

**ORGANIZATIONAL EXAMINATION**  
**OF**  
**VALIANT SPECIALTY INSURANCE COMPANY**  
**AS OF**  
**OCTOBER 10, 2008**

Karen Weldin Stewart, CIR-ML  
Commissioner



Delaware Department of Insurance

I, Karen Weldin Stewart, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON ORGANIZATIONAL EXAMINATION, made as of October 10, 2008, of the

**VALIANT SPECIALTY INSURANCE COMPANY**

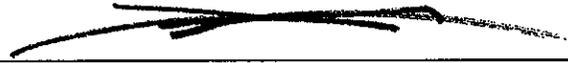
is a true and correct copy of the document filed with this Department.

ATTEST BY: *Sonia C. Harris*

DATE: 29 April 2009



In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 29th day of April, 2009.

  
\_\_\_\_\_  
Karen Weldin Stewart, CIR-ML  
Insurance Commissioner

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Commissioner



Delaware Department of Insurance

REPORT ON ORGANIZATIONAL EXAMINATION  
OF THE  
VALIANT SPECIALTY INSURANCE COMPANY  
AS OF  
OCTOBER 10, 2008

The above-captioned Report was completed by examiners of the Delaware Department of Insurance.

Consideration has been duly given to the comments, conclusions and recommendations of the examiners regarding the status of the Company as reflected in the Report.

This Report is hereby accepted, adopted and filed as an official record of this Department.

A handwritten signature in black ink, appearing to read "Karen Weldin Stewart", is written over a horizontal line.

Karen Weldin Stewart, CIR-ML  
Insurance Commissioner

Dated this 29th day of April, 2009

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**SALUTATION**

October 16, 2007

Honorable Matthew Denn  
Insurance Commissioner  
State of Delaware  
841 Silver Lake Boulevard  
Dover, Delaware 19904

Dear Commissioner:

In accordance with instructions and pursuant to statutory provisions contained in Certificate of Authority No. 08.039, dated October 2, 2008, an Organizational Examination has been conducted of the

**Valiant Specialty Insurance Company**

hereinafter referred to as “VSIC” or “the Company”, incorporated under the laws of the State of Delaware as a stock multiple line insurance company.

VSIC’s official statutory office is the same as that of its registered agent, Diane J. Bartels, Esq., located at Brandywine Village, 1807 North Market Street, Wilmington, Delaware 19802-4810. VSIC’s administrative office address is 110 William Street – 30<sup>th</sup> floor, New York, New York, 10038.

This examination was conducted at the Company’s administrative office located at the address listed in the above paragraph.

The report of such examination is respectfully submitted herewith.

## **SCOPE OF EXAMINATION**

This organizational examination was conducted in conjunction with VSIC's application for a domestic Certificate of Authority in the State of Delaware. VSIC's corporate records, records applicable to and attendant with its application, as well as financial data as of September 30, 2008, have been reviewed.

## **HISTORY**

VSIC was incorporated on July 15, 2008, under the laws of the State of Delaware and authorized to issue five hundred thousand (500,000) shares with a par value of \$1 per share. As evidenced by common stock certificate number 1 for five hundred thousand (500,000) shares, VSIC common stock was issued to Valiant Insurance Company (Valiant), a Delaware domestic insurance company, on July 16, 2008, giving VSIC common capital stock of \$500,000.

## **MANAGEMENT AND CONTROL**

VSIC's by-laws, adopted July 16, 2008, state that the business and affairs of the Company shall be managed by a Board of Directors consisting of not less than four (4) or more than eighteen (18) directors. Directors need not be residents of the State of Delaware or shareholders of VSIC. As of the examination date, VSIC maintained five (5) Directors. The Directors are to be elected at the annual meeting of the Company's stockholder and shall hold office until the next succeeding annual meeting.

## Board of Directors

The following individuals were elected and qualified members of the Board of Directors as of the examination date:

Mark I. Herman	Non-Employee Chairman of the Board
Gary N. Dubois	
John N. DiBlanda	
Ursula M. Kerrigan	
Paul A. Nealon	

## Committees of the Board of Directors

The following individuals were elected to the Investment Committee by the Board of the Directors as of the examination date:

Gary N. Dubois  
John N. DiBlanda  
Paul A. Nealon

## Officers

In accordance with its by-laws, the officers of the Company shall be a Chairman of the Board (if the Board so determines), a Vice Chairman of the Board (if the Board so determines), a president, one or more vice-presidents, a secretary, a treasurer and assistant vice-presidents, assistant secretaries and assistant treasurers. The officers shall serve until their removal or resignation and more than two offices may be held by the same person with the exception that the office of the president and secretary may not be held by the same person. Elected officers serving as of the examination date were as follows:

<b><u>Officer</u></b>	<b><u>Position</u></b>
Gary N. Dubois	President and CEO
John N. DiBlanda	CFO & COO
Ursula M. Kerrigan	SVP, General Counsel & Secretary
Scott D. Bowen	VP & Treasurer
Scott J. Bayer	SVP – Casualty Lines
Stephanie R. Davenport	VP – Finance

The NAIC Biographical Affidavits of VSIC’s officers and directors were reviewed during this examination.

VSIC’s affiliate, Ariel Reinsurance Company Ltd. (Ariel Re), a reinsurer domiciled in Bermuda, has a written conflict of interest policy in effect which monitors potential conflicts of interest of officers and directors within the Ariel Holdings Group. Upon licensure, VSIC intends to adopt a written corporate conflict of interest policy similar to that of Ariel Re and obtain signed officer and director statements annually.

### **HOLDING COMPANY SYSTEM**

At formation, VSIC became a member of an Insurance Holding Company System. Upon licensure, VSIC will file an Insurance Holding Company Registration Statement (IHCR Statement) with the Delaware Insurance Department. 18 Del. C. § 5001(3) states that “control shall be presumed to exist if any person, directly or indirectly, owns, controls, holds with the power to vote, or holds proxies representing 10% or more of the voting securities of any other person.” *The following entities, which owned or controlled 10% or more of the outstanding 10,450,806 voting common shares of Ariel Holdings Ltd. (Ariel Holdings) as of December 31, 2007, are considered ultimate controlling entities of VSIC:*

	Voting Common <u>Shares {1}</u>	Voting Control <u>Percent</u>	Economic Control <u>Percent</u>
TPG Ariel Partners	1,750,000	9.500%	16.745%
Blackstone IV	1,645,297	9.500%	15.743%
Thomas H Lee Alternative Fund V	1,332,652	9.500%	12.752%
Oak Hill Capital Partners Cayman I	1,047,025	9.500%	10.019%

The organizational structure as of the examination date with control percentages of the upstream affiliates' control of the downstream affiliate is presented below:

	<u>Voting Control</u>	<u>Economic Control</u>
TPG Ariel Partners {1} {7}	9.500%	16.745%
Blackstone IV {1} {2} {8}	9.500%	15.743%
Thomas H Lee Alternative Fund V {1} {3} {9}	9.500%	12.752%
Oak Hill Capital Partners Cayman I {1} {4} {10}	9.500%	10.019%
All Other Entities and Individuals {5}	62.000%	44.741%
Ariel Holdings Ltd. [Bermuda] {6}	100.000%	100.000%
Valiant Insurance Group, Inc. [Delaware]	100.000%	100.000%
Valiant Insurance Company [Delaware]	100.000%	100.000%
<b>Valiant Specialty Insurance Company [Delaware]</b>		

- {1} Considered an ultimate controlling entity of VSIC for purposes of this examination
- {2} Total voting control for the Blackstone fund family was 9.500%, however, total economic control for all Blackstone funds was 1,750,000 common shares, or 16.745%, as of December 31, 2007
- {3} Total voting control for the Thomas H Lee fund family was 9.500%, however, total economic control for all Thomas H Lee funds was 1,722,311 common shares, or 16.480%, as of December 31, 2007
- {4} Total voting control for the Oak Hill fund family was 9.500%, however, total economic control for all Oak Hill funds was 1,500,000 common shares, or 14.353%, as of December 31, 2007
- {5} No entity or person individually or in aggregate controls greater than 10% of the voting power or 10% of the economic interest of Ariel Holdings as of December 31, 2007
- {6} According to Ariel Holdings' audited financial statements as of December 31, 2007, there were 10,450,806 common shares issued and outstanding
- {7} It was not determined whether any entity or person controls greater than 59.72% of the economic interest of TPG Ariel Partners as of the examination date
- {8} It was not determined whether any entity or person controls greater than 63.52% of the economic interest of Blackstone IV as of the examination date
- {9} It was not determined whether any entity or person controls greater than 78.42% of the economic interest of Thomas H Lee Alternative Fund V as of the examination date
- {10} It was not determined whether any entity or person controls greater than 99.81% of the economic interest of Oak Hill Capital Partners Cayman I as of the examination date

The most recent financial statements for TPG Ariel Partners, Blackstone IV, Thomas H Lee Alternative Fund V and Oak Hill Capital Partners Cayman I were not available for review as of the examination date.

As of December 31, 2007, Ariel Holdings' reported consolidated U.S. GAAP assets of \$2.42 billion, liabilities of \$0.98 billion, and shareholder equity of \$1.44 billion.

As part of the examination, VSIC's completed NAIC Form 12 - Uniform Consent to Service of Process (Power of Attorney), dated July 16, 2008, and effective August 5, 2008, was reviewed.

### **FIDELITY BOND AND OTHER INSURANCE COVERAGE**

VSIC is a named insured on the various corporate insurance coverages of Valiant Insurance Group, Inc. (VIG). *Using the Company's filed UCAA financial projections, the minimum recommended fidelity coverage will be \$200,000 at year-end 2008, \$400,000 at year-end 2009 and \$500,000 at year-end 2010, however, VSIC has \$0 outside fidelity bond coverage as of the examination date but has confirmed that it will self-insure these amounts .*

### **AGREEMENTS**

VSIC's staffing needs will be provided by an affiliate, Investment & Administrative Services Company (IASCO), which is a direct subsidiary of VIG.

#### **Investment and Administrative Services Agreement**

Upon licensure, VSIC plans on entering into an investment and administrative services agreement with IASCO, which will provide investment services and corporate support services to VSIC. The proposed contract is identical to the one that parent Valiant signed with IASCO, which was approved for use by the Delaware Department of Insurance on December 3, 2007. Upon entering this agreement, the Company will submit a Form D filing to the Delaware Insurance Department in connection with this agreement.

### Underwriting Policy Administration and Processing Management Agreement

Upon licensure, VSIC plans on entering into an underwriting policy administration and processing management agreement with IASCO, which will provide policy administration, underwriting and information technology services to VSIC. The proposed contract is identical to the one that parent Valiant signed with IASCO, which was approved for use by the Delaware Department of Insurance on February 11, 2008. Upon entering this agreement, the Company will submit a Form D filing to the Delaware Insurance Department in connection with this agreement.

### Claims Administration Services Agreement

Upon licensure, VSIC plans on entering into a claims administration agreement with IASCO, which will provide claims administration services to VSIC. The proposed contract is identical to the one that parent Valiant signed with IASCO, which was approved for use by the Delaware Department of Insurance on December 4, 2007. Upon entering this agreement, the Company will submit a Form D filing to the Delaware Insurance Department in connection with this agreement.

### Consolidated Tax Agreement

Upon licensure, VSIC plans on entering into an income tax allocation agreement with Valiant Insurance Group, Inc. Upon entering this agreement, the Company will submit a Form D filing to the Delaware Insurance Department in connection with this agreement.

### Portfolio Management Agreement

By amendment effective August 4, 2008, VSIC was added to the portfolio management agreement originally between Valiant and Conning Asset Management Company (Conning)

dated April 1, 2008. Conning will provide investment advisory and portfolio management services to VSIC for a fee.

Effective August 1, 2008, VSIC adopted investment policy and guidelines, which were reviewed without exception.

#### Custodial Agreement

VSIC has entered into a custodial agreement with State Street Bank and Trust Company effective July 28, 2008, which appears to contain the required wording as specified in the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook*. Upon licensure of VSIC, an account with Wilmington Trust will be established with a minimum of \$200,000 of cash or securities to be held by the Delaware Insurance Department for the security and benefit of all policyholders.

### **PLAN OF OPERATION**

VSIC is being formed to provide commercial insurance coverage on an excess and surplus lines basis throughout the United States. VSIC will write specialty lines insurance which consists of product lines and insureds that require form and rate flexibility in order to obtain insurance on hard-to-place risks such as high risk (i.e., explosive manufacturing), risks that do not fit standard market underwriting, risks which require higher limits than offered by standard markets, risks with excessive loss history, specialty coverage risks (one day events and unique situations).

The casualty lines (other liability – occurrence, line 17.1) intended to be written by VSIC includes general liability, excess, umbrella and products liability. The management liability lines (other liability – claims made, line 17.2) intended to be written by VSIC includes D&O, private

company D&O, Side A Only D&O, employment practices, fiduciary, fidelity and kidnap & ransom. The professional liability (other liability – claims made, line 17.2) intended to be written by VSIC includes medical malpractice, technology errors and omissions, media liability and professional liability coverage for accountants consultants, architects and engineers. The ocean marine lines (ocean marine, line 8) intended to be written by VSIC includes cargo, hull, marine liability, on-shore and off-shore energy.

Advertising will be limited and directed to surplus lines brokers, not the general public.

VSIC's record retention policies and procedures were reviewed without exception.

### **REINSURANCE**

Upon licensure, VSIC will enter into three reinsurance contracts with affiliate Ariel Re, which is a 100% subsidiary of Ariel Holdings, as follows: (1) a Quota Share Reinsurance Agreement whereby VSIC cedes 75% of its net premium to Ariel Re; (2) an 80% Stop Loss Reinsurance Agreement; (3) a Reinsurance Guaranty on reinsurance recoverables. The content of these contracts were previously filed and approved by the Delaware Insurance Department with respect to Valiant's application for redomestication to Delaware. There have only been minor modifications to these contracts to tailor them for use with VSIC versus Valiant. Upon entering these agreements, the Company will submit Form D filings to the Delaware Insurance Department in connection with these agreements.

## CAPITAL AND SURPLUS REQUIREMENTS

18 Del. C. § 511(a) requires the following minimum capital and surplus amounts for a stock multiple line insurance company:

Common Capital Stock	\$500,000
Surplus as Regards Policyholders	<u>250,000</u>
Total Capital and Surplus	<u>\$750,000</u>

As shown in the Financial Data section of this report, as of the examination date, VSIC possessed Common Capital Stock of \$500,000, Gross Paid In and Contributed Surplus of \$500,000 for Capital and Surplus as Regards Policyholders of \$1,000,000.

Upon licensure, VSIC anticipates receiving an additional \$20,000,000 contribution from parent Valiant in order to apply for surplus lines eligibility nationwide.

## FINANCIAL DATA

The financial position of VSIC as of the examination date, as determined by this organizational examination was as follows:

	<u>Assets</u>	<u>Note</u>
Cash	\$1,000,000	1
Total Admitted Assets	<u>\$1,000,000</u>	
 <u>Liabilities, Capital and Surplus</u>		
Total Liabilities	\$ 0	
Common Capital Stock	\$ 500,000	
Gross Paid In and Contributed Surplus	500,000	
Unassigned Funds	<u>0</u>	
Capital and Surplus as Regards Policyholders	<u>\$1,000,000</u>	
Total Liabilities, Capital and Surplus	<u>\$1,000,000</u>	

