

**STATE OF NORTH DAKOTA  
BISMARCK, NORTH DAKOTA**

**REPORT OF EXAMINATION**

**OF**

**GREAT DIVIDE INSURANCE COMPANY  
BISMARCK, NORTH DAKOTA**

**AS OF  
DECEMBER 31, 2018**

STATE OF NORTH DAKOTA  
INSURANCE DEPARTMENT

I, the undersigned, Commissioner of Insurance of the State of North Dakota, do hereby certify  
that I have compared the annexed copy of the Report of Examination of the

**Great Divide Insurance Company**

**Bismarck, North Dakota**

as of December 31, 2018, with the original on file in this Department and that the same is a  
correct transcript therefrom and of the whole of said original.




IN WITNESS WHEREOF, I have hereunto

set my hand and affixed my official seal at my

office in the City of Bismarck, this 18<sup>th</sup> day of

May, 2020.

  
\_\_\_\_\_  
Jon Godfread  
Insurance Commissioner

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Bismarck, North Dakota  
April 7, 2020

Honorable Jon Godfread  
Commissioner of Insurance  
State of North Dakota  
600 East Boulevard Avenue, Dept. 401  
Bismarck, ND 58505

Dear Commissioner:

Pursuant to your instructions and statutory requirements, a financial examination has been made of the books, records and financial condition of

**Great Divide Insurance Company**

Statutory Home Office  
120 W Sweet Ave  
Bismarck, ND 58504-5566

Administrative Offices  
11201 Douglas Avenue  
Urbandale, Iowa 50322-3707

Great Divide Insurance Company, hereinafter referred to as the "Company", was last examined as of December 31, 2013, by Examiners representing the North Dakota Insurance Department, hereinafter referred to as the "Department".

The present examination was conducted as of December 31, 2018, by representatives of the Department.

**SCOPE OF EXAMINATION**

This examination was a multi-state, risk focused financial condition examination conducted in accordance with North Dakota Century Code ("N.D.C.C.") § 26.1-03-19.3 and observed guidelines and procedures contained in the NAIC Financial Condition Examiners Handbook. The examination was conducted to determine the Company's financial condition, its compliance with statutes, and to review the corporate affairs and insurance operations. The last examination covered the period of January 1, 2010, to December 31, 2013. This examination covers the period of January 1, 2014 through December 31, 2018, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of this statutory examination.

The examination was conducted in accordance with examination policies and standards established by the Department and procedures recommended by the National Association of Insurance Commissioners ("NAIC"). In accordance with the NAIC *Financial Condition Examiners Handbook*, the examination was planned and performed 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. The examination also

included identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles.

The examination does not attest to the fair presentation of the financial statements included herein. Statements were prepared by management and are therefore the responsibility of management. 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.

Concurrent examinations were made of the following W.R. Berkley Corporation ("WRBC") affiliated property and casualty insurance companies ("Group") that are direct writers.

<u>Company Name</u>	<u>NAIC Number</u>	<u>State of Domicile</u>
Acadia Insurance Company	31325	IA
Admiral Indemnity Company	44318	DE
Admiral Insurance Company	24856	DE
American Mining Insurance Company	15911	IA
Berkley Assurance Company	39462	IA
Berkley Insurance Company	32603	DE
Berkley National Insurance Company	38911	IA
Berkley Regional Insurance Company	29580	IA
Berkley Specialty Insurance Company	31295	DE
Carolina Casualty Insurance Company	10510	IA
Clermont Insurance Company	33480	IA
Continental Western Insurance Company	10804	IA
Fireman's Insurance Company of Wash D.C	21784	DE
Gemini Insurance Company	10833	DE
Great Divide Insurance Company	25224	ND
Intrepid Insurance Company	10749	IA
Key Risk Insurance Company	10885	IA
Midwest Employers Casualty Company	23612	DE
Nautilus Insurance Company	17370	AZ
Preferred Employers Insurance Company	10900	CA
Riverport Insurance Company	36684	IA
Starnet Insurance Company	40045	IA
Tri-State Insurance Company of Minnesota	31003	IA
Union Insurance Company	25844	IA
Union Standard Lloyds	43435	TX

INS Consultants, Inc. performed an independent reserve analysis on a group basis for the companies shown above. The information system review for the group was performed by INS Services, LLC.

## **STATUS OF PRIOR EXAMINATION FINDINGS**

There were no examination findings in the preceding Report on Examination which covered the period from January 1, 2010, to December 31, 2013.

## **SUMMARY OF SIGNIFICANT FINDINGS**

There were no material adverse findings or material changes in the financial statements.

## **SUBSEQUENT EVENTS**

No significant subsequent events were noted during the examination.

## **HISTORY**

### **General**

The Company was originally incorporated on April 10, 1903, under the laws of the State of North Dakota by the Retail Dealers Association of North Dakota and Northern Minnesota. The Company began operations on May 15, 1903, as the Implement Dealers Mutual Fire insurance Company. In 1949 the Company changed its name to the Implement Dealers Mutual Insurance Company. Effective June 1, 1986, the Company was converted from a mutual to a stock company, which was incorporated on April 29, 1986, and the name changed to American West Insurance Company. On May 20, 1988, Tri-State Insurance Company of Minnesota, a wholly owned subsidiary of WRBC, acquired American West Insurance Company. On June 13, 1991, the Company's name was changed to Great Divide Insurance Company.

Effective July 1, 1991, Nautilus Insurance Company ("NIC") acquired ownership of the Company. NIC is a wholly owned subsidiary of Admiral Insurance Company ("ADIC"), an Iowa corporation, is a wholly owned subsidiary of WRBC.

Effective January 1, 2013, ADIC acquired direct ownership of the Company. This ownership change was associated with an intercompany pooling reorganization.

Effective September 30, 2013, Berkley Insurance Company ("BIC"), a Delaware company, acquired ownership of the Company.

The Company's primary purpose is to engage in the business of property and casualty insurance.

## **Capital Stock**

The Company's Amended and Restated Articles of Incorporation authorize the Company to issue 6,000,000 shares of common capital stock with a par value of \$1.00 per share for a total capital paid up of \$6,000,000.

Effective January 1, 2013, ownership of the Company was transferred via an ordinary and an extraordinary dividend distribution of the Company's stock from NIC to ADIC. The dividend distributions totaled \$70.1 million. This amount was equal to the Company's surplus as of September 30, 2012.

Effective September 30, 2013, ownership of the Company was transferred via an ordinary and an extraordinary dividend distribution of the Company's stock from ADIC to BIC. The dividend distributions totaled \$66.6 million. This amount was equal to the Company's surplus as of June 30, 2013.

At December 31, 2018, the Company reported all 6,000,000 shares as issued to BIC.

## **MANAGEMENT AND CONTROL**

### **Board of Directors**

The Bylaws provide that the number of directors shall be established by the Board of Directors or by action of the stockholders but shall not be less than seven. Directors shall be elected at the annual meeting of the stockholders and each director shall serve until his successor is elected and qualified.

Directors serving at December 31, 2018, were as follows:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Richard M. Baio West Harrison, New York	Senior Vice President - Treasurer W. R. Berkley Corporation
William R. Berkley, Jr. Greenwich, Connecticut	President – Chief Executive Officer W. R. Berkley Corporation
Paul J. Hancock Brookfield, Connecticut	Senior Vice President – Chief Actuary W. R. Berkley Corporation
Carol J. LaPunzina Demarest, New Jersey	Senior Vice President – Human Resources W. R. Berkley Corporation
Ira S. Lederman Bedford, New York	Executive Vice President – Secretary W. R. Berkley Corporation
Matthew M. Ricciardi Port Washington, New York	Senior Vice President – General Counsel W. R. Berkley Corporation

James G. Shiel  
Pound Ridge, New York

Executive Vice President – Investments  
W. R. Berkley Corporation

### **Officers**

The Bylaws provide that the elected officers of the Company shall be a President, a Vice President, a Treasurer, and a Secretary.

The principal officers elected and serving at December 31, 2018, were as follows:

<u>Name</u>	<u>Title</u>
William Robert Berkley Jr.	President
Richard Mark Baio	Treasurer
Ira Seth Lederman	Secretary

## **CORPORATE RECORDS**

### **Conflict of Interest**

The Company has an established procedure for annual disclosure to its board of directors of any material conflict of interest or affiliation on the part of its officers, directors or key employees which is in, or likely to, conflict with the official duties of such person.

### **Board of Directors, Stockholders and Committee Minutes**

The minutes of the Board of Directors and stockholder meetings for the period under examination were read and no exceptions were noted. As the meeting minutes of Executive and Investment Committees are not maintained by the Group and all the other relevant committees are at the W.R. Berkley level, no committee minutes were reviewed for the exam period.

### **Articles of Incorporation and Bylaws**

There were no amendments to the Bylaws or Articles of Incorporation during the period under examination.



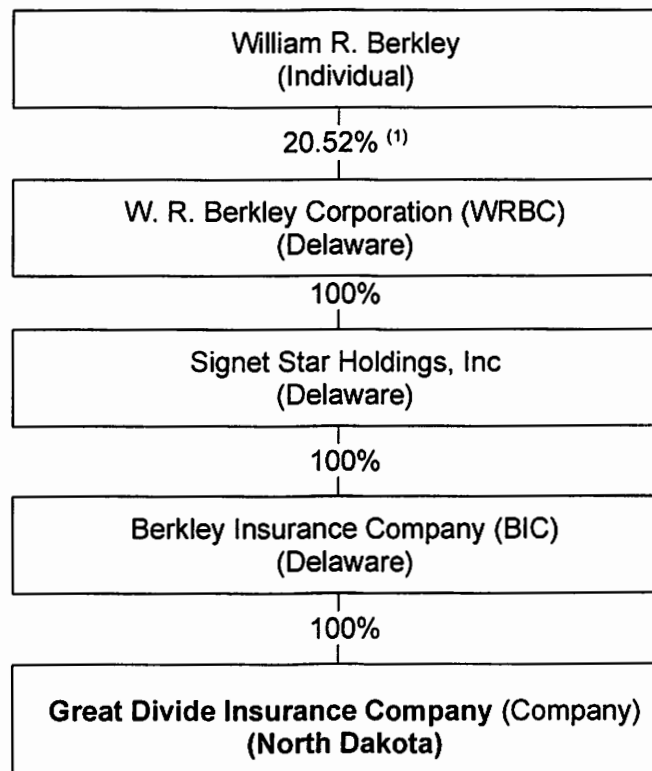
## AFFILIATED COMPANIES

### General

The Company is wholly owned by BIC, a Delaware domiciled insurer, which is wholly owned by WRBC.

### Organizational Chart

An abridged organizational chart listing the Holding Company System in which the Company is a member as of December 31, 2018, is as follows:



- (1) It was noted in a Securities and Exchange Commission (SEC) filing that as of December 31, 2018, William R. Berkley beneficially owned or controlled 25,034,263 common shares of W.R. Berkley Corporation (WRBC), which is publicly-traded on the New York Stock Exchange under the symbol WRB. According to the 2018 WRBC Annual Report, there were 121,995,760 outstanding shares on December 31, 2018. This results in a 20.52% economic interest and a 20.52% voting control that William R. Berkley has of WRBC. Consequently, William R. Berkley is considered the ultimate controlling entity of the Company.

## **INTERCOMPANY AGREEMENTS**

The Company does not have any direct employees. All services used by the Company are provided by BIC through an intercompany pooling agreement. See the description of the intercompany pooling agreement in the reinsurance section of this report. The Company had the following significant related party agreements in force:

### **Investment Advisory Agreement**

Effective April 5, 1996, the Company entered into an Investment Advisory Agreement with Berkley Dean & Company (Berkley Dean), an affiliate, whereby Berkley Dean is appointed the Company's investment advisor and manager with authority to supervise and direct the investment and reinvestment of its securities in accordance with the Company's investment objectives. The securities under management by Berkley Dean are held in a custodial account maintained by JP Morgan Chase pursuant to a Custodial Agreement with the Company. Advisory fees are paid quarterly at an annual rate of not less than 0.15 of one percent based on a sliding scale of assets under management. The agreement can be terminated by either party with at least 90 days written notice prior to each anniversary.

### **Consolidated Federal Income Tax Allocation Agreement**

On May 19, 1988, the Company entered into a Tax Allocation Agreement with W. R. Berkley Corporation providing for the allocation of the tax liability reported on the consolidated federal income tax return of WRBC. The Company's tax liability is calculated on a stand-alone basis. Payments due under the agreement are made quarterly on or before the forty-fifth day following each calendar quarter. If at any quarterly payment date, the Company has a credit balance outstanding which has been outstanding for more than one year, WRBC shall pay any credit amount to the Company. The payment may be deferred for a period not to exceed three years provided WRBC issues a note evidencing the obligation with interest.

## **FIDELITY BOND AND OTHER INSURANCE**

The Company is insured under a blanket fidelity bond issued to WRBC and its subsidiaries. The bond provides coverage in the amount of \$15 million for individual claims and \$15 million for all claims. The coverage exceeds the NAIC's recommended minimum amount of fidelity bond coverage for the Company.

The Company does not maintain any other insurance coverage since it has no employees nor does it own any assets other than investments. All operations are performed by affiliates for which the company reimburses them in the form of management fees.

## STATUTORY DEPOSITS

The Company maintained the following deposits at December 31, 2018:

State	Type of Asset	Statement Value	Fair Market Value
Arkansas	Bonds	367,776	421,728
California	Bonds	8,525,540	8,619,026
Delaware	Bonds	100,533	117,902
Georgia	Bonds	85,453	100,217
Idaho	Bonds	238,605	243,283
Massachusetts	Bonds	168,011	190,897
Montana	Bonds	23,861	24,328
Nevada	Bonds	321,105	348,069
New Mexico	Bonds	321,122	359,853
North Carolina	Bonds	327,914	325,998
North Dakota	Bonds	21,405	21,633
Oklahoma	Bonds	331,740	335,556
Oregon	Bonds	1,171,458	1,200,449
Virginia	Bonds	224,750	227,151
Aggregate Alien and Other	Bonds	<u>477,210</u>	<u>486,565</u>
Total Special Deposits		<u>\$12,706,483</u>	<u>\$13,022,655</u>

The Company also maintained the following deposits for the benefit of all policyholders at December 31, 2018:

State	Type of Asset	Statement Value	Fair Market Value
North Dakota	Bonds	<u>2,605,434</u>	<u>2,654,320</u>
Total Deposits for the Benefit Of all Policyholders		<u>\$2,605,434</u>	<u>\$2,654,320</u>

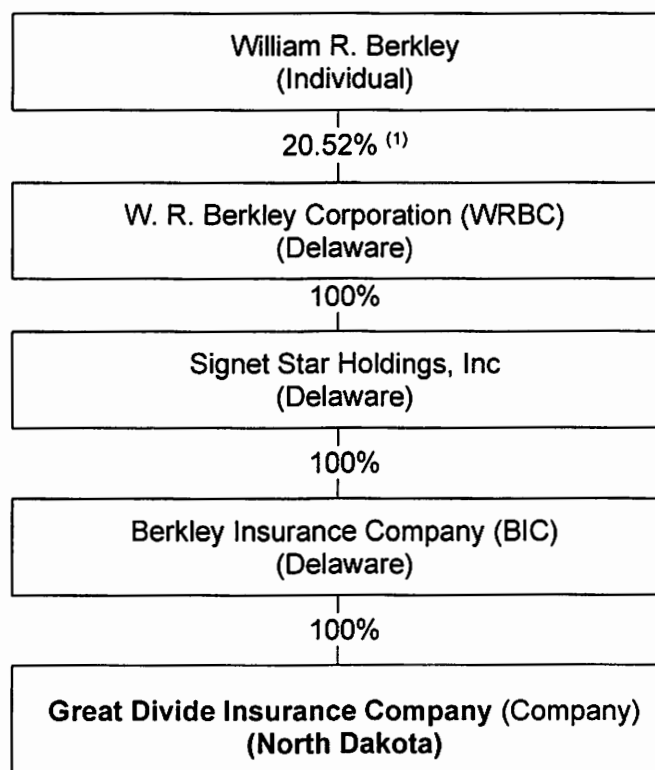
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Massachusetts	Bonds	168,011	190,897
Montana	Bonds	23,861	24,328
Nevada	Bonds	321,105	348,069
New Mexico	Bonds	321,122	359,853
North Carolina	Bonds	327,914	325,998
North Dakota	Bonds	21,405	21,633
Oklahoma	Bonds	331,740	335,556
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## TERRITORY AND PLAN OF OPERATIONS

As of December 31, 2018, the Company was licensed as an admitted carrier in the District of Columbia and all states except Arizona where it is licensed as a surplus lines carrier.

## CEDED REINSURANCE

### Intercompany Reinsurance Pooling Agreement

Effective January 1, 2013, BIC entered into an intercompany reinsurance pooling agreement (Pooling Agreement) with nineteen of its U.S. property casualty insurance company subsidiaries listed below. Under the Pooling Agreement, the participants ceded and transferred to BIC, and BIC assumed and accepted as its own obligation, 100% of the Pool affiliates' respective liabilities on all insurance policies and all assumed reinsurance contracts that were in force as of January 1, 2013, or that had expired or had been terminated or non-renewed as of January 1, 2013; and 100% of the Pool affiliates' respective liabilities on all insurance policies and all assumed reinsurance contracts issued subsequent to January 1, 2013.

A listing of premiums ceded in 2018 by each participating affiliate is shown below (rounded to the nearest thousand):

<u>Pool Affiliate</u>	<u>Premium Ceded</u>
Acadia Insurance Company	\$381,279,000
Admiral Insurance Company	586,622,000
American Mining Insurance Company	57,569,000
Berkley Assurance Company	186,846,000
Berkley National Insurance Company	403,443,000
Berkley Regional Insurance Company	107,036,000
Berkley Specialty Insurance Company	39,337,000
Carolina Casualty Insurance Company	197,941,000
Continental Western Insurance Company	313,435,000
Firemen's Insurance Company of Washington, D.C.	184,504,000
Gemini Insurance Company	438,953,000
Great Divide Insurance Company	437,172,000
Intrepid Insurance Company	12,054,000
Key Risk Insurance Company	45,445,000
Midwest Employers Casualty Company	240,675,000
Nautilus Insurance Company	589,632,000
Riverport Insurance Company	110,364,000
StarNet Insurance Company	421,769,000
Tri-State Insurance Company of Minnesota	118,709,000
Union Insurance Company	<u>305,799,000</u>
Total Assumed Intercompany Pool	<u>\$5,178,584,000</u>

The affiliated companies listed below are not participants in the intercompany reinsurance pooling agreement shown above, but do have a 100% quota share agreement with BIC. Premiums ceded to BIC in 2018, rounded to the nearest thousand are as follows:

<u>Company</u>	<u>Premium Ceded</u>
Admiral Indemnity Company	\$79,213,000
Clermont Insurance Company	21,905,000
Preferred Employers Insurance Company	174,651,000
Union Standard Lloyd's	<u>7,329,000</u>
Total	<u>\$283,098,000</u>

Commercial property and casualty lines of business subject to the pooling include general liability, excess, umbrella, automobile, property, products liability, workers' compensation and professional liability lines. These are written on both a surplus lines and/or admitted basis.

## **ACCOUNTS AND RECORDS**

The Company's accounting procedures, internal controls, and transaction cycles were reviewed during the course of the examination.

The Company is audited annually by an outside firm of independent certified public accountants. The work papers of this firm were made available to the Examiners and were used to the extent deemed appropriate for this examination.

### **Claim Complaints**

N.D.C.C. § 26.1-04-03(10) requires that the Company adopt and implement reasonable standards for the prompt handling of written communications, primarily expressing grievances, received by the Company from insureds or claimants. The Company's complaints logs were reviewed and deemed compliant.

## **FINANCIAL STATEMENTS**

The following pages present a Statement of Assets, Liabilities, Surplus, and Other Funds as of December 31, 2018. This statement is followed by supporting statements and reconciliations presented in the following order:

Statement of Assets, Liabilities, Surplus, and Other Funds, December 31, 2018  
Summary of Income, Year 2018  
Reconciliation of Capital and Surplus, January 1, 2015, through December 31, 2018

These financial statements are based on the statutory financial statements filed by the Company with the North Dakota Insurance Department and present the financial condition of the Company for the period ending December 31, 2018. The accompanying comments on financial statements reflect any examination adjustments to the amounts reported in the annual statement and should be considered and integral part of the financial statements.



**Great Divide Insurance Company**  
**Statement of Assets, Liabilities, Surplus, and Other Funds**  
**as of December 31, 2018**

	<b>Assets</b>	<b>Non-admitted Assets</b>	<b>Net Admitted Assets</b>
Bonds	\$ 77,403,265		\$ 77,403,265
Cash and cash equivalents	998,490		998,490
Investment income due and accrued	666,129		666,129
Uncollected premium and agents balances in the course of collection	71,286,983	\$4,519,548	66,767,435
Deferred premiums, agents balances, and installments booked but not yet due	15,134,038	58,527	15,075,511
Accrued retrospective premiums	121,131,793	7,127,833	114,003,960
Net deferred tax asset	2,445,588	63,973	2,381,615
Guaranty Funds receivable or on deposit	366,594		366,594
Aggregate write-ins:			
Miscellaneous receivable	2,861,790	15,506	2,846,284
<b>Total Assets</b>	<b>\$292,294,671</b>	<b>\$11,785,387</b>	<b>\$280,509,283</b>

**Great Divide Insurance Company**  
**Statement of Assets, Liabilities, Surplus, and Other Funds**  
**as of December 31, 2018**

Losses		\$	0
Reinsurance payable on paid losses and LAE			0
Loss adjustment expenses			0
Commissions payable, contingent commissions and other similar charges			14,759
Other expenses			30,422
Taxes, licenses, and fees			5,600,299
Current federal and foreign income taxes			5,142
Ceded reinsurance premiums payable			204,148,294
Amounts withheld or retained by company			321,954
Payable to parent, subsidiaries, and affiliates			37,871
Payable for securities			61,863
Aggregate write-ins:			
Deferred revenue on investments			70,344
Total Liabilities			<u>\$210,290,948</u>
Common capital stock	\$	6,000,000	
Gross paid-in and contributed surplus		24,895,749	
Unassigned funds (surplus)		<u>39,322,587</u>	
Surplus as regards policyholders			<u>70,218,336</u>
Total			<u>\$280,509,283</u>

**Great Divide Insurance Company  
Underwriting and Investment Exhibit  
for the Year Ended December 31, 2018**

**UNDERWRITING INCOME**

Premiums earned		\$ 0
<b>Deductions</b>		
Losses incurred	\$ 0	
Loss expenses incurred	0	
Other underwriting expenses incurred	0	
Total Underwriting Deductions		0
Net Underwriting Gain or (Loss)		\$ 0

**INVESTMENT INCOME**

Net investment income earned	\$ 2,321,699	
Net realized capital, gains or (losses)	(13,444)	
Net Investment Gain or (Loss)		\$ 2,308,256

**OTHER INCOME**

Net gain from premium balances recovered	\$ (799,971)	
Write-in for other income	799,971	
Total other income		\$ 0

Net income before federal income taxes	\$ 2,308,256	
Federal income taxes incurred	357,716	
Net Income		<u>\$ 1,950,540</u>

**Great Divide Insurance Company**  
**Reconciliation of Capital and Surplus Account**  
**January 1, 2014 through December 31, 2018**

	For years ending				
	2018	2017	2016	2015	2014
Capital and surplus, December 31, prior year	<u>\$69,230,048</u>	<u>\$67,734,393</u>	<u>68,103,252</u>	<u>\$66,909,180</u>	<u>\$65,730,519</u>
Net income	1,950,540	1,507,635	1,352,694	1,821,327	1,940,172
Change in net unrealized capital gain (loss) less capital gains tax	17,196	26,060	9,066	52,229	54,369
Change in net deferred income tax	336,038	(1,834,557)	1,047,540	418,235	(68,638)
Change in non-admitted assets	(1,482,382)	1,796,517	(2,778,158)	(1,029,333)	(747,242)
Write-in for deferred revenue on investment	166,896	0	0	(68,385)	0
Net change in capital and surplus for the year	988,288	1,495,654	(368,858)	1,194,072	1,178,661
Capital and surplus, December 31, current year	<u>\$70,218,336</u>	<u>\$69,230,048</u>	<u>\$67,734,393</u>	<u>\$68,103,252</u>	<u>\$66,909,180</u>

## CONCLUSION


The financial condition of the Company, as of December 31, 2018, as determined by this examination is summarized as follows:

Admitted Assets		<u>\$280,509,283</u>
Total Liabilities	\$210,290,948	
Surplus as Regards Policyholders	<u>70,218,336</u>	
Liabilities, Surplus, and Other Funds		<u>\$280,509,283</u>

Since the last examination conducted as of December 31, 2013, the Company's admitted assets have increased \$91,035,258, its total liabilities have increased \$86,547,445, and its surplus as regards policyholders has increased \$4,487,813.

The courteous cooperation extended by the officers and employees of the Company during the course of the examination is gratefully acknowledged.

Respectfully submitted,

  
Colton Schulz, CFE, CFE  
Supervising Examiner  
North Dakota Insurance Department