

# BEST'S RATING REPORT



## OBSIDIAN INSURANCE COMPANY

**Domiciliary Address:** 41 S. High Street, Suite 1700, Columbus, Ohio 43215 United States

**Administrative Office:** 57 W. 57th Street, New York, New York 10019 United States

**AMB #:** 020624

**NAIC #:** 35602

**FEIN#:** 31-0926059

**Phone:** +1-800-684-5428

**Fax:**

**Website:** N/A



**Best's Credit Rating Effective Date**

March 26, 2020

**Analytical Contacts**

Robert Raber  
Associate Director  
[Robert.Raber@ambest.com](mailto:Robert.Raber@ambest.com)  
+1(908) 439-2200 Ext. 5696

Gregory T. Williams  
Senior Director  
[Greg.Williams@ambest.com](mailto:Greg.Williams@ambest.com)  
+1(908) 439-2200 Ext. 5815

**Information**

- [Best's Credit Rating Methodology](#)
- [Understanding Best's Credit Ratings](#)
- [Market Segment Outlooks](#)

**Financial Data Presented**

The financial data in this report reflects the most current data available to the Analytical Team at the time of the rating. Updates to the financial exhibits in this report are available here: [Best's Financial Report](#).

# Obsidian Insurance Company

**AMB #:** 020624 | **NAIC #:** 35602 | **FEIN#:** 31-0926059  
**Ultimate Parent:** AMB # 044571 - Obsidian Insurance Holdings, Inc.

**Best's Credit Ratings**

**Financial Strength Rating (FSR)**

A-
Excellent
Outlook: <b>Stable</b> Action: <b>Assigned</b>

**Issuer Credit Rating (ICR)**

a-
Excellent
Outlook: <b>Stable</b> Action: <b>Assigned</b>

**Assessment Descriptors**

Balance Sheet Strength	<b>Very Strong</b>
Operating Performance	<b>Adequate</b>
Business Profile	<b>Limited</b>
Enterprise Risk Management	<b>Appropriate</b>

## Rating Rationale

### Balance Sheet Strength: **Very Strong**

- Balance sheet strength assessment placed at very strong given the start-up nature of the company.
- Risk-adjusted capital as measured by Best's Capital Adequacy Ratio (BCAR) is projected to remain well above the level of required capital throughout the initial start-up period.
- Risk-adjusted capital is primarily measured against reinsurance recoverable amounts including credit risk and dependence factors.
- Opportunity to organically advance policyholders' surplus over the near term is limited.

### Operating Performance: **Adequate**

- Performance is expected to be in-line with the expectations of fronting services organizations having a diverse mix of managing general agents and reinsurance partners.
- Income from service fees and investment returns is expected to offset underwriting-based metrics as the premium base develops.
- Net income expected subsequent to the first full year of operations.

### Business Profile: **Limited**

- An active pipeline of business is supported by healthy working relationships with managing general agents and reinsurers.
- Utilizes large and reputable financial, legal, and accounting third-party advisers.
- Plans to operate as a fronting carrier in an increasingly competitive space with a growing number of incumbents.
- Seasoned management team with extensive industry experience.
- Development of a diversified business profile may be hampered by concentration risk during the initial start-up period. This may include a geographic compression, product convergence, or limitations on reinsurance participants.

### Enterprise Risk Management: **Appropriate**

- Established responsibilities of the board and executive team with respect to risk management.
- Defined risk appetite and tolerance levels incorporated into underwriting capacity and credit risk management.
- A clear understanding of the potential risks and contingency plans exists.
- Tailored reinsurance coverage is expected to be obtained on a per program basis.

### Outlook

- The stable outlooks are in recognition of the expected quality of the initial capital contribution, attainability of the five-year business plan within an acceptable range to the initial projections, reaching the designed business profile, and successful implementation of enterprise risk management policies and procedures. Significantly favorable operating performance within the initial development period of this organization would be viewed conservatively.

### Rating Drivers

- Negative rating actions would occur if risk-adjusted capital is short of needs, actual operating results fall adversely outside the initial projections, or risk appetite and tolerance levels prove to be inadequate for the company's profile.

## Key Financial Indicators

### Best's Capital Adequacy Ratio (BCAR) Scores (%)

Confidence Level	95.0	99.0	99.5	99.6
BCAR Score	98.0	97.0	96.0	96.0

Source: Best's Capital Adequacy Ratio Model - P/C, US

Year End - December 31

Key Financial Indicators USD (000)	2019	2018	2017	2016	2015
Premiums Written:					
Net Operating Income	86	...	...	...	...
Net Income	385	...	...	...	...
Total Admitted Assets	10,064	...	...	...	...
Policyholders' Surplus	9,511	...	...	...	...

Source: BestLink® - Best's Financial Suite

Year End - December 31

Key Financial Ratios (%)	2019	2018	2017	2016	2015	Weighted Average
Profitability:						
Leverage:						
Net	0.1	...	...	...	...	...
Gross	2.0	...	...	...	...	...

Source: BestLink® - Best's Financial Suite

## Credit Analysis

### Balance Sheet Strength

Risk-adjusted capital, as measured by Best's Capital Adequacy Ratio (BCAR), is projected to remain well above the level of credit risks and retained exposure throughout the initial start-up period. The balance sheet strength is supported by a conservative investment portfolio and solid liquidity metrics. The assessment is balanced against reliance on reinsurance partners and elevated premium leverage metrics.

### Capitalization

The quality of capital is expected to remain favorable over the next five years. Initial capitalization of \$100.0 million to the enterprise is expected entirely in the form of equity. Policyholder surplus is expected to advance through retained earnings. The company is expected to remain highly liquid, especially in the first few years, with very few liabilities on their balance sheet. This is expected to dissipate as the come matures and scales operations.

Projected underwriting leverage metrics on a gross and ceded basis are in line with peer companies of similar business profiles, despite appearing adverse to industry wide composite ratio. This is acceptable given the company will rely heavily on ceding business to reinsurance partners and generating revenues from fronting fees.

Year End - December 31

Capital Generation Analysis USD (000)	2019	2018	2017	2016	2015
Beginning Policyholders' Surplus	19,137	...	...	...	...
Net Operating Income	86	...	...	...	...
Net Realized Capital Gains (Losses)	299	...	...	...	...
Net Change in Paid-In Capital and Surplus	-10,000	...	...	...	...
Other Changes in Capital and Surplus	-11	...	...	...	...
Net Change in Policyholders' Surplus	-9,626	...	...	...	...
<b>Ending Policyholders' Surplus</b>	<b>9,511</b>	...	...	...	...

Source: BestLink® - Best's Financial Suite

Year End - December 31

Liquidity Analysis	2019	2018	2017	2016	2015
Net Operating Cash Flow USD (000)	725	...	...	...	...
Current Liquidity (%)	999.9	...	...	...	...

Source: BestLink® - Best's Financial Suite

**Balance Sheet Strength (Continued...)****Asset Liability Management - Investments**

Investment management will be overseen by the CFO/COO and implemented through external portfolio managers. The composition of invested assets is expected to be 100% investment grade bonds with a relatively even split among government debt, NAIC class 1, and NAIC class 2 securities. The company expects to hold an appropriate amount of cash on hand over this time.

Composition of Cash and Invested Assets	Year End - December 31				
	2019	2018	2017	2016	2015
Total Cash and Invested Assets USD (000)	9,263	...	...	...	...
<b>Composition Percentages (%)</b>					
Unaffiliated:					
Cash and Short Term Investments	23.6	...	...	...	...
Bonds	76.4	...	...	...	...
<b>Total Unaffiliated</b>	100.0	...	...	...	...
<b>Total</b>	100.0	...	...	...	...

Source: BestLink® - Best's Financial Suite

Bonds and Short Term Investments - Distribution by Maturity (%)	Years					Average (Years)
	0-1	1-5	5-10	10-20	20+	
Government Bonds	2.5	36.2	0.5	4.7	...	4.2
Government Agencies and Municipal Bonds	32.9	9.1	12.5	0.3	...	2.6
Industrial and Miscellaneous Bonds	0.1	0.3	0.6	0.2	0.1	7.6
<b>Total Bonds</b>	35.5	45.6	13.6	5.2	0.1	3.4

Source: BestLink® - Best's Financial Suite

**Reserve Adequacy**

Reserves will be established by the company's Chief Actuary/CRO. There have been no established reserves as there is no business currently on Obsidian's books.

Loss and Loss Adjustment Expense Reserves and Development - Calendar Year	Year End - December 31				
	2019	2018	2017	2016	2015
Development to:					
Original Reserves (%)	...	...	2.7	-78.6	-60.0

Source: BestLink® - Best's Financial Suite

**Holding Company Assessment**

There will be no operations that occur at the holding company, Obsidian Insurance Holdings, Inc. The U.S. domiciled holding company was formed as a capital conduit and to provide flexibility to the organizational structure.

**Operating Performance**

On a gross basis, the company expects to be profitable in the very near term. Underwriting profitability on a net basis looks slightly different as the company expects to cede 90-95% of the premium to reinsurers. Consequently, projected results are somewhat exaggerated due to limited net premiums written and high expense ratios that result from this. Most importantly, the company projects a subtle improvement year over year as the company matures.

The company anticipates a modest ramping of gross premiums within the first five years of operations. Nevertheless, the amount of ceded premiums raise concerns related to reinsurance dependency risks. These risks are reflected in the BCAR and the balance sheet assessment.

**Operating Performance (Continued...)**

The company expects to invest 100% in investment grade bonds (U.S. Government, NAIC Class 1, and NAIC Class 2) with an average rating of 'A'.

The company estimates an average investment income yield of 2.5% which is deemed conservative and appropriate. While investment income is expected to comprise the majority of revenue within the first year, the company does not expect to rely on investment income to drive profitability. Investment income is expected to add \$2.0 million to the bottom line in the first full year of operations. Net investment income is expected to conservatively grow over the next five years to \$2.9 million.

Management anticipates slight losses in the first year of operations driven by large startup and underwriting costs offsetting minimal underwriting, fee, and investment income. This is typical of a company in this stage of development and is considered appropriate. Net income is expected to turn positive thereafter, with incremental growth annually.

**Year End - December 31**

<b>Operating and Financial Performance Ratios (%) - Composite</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>Weighted Average</b>
Calendar Year Loss and LAE Ratio	...	71.4	76.0	72.2	69.3	71.6
Expense and Policyholder Dividend Ratio	...	27.8	27.9	28.5	28.6	28.2
Combined Ratio	...	99.2	103.9	100.6	97.9	99.8
Reserve Development Ratio Impact	...	-2.6	-2.1	-1.3	-2.0	-2.0
Net Investment Yield	...	3.3	3.0	3.0	3.1	3.2
Pre-Tax Operating Return on Net Earned Premiums	...	9.7	3.8	8.3	11.5	9.2
Net Income Return on Policyholders' Surplus	...	7.9	4.9	6.3	8.4	7.4
Total Return on Policyholders' Surplus	...	2.6	12.7	8.4	5.4	7.8

Source: BestLink® - Best's Financial Suite

Industry Composite: Total US Property Casualty Industry Active Companies - BestLink® - Best's Financial Suite

**Business Profile**

Obsidian Insurance Company will serve as an admitted fronting carrier. The company expects to write multiple lines of business with risks distributed across the country. Per their business model, the company expects to work closely with reputable MGAs which whom management has lasting business relationships with to acquire books of business. Subsequently, 90-95% of the business will be ceded off to reinsurance partners, all of which are expected to maintain a rating of 'A' or greater.

Net premium concentration among the company's projected top three lines of business is expected to comprise 88% of premiums within their first year of operations. The company anticipates minimal premium diversification among these lines of business as their operations mature over the next five years.

The fronting carrier space continues to become more competitive as new entrants being in this space, along with well-capitalized incumbent carriers. The management team includes members with experience specific to the fronting / program manager space.

**Enterprise Risk Management**

The company maintains appropriate enterprise risk management practices for an entity of its complexity and scale. Broad risk standards are expected to be established at the Board level and are to be executed by members of the executive team.

Monthly reviews of company performance and semi-annual audits of MGAs helps maintain a quality of risk deemed acceptable by Obsidian's management.

**Reinsurance Summary**

Reinsurance is expected to be tailored for each program. The company expects to purchase coverage up to a 1-in-250 year event with no net after-tax loss accounting for more than 5% of surplus. The company anticipates working only with 'A' rated reinsurance entities. Entities with ratings below 'A' or non-admitted partners are expected to post collateral with Obsidian.

## Financial Statements

	Year End - December 31			
	2019		2018	
<b>Balance Sheet</b>	<b>USD (000)</b>	<b>%</b>	<b>USD (000)</b>	<b>%</b>
Cash and Short Term Investments	2,190	21.8	...	...
Bonds	7,073	70.3	...	...
<b>Total Cash and Invested Assets</b>	<b>9,263</b>	<b>92.0</b>	<b>...</b>	<b>...</b>
Other Assets	800	8.0	...	...
<b>Total Assets</b>	<b>10,064</b>	<b>100.0</b>	<b>...</b>	<b>...</b>
Loss and Loss Adjustment Expense Reserves:				
Other Liabilities	552	5.5	...	...
<b>Total Liabilities</b>	<b>552</b>	<b>5.5</b>	<b>...</b>	<b>...</b>
Capital Stock	3,592	35.7	...	...
Paid-In and Contributed Surplus	5,920	58.8	...	...
<b>Total Policyholders' Surplus</b>	<b>9,511</b>	<b>94.5</b>	<b>...</b>	<b>...</b>
<b>Total Liabilities and Surplus</b>	<b>10,064</b>	<b>100.0</b>	<b>...</b>	<b>...</b>

Source: BestLink® - Best's Financial Suite

	Year End - December 31	
	2019	2018
<b>Income Statement USD (000)</b>		
Net Losses and LAE Incurred:		
Prior Accident Years	-177	...
Underwriting Expenses Incurred	618	...
<b>Net Underwriting Income</b>	<b>-441</b>	<b>...</b>
Net Investment Income	474	...
<b>Pre-Tax Operating Income</b>	<b>33</b>	<b>...</b>
Income Taxes Incurred	-53	...
<b>Net Operating Income</b>	<b>86</b>	<b>...</b>
Net Realized Capital Gains (Losses)	299	...
<b>Net Income</b>	<b>385</b>	<b>...</b>

Source: BestLink® - Best's Financial Suite

	Year End - December 31	
	2019	2018
<b>Statement of Operating Cash Flows USD (000)</b>		
Net Losses Paid	-11	...
Expenses Paid	480	...
Net Underwriting Cash Flow	-469	...
Net Investment Income	578	...
Income Taxes Paid (Recovered)	-615	...
Net Operating Cash Flow	725	...

Source: BestLink® - Best's Financial Suite

# Obsidian Insurance Company

**Last Update**

June 10, 2020

**Identifiers**

**AMB #:** 020624

**NAIC #:** 35602

**FEIN #:** 31-0926059

**Contact Information**

Administrative Office:

57 W. 57th Street, New York,  
New York 10019  
United States

Domiciliary Address:

41 S. High Street, Suite 1700,  
Columbus, Ohio 43215  
United States

**Phone:** +1-800-684-5428

**Financial Data Presented**

The financial data in this report reflects the most current data available at the time the report was printed.

## Operations

**Date Incorporated:** February 09, 1978 | **Date Commenced:** March 01, 1978

**Domiciled:** Ohio, United States

**Licensed:** (Current since 01/07/2020). The company is licensed in AK, AZ, AR, CO, GA, ID, IL, IN, IA, KS, KY, MD, MI, MN, MO, MT, NE, NV, NM, NY, ND, OH, OK, OR, PA, SD, TN, TX, UT, WA, WV, WI and WY. It also operates on a surplus lines or non-admitted basis in New Jersey.

**Business Type:** Property/Casualty  
**Organization Type:** Stock  
**Marketing Type:** Inactive  
**Financial Size:** VII (\$50 Million to \$100 Million)

## Best's Credit Ratings

### Rating Relationship

**AM Best Rating Unit:** 020624 - Obsidian Insurance Company

Refer to the [Best's Credit Report for AMB# 020624 - Obsidian Insurance Company](#) for details regarding the rating rationale, credit analysis, and financial exhibits available at the time the credit analysis was performed.

### Best's Credit Rating History

AM Best has assigned ratings on this company since 2020. In our opinion, the company has an Excellent ability to meet their ongoing insurance obligations and an Excellent ability to meet their ongoing senior financial obligations.

The following are the most recent rating events, for longer history refer to [Rating History](#) in BestLink:

Best's Financial Strength Ratings				Best's Long-Term Issuer Credit Ratings		
Effective Date	Rating	Outlook	Action	Rating	Outlook	Action
<b>Current -</b>						
Mar 26, 2020	A-	Stable	Assigned	a-	Stable	Assigned

## Corporate Structure

**Ultimate Parent:** AMB # 044571 - Obsidian Insurance Holdings, Inc.

Based on AM Best's analysis, AMB# 044571 Obsidian Insurance Holdings, Inc. is the AMB Ultimate Parent and identifies the topmost entity of the corporate structure. Access in BestLink this company's current [Corporate Structure](#).

## Management

**Officers**

**CEO:** William Jewett



**Officers (Continued...)**

**Secretary and Chief Legal Officer:** Emily Canelo  
**Treasurer and CFO:** Craig Rappaport

**Directors**

Emily Canelo  
 J. Ryan Clark  
 William Jewett  
 Scott Niehaus  
 Craig Rappaport

**History**

**Corporate Changes**

Date	Event Type	Company Name	Current Company Name	Corporate Changes Text
02/21/2020	Name Change	OHIC Insurance Company	Obsidian Insurance Company	This company changed its name to Obsidian Insurance Company on February 21, 2020.

Search for this company in [Corporate Changes](#) in BestLink to review previous changes.

**Regulatory**

**Auditor:** Ernst & Young, LLP

An examination of the financial condition was made as of December 31, 2015, by the insurance department of Ohio. The 2019 annual independent audit of the company was conducted by Ernst & Young, LLP.

**Financial Results**

Financial exhibits presented in this report provide calculated ratios using the most recent company-filed statements available in BestLink - Best's Statement File – P/C, US. Access [Quantitative Analytical Report \(QAR\) Annual](#) and [Quarterly](#) for additional details.

**Currency:** US Dollars

**Balance Sheet Highlights**

	Year End - December 31				
	2019	2018	2017	2016	2015
<b>Ceded Reinsurance Analysis</b>					
<b>Obsidian Insurance Company</b>					
Ceded Reinsurance USD (000)	18,580	...	...	...	...
Reinsurance Recoverables to PHS (%)	195.3	...	...	...	...
Ceded Reinsurance to PHS (%)	195.3	...	...	...	...
<b>Total US Property Casualty Industry Active Companies</b>					
Business Retention (%)	83.6	85.2	81.3	81.4	82.1
Reinsurance Recoverables to PHS (%)	32.3	36.3	36.6	33.9	32.8
Ceded Reinsurance to PHS (%)	47.9	51.6	54.3	51.8	50.5

Source: BestLink® - Best's Financial Suite

	Paid & Unpaid Losses	Incurred but not reported (IBNR) losses	Unearned premiums	Other Recoverables	Total Reinsurance Recoverables
<b>2019 Reinsurance Recoverables USD (000)</b>					
US Insurers	15,024	3,556	...	...	18,580
Total (excluding US Affiliates)	15,024	3,556	...	...	18,580
<b>Grand Total</b>	15,024	3,556	...	...	18,580

Source: BestLink® - Best's Financial Suite

**Balance Sheet Highlights**

**Asset Liability Management | Investments**

	3-Months		Year End - December 31				
	2020	2019	2019	2018	2017	2016	2015
<b>Bond Portfolio</b>							
Bonds & Short Term Investments USD(000)	20,768	...	7,073	...	...	...	...
<b>By Issuer (%)</b>							
Unaffiliated Bonds:							
US Government	...	...	43.9	...	...	...	...
State, Municipal & Special Revenue	...	...	54.7	...	...	...	...
Industrial and Misc, Hybrid and SVO Identified	...	...	1.3	...	...	...	...
<b>Bonds and Short Term Investments By Private vs Public (%)</b>							
Public issues	...	...	100.0	...	...	...	...
<b>Bonds and Short Term Investments By Quality (%)</b>							
Class 1	94.9	...	99.2	...	...	...	...
Class 2	5.1	...	0.8	...	...	...	...

Source: BestLink® - Best's Financial Suite

A Best's Financial Strength Rating opinion addresses the relative ability of an insurer to meet its ongoing insurance obligations. The ratings are not assigned to specific insurance policies or contracts and do not address any other risk, including, but not limited to, an insurer's claims-payment policies or procedures; the ability of the insurer to dispute or deny claims payment on grounds of misrepresentation or fraud; or any specific liability contractually borne by the policy or contract holder. A Financial Strength Rating is not a recommendation to purchase, hold or terminate any insurance policy, contract or any other financial obligation issued by an insurer, nor does it address the suitability of any particular policy or contract for a specific purpose or purchaser.

A Best's Issue/Issuer Credit Rating is an opinion regarding the relative future credit risk of an entity, a credit commitment or a debt or debt-like security.

Credit risk is the risk that an entity may not meet its contractual, financial obligations as they come due. These credit ratings do not address any other risk, including but not limited to liquidity risk, market value risk or price volatility of rated securities. The rating is not a recommendation to buy, sell or hold any securities, insurance policies, contracts or any other financial obligations, nor does it address the suitability of any particular financial obligation for a specific purpose or purchaser.

In arriving at a rating decision, AM Best relies on third-party audited financial data and/or other information provided to it. While this information is believed to be reliable, AM Best does not independently verify the accuracy or reliability of the information. Any and all ratings, opinions and information contained herein are provided "as is," without any express or implied warranty.

Visit <http://www.ambest.com/ratings/index.html> for additional information or <http://www.ambest.com/terms.html> for details on the Terms of Use. For current ratings visit [www.ambest.com/ratings](http://www.ambest.com/ratings)

[Best's Credit Rating Methodology](#) | [Disclaimer](#) | [Best's Credit Rating Guide](#)

Copyright © 2020 A.M. Best Company, Inc. and/or its affiliates. All rights reserved.

No portion of this content may be reproduced, distributed, or stored in a database or retrieval system, or transmitted in any form or by any means without the prior written permission of AM Best. While the content was obtained from sources believed to be reliable, its accuracy is not guaranteed. For additional details, refer to our Terms of Use available at AM Best website: [www.ambest.com/terms](http://www.ambest.com/terms).

