# State of Michigan

## Department of
## Insurance and Financial Services

# Office of Insurance Evaluation

# Financial Examination
# of

**Dorinco Reinsurance Company**
Midland, MI

As of

**December 31, 2017**

State of Michigan

DEPARTMENT OF
INSURANCE AND FINANCIAL SERVICES

**OFFICE OF INSURANCE EVALUATION**

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Anita G. Fox
Director
Office of Insurance Evaluation

# REPORT OF EXAMINATION OF

## Dorinco Reinsurance Company

Midland, MI

As of

**December 31, 2017**

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Ms. Anita G. Fox
Director
Department of Insurance and Financial Services
State of Michigan
Lansing, Michigan

Director:

In accordance with instructions and pursuant to statutory requirements, we have examined the financial condition, management and operations of:

**Dorinco Reinsurance Company**
2211 H.H. Dow Way 2040 Building
Midland, Michigan

a stock property and casualty insurer, hereinafter referred to as the "Company." Our examination report follows.

## SCOPE OF EXAMINATION

The Department of Insurance and Financial Services (DIFS) conducted a risk-focused examination of the Company for the period from January 1, 2015 to December 31, 2017. We conducted the examination in accordance with guidelines and procedures recommended by the Financial Condition (E) Committee of the National Association of Insurance Commissioners (NAIC) and the laws, rules and regulations of the state of Michigan.

We reviewed and incorporated certain workpapers of the Company's independent auditors, Deloitte & Touche, LLP, into our examination workpapers where appropriate.

To determine the adequacy of the Company's reserves and related actuarial items, we hired the actuarial consulting services of SGRisk, LLC. The analysis, performed by Benjamin S. Newville, FCAS, MAAA, consisted of the tests necessary to certify the adequacy of the reserves and related actuarial items. The actuarial certification is shown in the report of examination as Exhibit 1 and the detailed report is on file at our offices. We have tested the underlying data provided to the actuary for completeness and accuracy.

We performed a limited review of the period between the previous examination and this December 31, 2017 examination. This review consisted mainly of items noted by our analysis staff, changes in the balance sheet, a review of the minutes of the board of directors and annual meetings of the stockholders, and a review of any items we deemed necessary.

Our examination considered the following matters that have an impact on the Company's financial condition or conformity with related laws:

Conflict of Interest
Fidelity Bond and Other Insurance
Policy Forms and Underwriting
Accounts and Records
Treatment of Policyholders
Corporate Governance
Risk Assessment
Systems Controls and Procedures

In addition, we reviewed transactions occurring subsequent to December 31, 2017 as deemed appropriate. Comment on the findings of our examination is limited to matters involving a departure from laws, rules or regulations; a significant change in the amount of an item; or a necessary explanation. Any other adjustments or comments were discussed with Company personnel and may appear in a letter to management that was prepared in conjunction with this report of examination.

## HISTORY AND PURPOSE

The Company's articles of incorporation were signed on December 13, 1976 and were approved by the Michigan Attorney General on March 8, 1977. The articles of incorporation were approved by DIFS on March 8, 1977.

The term of existence of the Company is perpetual.

The certificate of authority issued by DIFS authorizes the Company to transact the business of homeowners, inland marine, automobile, steam boiler and flywheel, liability, workers' compensation, plate glass sprinkler and water damage, burglary and theft, and surety and fidelity insurance as provided in Section 606; Section 610 (including Sections 614, 616, and 620); Subsections (a) to (i) of Section 624 (I); and Section 628 of the Michigan Insurance Code.

## CAPITAL STOCK

The Company has 100,000 authorized shares of capital stock, of which 50,000 shares are issued and outstanding at December 31, 2017. The capital stock has a par value of $100 per share.

Upon initial capitalization of the Company, 25,000 shares were issued to The Dow Chemical Company (TDCC) for $5 million, with $2.5 million allocated to the capital stock account and $2.5 million allocated to gross paid-in and contributed surplus. In March 1978, an additional 25,000 shares were issued to TDCC for $5 million, which was allocated in the same manner as the initial capitalization.

In January 1987, TDCC's ownership in the Company was transferred to Liana Limited (Liana), a holding company established by TDCC.

In December 1993, the Company received an additional $101 million of gross paid-in and contributed surplus from its parent, Liana. In 1994, Liana contributed an additional $70 million in capital. In 2005, Liana contributed an additional $45 million in capital.

The Company's capital structure at December 31, 2017 is:

| | |
|---|---|
| Common Stock | $ 5,000,000 |
| Paid-in and Contributed Surplus | 221,000,000 |
| Total | $ 226,000,000 |

## MANAGEMENT AND CONTROL

*Holding Company Structure*

As noted above, in 1987, the Company became a member of a newly created holding company system. The holding company, Liana, owns 100 percent of the Company's outstanding stock. Liana is wholly owned by TDCC.

In addition to the Company, Liana also owns 100 percent of the outstanding stock of Dorintal Reinsurance Limited (Dorintal). Dorintal is a reinsurer located and domiciled in Vermont.

A summarized organizational chart for the holding company system appears at the end of this report as Exhibit 2.

*Stockholders*

Stockholders are entitled to one vote in person or by proxy for each share of stock owned. A majority of the capital stock outstanding constitutes a quorum.

The bylaws provide that the annual stockholder meeting be held in April. Special meetings of the stockholders may be called at any time by the board of directors, an officer, or holder of not less than 10 percent of the outstanding stock of the Company.

*Board of Directors*

The corporate powers of the Company are exercised by a board of directors elected by the stockholder at the annual meeting. The bylaws provide that the board of directors consist of not fewer than three nor more than 15 directors, as determined by the stockholders at each annual meeting. Directors need not be stockholders. Each director holds office until the next annual meeting. Any vacancy on the board of directors occurring between annual meetings may be filled by the remaining directors for the unexpired term.

Special meetings of the board are held at such times as called by the chairman of the board, the president, the secretary, or any member of the board, if a written request is sent to each director.

Directors serving as of December 31, 2017 are as follows:

| Name | Affiliation |
|---|---|
| Daniel G. Barnes* | Vice President and Controller of the Company |
| David E. Chamberlain | Executive Vice President of the Company |
| Ronald C. Edmonds | Vice President and Controller of TDCC |
| Charles J. Kalil | General Counsel & Executive Vice President of TDCC |
| Melanie Kalmar | Chief Information Officer of TDCC |
| Gary J. McGuire | President and CEO of the Company |
| Veronica Dejeu | Vice President of the Company |

| | |
|---|---|
| Robert M. Sparling | Director of Portfolio Investments of TDCC |
| Howard I. Ungerleider | Chief Financial Officer of TDCC |

*Effective February 2018, Julie M. Premo replaced Daniel G. Barnes

*Committees*

The board of directors may appoint an executive committee of three or more directors, and any other committees it deems necessary. As of December 31, 2017, the board has an executive committee and a compensation committee.

*Officers*

The officers of the Company are elected by the board of directors and consist of a president, treasurer, secretary, and such other officers as determined by the board. All officers are elected annually for a term of one year and need not be a director.

Officers serving as of December 31, 2017 are as follows:

| Name | Title |
|---|---|
| Gary J. McGuire | President and Chief Executive Officer |
| David E. Chamberlain | Executive Vice President |
| John J. Blaha | Treasurer |
| Gregory E. Smith | Secretary |
| Daniel G. Barnes* | Vice President and Controller |
| Veronica Dejeu | Vice President |

*Effective February 2018, Julie M. Premo replaced Daniel G. Barnes

## TERRITORY AND PLAN OF OPERATION

The Company writes direct business for its ultimate parent, TDCC, and its subsidiaries and affiliates. Approximately 60 percent of TDCC insurance premiums flow through the Company, which acts as a conduit to the commercial market. These policies are in manuscript form and are required to be submitted to DIFS individually, as needed. The Company's main focus is to act as a vehicle in the management of TDCC's risks. In addition, the Company focuses on generating high-quality, profitable unrelated business.

TDCC's corporate risk management department negotiates with Company personnel to obtain direct coverage. The Company's direct business is rated using independent rates developed from its own statistical experience and commercial market rates.

The Company's treaty business consists of both pro rata and excess of loss contracts.

## REINSURANCE

The Company assumed slightly over 65 percent of its business from unrelated companies in 2017. The assumptions cover most property and liability lines, with the majority of the assumptions in private passenger automobile physical damage and liability, homeowners, commercial multi-peril and other liability. The majority of the Company's assumed business is placed through various brokers.

Under the Company's Direct Property All Risk Program, its retention is 35 percent of $40 million excess of a $10 million deductible plus an $11 million part of $100 million in excess of $1,100 million. The Company cedes the direct property business on an occurrence basis under two different contracts. The first contract is reinsured with Dorintal, an affiliated, unauthorized reinsurer. This cession provides coverage for 35 percent of $40 million excess of the $10 million deductible plus an $11 million part of $100 million in excess of $1,100 million. The final cession has seven sub-layers and is for losses in excess of $50 million with an ultimate limit of $1.2 billion, which is the limit of the original TDCC policy. The largest reinsurers on these layers are: National Union Fire Insurance Company of Pittsburgh, Pennsylvania, HDI (Haftpflichtverband), Axis Re, ACE American Insurance Company, Allianz Underwriters Insurance, and Zurich American Insurance Company. These reinsurers are all authorized in Michigan, except for HDI.

The Company has a quota share contract with Dorintal. This contract covers all the reinsurance issued by the Company for risks unrelated to TDCC. The Company retained 55 percent of business under this contract during 2017.

## GROWTH OF THE COMPANY

The data below depicts the growth of the Company from December 31, 2014 to December 31, 2017.

| Year | Admitted Assets | | Liabilities | Capital and Surplus |
|---|---|---|---|---|
| 2014* | $ 1,565,932,150 | | $ 1,031,120,723 | $ 534,811,427 |
| 2015 | $ 1,536,155,480 | | $ 1,022,109,269 | $ 514,046,211 |
| 2016 | $ 1,522,889,454 | | $ 990,931,562 | $ 531,957,892 |
| 2017* | $ 1,547,868,728 | | $ 968,175,731 | $ 579,692,997 |
| **Year** | **Net Premiums Written** | | **Net Premiums Earned** | **Premiums Written to Surplus** |
| 2014* | $ 171,664,951 | | $ 179,074,229 | 0.32:1 |
| 2015 | $ 153,669,861 | | $ 156,728,878 | 0.30:1 |
| 2016 | $ 172,674,012 | | $ 165,065,546 | 0.32:1 |
| 2017* | $ 157,296,004 | | $ 153,925,856 | 0.27:1 |
| **Year** | **Losses Incurred** | **Loss Ratio** | **Loss Adjustment Expense Incurred** | **Loss Adjustment Expense Ratio** |
| 2014* | $ 99,215,386 | 55.4% | $ 27,528,772 | 15.4% |
| 2015 | $ 85,593,064 | 54.6% | $ 8,676,689 | 5.5% |
| 2016 | $ 80,218,229 | 48.6% | $ 3,790,211 | 2.3% |
| 2017* | $ 126,422,871 | 82.1% | $ (14,379,814) | (9.3%) |
| **Year** | **Underwriting Expenses Incurred** | | **Underwriting Expense Ratio** | **Combined Loss and Expense Ratio** |
| 2014* | $ 30,666,431 | | 17.9% | 88.6% |
| 2015 | $ 27,985,849 | | 18.2% | 78.4% |
| 2016 | $ 32,109,554 | | 18.6% | 69.5% |
| 2017* | $ 34,834,092 | | 22.1% | 94.9% |

* Per Report of Examination.

**DORINCO REINSUANCE COMPANY**
**BALANCE SHEET**
As of December 31, 2017

| | |
|---|---|
| **ASSETS** | |
| Bonds | $ 1,021,851,032 |
| Preferred Stocks | 642,234 |
| Common Stocks | 5,999,250 |
| Real Estate | 1,008,035 |
| Cash and Short-Term Investments | 148,992,159 |
| Other Invested Assets | 249,480,922 |
| Receivables for Securities | 981,532 |
| Investment Income Due and Accrued | 8,614,910 |
| Uncollected Premiums and Agents' Balances | 38,188,334 |
| Deferred Premiums | 41,642,922 |
| Amounts Recoverable from Reinsurers | 15,678,045 |
| Funds Held by or Deposited with Reinsured Companies | 7,381,738 |
| Net Deferred Tax Asset | 6,064,510 |
| Receivables from Parent, Subsidiaries and Affiliates | 664,608 |
| Aggregate Write-ins for Other Than Invested Assets | 678,497 |
| Total Admitted Assets | $ 1,547,868,728 |
| **LIABILITIES, CAPITAL AND SURPLUS** | |
| Losses | $ 613,021,858 |
| Reinsurance Payable on Paid Losses | 7,424,210 |
| Loss Adjustment Expenses | 184,239,681 |
| Other Expenses | 2,772,973 |
| Taxes, Licenses and Fees | 3,775,736 |
| Current Federal Income Taxes | 23,965,018 |
| Unearned Premiums | 75,100,632 |
| Ceded Reinsurance Premiums Payable | 51,005,381 |
| Funds Held by Company Under Reinsurance Treaties | 1,783,576 |
| Amounts Withheld by Company for Account of Others | 9,226 |
| Provision for Reinsurance | 3,116,998 |
| Payable for Securities | 1,960,442 |
| Total Liabilities | $ 968,175,731 |
| | |
| Common Capital Stock | $ 5,000,000 |
| Gross Paid-In and Contributed Surplus | 221,000,000 |
| Unassigned Funds | 353,692,997 |
| Total Capital and Surplus | $ 579,692,997 |
| | |
| Total Liabilities, Capital and Surplus | $ 1,547,868,728 |

**DORINCO REINSURANCE COMPANY**
**STATEMENT OF INCOME**
For the Year Ending December 31, 2017

| | |
|---|---|
| **UNDERWRITING INCOME** | |
| Premiums Earned | $ 153,925,856 |
| | |
| Deductions: | |
| Losses Incurred | $ 126,422,871 |
| Loss Adjustment Expenses Incurred | (14,379,814) |
| Other Underwriting Expenses Incurred | 34,834,092 |
| Total Underwriting Deductions | $ 146,877,149 |
| | |
| Net Underwriting Gain | $ 7,048,707 |
| | |
| **INVESTMENT INCOME** | |
| Net Investment Income Earned | $ 31,625,954 |
| Net Realized Capital Gains | 69,181,073 |
| Net Investment Gain | $ 100,807,027 |
| | |
| **OTHER INCOME** | |
| Net Loss from Agents or Premiums Balances Charged Off | $ (58) |
| Aggregate Write-ins for Miscellaneous Income | 2,406,834 |
| Total Other Income | $ 2,406,776 |
| | |
| Net Income Before Federal Income Taxes | $ 110,262,510 |
| Federal Income Taxes Incurred | (1,883,437) |
| Net Income | $ 112,145,947 |

**DORINCO REINSURANCE COMPANY**
**STATEMENT OF CAPITAL AND SURPLUS**
For the Year Ending December 31, 2017

| | |
|---|---|
| Capital and Surplus, December 31, 2016 | $ 531,957,892 |
| | |
| Net Income | $ 112,145,947 |
| Change in Net Unrealized Capital Losses | (36,874,131) |
| Change in Net Unrealized Foreign Exchange Capital Gain | 34,576 |
| Change in Net Deferred Income Tax | (24,468,903) |
| Change in Nonadmitted Assets | (3,264,154) |
| Change in Provision for Reinsurance | 161,770 |
| Net Change in Capital and Surplus | $ 47,735,105 |
| | |
| Capital and Surplus, December 31, 2017 | $ 579,692,997 |

**DORINCO REINSURANCE COMPANY**
**STATEMENT OF CASH FLOWS**
For the Year Ending December 31, 2017

| | |
|---|---|
| **OPERATIONS** | |
| Premiums Collected | $ 163,545,159 |
| Net Investment Income | 33,035,399 |
| Miscellaneous Income | 1,569,732 |
| Total | $ 198,150,290 |
| Benefit and Loss Related Payments | $ 105,955,778 |
| Commissions, Expenses Paid, and Aggregate Write-ins | 53,951,798 |
| Federal Income Taxes Paid | 40,472,959 |
| Total | $ 200,380,535 |
| Net Cash from Operations | $ (2,230,245) |
| **INVESTMENTS** | |
| Proceeds from Investments Sold, Matured or Repaid: | |
| Bonds | $ 141,802,805 |
| Stocks | 444,591,777 |
| Other Invested Assets | 61,203,779 |
| Miscellaneous Proceeds | 971,209 |
| Total Investment Proceeds | $ 648,569,570 |
| Cost of Investments Acquired: | |
| Bonds | $ 222,739,590 |
| Stocks | 165,081,760 |
| Other Invested Assets | 140,990,571 |
| Miscellaneous Applications | 4,713,710 |
| Total Investments Acquired | $ 533,525,631 |
| Net Cash from Investments | $ 115,043,939 |
| **FINANCING AND MISCELLANEOUS SOURCES** | |
| Cash Provided | |
| Dividends to Stockholders | $ (20,000,000) |
| Other Cash Provided | 321,321 |
| Net Cash from Financing and Miscellaneous Sources | $ (19,678,679) |
| Net Increase in Cash and Short-Term Investments | $ 93,135,015 |
| Cash and Short-Term Investments at December 31, 2016 | 55,857,144 |
| Cash and Short-Term Investments at December 31, 2017 | $ 148,992,159 |

## NOTES TO FINANCIAL STATEMENTS

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

*Basis of Presentation*

The financial statements have been prepared in conformity with accounting practices prescribed or permitted by DIFS.

*Use of Estimates*

The preparation of financial statements in conformity with statutory accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

*Investments*

Short-term investments include all investments whose maturities, at the time of acquisition, are one year or less and are stated at amortized cost, which approximates fair value.

Bonds not backed by other loans are generally stated at amortized cost using the interest method. Bonds with NAIC designation of 3 through 6 are stated at the lower of amortized cost or fair value.

Common stocks are stated at fair value except that investments in stocks of uncombined subsidiaries and affiliates in which the Company has an interest of 20 percent or more are carried on the equity basis.

Preferred stocks are stated at cost, lower of cost or amortized cost, or fair values book value for NAIC classes 1 and 2 and the lower of book value or fair value for NAIC classes 3 through 6.

Loan-backed securities are stated at either amortized cost or the lower of amortized cost or fair value. Premiums and discounts on loan-backed bonds and structured securities are amortized using the prospective method based on anticipated prepayments at the date of purchase. Prepayment assumptions are obtained from broker/dealer survey values or internal estimates.

When applicable, the Company uses foreign exchange forward contracts to hedge currency exposures in its bond portfolio and enters into exchange-traded futures and options contracts to hedge price risk in its common stock portfolio. The Company has historically used currency and interest rate derivatives for income generation. When utilized, the Company accounts for these financial instruments at fair value and records the changes in fair value as an adjustment to unassigned funds.

*Premiums*

Premiums are earned over the terms of the related insurance policies and reinsurance contracts. Unearned premiums/reserves are established to cover the unexpired portion of premiums written.

*Losses and Loss Adjustment Expenses*

The liability for unpaid reported losses and loss adjustment expenses is based on a case-by-case estimate for all direct lines of business. A provision is also made for losses incurred but not reported. Such liabilities are necessarily based on estimates and, while management believes that the amounts provided are adequate, the ultimate liability may be in excess of or less than amounts provided. The liability for unpaid losses on business assumed is based in part on amounts reported received from ceding companies. In accordance with industry practice, adjustments of estimates and differences between estimates and amounts subsequently paid are reflected in operations as they occur.

*Federal Income Tax*

The Company joins with TDCC and its other domestic subsidiaries in filing a consolidated federal income tax return and is party to a federal income tax allocation agreement. The portion of the consolidated tax allocated to the Company is equivalent to the liability that would have been incurred on a separate-return basis. Under the tax allocation agreement between the Company and TDCC, income tax liabilities are settled when TDCC's tax payments are due. The Company retains credit for its operating losses and settles its intercompany tax balances at least annually.

## 2. CAPITAL, SURPLUS AND DIVIDEND RESTRICTIONS

Dividend payments are restricted by Michigan law. The maximum amount of dividends that can be paid without prior approval from DIFS is subject to restrictions relating to statutory surplus. The maximum dividend payout, that may be made without prior approval in 2018 is $57,969,300, which is 10 percent of capital and surplus.

During 2016, the Company declared dividends payable to Liana subject to the approval of DIFS. The Company paid $20,000,000 in extraordinary dividends during 2017.

## 3. RELATED PARTY TRANSACTIONS

The Company writes various policies for TDCC as primary insurer and acts as a reinsurer of certain other TDCC risks.

## 4. BENEFIT PLANS

The Company's employees are covered under TDCC's benefit plans. The Company participates with other subsidiaries of TDCC in a U.S. pension plan. The basic pension plan, which covers all employees, is a defined-benefit plan, with benefits based on length of service and the employee's three highest consecutive years of compensation, as defined by plan documents. The funding policy is to contribute to those plans when pension laws and economics either require or encourage funding.

In addition to pension benefits, the Company participates in other healthcare and life insurance benefit plans sponsored by TDCC, including those for retired employees. TDCC funds the cost of these healthcare and life insurance benefits in the year incurred.

The expenses of these plans are allocated to the Company in accordance with an intercompany cost-sharing arrangement. The pension expense of the Company was approximately $183,773 for 2017. The Company's share of postretirement healthcare benefits was approximately $76,946 for 2017.

## 5. COMMITMENTS AND CONTINGENCIES

At December 31, 2017, the Company had $55,958,145 in unpaid capital commitments related to its investments in certain limited partnerships.

The Company is party to a number of claims and lawsuits arising out of the normal course of business. In the opinion of management, the possibility is remote that the aggregate of all claims and lawsuits will have a materially adverse impact on the Company's statutory-basis financial statements.

## EXAMINATION FINDINGS AND RECOMMENDATIONS

There are no findings or recommendations resulting from this examination.

## CONCLUSION

As of our December 31, 2017 examination, we determined the Company to have admitted assets of $1,547,868,728, liabilities of $968,175,731, and capital and surplus of $579,692,997.

We appreciate the cooperation and assistance extended by the officers and employees of the Company.

In addition to the undersigned, Tina L. Zuker, PIR, and Carrie L. Enos, PIR, examiners of DIFS; and SGRisk, LLC., consulting actuaries, participated in the examination.

Respectfully submitted,

John C. Sands, CFE
Examiner-in-Charge
Department of Insurance and Financial Services

SGRISK
ACTUARIES
CONSULTANTS

**STATEMENT OF ACTUARIAL OPINION**
for Dorinco Reinsurance Company

as of December 31, 2017

## IDENTIFICATION

I, Benjamin S. Newville, am associated with the firm of SGRisk, LLC. I am a Fellow of the Casualty Actuarial Society and a Member of the American Academy of Actuaries and meet its qualification standards. SGRisk, LLC was selected to work with State of Michigan Department of Insurance and Financial Services ("DIFS") examiners to review the work of the Dorinco Reinsurance Company ("Dorinco") and their actuaries and issue an opinion on the adequacy of the actuarially determined liabilities of the Company as of December 31, 2017.

## SCOPE

I have examined the reserves listed below as shown in the Financial Statement of Dorinco as prepared for filing with state regulatory officials, as of December 31, 2017, and reviewed information provided to me through September 5, 2018.

| | |
|---|---|
| Net Case Reserves for Losses and Loss Adjustment Expenses | $ 184,240,000 |
| Net Reserve for Incurred but Not Reported Losses | 613,022,000 |
| Total Net | $ 797,262,000 |

In forming my opinion on the loss and loss adjustment expense reserves, I relied upon data and related information prepared by Dorinco. In this regard, I relied on the December 31, 2017 Actuarial Report, dated April 30, 2018 authored by Yi Jing, FCAS, MAAA of Willis Towers Watson. I relied upon the DIFS examination team to review the data for accuracy and completeness. I evaluated the data used directly in my analysis for reasonableness and consistency. My evaluation did not reveal any data materially affecting my analysis that fell outside of the range of reasonable possibilities. In performing this evaluation, I have assumed that the DIFS and Dorinco (a) used its best efforts to supply accurate and complete data and (b) did not knowingly provide any inaccurate data. to the actuarial analysis. My examination included the use of such actuarial assumptions and methods and such tests of the calculations as I considered necessary.

My review was limited to the loss reserve items included and did not include an analysis of any income statement items or other balance sheet items. My opinion on the reserves is based upon the assumption that all reserves are backed by valid assets which have suitably scheduled maturities and/or adequate liquidity to meet cash flow requirements.

## OPINION

In my opinion, the loss reserve amounts:

A. Meet the requirements of the insurance laws of the State of Michigan.

B. Are consistent with reserves computed in accordance with accepted actuarial standards and principles, including the Casualty Actuarial Society's Statement of Principles Regarding Property and Casualty Loss and Loss Adjustment Expense Reserves.

C. Make a reasonable provision for all unpaid loss and loss adjustment expense obligations of Dorinco under the terms of its contracts and agreements.

Losses and expenses classified as defense and cost containment were combined in the development of estimates in accordance with accepted actuarial practice.

## RELEVANT COMMENTS

Insurance laws and regulations shall at all times take precedence over the actuarial standards and principles.

The provision for unpaid losses and loss expenses is within the range of what I consider to be reasonable estimates.

Risk of Material Adverse Deviation

There are a variety of risk factors that expose Dorinco Reinsurance Company's reserves to significant variability. I identified the major risk factors as:

1. Excess of loss reinsurance coverage provided by Dorinco, which results in highly volatile and uncertain loss reserves
2. Development information for particular lines of business are sparse

The absence of other risk factors from this listing does not imply that additional risk factors will not be identified in the future as being a significant influence on Dorinco Reinsurance Company reserves.

I believe that the risk factors above, coupled with the variability that is inherent in any estimate of unpaid loss and loss adjustment expense obligations, could result in material adverse deviation from the carried net reserve amounts. By this, I mean that the probability of such a deviation occurring is not so low as to be remote. In making this determination, I considered and agree with Mr. Jing's estimate that a material adverse deviation to be one in which the actual net unpaid losses and loss adjustment expenses exceed the total loss reserves by an amount greater than 20% of surplus or $115,939,000. In selecting this materiality standard, I considered several factors, such as Dorinco's assets, net position, the Dorinco's history of reserve development and the policy limits and coverages written by the Dorinco. My selection of the materiality standard was based on the fact that this opinion is prepared for the regulatory review of Dorinco. Other measures of materiality might be used for reserves that are being evaluated in a different context.

Uncertainty

In evaluating whether the reserves make a reasonable provision for unpaid losses and loss expenses, it is necessary to project future loss and loss adjustment expense payments. Actual future losses and loss adjustment expenses will not develop exactly as projected and may, in fact, vary significantly from the projections. Further, my projections make no provision for extraordinary future emergence of new classes of losses or types of losses not sufficiently represented in Dorinco's historical database or that are not yet quantifiable.

Reinsurance

Dorinco has represented that the reinsurance summary contained in the Willis Towers Watson and financial reports are materially accurate and complete, and that Dorinco has determined that these contracts should be accounted for as reinsurance under statutory accounting principles. The assessment of whether a reinsurance contract meets the requirements for reinsurance accounting is a management and accounting decision. I express no opinion as to whether Dorinco's ceded reinsurance contracts meet the requirements for reinsurance accounting.

I am not aware of any reinsurance transaction that either has been or should have been accounted for as retroactive reinsurance or as financial reinsurance (defined as contractual arrangements that do not include transfer of both timing and underwriting risk).

There are no material reinsurance recoverables on paid losses that are classified as over 90 days past due. Further, Dorinco has represented that it knows of no uncollectible reinsurance cessions and no disputed reinsurance balances.

Regarding Dorinco's reinsurers, cessions that total approximately $308 million, or approximately 53% of surplus are the responsibility of an affiliated company that is unrated but fully secured. There are no material reinsurance recoverables with assuming companies that were rated vulnerable (B or lower) by A.M. Best or that were reported to be in liquidation, conservation or receivership. I have performed no additional review of the collectability of Dorinco's reinsurance and am expressing no opinion on the financial condition of its reinsurers.

Based on the information cited above, my opinion on the loss and loss adjustment expense reserves net of ceded reinsurance assumes that all ceded reinsurance is valid and collectible. I am not aware of any reinsurance that Dorinco treated as collectible but should have treated as uncollectible. I have not anticipated any contingent liabilities that could arise if the reinsurers do not meet their obligations to Dorinco as reflected in the data and other information provided to me.

**Other Disclosures**

Salvage and Subrogation

Dorinco's total carried reserves are net of anticipated salvage and subrogation recoveries. Dorinco estimates no anticipated salvage and subrogation recoverable.

Discounting

Dorinco does not reduce reserves to reflect discounting.

Underwriting Pools and Associations

Dorinco represents that it records the loss and loss expense reserves reported from the small number of pools and associations that it participates in. This reserve represents a small portion of Dorinco reserves.

Asbestos and Environmental Exposure

I have reviewed Dorinco's exposure to asbestos and environmental claims. In my opinion, there is a chance of material liability, due to 1) reported asbestos and environmental claims, 2) the coverages written by the Dorinco and 3) dates of coverage and loss.

Extended Loss and Expense Reserves

Dorinco has represented that it does not provide extended loss and expense coverage within professional liability claims-made contracts and therefore carries no extended loss and expense reserves.

Contractual Liability for Service Contracts

Dorinco has represented that it does not provide contractual liability coverage for service contracts (vehicles, appliances, etc.).

Pre-Paid Loss Adjustment Expenses

Dorinco has represented that the reserve for unpaid loss adjustment expenses was established based on the estimated amount to adjust all open and unreported claims, regardless of pre-payments made to third party claims administrators.

Long Duration Contracts

Dorinco writes no policies or contracts related to single or fixed premium policies with coverage periods of thirteen months or greater that are non-cancelable and not subject to premium increase (excluding financial guaranty contracts, mortgage guaranty contracts, and surety contracts).

IRIS Ratios

There are no exceptional values in the One-Year Reserve Development to Surplus, Two-Year Reserve Development to Surplus and the Estimated Current Reserve Deficiency to Surplus tests.

**SUPPORTING DOCUMENTS AND USAGE**

An actuarial report, including underlying actuarial work papers supporting the findings expressed in this Statement of Actuarial Opinion, will be provided to the DIFS to be retained for a period of seven years in the administrative offices of the DIFS and made available for regulatory examination. This Statement of Actuarial Opinion is solely for the use of, and only to be relied upon by Dorinco and the State of Michigan Department of Insurance Services with which it files its Annual Statement.

Methods and Assumptions

This is my first review of the Dorinco Reinsurance Company.

**"/s/ Benjamin S. Newville"**
**Benjamin S. Newville, FCAS**, MAAA
***Senior Consultant***
***SGRisk, LLC***
1050 Wall Street West Ste. 610
Lyndhurst, NJ 07071
newville@sgrisk.com
(201) 935-3434
October17, 2018

## Exhibit A: SCOPE

| Loss and Loss Adjustment Expense Reserves: | Amount |
|---|---|
| 1. Unpaid Losses (Liabilities, Surplus and Other Funds page, Col 1, Line 1) | $613,021,858 |
| 2. Unpaid Loss Adjustment Expenses (Liabilities, Surplus and Other Funds page, Col 1, Line 3) | $184,239,681 |
| 3. Unpaid Losses – Direct and Assumed (Should equal Schedule P, Part 1, Summary, Totals from Cols. 13 and 15, Line 12 * 1000) | $915,147,000 |
| 4. Unpaid Loss Adjustment Expenses – Direct and Assumed (Should equal Schedule P, Part 1, Summary, Totals from Cols. 17, 19 and 21, Line 12 * 1000) | $190,723,000 |
| 5. The Page 3 write-in item reserve, "Retroactive Reinsurance Reserve Assumed" | $0 |
| 6. Other Loss Reserve items on which the Appointed Actuary is expressing an Opinion (list separately, adding additional lines as needed) | $0 |

| Premium Reserves: | Amount |
|---|---|
| 7. Reserve for Direct and Assumed Unearned Premiums for Long Duration Contracts | $0 |
| 8. Reserve for Net Unearned Premiums for Long Duration Contracts | $0 |
| 9. Other Premium Reserve items on which the Appointed Actuary is expressing an Opinion (list separately, adding additional lines as needed) | $0 |

# STATEMENT OF ACTUARIAL OPINION

## Exhibit B: DISCLOSURES

DATA TO BE FILED IN BOTH PRINT AND DATA CAPTURE FORMATS

Note Exhibit B should be completed for Net dollar amounts included in the SCOPE. If an answer would be different for Direct and Assumed amounts, identify and discuss within RELEVANT COMMENTS.

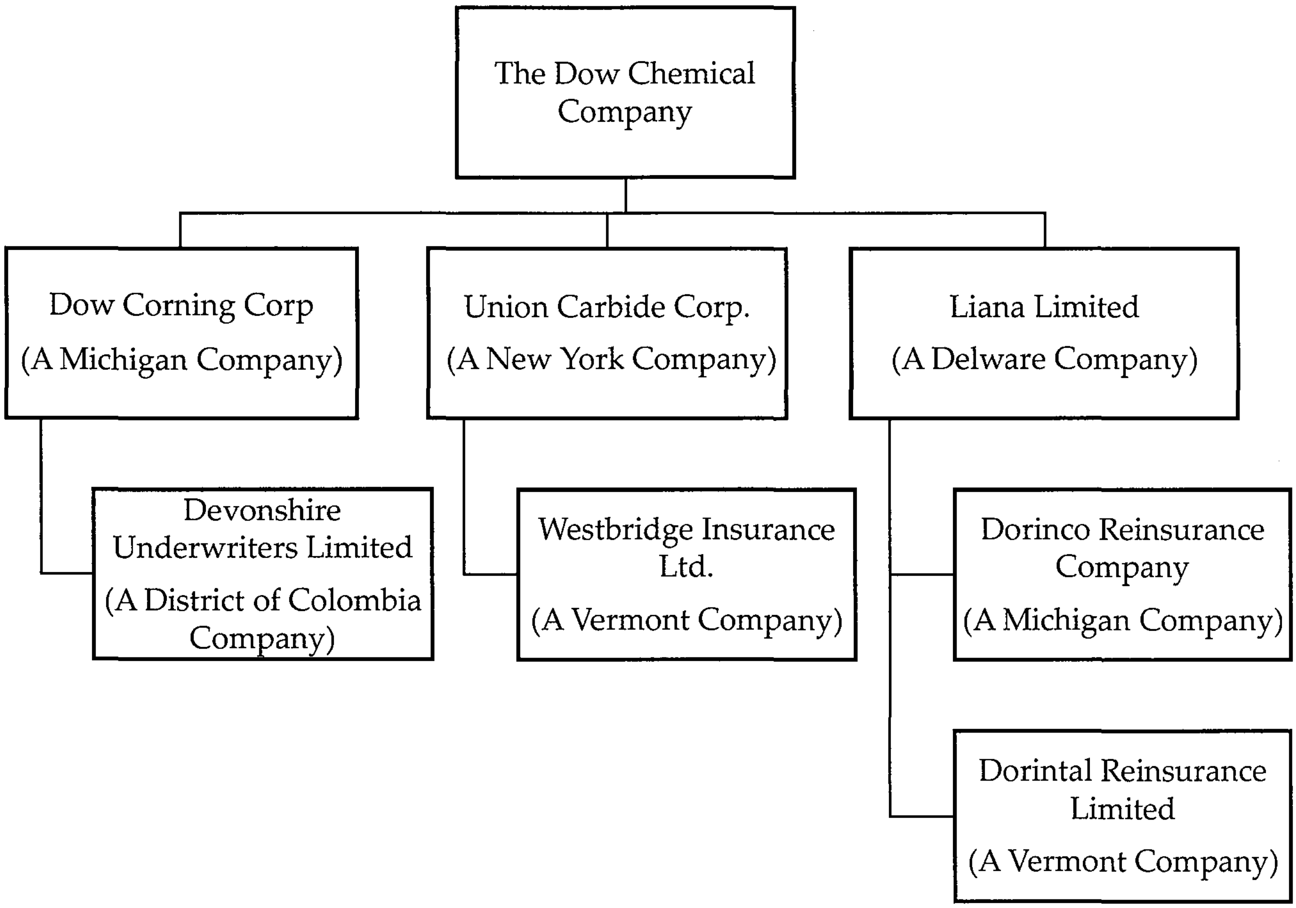
1. Name of the Actuary Last: Newville First: Benjamin Middle: Simon Suffix: ____

2. The Actuary assists the State of Michigan in its examination .......... C
3. The Actuary is a Qualified Actuary based upon what qualification? .......... F
4. Type of Opinion, as identified in the OPINION paragraph .......... R
5. Materiality Standard expressed in US dollars (Used to Answer Question #6) .......... 115,939,600
6. Are there significant risks of Material Adverse Deviation? .......... Yes [X] No [ ] Not Applicable [ ]
7. Surplus .......... 579,692,997
8. Anticipated net salvage and subrogation included as a reduction to loss reserves as reported in Schedule P (should equal Part 1 Summary, Col. 23, Line 12 * 1000) .......... 0
9. Discount included as a reduction to loss reserves
   - 9.1 Nontabular Discount (Notes, Line 32B23, Amounts 1, 2, 3 and 4; Electronic Filing Cols. 7 ,8 ,9 and 10) .......... 0
   - 9.2 Tabular Discount (Notes, Line 32A23, Amounts 1 and 2; Electronic Filing Cols. 7 and 8) .......... 0
10. The net reserves for losses and expenses for the DORINCO's share of voluntary and involuntary underwriting DORINCOs' and associations' unpaid losses and expenses that are included in reserves shown on the Liabilities, Surplus and Other Funds page, Losses and Loss Adjustment Expenses lines .......... 0
11. The net reserves for losses and loss adjustment expenses that the DORINCO carries for the following liabilities
    - 11.1 Asbestos, as disclosed in the Notes to Financial Statements (Notes, Line 33A03D, ending net asbestos reserves for current year; Electronic Filing Col. 11) .......... 0
    - 11.2 Environmental, as disclosed in the Notes to Financial Statements (Notes, Line 33D03D, ending net environmental reserves for current year; Electronic Filing Col. 11) .......... 0
12. The total claims made extended loss and expense reserve (Greater than or equal to Schedule P Interrogatories)
    - 12.1 Amount reported as loss reserves .......... 0
    - 12.2 Amount reported as unearned premium reserves .......... 0
13. Other items on which the Appointed Actuary is providing Relevant Comment (list separately)

| 1<br>Description | 2<br>Amount |
|---|---|
| | |

* The reserves disclosed in item 11 above, should exclude amounts relating to contracts specifically written to cover asbestos and environmental exposures. Contracts specifically written to cover these exposures include Environmental Impairment Liability (post 1986), Asbestos Abatement, Pollution Legal Liability, Contractor's Pollution Liability, Consultant's Environmental Liability, and Pollution and Remediation Legal Lia

Exhibit 2


The Dow Chemical Company
Dow Corning Corp
(A Michigan Company)
Union Carbide Corp.
(A New York Company)
Liana Limited
(A Delware Company)
Devonshire Underwriters Limited
(A District of Colombia Company)
Westbridge Insurance Ltd.
(A Vermont Company)
Dorinco Reinsurance Company
(A Michigan Company)
Dorintal Reinsurance Limited
(A Vermont Company)