

CERTIFICATE

I, KEN SELZER, Commissioner of Insurance of Kansas, do hereby certify that the following and hereto attached is a true copy of

REPORT OF EXAMINATION
OF
BENCHMARK INSURANCE COMPANY
150 LAKE STREET WEST
WAYZATA, MINNESOTA 55391

AS OF
DECEMBER 31, 2016

FILED
JUL 20 2018
KEN SELZER
Commissioner of Insurance

the original of which is now on file and a matter of record in this office.

In Witness Whereof, I, KEN SELZER, Commissioner of Insurance of Kansas, have hereto affixed by signature and the seal of the Commissioner of Insurance, in the city of Topeka, Kansas this 20th day of July, 2018



Ken Selzer

Commissioner of Insurance

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Wayzata, Minnesota
May 21, 2018

Honorable Ken Selzer
Commissioner of Insurance
Kansas Insurance Department
420 SW 9th Street
Topeka, Kansas 66612-1678

Dear Commissioner:

In accordance with your authorization and pursuant to K.S.A. 40-222 – *Examination of condition of company*, an examination has been conducted of the financial condition and business affairs of:

BENCHMARK INSURANCE COMPANY

with its statutory home office at:

**2900 SW WANAMAKER DRIVE, SUITE 204
TOPEKA, KANSAS 66614**

and main administrative office at:

**150 LAKE STREET WEST
WAYZATA, MINNESOTA 55391**

hereinafter referred to as the “Company” or “BIC”. The following report on such examination is respectfully submitted.

SCOPE OF EXAMINATION

The examiners have performed a multi-state financial examination of Benchmark Insurance Company a Kansas domiciled property and casualty insurance company. The last examination covered the four-year period from January 1, 2008 through December 31, 2012. This examination covers the four-year period from January 1, 2013, through December 31, 2016.

The examination was conducted in accordance with the rules, regulations and directives of the Kansas Insurance Department ("Department") and the observed guidelines and procedures contained in the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook* ("Handbook"). The Handbook requires the examiners 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. The examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

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

This examination report includes significant findings of fact, as mentioned in K.S.A. 40-222 - *Examination of Condition of Company*, 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.

Independent Audit Reports

Financial statements of the Company were audited by RSM US LLP for the years ending December 31, 2015, through December 31, 2016. Company financial statements for the years ending December 31, 2013 and 2014 were audited by McGladrey LLP. In each of the years under examination, the auditors concluded the financial statements present fairly, in all material respects, the admitted assets, liabilities and policyholders' surplus of the Company as of December 31, 2016 and the results of its operations and its cash flows for the years then ended in accordance with the accounting practices prescribed or permitted by the Department.

The independent auditor's work papers were reviewed and analyzed by the examiners; whereby significant reliance was placed on select work papers during the course of this examination.

SUMMARY OF SIGNIFICANT FINDINGS

In August 2016, BIC Holdings LLC and Trean Corporation co-signed as borrowers to a \$10,000,000 bank loan. Benchmark Holding Company and Trean Holdings LLC guaranteed this loan to the bank. To support its loan guarantee Benchmark Holding Company provided as security its ownership of thirty eight hundred and fifty shares of BIC common stock and all BIC assets including cash, securities, dividends, and receivables. Trean Holdings LLC's provided similar security interest in all assets and in one thousand (1,000) shares of Class A common stock and ten thousand five hundred shares of Class B Non-Voting shares of common stock. The Company did not disclose the pledging of its common stock in its 2016 Annual Statement – Notes to Financial Statements.

COMPANY HISTORY

Pursuant to K.S.A. 40-901 *et seq.* – *General Provisions Relating to Fire Insurance Companies*, Benchmark Insurance Company was incorporated in the State of Kansas on March 6, 1991, as a for-profit capital stock fire and casualty company, and commenced writing business on April 5, 1991.

On June 10, 1994, the Company merged with National Colonial Insurance Company (NCIC), a Kansas corporation. NCIC emerged as the surviving company, and simultaneously changed its name to Benchmark Insurance Company.

On December 15, 2003, Trean Corporation (“TREAN”), an independent insurance holding company in Minnesota, acquired 100% of BIC’s shares of common stock.

On March 31, 2011, TREAN transferred 100% of the Company’s common stock to Benchmark Holding Company (BHC); thereafter the Company became a wholly owned subsidiary of BHC.

On October 1, 2014, BHC and Altaris Capital Partners (“ACP”) entered into a letter of intent, whereby ACP will provide capital to BHC in order to fund future growth. ACP provided capital of \$28.5 million which was designated for:

ALTARIS CAPITAL PARTNER - INVESTMENT

\$22.572 million	BHC repurchase of outstanding common stock
5.178 million	BHC funding for growth initiatives
0.750 million	Altaris reimbursement for transaction expenses
<u>\$28.500 million</u>	Total initial investment

On July 29, 2015, the Department approved the acquisition and control of the Company by AHP-BHC LLC and BIC Holdings LLC (“BIC Holdings”) through the transfer of all issued and outstanding stock of BHC to BIC Holdings LLC, the new ultimate controlling entity of BHC and the Company. A July 29, 2015 Form A filing, converted BIC

Holdings Class A common stock to non-voting shares and converted Class B common stock to voting shares. Subsequent to the filed Form A, the number of shares held by each voting shareholder was increased. Upon the Department's approval and the transfer of BHC common stock the new shareholders of BIC Holdings LLC are, BHC's historic shareholders at 63.6% and AHP-BHC LLC at 36.4%. BIC Holdings voting stock remained the same as prior to July 29, 2015. As of July 29, 2015, AHP-BHC, LLC became a minority investor owning 36.4% of non-voting equity in BIC Holdings, LLC.

Capital Stock

The articles of incorporation authorize the issuance of sixty thousand (60,000) shares of capital stock, consisting of ten thousand (10,000) shares of common stock with a par value of thirteen hundred (\$1,300) dollars per share and fifty thousand (50,000) shares of preferred stock with a par value of one thousand dollars (\$1,000) per share. As of December 31, 2016, thirty eight hundred and fifty (3,850) shares were issued and outstanding, resulting in total paid-in common capital stock of five million five thousand dollars (\$5,005,000). There were no outstanding issues of preferred stock.

As of December 31, 2016, Benchmark Holding Company owns 100% of the Company's outstanding common stock.

MANAGEMENT AND CONTROL

The bylaws consist of nine (9) articles providing the framework for the operation, management and control of the Company. The bylaws provide that the stockholders will elect the directors at the Company's annual meeting. Each stockholder possessing voting common stock is entitled to one vote for each full-paid share of capital stock. For the election of directors, each shareholder is entitled to as many votes as is equal to the number of owned shares of voting common stock multiplied by the number of directors.

Each stockholder may cast all votes for a single director or allocate their votes among two or more director positions.

The Board of Directors (Board) will consist of no less than two (2) nor more than twenty-five (25) directors. Each director holds office until removal, resignation or death. Any vacant director position(s) may be filled by the remaining directors at the next annual stockholders meeting or until a special stockholder meeting is called to fill the remaining position(s).

The Board will elect from its membership a President and a Vice President, and appoint a Secretary and a Treasurer. The Board may elect a Chairman, and one or more assistant secretaries and assistant treasurers. Two or more offices may be held by the same person, but no officer may execute, acknowledge or verify any instrument in more than one capacity.

The following exhibits identify the members of the Board, Board committees and the officers at December 31, 2016:

Director Name	Position and Employer	
Julie A. Baron	Chief Financial Officer, Trean Corporation	
Martin A. Ericson	Vice President – Underwriting, Trean Corporation	
Daniel E. Fosterling	Senior Vice President, Trean Corporation	
Randall D. Jones	Consultant	
Steven B. Lee	Senior Vice President, Trean Corporation	
Steven C. Novak	Senior Vice President, Trean Corporation	
Andrew M. O'Brien	President, Trean Corporation	
Sean P. Ryan	President, Trean Intermediaries	
Name	Audit Committee	Investment Committee
Julie A. Baron		Member
Martin A. Ericson	Member	
Randall D. Jones	Member	Member
Steven B. Lee	Member	Member

Officer Name	Position
Andrew M. O'Brien	President
Steven B. Lee	Secretary
Julie A. Baron	Chief Financial Officer
Martin A. Ericson	Vice President

Insurance Holding Company System

K.S.A. 40-3301, *et seq.* - *Insurance Holding Companies*, requires a domestic insurer that is part of an insurance holding company system to file appropriate registration statements with the Commissioner of Insurance. The Company has submitted Form "B" and "C" registration statements to the Department for each of the years under examination. A review of the registration statements indicated that the Company is properly reporting items and events as required by statute.

The following organizational chart illustrates the identities and intercompany relationships among insurance and non-insurance companies and the controlling entities thereof, as of December 31, 2016:

Controlling Interests of BIC Holdings LLC and Trean Holdings LLC (voting shares)

Andrew M. O'Brien (75.0%)
Steven Lee (25.0%)

BIC Holdings LLC, (DE)
 Benchmark Holding Company, (CA)
 Benchmark Insurance Company, (KS)

Trean Holdings LLC, (DE)
 Benchmark Administrators, LLC, (CA)
 Trean Corporation, (MN)
 Trean Intermediaries, LLC (25% owned), (MN)
 Trean Reinsurance Services, LLC, (MN)
 HCIF Management Company, (MN)
 Trean Underwriting Managers, (MN)
 Stop-Loss RE, LLC (20% owned), (MT)
 S & C Claims Services, Inc., (NV)

Intercompany/Cost Sharing Agreements

Through multiple service agreements, the Company receives from Trean Corporation and its subsidiaries, all administrative and general services, reinsurance services, claims processing services and other services necessary for the operation of the Company. Compensation received by Trean Corporation and its affiliates under these agreements as of December 31, 2016 were:

Trean Affiliate	Service Provided	2012	2013	2014	2015	2016
		(in thousands)				
Trean Corporation Management Contract	Management Services	\$950	\$1,719	\$2,600	\$4,025	\$6,225
Trean Reinsurance Services, LLC	Broker Agreement	22	166	(1)	6	108
S&C Claims Services, Inc.	Claims services- Compstar			1,519	1,952	1,190
Benchmark Administrators, LLC	Claims services- Compstar					1,570
S&C Claims Services, Inc.	Claims services & UW-BIC or Trean			116	708	772
Benchmark Administrators, LLC	Claims Services					266
Trean Corporation - Total		\$972	\$1,885	\$4,234	\$6,691	\$10,131

TERRITORY AND PLAN OF OPERATION

As of December 31, 2016 the Company is authorized to transact business in all states, except for New York, and the District of Columbia. The NAIC Schedule T Exceptions Report was reviewed for each of the states where the Company is licensed. No exceptions were noted.

The top five (5) states for direct written premiums were California at 41.1%, Michigan at 15.6%, Alabama at 5.0%, Nevada at 4.2% and Montana at 4.1%.

The Company's plan of operation utilizes Managing General Agents (MGAs) and General Agents (GAs) to write business on the Company's policy forms. The Company seeks to contract with MGA's and GA's writing profitable books of business in the Company's lines of business, that are willing to share in the written risks with the Company and the existence of an acceptable professional reinsurer to accept the written risks.

The Company enters into written agreements with each MGA and GA. Each agreement identifies the responsibilities and authorizations of the MGA and GA when representing the Company. The Company is responsible under K.S.A 40-2,133, *Acts Required to be Performed by and Prohibitions on Insurer*, for each MGA to annually:

- a. Have on file an independent financial examination in a form acceptable to the commissioner,
- b. Obtain the opinion of an actuary attesting to the adequacy of loss reserves established for losses incurred and outstanding on business produced by the MGA,
- c. Not less semi-annually, conduct an on-site review of the underwriting and claims processing operations of the MGA.

The Company did not meet the standards identified in in K.S.A. 40-2,133.

As of December 31, 2016, the Company's largest lines of direct written business were workers' compensation at 67.4%, other liability-occurrence at 10.2%, group accidental and health at 10.2%, and commercial multiple peril at 3.9%. The remaining 8.3% represented products liability-occurrence, commercial and private passenger auto liability, and other liability business.

As of December 31, 2016, the Company assumed \$12,121,033 of written program business, with 99.7% being workers' compensation related. The Companies representing the majority of these assumed risks were American Liberty Insurance Company at 51.2%,

National Workers Compensation Reinsurance Pool at 18.7%, and First Choice Insurance Company at 14.3%.

GROWTH OF COMPANY

The exhibit below shows the Company's financial growth (in thousands) for the period of December 31, 2012, through December 31, 2016.

The financial growth amounts were obtained from annual statements filed by the Company.

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Admitted Assets	\$ 136,562	\$ 159,275	\$ 172,943	\$ 214,604	\$ 275,884
Liabilities	86,748	106,974	115,567	148,350	187,701
Capital and Surplus	49,814	52,301	57,376	66,254	88,183
Net Underwriting Gain/(Loss)	3,124	2,330	5,778	6,310	9,960
Net Income	3,353	3,322	5,048	5,934	8,390
Net Premiums Written	34,541	36,629	28,660	32,223	45,711

REINSURANCE

All reinsurance agreements reviewed during the course of the examination contained insolvency and cancellation clauses as required by paragraph (c) of K.S.A. 40-221a—*Reinsurance of Risks of and by Kansas Companies*. All reinsurance agreements reviewed provided for the transfer of risk.

The Company writes property, casualty, workers compensation and accident and health stop loss lines for certain MGA's and GA's. The Company customizes the reinsurance programs for each MGA and GA, so there may not be any two similar reinsurance programs. Quota share reinsurance is generally purchased with limits up to \$2,000,000. The quota share ceding percentages generally range between 75% and

100%. Excess reinsurance is purchased on top of the quota share for varying limits. The Company also participates in the National Workers' Compensation Reinsurance Pool.

Workers' Compensation coverage and General Liability coverage were 80.2% and 11.8%, respectively, of 2016 Net Written Premiums. The Company utilizes multiple reinsurance strategies for those MGA's and GA's writing these lines of coverage. On a net reserve basis, 2016 Workers' Compensation reserves accounted for \$50.644 million or 81.7% and General Liability reserves accounted for \$8.60 million or 13.9% of 2016 Loss and Loss Adjustment Expense reserves.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the Kansas Insurance Department and present the financial condition of the Company for the period ending December 31, 2016. The accompanying comments on financial statements reflect any examination adjustments to the amounts reported in the annual statement and should be considered an integral part of the financial statements.

BENCHMARK INSURANCE COMPANY
STATEMENT OF ASSETS
AS OF DECEMBER 31, 2016

	Assets	Assets Nonadmitted	Net Admitted Assets
Bonds	\$ 183,678,825		\$ 183,678,825
Preferred stocks	609,174		609,174
Common stocks	6,968,809		6,968,809
Real Estate: Properties occupied by the company	4,627,065		4,627,065
Cash and short-term investments	32,810,557		32,810,557
Receivable for securities	1,377,460		1,377,460
Investment income due & accrued	1,578,994		1,578,994
Deferred premiums, agents' balances and installments booked but deferred and not yet due	40,720,090		40,720,090
Amounts recoverable from reinsurers	321,419		321,419
Net deferred tax asset	2,456,703	317,114	2,139,589
Guaranty funds receivable or on deposit	778,127		778,127
EDP equipment and software	55,782	55,782	-
Health care and other amounts receivable	(11,965)		(11,965)
Aggregate write-ins for other than invested assets	715,691	429,947	285,744
Totals	\$ 276,686,731	\$ 802,843	\$ 275,883,888

**BENCHMARK INSURANCE COMPANY
STATEMENT OF LIABILITIES AND SURPLUS
AS OF DECEMBER 31, 2016**

Losses	\$ 42,890,714
Loss adjustment expense	6,903,211
Commissions payable, contingent commissions and other similar charges	(1,687,366)
Other expenses	1,795,059
Taxes, licenses and fees	1,483,705
Current federal and foreign income taxes	1,381,407
Unearned premiums	13,863,088
Ceded reinsurance premiums payable	24,144,860
Funds held by company under reinsurance treaties	94,017,241
Amounts withheld or retained by company for others	119,016
Provision for reinsurance	3,000
Payable for securities	597,865
Aggregate write-ins for liabilities	2,188,863
Total liabilities	<u>187,700,663</u>
Common capital stock	5,005,000
Gross paid in and contributed surplus	37,477,567
Unassigned funds	45,700,658
Surplus as regards policyholders	<u>88,183,225</u>
Totals	<u><u>\$ 275,883,888</u></u>

**BENCHMARK INSURANCE COMPANY
STATEMENT OF OPERATIONS
CAPITAL AND SURPLUS ACCOUNT
FOR THE YEAR ENDED DECEMBER 31, 2016**

Underwriting Income:

Premiums earned \$ 43,105,331

Deduct:

Losses incurred 18,706,049

Loss expenses incurred 6,816,983

Other underwriting expenses incurred 7,621,801

Total underwriting deductions 33,144,833

Net underwriting gain or (loss) 9,960,498

Investment Income:

Net investment income earned 2,726,505

Net realized capital gains or (losses) 125,787

Net investment gain or (loss) 2,852,292

Other Income:

Net gain (loss) from agents' or premium balances charged off (501,851)

Finance and service charges not included in premiums

Aggregate write-ins for miscellaneous income 33,396

Total other income (468,455)

Net income after dividends to policyholders and before

federal income taxes 12,344,335

Federal income taxes incurred 3,954,797

Net income \$ 8,389,538

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2015 \$ 66,253,806

Net income 8,389,538

Change in net unrealized capital gains (losses) 780,392

Change in net deferred income tax (309,659)

Change in nonadmitted assets 43,148

Change in provision for reinsurance 26,000

Surplus adjustments: Paid in 13,000,000

Change in surplus as regards policyholders for the year 21,929,419

Surplus as regards policyholders, December 31, 2016 \$ 88,183,225

BENCHMARK INSURANCE COMPANY
CAPITAL AND SURPLUS ACCOUNT
RECONCILIATION OF CAPITAL AND SURPLUS SINCE LAST EXAMINATION

Surplus as regards policyholders, December 31, 2012			<u>\$ 50,134,603</u>
Net income	2013	3,321,541	
	2014	5,047,490	
	2015	5,933,563	
	2016	<u>8,389,537</u>	22,692,131
Change in net unrealized capital gains or (losses)	2013	4,502	
	2014	74,537	
	2015	(665,405)	
	2016	<u>780,392</u>	194,026
Change in net deferred income tax	2013	353,706	
	2014	(612,541)	
	2015	661,104	
	2016	<u>(309,658)</u>	92,611
Change in nonadmitted assets	2013	(1,156,697)	
	2014	569,188	
	2015	974,145	
	2016	<u>43,148</u>	429,784
Change in provision for reinsurance	2013		
	2014	(3,000)	
	2015	(26,000)	
	2016	<u>26,000</u>	(3,000)
Dividends to stockholders	2013	(733,333)	
	2014		
	2015	2,000,000	
	2016	<u>13,000,000</u>	14,266,667
Aggregate write-ins for gains and losses in surplus	2013	376,403	
	2014		
	2015		
	2016		<u>376,403</u>
Surplus as regards policyholders, December 31, 2016			<u><u>\$ 88,183,225</u></u>

ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS

The capital and surplus of the Company, as of December 31, 2016, was \$88,183,225, which is the same amount reported by the Company in its 2016 filed Annual Statement.

Summary of Reclassifications				
Annual Statement Line Item	Balance per Annual Statement	Increase	Decrease	Adjusted Balance
25	\$285,744	\$1,687,366		\$1,973,110
4	\$(1,687,366)		\$1,687,366	\$0

COMMENTS ON FINANCIAL STATEMENTS

On August 12, 2016, BIC Holdings LLC and Trean Corporation (Borrower) co-signed a \$10,000,000 bank loan from Anchor Bank, N.A. (Lender). Benchmark Holding Company (BHC) and Trean Holdings LLC (Guarantor) provided the loan guarantee to the Lender. To secure obligations of the Borrower, BHC provided to the Lender a continuous security interest in:

3,850 shares of Common Stock of Benchmark Insurance Company, all cash, securities, dividends, distributions, proceeds, and other property received, receivable or otherwise distributed in respect of or in exchange for any and all of the forgoing.

The loan agreement contained financial covenants upon The Borrower, Guarantor and BIC:

- All loan proceeds are to be used as a capital contribution to BHC and in turn by BHC to BIC on the closing date or at any time thereafter

- The loan contained six financial covenants for Borrower, Guarantor and BIC to fulfill.

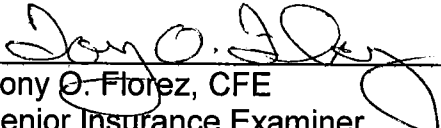
SUBSEQUENT EVENTS

No events occurred subsequent to December 31, 2016, that would have a material effect on the financial statement on the Company.

CONCLUSION

The assistance and cooperation by the officers of the Company during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Mr. Richard Todd, CPA, and Mr. Shane Mead, CISA, CRISC, an information technology examiner representing the Kansas Insurance Department, participated in this examination.

Respectfully submitted,



Tony O. Florez, CFE
Senior Insurance Examiner
Examiner-in-Charge

EXHIBIT 5
EXAMINER'S AFFIDAVIT AS TO STANDARDS AND
PROCEDURES USED IN AN EXAMINATION

State of Kansas

County of Shawnee

Tony O. Florez being duly sworn, states as follows:

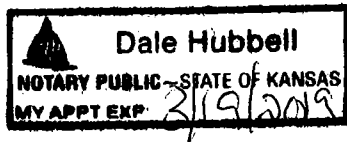
1. I have authority to represent the Kansas Insurance Department in the examination of Benchmark Insurance Company.
2. The Kansas Insurance Department is accredited under the National Association of Insurance Commissioners Financial Regulation Accreditation Standards.
3. I have reviewed the examination work papers and examination report, and the examination of Benchmark Insurance Company was performed in a manner consistent with the standards and procedures required by K.S.A. 40-222.

The affiant says nothing further.

Tony O. Florez
Examiner's Signature

Subscribed and sworn before me by Tony O. Florez on this
6 day of July, 2018.

(SEAL)



Dale Hubbell
Notary Public

My commission expires 3/19/2019
(date)