

Report on Examination  
Of  
**DIGITAL ADVANTAGE INSURANCE COMPANY**  
Warwick, Rhode Island  
as of  
December 31, 2021



State of Rhode Island  
Department of Business Regulation  
Insurance Division



**State of Rhode Island  
DEPARTMENT OF BUSINESS REGULATION  
1511 Pontiac Avenue, Bldg. 69-2  
Cranston, Rhode Island 02920**

**Insurance Division**

**ADOPTION ORDER**

The attached Report of Examination as of December 31, 2021, of the condition and affairs of

**DIGITAL ADVANTAGE INSURANCE COMPANY**

was recently completed by duly qualified examiners, pursuant to the provisions of the Rhode Island General Laws.

Due consideration has been given to the comments of the examiners regarding the operation of the Companies and their financial condition, as reflected in the report.

It is therefore ORDERED that said Report be, and it is hereby, adopted and filed and made an official record of this Department as of this date.

Department of Business Regulation

A handwritten signature in black ink that reads "Elizabeth Kelleher Dwyer".

Dated: February 21, 2023

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Elizabeth Kelleher Dwyer  
Superintendent of Insurance

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January 4, 2023

Ms. Elizabeth Kelleher Dwyer  
Superintendent of Insurance  
State of Rhode Island  
Department of Business Regulation  
1511 Pontiac Avenue, Bldg. 69-2  
Cranston, Rhode Island 02920

Dear Superintendent Dwyer:

In accordance with your instructions and pursuant to Chapters 13.1 and 35 of Title 27 of the General Laws of the State of Rhode Island, an examination has been made as of December 31, 2021, of the financial condition and affairs of

**DIGITAL ADVANTAGE INSURANCE COMPANY**

located at 222 Jefferson Boulevard, Suite 200, Warwick, Rhode Island. The report of such examination is herewith submitted.

Digital Advantage Insurance Company, also referred to within this report as “DAIC,” or the “Company,” was previously examined as of December 31, 2019. Both the current and prior examinations were conducted by the Insurance Division of the State of Rhode Island (“Insurance Division”).

## SCOPE OF EXAMINATION

The last examination of the Company covered the five-year period from January 1, 2015 through December 31, 2019. The current examination covered the two-year period from January 1, 2020 through December 31, 2021 and was performed in compliance with the above-mentioned sections of the General Laws of the State of Rhode Island, as amended. The current examination was conducted as a multi-state coordinated full scope risk-focused examination in accordance with the National Association of Insurance Commissioners (“NAIC”) *Financial Condition Examiners Handbook* (“Handbook”). The lead state for this examination was Delaware, and Rhode Island was the only participating state on this examination.

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.

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, 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.

### **SUMMARY OF SIGNIFICANT FINDINGS**

There were no material adverse or significant non-compliance findings noted during the examination conducted as of December 31, 2021.

### **COMPANY HISTORY**

The Company derives its corporate existence and powers from the provisions of the Rhode Island Business Corporations Act, General Law 7-1.1. The Company came into existence on January 1, 1989 as Computer Insurance Company, was domiciled in Rhode Island, incorporated on July 1, 1989, and wrote property and casualty insurance.

The Company was acquired by Munich Re Digital Partners US Holding Company, with approval from the Rhode Island Department of Business Regulation, on April 26, 2018. The Company's name was changed by Unanimous Written Consent of the Board of Directors on June 26, 2018, to Digital Advantage Insurance Company.

The Company adopted bylaws by Unanimous Written Consent of the Board of Directors on June 26, 2018.

The Company revised its articles of incorporation on October 4, 2018 with approval from the Department of Business Regulation, to update, among other items, statutory references; expressly permit engagement in all lawful business; and expressly to transact all lines of property and casualty insurance.

The Restated Articles of Incorporation provide that the Company is authorized to issue 50,000 shares of common capital stock, each with a par value of \$100. The Company's capital stock is 100% owned by its immediate parent, Munich Re Digital Partners US Holding Corporation. As of December 31, 2021, the Company had issued 35,000 shares, each with a par value of \$100 for a total capital paid up of \$3,500,000.

## **MANAGEMENT AND CONTROL**

### **Stockholders**

The bylaws, in the form adopted by the shareholder of the Company on June 13, 2018, provide that an Annual Meeting of stockholders shall be held each year on a date and at a time designated by the Board of Directors.

Special meetings of the stockholders may be called by the President and shall be called by the President or the Secretary at the request in writing of a majority of the Board of Directors, or at the request in writing of stockholders owning a majority in amount of the entire capital stock of the Company issued and outstanding and entitled to vote. Except as may otherwise be required by law, the presence in person or by proxy of the holders of record of a majority of the stock entitled

to vote at a meeting of stockholders shall constitute a quorum for the transaction of business at such meeting.

### Board of Directors

The articles of incorporation provide that the corporate powers of the Company shall be exercised through its Board of Directors. The June 26, 2018 bylaws provide that the Board of Directors (“Board”) shall consist of such number of directors as may be determined from time to time by the Board, but such number shall not be less than one.

The Directors shall be elected at each Annual Meeting of the Stockholders to hold office for one year and until their respective successors shall have been elected and qualified. Any vacancy in the Board occurring between Annual Meetings may be filled for the unexpired portion of the term by vote of a majority of the remaining directors, though not less than a quorum, or by a sole remaining director.

### Regular Meetings

The bylaws require that regular meetings of the Board shall be held at such times, dates and places as the Board may from time to time determine.



### Special Meetings

The bylaws permit special meetings to be called by the President or Secretary upon the written request of two directors. Notice of such special meetings shall be given to each director personally or by mail or telecopied facsimile transmission at least two days before the meeting.

### Action by Consent

Any action by the Directors can be taken without a meeting if written consent to such a meeting is signed by all the Directors. Such consent shall be treated as a vote of the Board for all purposes.

At December 31, 2021, the following individuals served as directors of the Company:

<b>Name</b>	<b>Business Affiliation</b>	<b>Term Expires</b>
David Brune	Digital Partners Chief Executive Officer & CEO	Replaced 6/11/21
Oliver J. Horbelt	Munich Re America Services Senior Vice President & CFO	Until Successor Chosen
Michael G. Kerner	Digital Partners President & CEO	Until Successor Chosen
Andreas Kleiner	American Modern Insurance Group President & CEO	Until Successor Chosen
Kenneth Kuhn	Digital Partners Vice President & Treasurer	Until Successor Chosen

Committees

The Articles of Incorporation provides that the Board of Directors may elect various committees from time to time as they see fit and may delegate to such committees such other powers as they may deem expedient. The standing committees consisted of the following members at December 31, 2021:

<b>Investment Committee</b>
David Brune*
Angela Homm*
Joseph Baumer*

<b>Audit Committee</b>
Angela Homm*
Kenneth Kuhn

<b>Risk Management Committee</b>
Andrew Rear
David Brune*
Angela Homm*

- \*David Brune Replaced 6/11/21
- \*Angela Homm Replaced 9/1/21
- \* Joseph Baumer Replaced 8/13/21

Officers

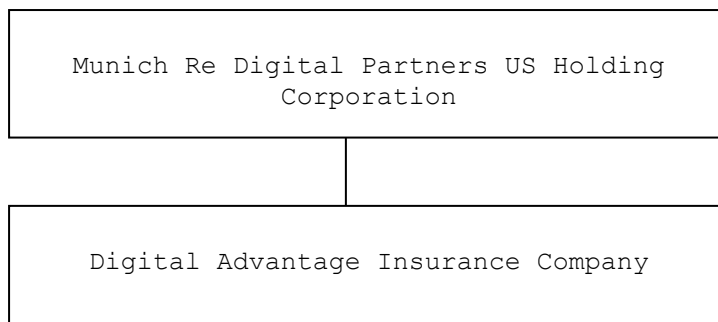
The bylaws provide that the Board of Directors, at their regular meeting held immediately after each Annual Meeting of the Stockholders, may elect a chairman, who shall be a director, and shall elect a president, who shall be a director, a secretary, a treasurer and such other officers with such other titles as it deems appropriate. The Board may at any time, with or without cause, remove any officer so elected. Each officer shall hold their respective offices for one year and until their successors are duly elected and qualified. The officers serving and their respective titles at December 31, 2021 are as follows:

Name	Title
Michael Kerner	President & Chief Executive Officer
Oliver J Horbelt	Senior Vice President & Chief Financial Officer
Mark Van Emburgh	Vice President
Peter Joy	Vice President
Elizabeth Kramer	Vice President
David Green	Assistant General Counsel & Secretary
Ignacio Rivera	Assistant Secretary

**ORGANIZATIONAL STRUCTURE**

At December 31, 2021, Munich Re Digital Partners US Holding Corporation owned 100% of the issued and outstanding common capital stock of the Company.

An abbreviated version of the current organizational structure is as follows:



At December 31, 2021, the Company is a party to an Amended and Restated General Services and Cost Allocation Agreement with Munich Re, Munich American Holding Corporation, Munich Re

Digital Partners US Holdings Corporation, and certain of its branches and affiliates. The service agreement covers activities such as corporate finance, legal, HR support, accounting, tax, and information technology. DAIC is a party to a tax sharing agreement with subsidiaries of Munich America Holding Corporation, including Munich Re Digital Partners US Holdings Corporation, Digital Affect Insurance Company and Digital Edge Insurance Company.

### **TERRITORY AND PLAN OF OPERATIONS**

A review of certificates of authority or compliance in effect at December 31, 2021 verified that the Company is licensed to transact business in forty (47) states and the District of Columbia and focuses on small to medium businesses, commercial, and commercial automobile insurance.

The Company works with properly licensed “Insurtechs” (holding insurance agent and/or broker licenses as applicable) to build and establish a policy distribution model in which the Insurtech will become a program administrator (“PA”). A PA is responsible for providing policy issuance, billing, and collecting premiums for a product in which the PA has expertise using a unique distribution channel within that target market segment. As of December 31, 2021, the Company’s assumed business was 100% ceded to Munich Reinsurance America Inc. The Company plans on writing direct business upon receiving its certificates of authority in all fifty (50) states. Due to the absence of any business being written, there is currently no claims, underwriting or processing of premium billing and collections.

## **REINSURANCE**

At December 31, 2021, the Company assumed 100% of its reported gross premiums from non-affiliated insurers, then retroceded 100% of the assumed premiums to Munich Reinsurance America Inc. under a Quota Share Agreement.

## **FINANCIAL STATEMENTS**

The following financial statements are based on the statutory financial statements filed by the Company with the Rhode Island Insurance Division Department of Business Regulation and present the financial condition of the Company for the period ending December 31, 2021. The accompanying comments on the 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.

Comparative Statement of Assets, Liabilities, and Capital and Surplus  
December 31, 2021 and December 31, 2019

Statement of Income  
Year ended December 31, 2021

Reconciliation of Capital and Surplus  
December 31, 2019 to December 31, 2021

Analysis of Examination Adjustments  
December 31, 2021

DIGITAL ADVANTAGE INSURANCE COMPANY  
Comparative Statement of Assets  
December 31, 2021 and December 31, 2019

	<u>December 31,</u> <u>2021</u>	<u>December 31,</u> <u>2019</u>	<u>Increase</u> <u>(Decrease)</u>
Bonds	\$14,453,718	\$5,428,712	\$9,025,006
Cash, cash equivalents and short-term investments	22,412,374	23,616,066	(1,203,692)
Investment income due and accrued	76,386	55,016	21,370
Deferred premiums, and agents' balances and installments booked but deferred and not yet due	107,081,024	6,881,065	100,199,959
Amounts recoverable from reinsurers	17,596,392	483,006	17,113,386
Funds held by or deposited with reinsured companies	2,410,000	300,000	2,110,000
Other amounts receivable under reinsurance contracts	0	75,000	(75,000)
Net deferred tax asset	235,797		235,797
Aggregate write-ins for other-than-invested assets	20,000		20,000
Total Assets	<u>\$164,285,691</u>	<u>\$36,838,865</u>	<u>\$127,446,826</u>

DIGITAL ADVANTAGE INSURANCE COMPANY  
Comparative Statement of Liabilities, and Capital and Surplus  
December 31, 2021 and December 31, 2019

	<u>December 31,</u> <u>2021</u>	<u>December 31,</u> <u>2019</u>	<u>Increase</u> <u>(Decrease)</u>
Reinsurance payable on paid losses and loss adjustment expenses	\$3,373,759	\$4,581	\$3,369,178
Loss adjustment expenses	10,000,000		10,000,000
Other expenses	103,969	67,970	35,999
Taxes, licenses and fees	200,000		200,000
Current federal and foreign income taxes	68,369		68,369
Ceded reinsurance premiums payable	127,896,831	8,293,219	119,603,612
Remittances and items not allocated	(7,389,451)		(7,389,451)
Payable to parent, subsidiaries and affiliates		53,750	(53,750)
Total liabilities	<u>134,253,477</u>	<u>8,419,520</u>	<u>125,833,957</u>
Common capital stock	3,500,000	3,500,000	-
Gross paid-in and contributed surplus	27,000,000	27,000,000	-
Unassigned funds (surplus)	<u>(467,786)</u>	<u>(2,080,655)</u>	<u>1,612,869</u>
Surplus as regards policyholders	<u>30,032,214</u>	<u>28,419,345</u>	<u>1,612,869</u>
Total liabilities, surplus and other funds	<u>\$164,285,691</u>	<u>\$36,838,865</u>	<u>\$127,446,826</u>

DIGITAL ADVANTAGE INSURANCE COMPANY  
Statement of Income  
Year Ended December 31, 2021

UNDERWRITING INCOME

Premiums earned	\$0
Losses incurred	0
Loss adjustment expenses incurred	12,237,155
Other underwriting expenses incurred	<u>(14,127,325)</u>
Total underwriting deductions	<u>(1,890,170)</u>
Net underwriting gain or (loss)	<u>1,890,170</u>

INVESTMENT INCOME

Net investment income earned	<u>103,710</u>
Net investment gain or (loss)	<u>103,710</u>

OTHER INCOME

Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	1,993,880
Federal and foreign income taxes incurred	<u>451,262</u>
Net income (loss)	<u><u>\$1,542,618</u></u>



DIGITAL ADVANTAGE INSURANCE COMPANY  
Reconciliation of Capital and Surplus  
December 31, 2019 to December 31, 2021

Surplus as regards policyholders, December 31, 2019			\$28,419,345
	<u>Gains</u>	<u>Losses</u>	
Net income	2,504,854		
Change in net deferred income tax	622,859		
Change in nonadmitted assets	(564,844)		
Dividends to policyholders		<u>950,000</u>	
Total gains and losses	<u>2,562,869</u>	<u>950,000</u>	
Change in surplus as regards policyholders			<u>1,612,869</u>
Surplus as regards policyholders, December 31, 2021			<u><u>\$30,032,214</u></u>

DIGITAL ADVANTAGE INSURANCE COMPANY  
Analysis of Examination Adjustments  
December 31, 2021

The examination of the Company, performed as of December 31, 2021, did not disclose any material misstatements to the financial statements contained in its 2021 Annual Statement filing. Accordingly, the amounts reported by the Company have been accepted for purposes of this report.

## COMMENTS ON FINANCIAL STATEMENTS

### ASSETS

#### Bonds

**\$14,453,718**

The above amount is the net admitted value of bonds owned by the Company and is the same as that reported in its 2021 Annual Statement. All bonds owned at year-end 2021 are held in accordance with a custodial agreement with a third party.

One hundred percent (100%) of bonds in the Company's portfolio at December 31, 2021, were rated as Class 1 based upon evaluation methods established by the National Association of Insurance Commissioners, Investment Analysis Office, and are considered the "highest quality."

The amortized book value of bonds owned at December 31, 2021, represents 8.8% of the Company's total admitted assets. The book/adjusted carrying value, fair value, actual cost and par value of the bond portfolio at December 31, 2021, are as follows:

<b>Book/Adjusted Carrying Value</b>	<b>Fair Value</b>	<b>Actual Cost</b>	<b>Par Value</b>
\$14,453,718	\$14,490,870	\$14,737,673	\$14,010,000

**Cash, Cash Equivalents and Short-Term Investments** **\$22,412,374**

The above amount is the net admitted value of the individually listed Annual Statement lines, which in the aggregate, represent 13.6% of the Company's total admitted assets. The amount shown is the same as that reported in the 2021 Annual Statement, and consists of the following

Cash	\$ 1,313
Cash Equivalents	<u>22,411,061</u>
Total	<u>\$22,412,374</u>

**LIABILITIES**

**Ceded Reinsurance Premiums Payable** **\$127,896,831**

The above amount is the same as that reported in its 2021 Annual Statement. The amount represents ceded premiums payable to an affiliate, Munich Reinsurance America Inc., under a reinsurance agreement described in the "Reinsurance" section of this examination report. This amount represents 95.2% of total liabilities.

**CAPITAL AND SURPLUS**

**Policyholders' Surplus** **\$30,032,214**

The above amount is the same as that reported by the Company in its 2021 Annual Statement, and consists of the following:

Common capital stock	\$ 3,500,000
Gross paid in and contributed surplus	27,000,000
Unassigned funds (surplus)	<u>(467,786)</u>
Total Capital and Surplus	<u>\$30,032,214</u>

## **SUBSEQUENT EVENTS**

A review of financial information, Company records, and the minutes to the Board of Directors' meetings for the period subsequent to the examination period was performed to ascertain whether any subsequent events have occurred which would have a material impact on the Company's operations or financial statements. In addition, an inquiry was made of the Company's management regarding subsequent events. Based upon our review, the following significant events occurred subsequent to December 31, 2021.

### Redomestication

In the beginning of 2022, DAIC transitioned to direct control under the Munich RE Group and adopted all operating policies and procedures. On 11/21/22 an application for the redomestication of Digital Advantage Insurance Company from Rhode Island to Delaware was approved.

### Pooling Arrangement

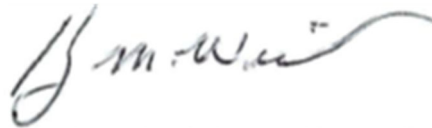
Effective January 1, 2022, the Company ceased its participation in a 100% quota share reinsurance agreement with an affiliate and entered into a 100% pooling arrangement with Munich Reinsurance America, Inc., Bridgeway Insurance Company, American Alternative Insurance Corporation, and The Princeton Excess and Surplus Lines Company. The Company has a 0% participation in the pooled business.

## CONCLUSION

We have applied verification procedures to the data and information contained in this report using sampling techniques and other examination procedures as deemed appropriate. While sampling and other examination procedures do not give complete assurance that all errors and irregularities will be detected, had any been detected during this examination, such errors and/or irregularities would have been disclosed in this report. Other than what has been noted in the body of this report, we were not informed of, and did not become aware of any errors or irregularities that could have a material effect on the financial condition of the Company as presented in this report.

Participating in the examination with the undersigned were various staff insurance examiners from the Rhode Island Insurance Division. In addition, acknowledgment is made of INS Regulatory Insurance Services, Inc. for the services rendered to assist with the examination.

Respectfully submitted,



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Kelly M. Willison, CPA, CFE, CFE (Fraud)  
Insurance Examiner-In-Charge  
INS Regulatory Insurance Services, Inc., on behalf  
of Rhode Island Insurance Division



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John Tudino Jr., CFE, CIE, CFSA  
Chief Insurance Examiner  
Rhode Island Insurance Division