

REPORT ON EXAMINATION

OF

ATLANTIC SPECIALTY INSURANCE COMPANY

AS OF

DECEMBER 31, 2016

DATE OF REPORT

DECEMBER 20, 2017

EXAMINER

ADEBOLA AWOFOESO

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NEW YORK STATE
DEPARTMENT *of*
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Maria T. Vullo
Superintendent

December 20, 2017

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 31523 dated August 23, 2016, attached hereto, I have made an examination into the condition and affairs of Atlantic Specialty Insurance Company as of December 31, 2016, and submit the following report thereon.

Wherever the designations “the Company” or “ASIC” appear herein without qualification, they should be understood to indicate Atlantic 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 605 Highway 169 North, Suite 800, Plymouth, MN 55441.

1. SCOPE OF EXAMINATION

The Department has performed an examination of the Atlantic Specialty Insurance Company, a multi-state insurer and the lead insurer of the OneBeacon Insurance Group. The previous examination was conducted as of December 31, 2011. This examination covered the five-year period from January 1, 2012 through December 31, 2016. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

New York is the lead state of the OneBeacon Insurance Group. The examination of the Company was performed concurrently with the examinations of the following insurers: Homeland Insurance Company of New York (“HONY”), Homeland Insurance Company of Delaware (“HODE”), OBI America Insurance Company (“OBIA”), OBI National Insurance Company (“OBIN”) and Houston General Insurance Exchange (“HGIE”). The states participating in this examination were Delaware, Pennsylvania and Texas.

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 and identify current and prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company and evaluating 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 New York Laws, statutory accounting principles, and annual statement instructions.

This examination report includes, but is not limited to, the following:

- Company history
- Management and control
- Territory and plan of operation
- Holding company description
- Reinsurance
- Loss review and analysis
- Financial statement presentation
- Significant subsequent events
- 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

The Company was incorporated under the laws of the State of New York on June 27, 1986, as Atlantic Reinsurance Company. It became licensed and commenced business on December 24, 1986. On February 14, 1995, the Company changed its name to Atlantic Specialty Insurance Company. On March 31, 2004, the White Mountains Insurance Group, Ltd. (“White Mountains”), a Bermuda holding company, acquired the Company through OneBeacon Insurance Company (“OBIC”), an indirectly wholly owned subsidiary. OBIC was wholly owned by OneBeacon Insurance Group LLC (“OBLLC”), an intermediate insurance holding company domiciled in the state of Delaware. OBLLC is an indirect wholly owned subsidiary of OneBeacon Insurance Group, Ltd, (“OneBeacon” or the “Group”) a holding company domiciled in Bermuda. In 2006, White Mountains sold 27.6% of OneBeacon shares to the public in an initial public offering, while retaining the majority of ownership.

The Company is the lead insurer of the five operating insurers of the OneBeacon Insurance Group. As of December 31, 2016, White Mountains, indirectly owned 76.1% of OneBeacon. OneBeacon provides specialty insurance coverage to clients primarily in the United States.

OneBeacon Background and Restructuring

In 2001, White Mountains acquired CGU Plc, the United States property and casualty insurance operations of a London based holding company. CGU Plc was rebranded as OneBeacon in the same year. Historically, OneBeacon had provided a wide range of insurance products including commercial, personal and specialty lines. OBIC was the parent of most of the US operating subsidiaries, was the lead insurer of the Group and had retained a majority of the business through an intercompany pooling arrangement. Shortly after the acquisition, OneBeacon began to focus on increasing its specialty operations, which led to

the acquisition of the Company. ASIC had been a minor participant in the Group relative to premium writings and intercompany pooling agreement participation. OneBeacon sold its non-specialty commercial renewal rights and personal lines business in 2009 and 2010, respectively, and placed the remaining commercial business into run-off. Beginning in 2012, OneBeacon implemented significant changes to simplify the Group's operating structure. In 2012, OneBeacon terminated the intercompany pooling agreement and aggregated the run-off business into OBIC in order to accommodate a sale of the run-off business. Between 2012 and 2014, the insurance subsidiaries of OBIC were merged, sold or transferred within the Group. A sale of substantially all of the run-off business was executed in 2014. Group management made ASIC the lead insurer of the Group and the parent of five insurance subsidiaries. Effective August 1, 2014, ASIC assumes all of the insurance liabilities of its insurance subsidiaries through 100% quota share reinsurance agreements. Effective January 1, 2015, ASIC cedes approximately 50% of its gross premiums written, net of external reinsurance, to Split Rock Insurance, Ltd., a Bermudan affiliate within the Group. The restructuring impacted the Company by significantly increasing its size, premium volume and significance within the Group.

The following transactions related to the Group's restructuring took place during the examination period:

On October 1, 2012, OBIC contributed \$640 million of capital to ASIC including the common stocks of: HODE valued at \$50 million, OBIN valued at \$13 million and OneBeacon Specialty Insurance Company valued at \$15 million. The remainder of the contributed capital was comprised of cash, securities and an office building in Canton, Massachusetts. ASIC became the lead Company of newly structured group.

On January 17, 2013, the Company purchased all the issued and outstanding shares of the common stock of OBIA for purchase price of \$4.5 million.

On June 30, 2013, the Company purchased all of the issued and outstanding shares of the common stock of HONY from OBIC. The purchase price was equal to HONY's June 30, 2013 reported statutory surplus of \$108,073,323.

On September 26, 2013, the Company repurchased 37,147 shares of its common stock from OBIC, and became a direct wholly-owned subsidiary of OneBeacon Insurance Group, LLC ("OBLLC"),

On December 23, 2014, OBLLC sold substantially all of its run-off business to an affiliate of Armour Group Holdings Limited. The business sold included OneBeacon non-specialty commercial lines business and certain other run-off business, including the vast majority of asbestos and environmental reserves. The sale included OBIC and certain other affiliates.

In September 2017, White Mountains sold its ownership of the OneBeacon Insurance Group, Ltd. to Intact Financial Corporation, an insurance group based in Canada. Details of the transaction can be found in the Subsequent Events section of this report.

A. Corporate Governance

Pursuant to the Company's charter and by-laws, management of the Company is vested in a board of directors consisting of not less than thirteen nor more than nineteen members. The board meets four times during each calendar year. At December 31, 2016, the board of directors was comprised of the following thirteen members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Paul John Brehm Minneapolis, MN	OneBeacon Insurance Group Senior Vice President and Chief Risk Officer
Dennis Albert Crosby Suwanee, GA	OneBeacon Insurance Group Executive Vice President
Sean William Duffy Minneapolis, MN	OneBeacon Insurance Group Senior Vice President and Chief Claims Officer
Robert Charles Gallagher Brooklyn, NY	OneBeacon Insurance Group President, International Marine Underwriters Unit
Joan Kathleen Geddes Hanover, MA	OneBeacon Insurance Group Deputy General Counsel
Josette Durling Kiel Boerne, TX	OneBeacon Insurance Group Chief Underwriting Officer
Scott Walter McClintock Wayzata, MN	OneBeacon Insurance Group Senior Vice President and Chief Information Officer
Paul Harrington McDonough* Wayzata, MN	OneBeacon Insurance Group Executive Vice President and Chief Financial Officer
Timothy Michael Miller Deephaven, MN	OneBeacon Insurance Group Chief Executive Officer
Michelle Eileen O'Donovan Remsenberg, NY	OneBeacon Insurance Group Underwriting Consultant
Maureen Ann Phillips* Golden Valley, MN	OneBeacon Insurance Group Senior Vice President and General Counsel
Thomas Norman Schmitt	OneBeacon Insurance Group

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Eden Prairie, MN	Senior Vice President and Chief Human Resources Officer
John Charles Treacy Stillwater, MN	OneBeacon Insurance Group Chief Accounting Officer and Treasurer

A review of the minutes of the board of directors' meetings held during the examination period indicated that the meetings were generally well attended and each board member has an acceptable record of attendance.

As of December 31, 2016, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Timothy Michael Miller	President and Chief Executive Officer
Maureen Ann Phillips*	Senior Vice President and General Counsel
Christopher Vincent Jerry	Secretary
John Charles Treacy	Senior Vice President and Treasurer
Paul John Brehm	Senior Vice President, Chief Risk Officer and Chief Actuary
Paul Harrington McDonough*	Senior Vice President and Chief Financial Officer
Scott Walter McClintock	Senior Vice President and Chief Information Officer

*After the Intact acquisition of the company and subsequent to this examination, these officers and board members elected to leave the Company.

B. Territory and Plan of Operation

As of December 31, 2016, the Company was licensed to write business in all fifty states, the District of Columbia, Puerto Rico and the U.S Virgin Islands.

As of the examination date, the Company 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 damage
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	Worker's compensation and employer's liability
16	Fidelity and surety
17	Credit
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine
21	Marine protection and indemnity
26	Gap
27	Prize indemnification
28	Service contract reimbursement
29	Legal services

The Company is also authorized to write workers' compensation insurance as may be incident to coverages contemplated under paragraphs 20 and 21 of Section 1113, including coverages described in the Longshore and Harbor Workers' Compensation Act (Public Law No. 803, 69 Congress as amended; 33 USC Section 901 et seq. as amended) and insurance and reinsurance of every kind or description, including those located or resident outside of the United States, its territories and possessions, except with respect to life insurance, title insurance and contracts for the payment of annuities, as specified in Section 4102(c)(i)(ii) of the New York Insurance Law.

Based upon the lines of business for which the Company is licensed and the Company's current capital structure, and pursuant to the requirements of Articles 13 and 41 of the New York Insurance Law, the Company is required to maintain a minimum surplus to policyholders in the amount of \$35,000,000.

The following schedule shows the direct and assumed premiums written by the Company for the period under examination:

<u>Calendar Year</u>	<u>Direct Premiums</u>	<u>Assumed Premiums</u>	<u>Total Gross Premiums</u>
2012	\$ 537,006,201	\$461,605,453	\$ 998,611,654
2013	\$ 868,350,434	\$292,104,995	\$1,160,455,429
2014	\$1,018,323,031	\$296,505,501	\$1,314,828,532
2015	\$1,042,169,411	\$275,145,666	\$1,317,315,077
2016	\$ 951,725,745	\$269,555,459	\$1,221,281,204

The Company is a property and casualty insurance writer that provides a wide range of specialty products and services through a network of independent agents, regional and national brokers, wholesalers and managing general agents.

The Company's gross premiums written of \$1,221,281,204 as reported by year-end 2016, is netted to \$552,832,925 due primarily to a ceded reinsurance agreement the Company has in place with Split Rock, an affiliated reinsurer.

C. Reinsurance

Assumed Reinsurance

Assumed reinsurance accounted for 22% of the Company's gross premium written at December 31, 2016. The assumed reinsurance business has increased from \$6,547,439 to \$269,555,459 (4,017%) since the last examination. The increase is mainly due to business the Company assumed from its subsidiaries in the amount of \$241,510,254 pursuant to several quota share agreements described below.

The Company is a party to 100% quota share reinsurance agreements with its subsidiaries, HONY, HODE, OBI National, all effective as of October 1, 2012 and OBI America effective as of May 1, 2015, pursuant to which the Company assumes all liabilities incurred under or in connection with all contracts and policies of insurance issued by the subsidiaries on or prior to the effective date.

The Company utilizes reinsurance accounting as defined in Statement of Statutory Accounting Principle ("SSAP") No. 62R for all of its assumed reinsurance business.

Ceded Reinsurance

The Company has structured its ceded reinsurance program as follows:

Amounts in millions

Business covered	Agreement Type	First-Dollar Retention	Per Risk Limit Purchased	Maximum Retention
Corporate Property Catastrophe - Property and Inland Marine	Excess of Loss	\$ 20	\$ 110	\$ 20
Property Per Risk - Property and Inland Marine	Excess of Loss	3	100	3
Specialty Property - Excess and Surplus Property Catastrophe	Excess of Loss	6	34	6
Medical Excess - HMO/Provider Excess	Excess of Loss	5	Unlimited	5
Ocean and Inland Marine	Excess of Loss	2.5	57.5	7
Surety	Excess of Loss	5	45	5
Film Completion Bonds	Excess of Loss	2	38	2
Casualty Clash/Workers Compensation Catastrophe	Excess of Loss	6	34	6
Workers Compensation Catastrophe	Excess of Loss	40	20	6
Financial Institutions - Professional Liability	Quota Share	N/A	10	5
Combined Healthcare/Casualty 2nd Layer - Various lines	Excess of Loss	10.0 / 11.0	10	3
Casualty Per Policy - Various lines	Excess of Loss	3	8	3
Workers Compensation Per Occurrence	Excess of Loss	2	8	2
Healthcare Professional Liability	Excess of Loss	3	7	3

Quota Share Reinsurance Agreement with Split Rock

Effective January 1, 2016, the Company entered into a reinsurance agreement with Split Rock Insurance, Ltd. (“SRI”), a Bermuda based unauthorized affiliate, whereby the vast majority of business is ceded on a 50% quota share basis subject to a limit of liability equal to SRI’s proportionate share of \$20,000,000 in any one loss occurrence. As of December 31, 2016, the Company reported \$375,309,000 of reinsurance recoverables from SRI, which represents approximately 60% of surplus as regards policyholders as of the same date. Reinsurance agreements with affiliates were reviewed for compliance with Article 15 of the New York Insurance Law. It was noted that all affiliated reinsurance agreements were filed with the Department pursuant to the provisions of Section 1502(d) (2) of the New York Insurance Law.

Currently, the majority of gross premiums written are ceded to unauthorized reinsurers, namely SRI. The trust accounts maintained by the Company in order to take credit for cessions were reviewed for compliance with Department Regulation 114. The Company also reduces its provision for reinsurance pursuant to the provisions of Part 125.4 of Department Regulation 20.

All ceded reinsurance agreements in effect as of the examination date were reviewed and found to contain the required clauses, including an insolvency clause meeting the requirements of Section 1308 of the New York Insurance Law.

During review of the reinsurance agreements, it was noted that the arbitration clause states the following:

“The arbitration shall take place in Boston, Massachusetts, or at such other place as the parties shall agree, but notwithstanding the location of the arbitration, all proceedings pursuant hereto shall be governed by the laws of the Commonwealth of Pennsylvania”. Also, the governing law clause states “This contract shall be governed as to performance, administration and interpretation by the laws of the Commonwealth of Pennsylvania” or “the contract shall be governed by and construed in accordance with the laws of the Commonwealth of Pennsylvania”.

Since the Company is a New York domestic insurer, it is recommended that the arbitration clause contained in the reinsurance agreement state that the arbitration is governed by New York Law. It is also recommended that the governing law clause state that the contract is governed by the laws of New York.

Examination review found that the Schedule F data reported by the Company in its filed annual statement accurately reflected its reinsurance transactions. Additionally, management has represented that all material ceded reinsurance agreements transfer both underwriting and timing risk as set forth in SSAP No. 62R.

Representations were supported by appropriate risk transfer analyses and an attestation from the Company's Chief Executive Officer and Chief Financial Officer pursuant to the NAIC Annual Statement Instructions. Additionally, examination review indicated that the Company was not a party to any finite reinsurance agreements. All ceded reinsurance agreements were accounted for utilizing reinsurance accounting as set forth in SSAP No. 62R.

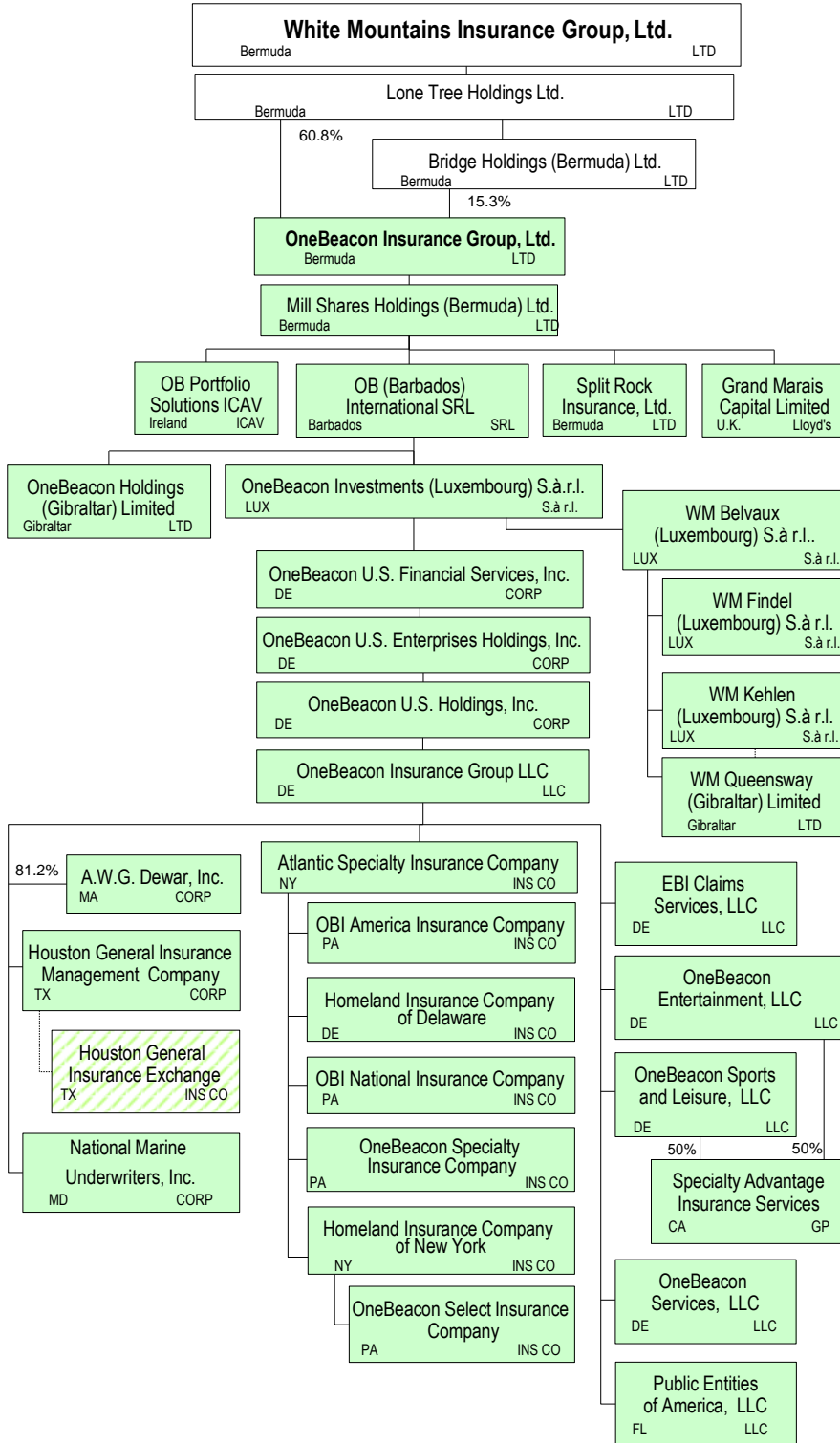
D. Holding Company System

As of December 31, 2016, the Company was a member of the OneBeacon Insurance Group, Ltd. The Company is a wholly-owned subsidiary of OneBeacon Insurance Group, LLC (“OBLLC”), an insurance holding company domiciled in the state of Delaware, which at year end 2016 was ultimately controlled by White Mountains Insurance Group, Ltd., a Bermuda domiciled Company.

On September 28, 2017, White Mountains Insurance Group sold OneBeacon Group, Ltd to Intact Financial Corporation (“Intact”) and it became the ultimate controlling person in the system.

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 at December 31, 2016:



Holding Company Agreements

At December 31, 2016, the Company was party to the following agreements with members of its holding company system:

Administrative Services Agreement

Effective October 1, 2012, the Company entered into an administrative service agreement with OneBeacon Services LLC ("OBS"), a Delaware limited liability company. The agreement stipulated for OBS to provide certain administrative services for compensation.

The following are some of the administrative services that OBS agreed to provide to the Company under the agreement: personnel and support services necessary for the Company to acquire products and third party vendor services, accounting services, human resources administration, operation and facility management, office equipment, data processing, software, network and other computer services to the Company as needed, investment and tax services, marketing services and legal support. The agreement was filed with this Department pursuant to Section 1505 of the New York Insurance Law. ASIC paid \$203,068,430 to OBS for services provided under this agreement in 2016.

Investment Management Agreement

Effective December 23, 2014, the Company became party to an Amended and Restated Investment Management Agreement ("IMA"), originally effective on July 1, 2002, with White Mountain Advisors, LLC ("WMA"), an affiliated investment advisor. According to the IMA, WMA agreed to provide investment advisory services and treasury management services to OneBeacon and its subsidiaries for a fee, as stipulated in the IMA. The fee for these services is paid quarterly and computed at the annual rate equal to a percentage of the aggregate value of the net assets of ASIC investment portfolio on an annual basis.

Various amendments were made to this agreement during the examination period either to modify the fee schedule or to add or removed affiliated companies. The agreement was filed with this Department pursuant to Section 1505 of the New York Insurance Law. This agreement was terminated effective December 31, 2017 and replaced with a new Investment Management Agreement with Intact Investment Management, Inc.

Tax Allocation Agreement

The Company is party to an amended and restated tax allocation agreement between OneBeacon U.S. Financial Services, Inc. (“HOLDCO”) a Delaware Corporation, and its subsidiaries and affiliates. Each company records their apportioned tax liabilities and estimated tax payments in accordance with the terms of the agreement. Allocation is based upon a separate return calculation. Payments between HOLDCO and affiliates shall be made within 30 days of the date of the filing of the estimated or actual consolidated tax returns; except where a refund from the US Treasury is due, in which case HOLDCO may defer payment to the subsidiaries to within 30 days after receipt of such refund. This agreement became effective December 23, 2014 and it was filed with this Department pursuant to Section 1505 of the New York Insurance Law.

Effective May 1, 2015, an amendment was made to the tax allocation agreement to add OBIA, a Pennsylvania corporation, as OBIA became a member of the group. Two weeks after acquisition by Intact, Inc., an amendment was made to reflect the re-domestication of OBIG, Ltd. from Bermuda to Delaware.

Agency Agreement

Effective June 1, 2012, the Company entered into an agency agreement with A.W.G DEWAR, Inc. (the “Agent”) a Massachusetts Corporation, whereby, the contracting parties agreed to authorized the Agent to solicit and transact tuition reimbursement insurance and any other forms of insurance mutually identified and agreed to by the parties, subject to certain terms, conditions and exceptions set forth in the Agreement. The Company agreed to compensate the Agent for the services rendered in accordance with a schedule of commission, and profit sharing arrangements as described in the Agreement. The agreement was filed with this Department pursuant to Section 1505 of the New York Insurance Law.

Broker Agreements

The Company has two brokers agreements with Public Entities of America, LLC, effective February 20, 2014 and National Marine Underwriting Inc., effective June 23, 2015. These agreements were filed with this Department pursuant to Section 1505 of the New York Insurance Law.

E. Significant Ratios

The Company's operating ratios, computed as of December 31, 2016, fall within the benchmark ranges set forth in the Insurance Regulatory Information System of the National Association of Insurance Commissioners.

<u>Operating Ratios</u>	<u>Result</u>
Net premiums written to surplus as regards policyholders	88%
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	93%
Two-year overall operating ratio	97%

Underwriting Ratios

The underwriting ratios presented below are on an earned/incurred basis and encompass the five-year period covered by this examination:

	<u>Amounts</u>	<u>Ratio</u>
Losses and loss adjustment expenses incurred	\$2,301,327,180	64.94%
Other underwriting expenses incurred	1,235,844,272	34.87
Net underwriting loss	<u>6,806,085</u>	<u>0.19</u>
Premiums earned	<u>\$3,543,977,537</u>	<u>100.00%</u>

The Company's reported risk based capital score ("RBC") was 581.3% at 12/31/16. The RBC is a measure of the minimum amount of capital appropriate for a reporting entity to support its overall business operations in consideration of its size and risk profile. An RBC of 200 or below can result in regulatory action. There were no financial adjustments in this report that impacted the Company's RBC score.

3. FINANCIAL STATEMENTS

A Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2016 as reported by the Company:

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$1,332,180,944		\$1,332,180,944
Preferred stocks	13,975,200		13,975,200
Common stocks	373,372,103		373,372,103
Cash, cash equivalents and short-term investments	76,101,657		76,101,657
Other invested assets	64,263,978		64,263,978
Receivable for securities	1,373,808		1,373,808
Investment income due and accrued	9,058,895		9,058,895
Uncollected premiums and agents' balances in the course of collection	77,872,364		77,872,364
Deferred premiums, agents' balances and installments booked but deferred and not yet due	149,346,711		149,346,711
Amounts recoverable from reinsurers	21,569,996		21,569,996
Fund held by or deposited with reinsured companies	859,480		859,480
Current federal and foreign income tax recoverable and interest thereon	5,847,760		5,847,760
Net deferred tax asset	58,013,910	\$ 1,342,115	56,671,795
Electronic data processing equipment and software	13,535,359	11,578,710	1,956,649
Furniture and equipment, including health care delivery assets	3,277,282	3,277,282	
Receivables from parent, subsidiaries and affiliates	43,021	43,021	
Recoveries due on corporate insurance	30,208,025		30,208,025
Sundry balances	17,995,422		17,995,422
Lease incentives/improvements	9,670,588	9,670,588	
Summary of remaining write-in	10,954,287	10,954,287	0
Total assets	<u>\$2,269,520,790</u>	<u>\$36,866,003</u>	<u>\$2,232,654,787</u>

Liabilities, Surplus and Other FundsLiabilities

Losses and loss adjustment expenses	\$ 831,543,704
Reinsurance payable on paid losses and loss adjustment expenses	1,125,783
Commissions payable, contingent commissions and other similar charges	19,525,579
Other expenses (excluding taxes, licenses and fees)	1,647,694
Taxes, licenses and fees (excluding federal and foreign income taxes)	21,717,443
Unearned premiums	530,888,908
Advance premiums	4,419,622
Ceded reinsurance premiums payable (net of ceding commissions)	32,457,799
Fund held by company under reinsurance treaties	26,318
Amounts withheld or retained by company for account of others	152,974,019
Provision for reinsurance	270,000
Draft outstanding	1,048
Payable to parent, subsidiaries and affiliates	6,586,961
Sundry balances	<u>4,622,241</u>
Total liabilities	\$1,607,807,119

Surplus and Other Funds

Common capital stock	\$ 9,000,008
Gross paid in and contributed surplus	532,546,785
Unassigned funds (surplus)	<u>83,300,875</u>
Surplus as regards policyholders	<u>624,847,668</u>
Total liabilities, surplus and other funds	<u>\$2,232,654,787</u>

Note: The Internal Revenue Service has completed its audits of the Company's consolidated Federal Income Tax returns through tax year 2012. The Internal Revenue Service has not yet begun to audit tax returns covering tax years 2013 through 2016. 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

Net income for the five-year examination period as reported by the Company, January 1, 2012 through December 31, 2016 was \$109,280,913 detailed as follows:

Underwriting Income

Premiums earned		\$ 3,543,977,537
Deductions:		
Losses and loss adjustment expenses incurred	\$2,301,327,180	
Other underwriting expenses incurred	1,235,856,311	
Aggregate write-in for underwriting deductions	<u>(12,039)</u>	
Total underwriting deductions		<u>3,537,171,452</u>
Net underwriting gain		\$ 6,806,085

Investment Income

Net investment income earned	\$ 105,407,733	
Net realized capital gain	<u>63,130,265</u>	
Net investment gain		168,537,998

Other Income

Net loss from agents' or premium balances charged off	\$ (2,215,921)	
Finance and service charges not included in premiums	1,587,949	
Aggregate write-ins for miscellaneous income	<u>(3,239,868)</u>	
Total other income		<u>(3,867,840)</u>
Net income before dividends to policyholders and before federal and foreign income taxes		\$ 171,476,243
Dividends to policyholders		<u>1,675,257</u>
Net income after dividends to policyholders but before federal and foreign income taxes		\$ 169,800,986
Federal and foreign income taxes incurred		<u>60,520,073</u>
Net income		\$ <u>109,280,913</u>

C. Capital and Surplus

Surplus as regards policyholders as reported by the Company increased \$531,492,534 during the five-year examination period January 1, 2012 through December 31, 2016, detailed as follows:

Surplus as regards policyholders as reported by
the Company as of December 31, 2011 \$ 93,355,134

	<u>Increases in Surplus</u>	<u>Decreases in Surplus</u>	
Net income	\$109,280,913		
Net unrealized capital gain	16,960,222		
Change in net deferred income tax	61,816,908		
Change in non-admitted assets		\$ 36,800,166	
Change in provision for reinsurance		270,000	
Capital changes paid in	640,000,008		
Surplus adjustments paid in		188,447,375	
Dividends to stockholders		71,400,000	
Aggregate write-ins for gains and losses in surplus	<u>352,024</u>	<u>0</u>	
Total gains and losses	<u>\$828,410,075</u>	<u>\$296,917,541</u>	
Net increase in surplus			<u>531,492,534</u>

Surplus as regards policyholders as reported by
the Company as of December 31, 2016 \$624,847,668

Capital paid in is \$9,000,008 consisting of 101,764 shares of \$88.44 par value per share common stock. Gross paid in and contributed surplus was \$532,546,785 as of December 31, 2016. Gross paid in and contributed surplus increased by \$451,552,624 during the examination period, as follows:

<u>Year</u>	<u>Description</u>	<u>Amount</u>
2011	Beginning gross paid in and contributed surplus	\$ <u>80,994,161</u>
2012	Paid in surplus contribution	\$640,000,000
2013	Common stock repurchase	(190,001,333)
2014	Paid in surplus contribution	67,000,000
2015	Common stock repurchase	<u>(65,446,043)</u>
	Total surplus adjustment	<u>\$451,552,624</u>
2016	Ending gross paid in and contributed surplus	<u>\$532,546,785</u>

The stock repurchases and surplus contributions were submitted by Company to the Department pursuant to Section 1505 of the New York Insurance Law.

D. Examination Changes

The following table details the changes to surplus as regards policyholders as determined by this examination:

Surplus as regards policyholders as of December 31, 2016 as per filed annual statement		\$624,847,668
	<u>Increase</u>	
Losses and loss adjustment expenses	\$71,326,000	
Net decrease in surplus		<u>(71,326,000)</u>
Surplus as regards policyholders as of December 31, 2016 after examination adjustments		<u>\$553,521,668</u>

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of \$902,869,704 is \$71,326,000 more than the \$831,543,704 reported by the Company in its December 31, 2016 filed annual statement.

The examination analysis of the Loss and Loss Adjustment Expense (“LAE”) reserves was conducted in accordance with generally accepted actuarial standards and principles, as well as with the statutory accounting principles, including the NAIC Accounting Practices & Procedures Manual, Statement of Statutory Accounting Principle No. 55 (“SSAP No. 55”).

The aforementioned \$71,326,000 increase in the loss and LAE reserves was incorporated into the examination changes section of this report. Subsequent to the examination date, the Company strengthened its reserves as of September 30, 2017 and consequently filed a 9-month loss and LAE reserve deficiency of \$71 million.

As the Department recommends a reserve increase which is less than or equal to the Company runoff and the Company has already acknowledged its runoff deficiency in its September 30, 2017 Quarterly Statement, no further changes to the Company’s financial statements are required.

5. SUBSEQUENT EVENTS

On September 28, 2017, the Company's parent, OneBeacon, was acquired by Intact, a publicly traded Canadian corporation. Intact acquired OneBeacon for an aggregate amount of approximately \$1.7 billion. Upon acquisition, OneBeacon became a wholly-owned subsidiary of Intact and all its insurance subsidiaries, including the Company, will continue to operate as the OneBeacon Insurance Group in the United States. Mike Miller, former Chief Executive Officer of OneBeacon Insurance, was appointed president of Intact's United States operations and will report directly to Charles Brindamour, Intact's Chief Executive Officer. The acquisition transaction was approved by the Department on September 22, 2017.

6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

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

<u>ITEM</u>	<u>PAGE NO.</u>
<p>A. <u>Capital Contribution</u> It is recommended that the Company comply with the requirements of Section 1505(c) of the New York Insurance Law.</p> <p>The Company has complied with this recommendation.</p>	4
<p>B. <u>Management</u> It is recommended that board members who are unable or unwilling to attend meetings consistently should resign or be replaced.</p> <p>The Company has complied with this recommendation.</p>	5

7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>	<u>PAGE NO.</u>
<p>A <u>Ceded Reinsurance</u> It is recommended that any arbitration clause as part of a reinsurance agreement state that the arbitration is governed by New York Law. It is also recommended that the governing law clause state that the contract is governed by the laws of New York.</p>	10

Respectfully submitted,

Adebola Awofeso,
Financial Examiner 2

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

ADEBOLA AWOFESO, being duly sworn, deposes and says that the foregoing report, subscribed by him, is true to the best of his knowledge and belief.

Adebola Awofeso

Subscribed and sworn to before me

this _____ day of _____, 2018.

APPOINTMENT NO. 31523

NEW YORK STATE
DEPARTMENT OF FINANCIAL SERVICES

I, Maria T. Vullo, 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:

Adebola Awofeso

as a proper person to examine the affairs of the

Atlantic 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 August, 2016

MARIA T. VULLO
Superintendent of Financial Services



By:

Joan P. Riddell

*Joan Riddell
Deputy Bureau Chief*