

REPORT ON EXAMINATION

OF THE

NAVIGATORS SPECIALTY INSURANCE COMPANY

AS OF

DECEMBER 31, 2014

DATE OF REPORT

MAY 4, 2016

EXAMINER

MARY MEANEY

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NEW YORK STATE  
DEPARTMENT *of*  
FINANCIAL SERVICES

Andrew M. Cuomo  
Governor

Maria T. Vullo  
Superintendent

May 4, 2016

Honorable Maria T. Vullo  
Superintendent  
New York State Department of Financial Services  
Albany, New York 12257

Madam:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 31216 dated September 23, 2014, attached hereto, I have made an examination into the condition and affairs of Navigators Specialty Insurance Company as of December 31, 2014, and submit the following report thereon.

Wherever the designations “the Company” or “NSIC” appear herein without qualification, it should be understood to indicate Navigators Specialty Insurance Company.

Wherever the term “Department” appears herein without qualification, it should be understood to mean the New York State Department of Financial Services.

The examination was conducted at the Company’s administrative office located at 400 Atlantic Street, Stamford, CT 06901.

## 1. SCOPE OF EXAMINATION

The Department has performed a group examination of the Company, a multi-state insurer. The previous examination was conducted as of December 31, 2009. This examination covered the five year period from January 1, 2010 through December 31, 2014. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner. The examination of the Company was performed concurrently with the examination of Navigators Insurance Company.

This examination was conducted in accordance with the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners Handbook (“Handbook”), which requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks and evaluate system controls and procedures used to mitigate those risks. This examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management’s compliance with Statutory Accounting Principles and annual statement instructions.

All financially significant accounts and activities of the Company were considered in accordance with the risk-focused examination process. In addition, this examination included a review and evaluation of the Company’s own control environment assessment and an evaluation based upon the Company’s Sarbanes Oxley documentation and testing. The examiners also relied upon audit work performed by the Company’s independent public accountants when appropriate.

This examination report includes a summary of significant findings for the following items as called for in the Handbook:

- Significant subsequent events
- Company history
- Corporate records
- Management and control
- Fidelity bonds and other insurance
- Territory and plan of operation
- Growth of Company
- Loss experience
- Reinsurance
- Accounts and records
- Statutory deposits
- Financial statements
- Summary of recommendations

A review was also made to ascertain what action was taken by the Company with regard to comments and recommendations contained in the prior report on examination.

This report on examination is confined to financial statements and comments on those matters that involve departures from laws, regulations or rules, or that are deemed to require explanation or description.

## 2. DESCRIPTION OF COMPANY

NSIC was incorporated under the laws of the State of New York on December 1, 1988 as the Pilot Insurance Company. It commenced business on October 17, 1989 and was renamed NIC Insurance Company effective January 23, 1990. The current name, Navigators Specialty Insurance Company, was adopted on January 4, 2007.

As of December 31, 2014, capital paid in was \$5,000,000 consisting of 250 shares of \$20,000 par value per share common stock. Gross paid in and contributed surplus was \$86,000,000. This has not changed during the examination period.

### A. Management

Pursuant to NSIC's charter and by-laws, management of the Company is vested in a board of directors consisting of not less than thirteen or more than twenty-one members. The board of directors meets three to four times during each calendar year. As of December 31, 2014, the board of directors was comprised of the following seventeen members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
H. Clay Bassett Pound Ridge, NY	Senior Vice President and Chief Underwriting Officer, Navigators Group, Inc.
Stephen R. Coward London, UK	President of Navigators Technical Risk, Navigators Underwriting Agency, Ltd.
Ciro M. DeFalco Manhasset, NY	Senior Vice President and Chief Financial Officer, Navigators Group, Inc.

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
R. Scott Eisdorfer Trumbull, CT	Senior Vice President and Chief Administrative Officer, Navigators Group, Inc.
Stanley A. Galanski Ridgefield, CT	President and Chief Executive Officer, Navigators Group, Inc.
Paul Hennessy London, UK	President, Navigators Holdings (UK) Ltd.
Noel Higgitt Redwood City, CA	Executive Vice President of Field Operations, Navigators Management Company, Inc.
Christopher A. Johnson, Oakland, CA	Regional Vice President of Marine, Navigators Management Company, Inc.
Russell J. Johnson Seaford, NY	Senior Vice President of Marine, Navigators Management Company, Inc.
Denise M. Lowsley Greenwich, CT	Senior Vice President and Global Human Resources Officer, Navigators Group, Inc.
Emily B. Miner Irvington, NY	Senior Vice President, General Counsel and Secretary, Navigators Group, Inc.
Gregory D. Olson Seattle, WA	Senior Vice President, General Counsel and Secretary, Navigators Management Company, Inc.
Trisha H. Rozas Pound Ridge, NY	Chief Information Officer, Navigators Management Company, Inc.
Jeff L. Saunders Hinsdale, IL	President, Navigators Management Company, Inc.
Vincent C. Tizzio Atlantic Hylands, NJ	President and Chief Executive Officer, Navigators Management Company, Inc.
Arya M. Yarpezhskan Cornwall on Hudson, NY	Chief Risk Officer, Navigators Group, Inc.
Mark A. Yunque Stamford, CT	Chief Actuarial Officer, Navigators Group, Inc.

This board of directors is the same as that of NSIC's parent, Navigators Insurance Company ("NIC".) A review of the minutes of the board of directors' meetings held during the examination period indicated that the meetings were generally well attended with the exception of Noel Higgitt, who attended less than 50% of the meetings for which he was eligible to attend.

Members of the board have a fiduciary responsibility and must evince an ongoing interest in the affairs of the insurer. It is essential that board members attend meetings consistently and set forth their views on relevant matters so that the board may reach appropriate decisions. Individuals who fail to attend at least one-half of the regular meetings do not fulfill such criteria. It is recommended that board members who are unable or unwilling to attend meetings consistently should resign or be replaced.

As of December 31, 2014, the principal officers of NSIC were comprised of four members as follows:

<u>Name</u>	<u>Title</u>
Stanley A. Galanski	President and Chief Executive Officer
Ciro M. DeFalco	Senior Vice President and Chief Financial Officer
Emily B. Miner	Senior Vice President, General Counsel and Secretary
Ellen K. Dion	Vice President and Treasurer

B. Territory and Plan of Operation

As of December 31, 2014, the Company did not write any business in New York. NSIC underwrites its business on a surplus lines basis in the other 49 states and the District of Columbia.

As of the examination date, NSIC was authorized to transact the kinds of insurance as defined in the following numbered paragraphs of Section 1113(a) of the New York Insurance Law:

<u>Paragraph</u>	<u>Line of Business</u>
3	Accident & health
4	Fire
5	Miscellaneous property
6	Water damage
7	Burglary and theft
8	Glass
9	Boiler and machinery
10	Elevator
11	Animal
12	Collision
13	Personal injury liability
14	Property damage liability
15	Workers' compensation and employers' liability
16	Fidelity and surety
17	Credit
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine
21	Marine protection and indemnity
29	Legal services

Based on the lines of business for which NSIC is licensed, its current capital structure and pursuant to the requirements of Articles 13 and 41 of the New York Insurance Law NSIC is required to maintain a minimum surplus to policyholders in the amount of \$4,400,000.

The Navigators Agencies produce business for NSIC and its parent, NIC. Both companies specialize in writing marine and marine-related lines of business, specialty liability insurance and professional liability coverages. Navigators Management Company, Inc. manages the insurance business and operations of NSIC and NIC.

The following schedule shows the direct premiums written by the Company during the five-year examination period January 1, 2010 through December 31, 2014 detailed as follows:

<u>Calendar Year</u>	<u>Total Premiums</u>
2010	\$117,272,906
2011	\$150,357,806
2012	\$207,586,040
2013	\$254,619,048
2014	\$316,193,511

C. Reinsurance

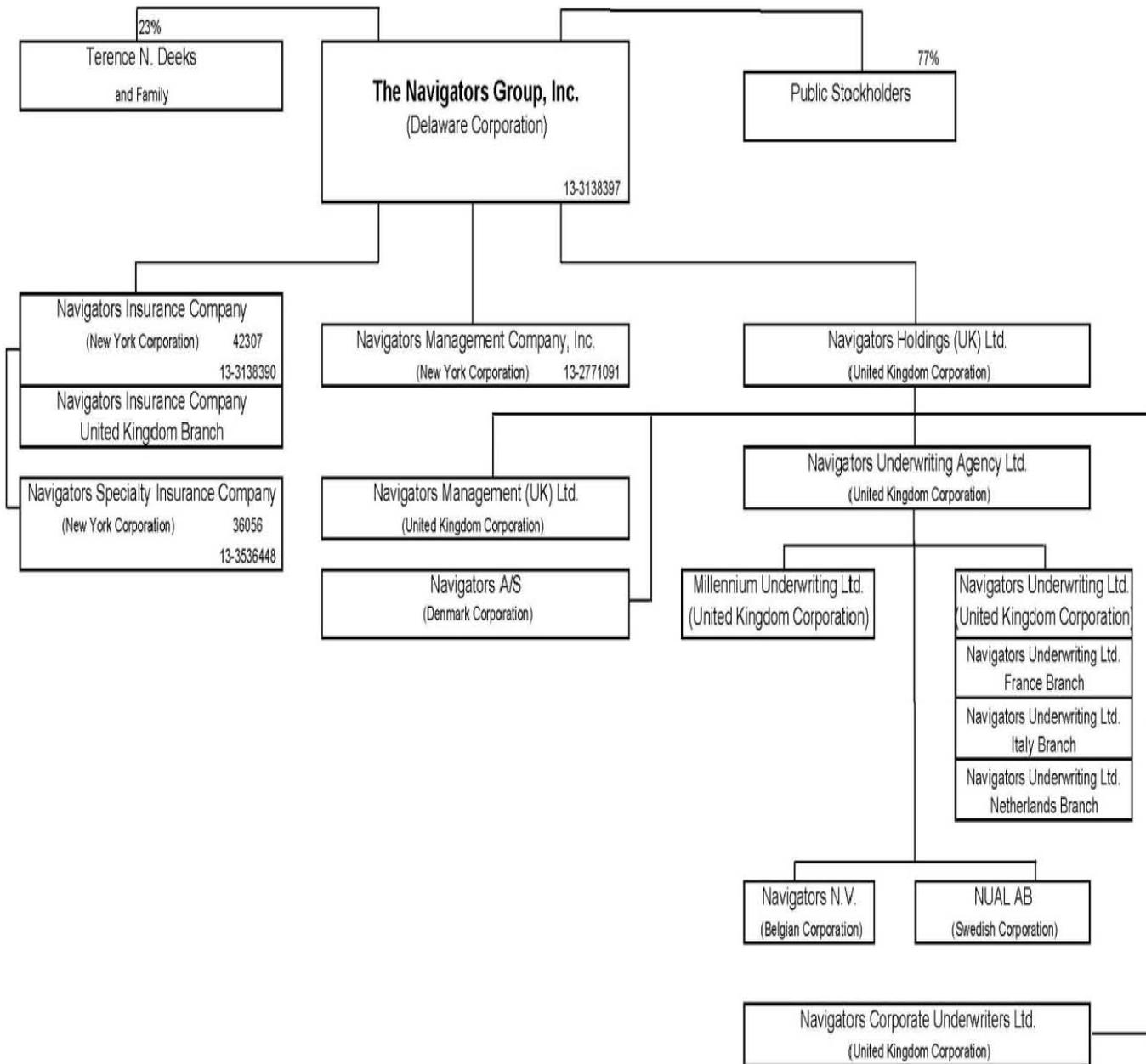
NSIC did not assume any business during the examination period. NSIC cedes 100% of its business to its parent, NIC, pursuant to the terms of an inter-company quota share reinsurance agreement. This agreement became effective on January 1, 1999, when NSIC transferred all of its outstanding losses, loss adjustment expenses, and unearned premiums to NIC pursuant to a commutation agreement. The agreement was approved by the Department.

D. Holding Company System

NSIC is a member of the Navigators Group, Inc. NSIC is a wholly-owned subsidiary of NIC, a New York corporation, which is 100% owned by the Navigators Group, Inc. The Navigators Group Inc. is a publicly traded holding company domiciled in the state of Delaware which is 23% owned by Terence Deeks and family. Mr. Deeks has been deemed to be the ultimate controlling person, as set forth in Section 1501 of the New York Insurance Law.

A review of the Holding Company Registration Statements filed with this Department indicated that such filings were complete and were filed in a timely manner pursuant to Article 15 of the New York Insurance Law and Department Regulation 52.

The following is a chart of the holding company system as of December 31, 2014:



Note: All direct and indirect subsidiaries of The Navigators Group, Inc. are 100% owned.

As of December 31, 2014, NSIC was party to the following agreements with other members of its holding company system:

Agency Management Agreement

NSIC participates in an agency agreement with Navigators Management Company (“NMC”). Pursuant to the terms of the agreement, NMC underwrites and services various lines of business on behalf of NSIC. NMC also provides office space and employees for use by NSIC. The agreement has been in place since January 1, 2002 and was approved by the Department pursuant to the provisions of Section 1505 of the New York Insurance Law.

Tax Allocation Agreement

NSIC participates in a tax allocation agreement with its parent company and members of its holding company group. The agreement was effective December 31, 1983 and was amended numerous times to add participants and to amend various terms and conditions. It was submitted to the Department pursuant to the provisions of Department Circular Letter No. 33 (1979).

Inter-Company Reinsurance Agreement

As noted in Section 2C of this report, NSIC participates in an inter-company quota share reinsurance agreement in which NSIC cedes 100% of its premiums written to its parent, NIC. The agreement was effective January 1, 1999 and was approved by the Department pursuant to the provisions of Section 1505 of the New York Insurance Law.

E. Significant Operating Ratios

These ratios were not calculated because NSIC cedes 100% of its business to its parent, NIC. Therefore these ratios are not relevant.

### 3. FINANCIAL STATEMENTS

#### A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2014 as reported by the Company:

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$130,974,720	\$ 0	\$130,974,720
Cash, cash equivalents and short-term investments	2,693,087	0	2,693,087
Receivables for securities	3,644	0	3,644
Investment income due and accrued	711,388	0	711,388
Uncollected premiums and agents' balances in the course of collection	26,292,835	0	26,292,835
Net deferred tax asset	<u>8,364</u>	<u>8,364</u>	<u>0</u>
Total assets	<u>\$160,684,038</u>	<u>\$8,364</u>	<u>\$160,675,674</u>
 <u>Liabilities, surplus and other funds</u>			
 <u>Liabilities</u>			
Losses and loss adjustment expenses			\$ 0
Other expenses (excluding taxes, licenses and fees)			35,890
Current federal and foreign income taxes			1,324,507
Net deferred tax liability			44,901
Ceded reinsurance premiums payable (net of ceding commissions)			26,292,835
Payable to parent, subsidiaries and affiliates			<u>8,518</u>
Total liabilities			\$27,706,651
 <u>Surplus and Other Funds</u>			
Common capital stock		\$ 5,000,000	
Gross paid in and contributed surplus		86,000,000	
Unassigned funds (surplus)		<u>41,969,021</u>	
Surplus as regards policyholders			<u>132,969,021</u>
Total liabilities, surplus and other funds			<u>\$160,675,672</u>

Note: The Internal Revenue Service is in the process of auditing tax years 2010 through 2012. The Internal Revenue Service has not yet begun to audit tax returns covering tax years 2013 and 2014. The examiner is unaware of any potential exposure of the Company to any tax assessment and no liability has been established herein relative to such contingency.

B. Statement of Income

The Company cedes 100% of its business to its parent therefore no underwriting income is reported. The net income, for the five-year examination period January 1, 2010 through December 31, 2014, was \$17,414,336, detailed as follows:

Investment Income

Net investment income earned	\$22,184,358	
Net realized capital gain	<u>3,019,097</u>	
Net investment gain		25,203,455

Other Income

Net gain or (loss) from agents' or premium balances charged off	\$	0	
Finance and service charges not included in premiums		0	
Aggregate write-ins for miscellaneous income		<u>0</u>	
Total other income			<u>0</u>
Net income after dividends to policyholders but before federal and foreign income taxes			\$25,203,455
Federal and foreign income taxes incurred			<u>7,789,119</u>
Net Income			<u>\$17,414,336</u>

C. Capital and Surplus Account

Surplus as regards policyholders increased \$16,544,271 during the five-year examination period, January 1, 2010 through December 31, 2014, detailed as follows:

Surplus as regards policyholders per report on examination as of December 31, 2009			\$116,424,752
	<u>Gains in</u>	<u>Losses in</u>	
	<u>Surplus</u>	<u>Surplus</u>	
Net income	\$17,414,336	\$ 0	
Net unrealized capital gains or losses		10,473	
Change in net deferred income tax		1,116,183	
Change in non-admitted assets	<u>256,591</u>	<u>0</u>	
Net increase (decrease) in surplus	<u>\$17,670,927</u>	<u>\$1,126,656</u>	
			<u>16,544,271</u>
Surplus as regards policyholders per report on examination as of December 31, 2014			<u>\$132,969,023</u>

**4. LOSSES AND LOSS ADJUSTMENT EXPENSES**

The examination liability for the captioned items of \$0 is the same as reported by the Company as of December 31, 2014. As noted in Section 2C of this report, the Company cedes 100% of its business to its parent company, NIC.

5. **COMPLIANCE WITH PRIOR REPORT ON EXAMINATION**

The prior report on examination contained one recommendation as follows (page numbers refer to the prior report):

<u>ITEM</u>		<u>PAGE NO.</u>
A.	It was recommended that the Company ensure that all future contracts with its independent CPA include all of the required provisions in Department Regulation 118.	9

The Company has complied with this recommendation.

6. **SUMMARY OF COMMENTS AND RECOMMENDATIONS**

<u>ITEM</u>		<u>PAGE NO.</u>
A.	<u>Management</u> It is recommended that board members who are unable or unwilling to attend meetings consistently should resign or be replaced.	5

Respectfully submitted,

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Mary Meaney  
Principal Insurance Examiner

STATE OF NEW YORK     )  
  )ss:  
COUNTY OF NEW YORK   )

Mary Meaney, being duly sworn, deposes and says that the foregoing report, subscribed by her,  
is true to the best of her knowledge and belief.

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Mary Meaney

Subscribed and sworn to before me

this \_\_\_\_\_ day of \_\_\_\_\_, 2016.

**APPOINTMENT NO. 31216**

**NEW YORK STATE**

**DEPARTMENT OF FINANCIAL SERVICES**

*I, **BENJAMIN M. LAWSKY**, Superintendent of Financial Services of the State of New York, pursuant to the provisions of the Financial Services Law and the Insurance Law, do hereby appoint:*

***Mary Meaney***

*as a proper person to examine the affairs of the*

***Navigators Specialty Insurance Company***

*and to make a report to me in writing of the condition of said*

**COMPANY**

*with such other information as he shall deem requisite.*

*In Witness Whereof, I have hereunto subscribed by name  
and affixed the official Seal of the Department  
at the City of New York*

*this 23rd day of September, 2014*

**BENJAMIN M. LAWSKY**  
*Superintendent of Financial Services*

By:

  
\_\_\_\_\_  
**Rolf Kaumann**  
*Deputy Chief Examiner*

