

REPORT ON EXAMINATION

OF

NOVA CASUALTY COMPANY

AS OF

DECEMBER 31, 2019

DATE OF REPORT

FEBRUARY 12, 2021

EXAMINER

SHEIK H. MOHAMED, CPCU

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## Department of Financial Services

**ANDREW M. CUOMO**  
Governor

**LINDA A. LACEWELL**  
Superintendent

February 12, 2021

Honorable Linda A. Lacewell  
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 32028 dated January 3, 2020, attached hereto, I have made an examination into the condition and affairs of NOVA Casualty Company as of December 31, 2019, and submit the following report thereon.

Wherever the designation “the Company” appears herein without qualification, it should be understood to indicate NOVA Casualty 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 remotely due to the Governor’s Executive Order of New York State on PAUSE regarding the COVID-19 pandemic.

## 1. SCOPE OF EXAMINATION

The Department has performed an examination of NOVA Casualty Company, a multi-state insurer. The previous examination was conducted as of December 31, 2014. This examination covered the five-year period from January 1, 2015 through December 31, 2019. Transactions occurring subsequent to this period were reviewed when deemed appropriate by the examiner.

The examination was conducted in conjunction with the state of New Hampshire, which was the lead state of The Hanover Insurance Group. The examination was performed concurrently with the examinations of the following insurers:

<u>Company</u>	<u>State of Domicile</u>
AIX Specialty Insurance Company	Delaware
Allmerica Financial Alliance Insurance Company	New Hampshire
Allmerica Financial Benefit Insurance Company	Michigan
Campmed Casualty & Indemnity Company, Inc.	New Hampshire
Citizens Insurance Company of America	Michigan
Citizens Insurance Company of Illinois	Illinois
Citizens Insurance Company of Ohio	Ohio
Citizens Insurance Company of the Midwest	Indiana
Massachusetts Bay Insurance Company	New Hampshire
The Hanover Insurance Company	New Hampshire
The Hanover American Insurance Company	New Hampshire
The Hanover Casualty Company	Texas
The Hanover New Jersey Insurance Company	New Hampshire
The Hanover National Insurance Company	New Hampshire
Verlan Fire Insurance Company	New Hampshire

Other states participating in this examination were Delaware, Illinois, Indiana, Michigan, New Hampshire, Ohio, and Texas.

This examination was conducted in accordance with the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners 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
- Reinsurance
- Holding company description
- Financial statement presentation
- Loss review and analysis
- Significant subsequent events
- Summary of recommendations

A review was also made to ascertain what action was taken by the Company with regard to the recommendation 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**

NOVA Casualty Company was incorporated under the laws of the State of New York on September 13, 1979, as the First Security Insurance Corporation. It became licensed and commenced business effective July 18, 1980. On December 30, 1988, the present name, NOVA Casualty Company, was adopted.

On August 13, 2008, The Hanover Insurance Group, Inc. (“THG”), a Delaware publicly traded insurance holding company, filed with the Department an application for the acquisition of control of the Company pursuant to Section 1506 of the New York Insurance Law and Department Regulation 52. The application provided that THG would acquire all of the outstanding stock of AIX Holdings, Inc., which was the ultimate parent of the Company prior to the acquisition. The aggregate purchase price in connection with this transaction was \$104.5 million. The application was approved by the Department on November 24, 2008.

### **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 fourteen members. The board meets at least two times during each calendar year. At December 31, 2019, the board of directors was comprised of the following fourteen members:

Name and ResidencePrincipal Business Affiliation

Warren Ellison Barnes  
Northborough, MA

Senior Vice President and Corporate Controller,  
The Hanover Insurance Company

Mark Leo Berthiaume  
Glastonbury, CT

Executive Vice President and  
Chief Technology Innovation Officer,  
NOVA Casualty Company

Steven Frank Cibelli  
Liverpool, NY

Regional Assistant Vice President,  
The Hanover Insurance Company

Jeffrey Mark Farber  
Stamford, CT

Executive Vice President, Chief Financial Officer  
and Assistant Treasurer,  
NOVA Casualty Company

J. Kendall Huber  
West Falmouth, MA

Executive Vice President, General Counsel and  
Assistant Secretary,  
NOVA Casualty Company

Richard William Lavey  
Newton, MA

Executive Vice President,  
NOVA Casualty Company

Denise Maureen Lowsley  
Greenwich, CT

Executive Vice President and Chief Human  
Resource Officer,  
NOVA Casualty Company

Craig Michael Rappaport  
Simsbury, CT

Vice President,  
The Hanover Insurance Company

John Joseph Risavi  
Jamesville, NY

Vice President,  
The Hanover Insurance Company

John Conner Roche  
Hopkinton, MA

President, Chief Executive Officer and  
Chairman of the Board,  
NOVA Casualty Company

Bryan James Salvatore  
Rye Brook, NY

Executive Vice President,  
NOVA Casualty Company

Helen Ryan Savaiano  
Glenview, IL

Vice President,  
The Hanover Insurance Company

Ann Kirkpatrick Tripp  
Rutland, MA

Executive Vice President, Treasurer and  
Chief Investment Officer,  
NOVA Casualty Company

Mark Joseph Welzenbach  
Ellington, CT

Executive Vice President and Chief Claims Officer,  
NOVA Casualty Company

As of December 31, 2019, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
John Conner Roche	President
Charles Frederick Cronin	Secretary
Ann Kirkpatrick Tripp	Executive Vice President, Treasurer and Chief Investment Officer
Jeffrey Mark Farber	Executive Vice President, Chief Financial Officer and Assistant Treasurer
J. Kendall Huber	Executive Vice President, General Counsel and Assistant Secretary
Mark Leo Berthiaume	Executive Vice President
Denise Maureen Lowsley	Executive Vice President
Bryan James Salvatore	Executive Vice President

B. Territory and Plan of Operation

As of December 31, 2019, the Company was licensed to write business in all 50 states licensed and in the District of Columbia.

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
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
26	Gap
28	Service contract reimbursement
29	Legal services

The Company is licensed to conduct the business of special risk insurance pursuant to Article 63 of the New York Insurance Law

The Company was also empowered to transact such workers' compensation insurance as may be incident to coverages contemplated under paragraphs 20 and 21 of Section 1113(a) of the New York Insurance Law, including insurances described in the Longshoremen's and Harbor Workers' Compensation Act (Public Law No. 803, 69 Congress as amended; 33 USC Section 901 et seq. as amended).

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 \$8,400,000. However, pursuant to Section 6302(c)(1) of the New York Insurance Law, in order to be licensed to write special risks, the Company is required to maintain surplus as regards policyholders of at least 200% of its authorized control level risk-based capital. As such, the Company was required to maintain a minimum surplus to policyholders in the amount of \$1,092,340 as of December 31, 2019.

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>
2015	\$228,439,239	\$1,619,320	\$230,058,559
2016	\$216,408,756	\$1,419,919	\$217,828,675
2017	\$235,463,011	\$1,196,379	\$236,659,390
2018	\$238,450,162	\$1,276,654	\$239,726,816
2019	\$247,454,407	\$1,566,175	\$249,020,582

The Company's principal lines of business are commercial multiple peril; workers' compensation; other liability (which primarily consisted of contractual, excess, umbrella, premises and operations liability); commercial auto liability; and inland marine, which represents 97% of direct written premiums. The Company is licensed to do business through its appointed agents in each of the 50 states and in the District of Columbia.

AIX Specialty Insurance Company ("AIX"), the Company's wholly owned insurance subsidiary, is domiciled in the state of Delaware. AIX is licensed in Delaware and is eligible to do business in the other 49 states and in the District of Columbia as an excess surplus lines carrier. AIX primarily serves as a writer of niche specialty programs, specifically property and liability risks generally not insured in the admitted

market. AIX's largest premium writings, in 2019, were in California, New York, Florida, Texas, and Illinois representing 42.4% of total direct written premiums in 2019.

It is noted that the Company cedes out 100% of its premiums and reserves through a 100% quota share agreement described in Section 2C of this report. As a result, the Company does not report underwriting activity or loss reserves on a net basis. The only activities reported on the Company's income statement relate to investment income and federal income taxes.

### C. Reinsurance Ceded

On January 1, 2009, the Company entered into a 100% quota share agreement whereby it ceded 100% of its business, both on a retrospective and prospective basis, to The Hanover Insurance Company ("Hanover"), an affiliated New Hampshire domestic insurer. This quota share agreement is still in effect; therefore, the Company does not have any net reserves.

The agreement was submitted to the Department and was not disapproved in conjunction with the sale of the Company to THG. The agreement was reviewed and found to contain the required clauses, including an insolvency clause meeting the requirements of Section 1308 of the New York Insurance Law. Examination review found that the Schedule F data reported by the Company in its filed annual statement accurately reflected its reinsurance transactions.

AIX, the Company's subsidiary, also entered into a 100% quota share agreement with Hanover, whereby it ceded 100% of its business on both a prospective and retrospective basis. The quota share agreement is still in effect and AIX does not have any net reserves.

On December 31, 2019, the Company reported approximately \$539 million in reinsurance recoverables from Hanover. These reinsurance recoverables are the Company's most significant financial items, representing approximately 552% of the Company's surplus. The Company's most significant financial risk is its ultimate ability to collect on these reinsurance recoverables. It is noted that Hanover was examined concurrently with the Company and there were no examination changes made to either the Company's balance sheet or income statement.

It is additionally noted that, as of December 31, 2019, AIX reported approximately \$270 million in reinsurance recoverables from Hanover. These reinsurance recoverables are AIX's most significant financial item representing approximately 503% of AIX's surplus. AIX's surplus position at December 31,

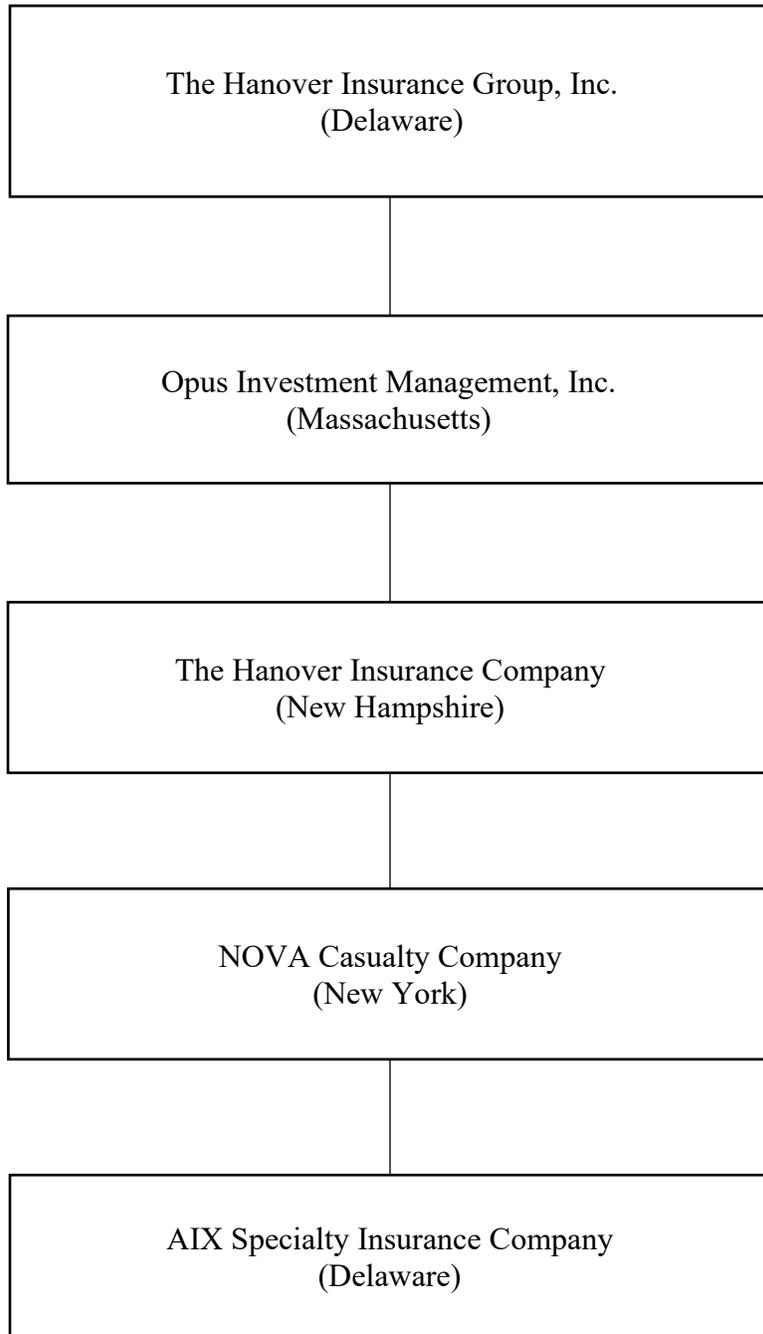
2019 was \$53,621,777, which is reported on the Company's balance sheet as an equity investment representing over 55% of the Company's surplus.

D. Holding Company System

The Company is a member of The Hanover Insurance Group. The Company is a wholly owned subsidiary of The Hanover Insurance Company, a New Hampshire corporation, which is ultimately controlled by The Hanover Insurance Group, Inc., a publicly traded Delaware insurance holding corporation. The Hanover Insurance Group, Inc. conducts business operations through three operating segments. These segments are commercial lines, personal lines and other non-insurance business operations.

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 an abridged chart of the holding company system at December 31, 2019:



### Holding Company Agreements

At December 31, 2019, the Company was party to the following agreements with other members of its holding company system:

### Tax Allocation Agreement

Upon its acquisition in 2008, the Company became party to a consolidated income tax agreement between THG (the “Parent”) and its subsidiaries (the “Affiliated Group”). The agreement, which originally became effective for the tax year ending December 31, 2001, and amended on September 4, 2007, provides that the Parent will file a consolidated tax return for the Affiliated Group. The consolidated liability shall be allocated among the members of the Affiliated Group in the same proportion that each member’s separate return tax liability bears to the sum of the separate tax liabilities for all members.

The tax allocation agreement was submitted to the Department in conjunction with the application for acquisition of control of the Company by its ultimate parent.

### Management Service Agreement

Effective January 1, 2010, the Company entered into a consolidated service agreement with its ultimate parent, The Hanover Insurance Group, Inc. Pursuant to the terms of the agreement, THG provides such services as it may require for the Company’s operations. Expenses are allocated in accordance with Department Regulation 30. The management service agreement was submitted to the Department in conjunction with the application of control of the Company by its ultimate parent. The Company paid THG \$29,530,832 for management services in 2019.

### Advisory Agreement

Effective February 1, 2009, the Company entered into an advisory agreement with Opus Investment Management, Inc. (“OPUS”). Pursuant to the agreement, OPUS provides investment related services on a discretionary basis. The Company pays OPUS a fee based on the fair market value of its account assets. This agreement was submitted to the Department in conjunction with the application of control of the Company by its ultimate parent.

### E. Significant Ratios

There are no applicable underwriting ratios as the Company cedes 100% of its business to Hanover; therefore, its underwriting income and expenses are \$0.

### 3. FINANCIAL STATEMENTS

#### A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2019, as reported by the Company:

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$ 40,022,917	\$ 0	\$40,022,917
Common stocks (stocks)	53,606,228	0	53,606,228
Cash, cash equivalents and short-term investments	3,326,238	0	3,326,238
Other invested assets	45,646	45,646	0
Receivables for securities	22,932	0	22,932
Investment income due and accrued	273,581	0	273,581
Current federal and foreign income tax recoverable and interest thereon	9,291	0	9,291
Net deferred tax asset	1,236,906	0	1,236,906
Electronic data processing equipment and software	433,422	353,571	79,851
Furniture and equipment, including health care delivery assets	204,138	204,138	0
Other non-admitted assets	<u>6,046,285</u>	<u>6,046,285</u>	<u>0</u>
Total assets	<u>\$105,227,584</u>	<u>\$6,649,640</u>	<u>\$98,577,944</u>

Liabilities, Surplus and Other FundsLiabilities

Ceded reinsurance premiums payable (net of ceding commissions)	\$ 431,248
Payable to parent, subsidiaries and affiliates	56,757
Payable for securities	<u>400,000</u>
Total liabilities	\$ 888,005

Surplus and other funds

Common capital stock	\$ 4,200,000
Gross paid in and contributed surplus	82,917,091
Unassigned funds (surplus)	<u>10,572,848</u>
Surplus as regards policyholders	<u>97,689,939</u>
Total liabilities, surplus and other funds	<u>\$98,577,944</u>

Note: The Internal Revenue Service has not audited tax returns covering tax years after 2015, and the statute for the tax years from 2011 to 2015 are expired. 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 net income for the examination period as reported by the Company was \$10,395,724, as detailed below:

Investment Income

Net investment income earned	\$11,960,870	
Net realized capital gain	<u>(46,377)</u>	
Net investment gain or (loss)		\$11,914,493

Other Income

Interest expense on funds held	\$ <u>(49,546)</u>	
Total other income		<u>(49,546)</u>
Net income before federal and foreign income taxes		\$11,864,947
Federal and foreign income taxes incurred		<u>1,469,223</u>
Net income		<u>\$10,395,724</u>

C. Capital and Surplus

Surplus as regards policyholders increased \$5,945,215 during the five-year examination period January 1, 2015 through December 31, 2019, as reported by the Company, detailed as follows:

Surplus as regards policyholders as reported by the Company as of December 31, 2014			\$91,744,724
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income	\$10,395,724		
Net unrealized capital gains or (losses)		\$ 1,269,722	
Change in net deferred income tax		2,821,192	
Change in nonadmitted assets	6,494,759		
Surplus adjustments paid in	45,646		
Dividends to stockholders	<u>0</u>	<u>6,900,000</u>	
Total gains and losses	<u>\$16,936,129</u>	<u>\$10,990,914</u>	
Net increase (decrease) in surplus			<u>5,945,215</u>
Surplus as regards policyholders as reported by the Company as of December 31, 2019			<u>\$97,689,939</u>

No adjustments were made to surplus as a result of this examination.

Capital paid in is \$4,200,000 consisting of 14,000 shares of \$300 par value per share common stock. Gross paid in and contributed surplus is \$82,917,091. Gross paid in and contributed surplus increased by \$45,646 during the examination period, as follows:

<u>Year</u>	<u>Description</u>	<u>Amount</u>
2015	Beginning gross paid in and contributed surplus	\$82,871,445
2019	Capital contribution	<u>45,646</u>
2019	Ending gross paid in and contributed surplus	<u>\$82,917,091</u>

Prior to November 2019, the Company was a wholly-owned subsidiary of Nova American Group, Inc. which in turn, was a wholly-owned subsidiary of AIX Holdings, Inc. In November 2019, subsequent

to a reorganizational plan that was approved by the Department, the Company is now a wholly owned subsidiary of Hanover.

In conjunction with the above reorganizational plan, the Company received a capital contribution of \$45,646 from Hanover, increasing the gross paid in and contributed and surplus, and reflecting the value of AIXHI LLC, the surviving company of the AIX Holdings Inc. and AIXHI LLC merger.

#### **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, 2019. As previously noted, the Company cedes 100% of its insurance liabilities to its direct parent Hanover.

#### **5. SUBSEQUENT EVENTS**

On March 11, 2020, the World Health Organization declared an outbreak of a novel coronavirus (“COVID-19”) pandemic. The COVID-19 pandemic has continued to develop throughout 2020, with significant uncertainty remaining regarding the full effect of COVID-19 on the U.S. and global insurance and reinsurance industry. At the time of releasing this report, the examination’s review noted that there has not been a significant impact to the Company. The Department has been in communication with the Company regarding the impact of COVID-19 on its business operations and financial position. The Department continues to closely monitor the impact of the pandemic on the Company and will take necessary action if a solvency concern arises.

**6. 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.	<u>Management</u> It was recommended that board members who are unable or unwilling to attend meetings consistently should resign or be replaced.	5
	The Company has complied with this recommendation.	

**7. SUMMARY OF COMMENTS AND RECOMMENDATIONS**

This report on examination contains no comments or recommendations.

Respectfully submitted,

\_\_\_\_\_/S/\_\_\_\_\_  
Sheik H. Mohamed, CPCU  
Associate Insurance Examiner

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

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

\_\_\_\_\_/S/\_\_\_\_\_  
Sheik H. Mohamed

Subscribed and sworn to before me  
this \_\_\_\_\_ day of \_\_\_\_\_, 2021.

NEW YORK STATE

**DEPARTMENT OF FINANCIAL SERVICES**

I, Linda A. Lacewell, 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:

**Sheik Mohamed**

as a proper person to examine the affairs of the

**NOVA Casualty 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 3rd day of January, 2020

LINDA A. LACEWELL  
Superintendent of Financial Services



By:

*Joan P. Riddell*

Joan Riddell  
Deputy Bureau Chief