Insurance Company	40460	IN
Protective Specialty Insurance Company	13149	IN
B&L Brokerage Services, Inc.		IN
Transport Specialty Insurance Agency, Inc.		MI
B&L Management, Inc.		IN

* Affiliate is licensed in Bermuda.

Affiliated Agreements

The following affiliated agreements and transactions were disclosed as part of the Form B – Holding Company Registration Statement and were filed with the INDOI, as required, in accordance with IC 27-1-23-4.

Parental Guaranty Agreement

Effective January 1, 2010, PIC and PSIC have entered into a Parental Guaranty Agreement whereby PIC guarantees the financial performance of PSIC's undisputed liabilities and/or obligations and ensures funds are available for policyholders..

Expense Allocation Agreement

Under an Amended and Restated Intercompany Expense Allocation Agreement dated January 1, 2014, Baldwin & Lyons (B&L) serves as common paymaster for all companies in the group and any shared expenses paid at the holding company level are allocated to each operating company in the group. On October 23, 2015, the INDOI reviewed and non-disapproved the agreement. In 2016, PSIC paid B&L \$577,199 under this agreement.

Building Occupancy Expense Allocation Agreement

PIC owns the home office building utilized by all members of the consolidated group. Allocations of occupancy expenses are made between PIC and PSIC in accordance with an Amended and Restated Intercompany Building Occupancy Expense Allocation Agreement dated January 1, 2014. On October 23, 2015, the INDOI reviewed and non-disapproved the agreement. In 2016, PSIC reimbursed PIC \$43,354 under this agreement.

Consolidated Tax Allocation Agreement

All companies in the group are parties to federal and state Consolidated Tax Allocation Agreements, under which current taxes are allocated based on the amount each company would have paid had separate returns been filed.

Reinsurance Agreements

See the "Reinsurance" section of this Report of Examination for further information regarding affiliated reinsurance agreements.

FIDELITY BOND AND OTHER INSURANCE

The Company protects itself against loss from any fraudulent or dishonest acts by any employees through a fidelity bond issued by Travelers Casualty and Surety Company of America. The bond has blanket coverage of \$3,000,000 with a \$100,000 deductible. The fidelity bond is adequate to meet the prescribed minimum coverage specified by the NAIC.

The Company had additional types of coverage in-force as of December 31, 2016, including but not limited to directors and officers liability, employment practices liability, general liability, property liability, and workers' compensation liability.

PENSION, STOCK OWNERSHIP, AND INSURANCE PLANS

B&L maintains a defined contribution Employee Salary Savings and Profit Sharing Plan (the "401k Plan"). The Company's allocation for contribution to the 401k Plan is based on the Intercompany Expense Allocation Agreement, described in the Affiliated Agreements section of this Report of Examination. The Company's expense allocations for contributions to the 401k Plan were \$22,000 and \$16,700 for 2016 and 2015, respectively.

SPECIAL AND STATUTORY DEPOSITS

The Company reported the following special and statutory deposits at December 31, 2016:

<u>State</u>	<u>Book Value</u>
For All Policyholders:	
Indiana	\$ 2,119,135
All Other Special Deposits:	
Kentucky	617,680
Massachusetts	710,000
New Mexico	110,171
New York	<u>2,500,000</u>
Total Deposits	<u>\$6,056,986</u>

REINSURANCE

The Company has no intercompany pooling arrangements; however, the following reinsurance agreements are in place:

Effective March 14, 2009, SIC cedes certain risks to PSIC. In 2016, SIC ceded earned premium to PSIC of \$0 and PSIC incurred \$2,309,579 for losses and expenses under this agreement.

Effective December 1, 2009, PIC and SIC cede certain risks to PSIC. In 2016, SIC ceded premium of \$158,819 to PSIC and PSIC incurred \$166,349 in losses and expenses under this agreement. In addition, PIC ceded premium of \$2,909,067 to PSIC and PSIC incurred \$943,449 in losses and expenses under this agreement.

Effective October 1, 2010, PIC and SIC indemnify PSIC for certain losses and expenses. In 2016, PSIC ceded \$0 to PIC and SIC, and PIC and SIC reimbursed PSIC \$0 for losses and expenses under this agreement.

Effective January 1, 2013, PIC indemnifies PSIC for certain losses and expenses. In 2016, PIC reimbursed PSIC \$1,827,540 for losses and expenses under this agreement.

ACCOUNTS AND RECORDS

The Company's accounting procedures, practices, account records, and supporting data were reviewed and tested to the extent deemed necessary. The trial balances prepared from the Company's general ledger for the years ended December 31, 2015 and December 31, 2016, were agreed to the respective Annual Statements. The Annual Statements for the years ended December 31, 2012 through December 31, 2016 were agreed to each year's independent audit report without material exception. The Company's accounting procedures, practices, and account records were deemed satisfactory.

PROTECTIVE SPECIALTY INSURANCE COMPANY

Assets

As of December 31, 2016

	<u>Per Examination*</u>
Bonds	\$ 57,444,581
Cash, cash equivalents and short-term investments	3,790,891
Receivables for securities	<u>4,210,271</u>
Subtotals, cash and invested assets	65,445,743
Investment income due and accrued	445,515
Premiums and considerations:	
Uncollected premiums and agents' balances in course of collection	537,984
Reinsurance:	
Amounts recoverable from reinsurers	1,741,610
Net deferred tax asset	<u>184,741</u>
Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts	68,355,593
Total	<u>\$ 68,355,593</u>

* There were no adjustments to the as-filed financial statements, therefore the Annual Statement amounts agree to the examination amounts.

PROTECTIVE SPECIALTY INSURANCE COMPANY
 Liabilities, Surplus and Other Funds
 As of December 31, 2016

	Per Examination*
Losses	\$ 5,450,937
Reinsurance payable on paid losses and loss adjustment expenses	1,786,490
Loss adjustment expenses	739,205
Commissions payable, contingent commissions and other similar charges	(831,527)
Other expenses	161,512
Taxes, licenses and fees	(12,946)
Current federal and foreign income taxes	62,832
Unearned premiums	670,127
Ceded reinsurance premiums payable	162,478
Remittances and items not allocated	60,274
Payable to parent, subsidiaries and affiliates	43,354
Aggregate write-ins for liabilities	74
Total liabilities excluding protected cell liabilities	8,292,810
Total liabilities	8,292,810
Common capital stock	6,000,000
Gross paid in and contributed surplus	48,000,000
Unassigned funds (surplus)	6,062,783
Surplus as regards policyholders	60,062,783
Totals	\$ 68,355,593

* There were no adjustments to the as-filed financial statements, therefore the Annual Statement amounts agree to the examination amounts.

PROTECTIVE SPECIALTY INSURANCE COMPANY
Statement of Income
For the Year Ended December 31, 2016

	<u>Per Examination*</u>
UNDERWRITING INCOME	
Premiums earned	\$ 1,399,351
DEDUCTIONS	
Losses incurred	259,037
Loss adjustment expenses incurred	655,763
Other underwriting expenses incurred	559,185
Total underwriting deductions	1,473,985
Net underwriting gain (loss)	(74,634)
INVESTMENT INCOME	
Net investment income earned	718,053
Net realized capital gains (losses) less capital gains tax	65,989
Net investment gain (loss)	784,042
Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	709,408
Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	709,408
Federal and foreign income taxes incurred	27,294
Net income	\$ 682,114

* There were no adjustments to the as-filed financial statements, therefore the Annual Statement amounts agree to the examination amounts.

PROTECTIVE SPECIALTY INSURANCE COMPANY
Capital and Surplus Account Reconciliation

	2016	2015	2014	2013	2012
Surplus as regards policyholders, December 31 prior year	\$ 59,470,387	\$ 59,153,619	\$ 58,775,669	\$ 58,456,907	\$ 56,475,674
Net income	682,114	212,910	518,858	436,385	2,529,552
Change in net unrealized capital gains or (losses) less capital gains tax	(74,802)	98,559	(103,823)	76,625	3,442
Change in net deferred income tax	(126,418)	(34,857)	(187,070)	(313,583)	(317,725)
Change in nonadmitted assets	111,502	40,156	149,985	119,335	(234,036)
Change in surplus as regards policyholders for the year	592,396	316,768	377,950	318,762	1,981,233
Surplus as regards policyholders, December 31 current year	<u>\$ 60,062,783</u>	<u>\$ 59,470,387</u>	<u>\$ 59,153,619</u>	<u>\$ 58,775,669</u>	<u>\$ 58,456,907</u>

COMMENTS ON THE FINANCIAL STATEMENTS

There were no recommended adjustments to the financial statements as of December 31, 2016, based on the results of this examination.

OTHER SIGNIFICANT ISSUES

There were no significant issues as of December 31, 2016, based on the results of this examination.

SUBSEQUENT EVENTS

There were no events subsequent to the examination date and prior to the completion of fieldwork which were considered material events requiring disclosure in this Report of Examination.

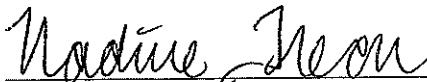
AFFIDAVIT

This is to certify that the undersigned is a duly qualified Examiner-in-Charge appointed by the Indiana Department of Insurance and that she, in coordination with staff assistance from Noble Consulting Services, Inc. and actuarial assistance from Merlinos & Associates, Inc., performed an examination of Protective Specialty Insurance Company, as of December 31, 2016.

The Indiana Department of Insurance is accredited under the National Association of Insurance Commissioners Financial Regulation Accreditation Standards.

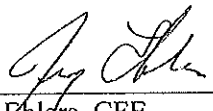
This examination was performed in accordance with those procedures required by the NAIC Financial Condition Examiners Handbook and other procedures tailored for this examination. Such procedures performed on this examination do not constitute an audit made in accordance with generally accepted auditing standards and no audit opinion is expressed on the financial statements contained in this report.

The attached Report of Examination is a true and complete report of condition of Protective Specialty Insurance Company as of December 31, 2016, as determined by the undersigned.



Nadine Treon, CFE
Noble Consulting Services, Inc.

Under the supervision of,



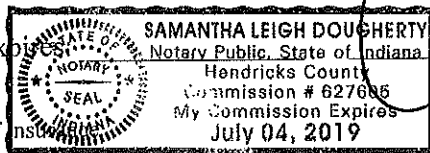
Jerry Ehlers, CFE
Indiana Department of Insurance

State of: Indiana
County of: Marion

On this 24 day of January, 2018, before me personally appeared, Nadine Treon and Jerry Ehlers, to sign this document.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my notarial seal in said County and State, the day and year last above written.

My commission expires



Notary Public

Indiana Department of Insurance
NAIC Accredited

14

Protective Specialty Insurance Company
Financial Examination as of 12/31/2016

