

Report on Examination
Of
DIGITAL ADVANTAGE INSURANCE COMPANY
Warwick, Rhode Island
as of
December 31, 2019



State of Rhode Island
Department of Business Regulation
Insurance Division



**State of Rhode Island and Providence Plantations
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, 2019, 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

Dated: October 19, 2020

Elizabeth Kelleher Dwyer
Superintendent of Insurance

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September 21, 2020

Ms. Elizabeth Kelleher Dwyer
Deputy Director and Superintendent of Financial Services
State of Rhode Island and Providence Plantations
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, 2019, 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, 2014. Both the current and prior examinations were conducted by Insurance Division of the State of Rhode Island (“Insurance Division”) representing the Northeast Zone of the National Association of Insurance Commissioners.

SCOPE OF EXAMINATION

The last examination of the Company covered the five-year period from January 1, 2010 through December 31, 2014. The current examination covered the five-year period from January 1, 2015 through December 31, 2019 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 single-state full scope risk-focused examination in accordance with the National Association of Insurance Commissioners (“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.

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 insurers and their 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, 2019.

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, 2019, the Company had issued 35,000 shares, each with a par value of \$100 for a total capital paid up of \$3,500,000.00.

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 by-laws provide that the board of directors 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 less than a quorum, or by a sole remaining director.

Regular Meetings

The by-laws require that regular meetings of the directors 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 directors for all purposes.

At December 31, 2019 the following individuals served as directors of the Company:

Name	Business Affiliation	Term Expires
Andrew Rear	Chairman and Chief Executive Officer, Munich Reinsurance Company (Digital Partners)	Until Successor Chosen
David Brune	Head of Digital Partners US, Munich Reinsurance Company (Digital Partners)	Until Successor Chosen
Kenneth Kuhn	Vice President & Treasurer, Munich Reinsurance Company (Digital Partners)	Until Successor Chosen
Laura Hoensch	General Counsel, Munich Reinsurance Company (Digital Partners)	Until Successor Chosen
Stacey Eisenbraun	Director Products, Munich Reinsurance Company (Digital Partners)	Until Successor Chosen
Angela Homm	Chief Financial Officer, Munich Reinsurance Company (Digital Partners)	Until Successor Chosen
Andreas Kleiner	Chief Executive Officer and President, American Modern Insurance Group	Until Successor Chosen

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. As of December 31, 2019, there are no committees of the board.

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.

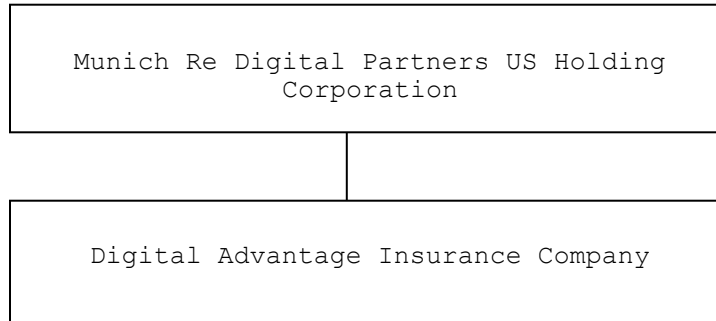
The officers serving and their respective titles at December 31, 2019 are as follows:

Name	Business Affiliation
Andrew Rear	Chairman
David Brune	Chief Executive Officer & President
Angela Homm	Vice President & Chief Financial Officer
Laura Hoensch	General Counsel & Secretary
Kenneth Kuhn	Vice President & Treasurer
Stacey Eisenbraun	Vice President
Mark Van Emburgh	Vice President

ORGANIZATIONAL STRUCTURE

At, December 31, 2019 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:



INTERCOMPANY AGREEMENTS

At December 31, 2019, the Company was a party to an Amended and Restated General Services and Cost Allocation Agreement with Munich Re, Munich American Holding 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 also has a tax sharing agreement with other subsidiaries of Munich America Holding Corporation.

TERRITORY AND PLAN OF OPERATIONS

A review of certificates of authority or compliance in effect at December 31, 2019 verified that the Company is licensed to transact business in the District of Columbia and all states except Alabama, Alaska, Idaho, Kansas, Oregon, South Dakota, Virginia, Washington, and Wyoming.

The Restated Articles of Incorporation empower the Company to issue policies and transact the business of all lines of property and casualty insurance.

The Company assumed a small amount of business in 2019 and plans on writing direct business upon receiving its certificates of authority in all fifty states.

At December 31, 2019, the Company maintains that it handled accounting and regulatory reporting. Due to the absence of any business being written, there is currently no claims, underwriting or processing of premium collections.

REINSURANCE

At December 31, 2019, the Company assumed 100% of its reported gross premiums from non-affiliated insurers then ceded 100% of the above assumed premiums to Munich Reinsurance America .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, 2019. The accompanying comments on the financial statements reflect any examination adjustments to the amounts reported in the annual statements and should be considered an integral part of the financial statements.

Comparative Statement of Assets, Liabilities, and Capital and Surplus
December 31, 2019 and December 31, 2014

Statement of Income
Year ended December 31, 2019

Reconciliation of Capital and Surplus
December 31, 2014 to December 31, 2019

Analysis of Examination Adjustments
December 31, 2019

DIGITAL ADVANTAGE INSURANCE COMPANY

Comparative Statement of Assets
December 31, 2019 and December 31, 2014

	<u>ASSETS</u>		
	<u>December 31,</u> <u>2019</u>	<u>December 31,</u> <u>2014</u>	<u>Increase</u> <u>(Decrease)</u>
Bonds	\$5,428,712	\$0	\$5,428,712
Cash and cash equivalents	23,616,066	0	23,616,066
Short-term investments	0	23,988,832	(23,988,832)
Total Cash and invested assets	<u>\$29,044,778</u>	<u>\$23,988,832</u>	<u>\$5,055,946</u>
Income due and accrued	55,016	1	55,015
Deferred premiums, agent's balances and installments booked not deferred and not yet due	6,881,065	0	6,881,065
Amounts recoverable from reinsurers	483,006	0	483,006
Funds held by or deposited with reinsured companies	300,000	0	300,000
Other amounts recoverable under reinsurance contracts	75,000	0	75,000
Aggregate write-ins for other than invested assets	<u>0</u>	<u>2,082</u>	<u>(2,082)</u>
Total assets	<u>\$36,838,865</u>	<u>\$23,990,915</u>	<u>\$12,847,950</u>

DIGITAL ADVANTAGE INSURANCE COMPANY

Comparative Statement of Liabilities, and Capital and Surplus
December 31, 2019 and December 31, 2014

LIABILITIES, AND CAPITAL AND SURPLUS

	<u>December 31,</u> <u>2019</u>	<u>December 31,</u> <u>2014</u>	<u>Increase</u> <u>(Decrease)</u>
Loss adjustment expenses	\$4,581	\$0	\$4,581
Other expenses (excluding taxes, licenses, and fees)	67,970	54,450	13,520
Current federal and foreign income taxes	0	(334,258)	334,258
Ceded reinsurance premiums payable	8,293,219	0	8,293,219
Payable to parent, subsidiaries and affiliates	53,570	0	53,750
Total liabilities	<u>\$8,419,520</u>	<u>\$(279,808)</u>	<u>\$8,699,328</u>
Common Capital Stock	\$3,500,000	\$2,500,000	\$1,000,000
Gross paid-in and contributed surplus	27,000,000	7,500,000	19,500,000
Unassigned funds (surplus)	<u>(2,080,655)</u>	<u>14,270,723</u>	<u>(16,351,378)</u>
Surplus as regards policyholders	<u>\$28,419,345</u>	<u>\$24,270,723</u>	<u>\$4,148,622</u>
Total	<u><u>\$36,838,865</u></u>	<u><u>\$23,990,915</u></u>	<u><u>\$12,847,950</u></u>

DIGITAL ADVANTAGE INSURANCE COMPANY
Statement of Income
Year Ended December 31, 2019

UNDERWRITING INCOME

Premiums earned		<u>\$0</u>
Deductions:		
Losses incurred	\$0	
Loss expenses incurred	0	
Other underwriting expense	<u>435,576</u>	
Total underwriting deductions		<u>435,576</u>
Net underwriting (loss)		<u>(\$435,576)</u>

INVESTMENT INCOME

Net investment income earned	<u>\$497,358</u>	
Net Investment gain		<u>\$497,358</u>
Net income before federal and foreign income taxes		61,782
Federal and foreign income taxes incurred		<u>0</u>
Net Income		<u><u>\$61,782</u></u>

DIGITAL ADVANTAGE INSURANCE COMPANY
Reconciliation of Capital and Surplus
December 31, 2014 to December 31, 2019

Surplus as regards policyholders, December 31, 2014		<u>\$24,270,722</u>
	<u>Increase</u> <u>(Decrease)</u>	
Net income (loss)	(\$1,351,377)	
Capital changes: Paid in	1,000,000	
Surplus adjustments: Paid in	19,500,000	
Dividends to stockholders	(15,000,000)	
Change in capital and surplus for the period		<u>4,148,623</u>
Capital and Surplus, December 31, 2019		<u><u>\$28,419,345</u></u>

DIGITAL ADVANTAGE INSURANCE COMPANY
Analysis of Examination Adjustments
December 31, 2019

The examination of the Company, performed as of December 31, 2019, did not disclose any material misstatements to the financial statements contained in its 2019 Annual Statement filing. Accordingly, the amounts reported by the Company have been accepted for purposes of this report.

COMMENTS ON FINANCIAL STATEMENTS

ASSETS

Bonds

\$5,428,712

The above amount is the net admitted value of bonds held by the Company and is the same as that reported in its 2019 Annual Statement. All bonds owned at year-end 2019 are held in accordance with a custodial agreement with a third party.

One hundred percent (100%) of all bonds in the Company's portfolio at December 31, 2019, were rated as Class 1 based upon evaluation methods established by the National Association of Insurance Commissioners, Securities Valuation Office, and are considered the "highest quality."

The amortized book value of bonds owned at December 31, 2019, represents 14.7% 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, 2019, are as follows:

<u>Book/Adjusted Carrying Value</u>	<u>Fair Value</u>	<u>Actual Cost</u>	<u>Par Value</u>
\$5,428,712	\$5,441,287	\$5,442,832	\$5,206,000

Cash, Cash Equivalents and Short-Term Investments **\$23,616,066**

Cash	\$23,017
Cash Equivalents	\$23,593,049

The above amounts are the net admitted values of the individually listed Annual Statement lines, which in the aggregate, represent 64.1% of the Company's total admitted assets. The amounts shown are the same as that reported in the 2019 Annual Statement.

LIABILITIES

Ceded Reinsurance Premiums Payable **\$8,293,219**

The above amount is the same as that reported in its 2019 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.

CAPITAL AND SURPLUS

Capital and Surplus **\$28,419,345**

The above amount is the same as that reported by the Company in its 2019 Annual Statement, and consists of the following:

Common capital stock	\$3,500,000
Gross paid in and contributed surplus	27,000,000
Unassigned funds (deficit)	<u>(2,080,655)</u>
Total Capital and Surplus	<u>\$28,419,345</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 of the above, there were no significant events that occurred subsequent to December 31, 2019.

As the impact of the Covid-19 Outbreak continues to evolve, capturing events that relate specifically to conditions that existed at or before the reporting date will require careful assessment. The company has a COVID-19 Response plan in place. Based on the evidence reviewed, the company actively monitors COVID, and its limited impact on the 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.

Respectfully submitted,

Louis A. Gabriele Jr, CFE, CPA

Louis A. Gabriele Jr, CPA, CFE
Insurance Examiner-In-Charge
Rhode Island Insurance Division