

REPORT ON EXAMINATION

OF

HUDSON SPECIALTY INSURANCE COMPANY

AS OF

DECEMBER 31, 2014

DATE OF REPORT

APRIL 8, 2016

EXAMINER

JUSTIN MATHEW

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NEW YORK STATE
DEPARTMENT *of*
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Maria T. Vullo
Superintendent

April 8, 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 31274 dated April 06, 2015, attached hereto, I have made an examination into the condition and affairs of Hudson Specialty Insurance Company as of December 31, 2014, and submit the following report thereon.

Wherever the designations “the Company” or “Hudson Specialty” appear herein without qualification, they should be understood to indicate Hudson 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 100 William Street, New York, NY 10038.

1. SCOPE OF EXAMINATION

The Department has participated in a coordinated group examination of the Company, a multi-state insurer. The previous examination was conducted as of December 31, 2010. This examination covered the four-year period from January 1, 2011 through December 31, 2014. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

The examination was conducted in conjunction with the state of Delaware, which examined Hudson Insurance Company (“Hudson”) and Hudson Excess Insurance Company (“Hudson Excess”). The systems and practices of conducting business are integrated and all Hudson Companies operate under common management.

The state of domicile for each affiliate is as follows:

<u>Company</u>	<u>State</u>
Hudson Specialty	New York
Hudson Insurance	Delaware
Hudson Excess	Delaware

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 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 Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All financially significant accounts and activities of the Company were considered in accordance with the risk-focused examination process. This examination also 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:

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

A review was also made to ascertain what actions were taken by the Company with regards 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 December 13, 1984 as the Southwest International Reinsurance Company of New York (“Southwest NY”) to serve as the vehicle for the re-domestication of the Southwest International Reinsurance Company (“Southwest TX”), a Texas insurer. Effective December 31, 1985, Southwest TX merged with and into Southwest NY and the surviving Company adopted the name of its predecessor. On August 30, 1993, the name of the Company was changed to General Security Indemnity Company.

Prior to July 3, 1990, the Company was 51% owned by The Dai-Tokyo Fire and Marine Insurance Company, Ltd. (“Dai-Tokyo”), Tokyo, Japan, and 49% owned by SCOR Reinsurance Company (“SCOR Re”), New York, NY. On July 3, 1990, SCOR U.S Corporation, the immediate parent of SCOR Re, purchased Dai-Tokyo’s 51% interest in the Company and subsequently contributed that interest to SCOR Re.

On October 28, 2003, Odyssey America Reinsurance Corporation (“Odyssey America”), a Connecticut domiciled reinsurance company, purchased 100% of the capital stock of the Company from SCOR Re. Odyssey America is ultimately controlled by Fairfax Financial Holdings Limited (“Fairfax”), a publicly traded Canadian financial services holding company. As part of the acquisition, all of the Company’s liabilities for business written prior to the purchase date were transferred to General Security Indemnity Company of Arizona through an “Assumption Reinsurance, Indemnification and Administration Agreement”. Effective December 29, 2003, the Company changed its name to Hudson Specialty Insurance Company.

On December 30, 2003, Odyssey America transferred ownership of the Company to its wholly-owned subsidiary, Clearwater Insurance Company (“Clearwater”), a Delaware domiciled insurer. On July 29, 2010, Clearwater transferred ownership of the Company to its wholly-owned subsidiary, Hudson Insurance Company, a Delaware domiciled insurer. On January 1, 2011, Clearwater transferred its ownership of Hudson Insurance Company to Odyssey America and as a result, the Company is now an indirect, wholly-owned subsidiary of Odyssey America. It is noted that on April 1, 2011, Odyssey America changed its name to Odyssey Reinsurance Company.

During the second quarter of 2012, the Company made a capital contribution of \$46.7 million to its newly formed subsidiary, Hudson Excess Insurance Company. However, the Company failed to receive the approval of the Department prior to the capital contribution as is required by Sections 1608(d) and 1505(c) of the New York Insurance Law.

It is recommended that the Company comply with Sections 1608(d) and 1505(c) and submit to the Department for approval all transactions meeting the thresholds of Section 1608(d) and 1505(c) of the New York Insurance Law.

As of December 31, 2014, capital paid in was \$7,500,000 consisting of 25,000 shares of \$300 par value per share common stock. Gross paid in and contributed surplus was \$33,500,000. There have been no changes to paid in capital or gross paid in and contributed surplus since the prior examination.

A. Management

Pursuant to its charter and by-laws, management of the Company is vested in a board of directors consisting of not less than seven and no more than thirteen directors. As of the examination date, the board of directors was comprised of the following eight members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Jan Christiansen Barrington, IL	Executive Vice President, Odyssey Reinsurance Company
Christopher L. Gallagher New York, NY	President & Chief Operating Officer, Hudson Specialty Insurance Company
Peter H. Lovell Milford, CT	Senior Vice President Hudson Specialty Insurance Company
Elizabeth A. Sander Bedford, NY	Executive Vice President & Chief Actuary Hudson Specialty Insurance Company
Anthony J. Slowski Bayonne, NJ	Senior Vice President & Treasurer Hudson Specialty Insurance Company
Christopher T. Suarez Hamburg, NJ	Executive Vice President Hudson Specialty Insurance Company
John F. Verbich West Windsor, NJ	Senior Vice President & Chief Financial Officer Hudson Specialty Insurance Company
Brian D. Young New York, NY	Chief Executive Officer, Hudson Specialty Insurance Company

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 had an acceptable record of attendance.

As of December 31, 2014, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Brian David Young	Chief Executive Officer
Christopher Liam Gallagher	President and Chief Operating Officer
Dina Georgia Daskalakis	Senior Vice President, General Counsel and Corporate Secretary
Anthony Joseph Slowski	Senior Vice President and Treasurer

B. Territory and Plan of Operation

The Company primarily writes primary property and casualty insurance on an excess and surplus lines basis in states other than New York. The Company's two main business segments are direct business and program business. The Company generates its direct business by writing through national and regional brokers and other independent producers. The Company's program business is produced and underwritten by contracted program administrators in accordance with the underwriting guidelines established by the Company. The program administrators in turn produce this business through national and regional brokers and other independent producers. The Company's primary lines of business are Other Liability, Commercial Multi-Peril, Medical Professional Liability and Ocean Marine.

As of December 31, 2014, the Company was licensed to write business in New York only. It operates primarily as an excess and surplus lines carrier on a non-admitted basis in the other forty-nine states and the District of Columbia, Puerto Rico and the United States 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
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

The Company is also empowered to transact such workers' compensation insurance as may be incident to coverage 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, 69th Congress as amended; 33 USC Section 901 et. seq. as amended). In addition, the Company is licensed to write Special Risk Insurance pursuant to Article 63 of the New York Insurance Law.

Based on 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 \$4,400,000.

The following schedule shows the direct premiums written by the Company both in total and in New York for the period under examination:

<u>Calendar Year</u>	<u>New York State</u>	<u>Total Premiums</u>	Premiums Written in New York State as a <u>percentage of Total Premium</u>
2011	\$1,340,282	\$134,065,881	1.00%
2012	\$2,471,159	\$169,457,810	1.46%
2013	\$4,333,071	\$220,035,782	1.97%
2014	\$4,265,550	\$253,240,124	1.68%

C. Reinsurance

Assumed

The Company assumes an immaterial amount of unaffiliated reinsurance.

Ceded Reinsurance with Affiliate

The Company has a quota share agreement in place with Odyssey Reinsurance Company (“Odyssey”), under which it cedes 70% of its direct business net of applicable external reinsurance. This contract is the Company’s most significant ceded reinsurance agreement.

It is noted that the Company reported approximately \$224,200,000 in reinsurance recoverable from Odyssey at the examination date. The recoverable amount from Odyssey is not collateralized due to its authorized insurer status. These reinsurance recoverables are the Company’s most significant financial item and ultimately, the Company’s most significant financial risk is its ultimate ability to collect on the reinsurance recoverables.

Effective January 1, 2008, Odyssey entered into a guarantee contract in which it agreed to indemnify the Company for 100% of its respective net uncollectible reinsurance recoverables. The Company’s potential exposure as of December 31, 2014 was established to be \$118,000,000

Ceded External Reinsurance

The Company is a participant in the ceded reinsurance program of the Fairfax Group Companies. This program is structured as follows:

<u>Type of Treaty</u>	<u>Coverage</u>
<u>Healthcare Professional Liability</u>	
20% Quota Share	100% of \$11,000,000 each occurrence or claim made, each insured, each policy or coverage. 100% of \$16,000,000 each occurrence or claim made, each insured, each policy or coverage after the Company has written or renewed with effective dates during the term of the contract, the first five policies with limits in excess of \$11,000,000.
<u>Contingency Excess of Loss</u>	Covers loss or losses under policies classified by the Company, as per the covered accounts list.
First Layer	\$3,500,000 excess of \$2,500,000 each loss occurrence.
Second Layer	\$4,000,000 excess of \$6,000,000 each loss

	<p>occurrence.</p> <p>For business classified as occupational benefits, the maximum recovery for any one claimant involved in a loss occurrence is limited to an Ultimate Net Loss of \$2,500,000 and \$6,000,000 for layers one and two, respectively. With respect to tribal business (business underwritten for federally recognized native American tribes and their owned enterprises), for layers one and two, respectively, the Company's retention is \$0 and \$3,500,000. Aggregate liability for layers one and two, respectively, are \$7,000,000 and \$8,000,000.</p>
<p><u>Executive Liability</u> <u>100% Quota Share</u></p>	<p>Covers business classified as primary and excess directors and officer's liability insurance and related coverages, including but not limited to employment practices liability, fiduciary liability and crime/fidelity.</p> <p>A) Section A – Company retains 60% of net liability for private, not-for-profit policies (except Side A policies), where the limit for any one coverage does not exceed \$5,000,000. Reinsurer accepts 40% of the Company's net liability.</p> <p>Section B – Company retains 50% of net liability for Side A only policies (excluding the additional Side A coverage for private, not-for-profit insureds). Reinsurer accepts 50% of the Company's net liability.</p> <p>Section C – Company retains 30% of net liability for public ABC policies and any other stand-alone public coverage (such as stand-alone Fiduciary or Employment Practices Liability) and as respects private, not for profit policies where the limit for any one coverage exceeds \$5,000,000. Reinsurer accepts 70% of the Company's net liability.</p> <p>B) The net liability ceded shall be limited to the quota share percentage of \$10,000,000 any one coverage, any one insured, any one claim (or \$15,000,000 as respects to directors and officers insureds with at least \$5,000,000</p>

	<p>of Side A directors and officers liability. The maximum combined limit for directors and officers liability including Side A and AB and ABS policies issued to the same insured shall not exceed \$15,000,000.</p> <p>C) Reinsurer is liable for its quota share percentage of loss adjustment expenses, but the Reinsurer's liability for loss in excess of policy limits, extra contractual obligations and declaratory judgment expense, combined, shall not exceed the quota share percentage of \$15,000,000 any one coverage, any one insured, any one claim or occurrence.</p>
<p><u>Aggregate Stop Loss</u></p>	<p>Covers business classified as casualty business by the Hudson Healthcare Division.</p> <p>Limit of liability subject to ultimate net loss equal to 25% of the gross net written premium; ultimate net loss over and above 67.5% of the gross net written premium in the aggregate.</p> <p>Ultimate net loss shall not exceed \$1,000,000 in excess of underlying insurance or self-insured retentions for each policy or coverage, each insured, each occurrence or claim made.</p>
<p><u>Oil & Gas Liability Excess of Loss</u></p>	<p>Losses classified by the Company as (a) primary casualty business with limits greater than \$2,000,000 and (b) umbrella business written in the Company's Oil & Gas Industry Program.</p> <p>Primary casualty business: \$4,000,000 excess of \$2,000,000 each policy, each insured, each occurrence.</p> <p>Umbrella business: \$4,000,000 excess of \$1,000,000, but in turn excess of primary limits of \$1,000,000, or so deemed, each policy, each insured, each occurrence.</p> <p>The maximum limit of liability shall not exceed \$12,000,000.</p>

<u>Contractors Umbrella and Excess Liability</u> <u>80% Quota Share</u>	<p>Covers liability under policies of umbrella and excess liability insurance on behalf of MiniCo Insurance Agency LLP and classified by the Company as New York Contractors Program.</p> <p>The maximum limit of liability (100%) is \$5,000,000 any one policy or any one occurrence.</p>
<u>Personal Umbrella Liability Excess of Loss</u>	<p>Covers business classified as personal umbrella products or comprehensive personal liability products when written in conjunction with personal umbrella products.</p>
First Layer	\$1,000,000 excess of \$1,000,000 per occurrence limit.
Second Layer	\$3,000,000 excess of \$2,000,000 per occurrence limit.
Third Layer	\$5,000,000 excess of \$5,000,000 per occurrence limit.
<u>Property Excess of Loss</u> First Layer – 80% First Layer – 20% Second Layer – 80% Third Layer	<p>Covers business classified as commonwealth specialty program, or losses under commercial property policies.</p> <p>\$5,000,000 excess of \$5,000,000 in respect of each loss, each risk. Reinsurer's liability is \$15,000,000 in respect of each loss occurrence and \$25,000,000 in respect of all losses occurring during the contract term.</p> <p>\$25,000,000 excess of \$5,000,000 in respect of each loss, each risk. Reinsurer's liability is \$50,000,000 in respect of each loss occurrence and \$100,000,000 in respect of all losses occurring during the contract term.</p> <p>\$20,000,000 excess of \$10,000,000 in respect of each loss, each risk. Reinsurer's liability is \$40,000,000 in respect of each loss occurrence and \$60,000,000 in respect of all losses occurring during the contract term.</p> <p>\$20,000,000 excess of \$30,000,000 in respect of each loss, each risk. Reinsurer's liability is \$40,000,000 in respect of each loss occurrence and \$100,000,000 in respect of all</p>

	losses occurring during the contract term.
<u>Healthcare Excess of Loss</u>	Covers loss or losses under policies written or renewed with effective dates during the term of the contract by the Hudson Healthcare Division and classified as casualty business. The Company shall issue medical professional liability policies only on a claims made form.
First Layer	\$1,000,000 excess of \$1,000,000 per event limit.
Second Layer	\$10,000,000 excess of \$2,000,000 per event limit.
<u>Offshore Marine</u> <u>40% Quota Share</u>	<p>Covers business classified as offshore marine, including onshore property under the code of Clearwater Marine Pontus. Covers business classified as offshore energy, including incidental onshore energy property.</p> <p>The maximum limit of liability for the Gulf of Mexico windstorm is 40% of \$200,000,000 in the aggregate; the maximum limit of liability from all loss occurrences is 40% of \$140,000,000.</p> <p>For any loss occurrence resulting directly or indirectly from fire, explosion, control of wells and other allied perils is 40% of \$75,000,000.</p> <p>In addition, the maximum limit of liability from any one loss occurrence is 40% of \$87,000,000, except in respect of all losses from any individual named windstorm in the Gulf of Mexico, the maximum limit shall be the greater of \$105,000,000 or 70% of the Gulf of Mexico named windstorm aggregates for the policies ceded to the contract and in force as of the date of such named windstorm.</p>
<u>Marine Energy Excess of Loss</u>	Provides coverage for policies underwritten as Marine Energy, excluding Gulf of Mexico Windstorm only policies.

First Layer	\$3,000,000 excess of \$3,000,000 each and every loss and/or occurrence and/or series of losses and/or occurrences arising out of one event.
Second Layer	\$6,000,000 excess of \$6,000,000 each and every loss and/or occurrence and/or series of losses and/or occurrences arising out of one event.
Third Layer	\$6,000,000 excess of \$12,000,000 each and every loss and/or occurrence and/or series of losses and/or occurrences arising out of one event.
<u>General Liability</u> <u>100% Quota Share</u>	Coverage applies to policies of general liability insurance business issued on behalf of Company to a US subsidiary or location of a non-US entity otherwise insured by Newline outside of the United States. Liability is subject to maximum limits of \$1,000,000 per occurrence and \$2,000,000 in the aggregate.
<u>Personal Article Floater and Personal Property Floater</u> <u>90% Quota Share</u>	Covers business classified as all risks and inland marine business in respect of personal article floaters, personal property floaters, fine arts and like policies written by Monarch E&S Insurance Services. Liability is ceded on a net basis. The maximum limit of liability for any one item is 90% of \$1,000,000 and 90% of \$6,000,000 any one schedule.

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 1505(d)(2) of the New York Insurance Law.

It is the Company's policy to obtain the appropriate collateral for its cessions to unauthorized reinsurers. Letters of credit and trust accounts obtained by the Company to take credit for cessions to

unauthorized reinsurers were reviewed for compliance with Department Regulations 133 and 114, respectively. No exceptions were noted.

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.

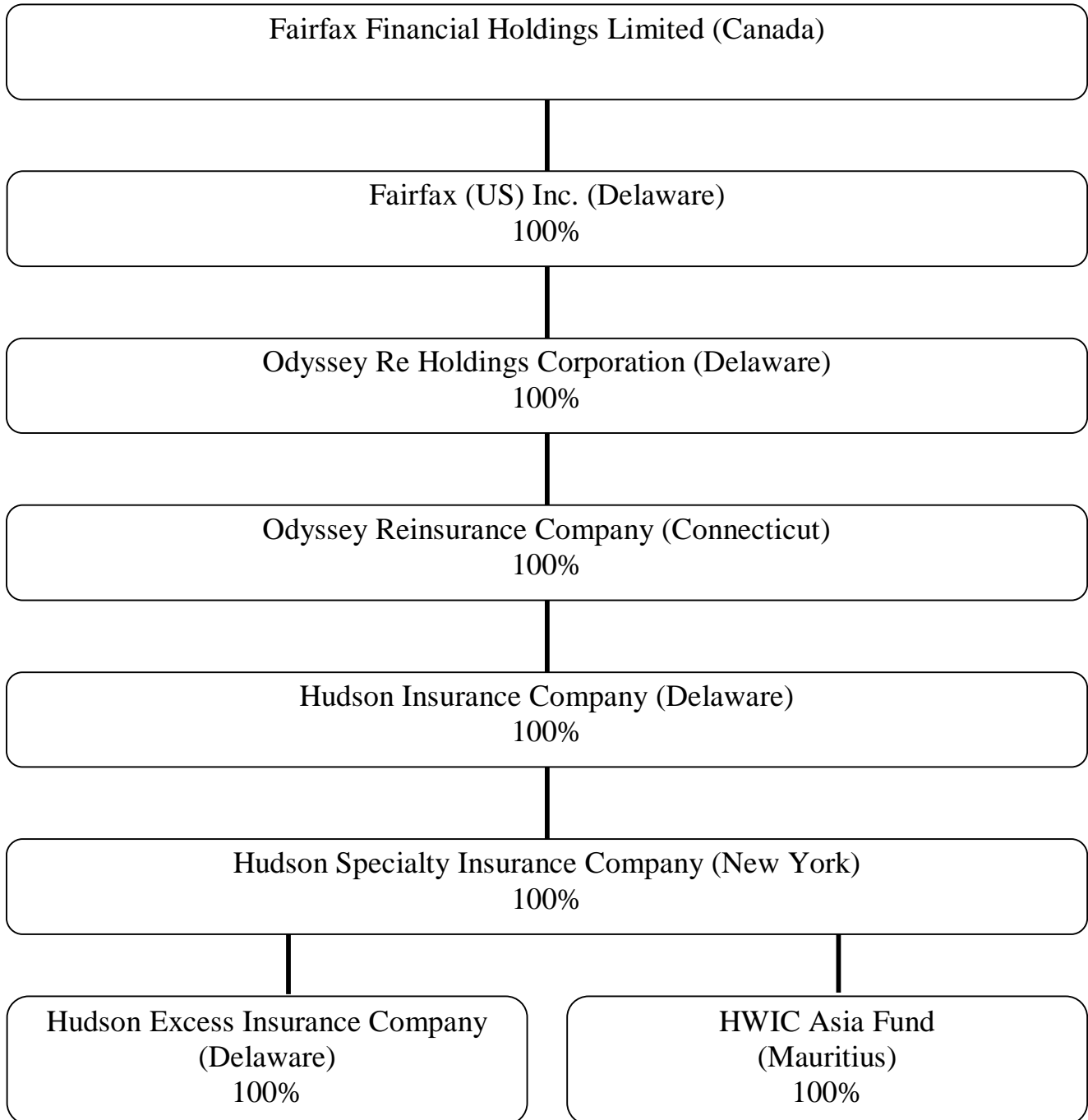
Examination review of the Schedule F data reported by the Company in its filed annual statement was found to accurately reflect its reinsurance transactions. Additionally, management has represented that all material ceded reinsurance agreements transfer both underwriting and timing risk as set forth 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, the 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

The Company is a member of the Odyssey Reinsurance Group. The Company is 100% owned by Hudson Insurance Company, a Delaware domiciled company, which is ultimately controlled by Fairfax Financial Holdings Limited, a publicly traded Canadian financial services holding company.

A review of the holding company registration statements filed with the 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, 2014:



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

1. Investment Agreement

Effective October 28, 2003, the Company entered an investment agreement with Hamblin Watsa Investment Counsel Ltd. (“HW”) and Fairfax Financial Holdings Limited (“FFH”). The agreement authorizes HW and FFH jointly to manage and administer the Company’s investment accounts. The investment agreement was approved by the Department pursuant to Section 1505(d) of the New York Insurance Law.

2. Inter-Company Tax Allocation Agreement

Effective October 28, 2003, the Company entered a tax allocation agreement with its parent, Odyssey Re Holdings Corp. (“ORH”). Pursuant to the agreement, the Company shall be included in the consolidated federal income tax return of ORH and its affiliates. The tax liability or refund under the agreement represents the amount the Company would pay or receive if it had filed a separate return with the Internal Revenue Service. The tax allocation agreement was approved by the Department pursuant to Section 1505(d) of the New York Insurance Law.

3. Tax Services Agreement

Effective October 28, 2003, the Company entered a tax services agreement with Fairfax (US) Inc. The agreement authorizes Fairfax (US) Inc. to provide tax consulting and tax return preparation service to the Company. The tax services agreement was approved by the Department pursuant to Section 1505(d) of the New York Insurance Law.

4. Program Administrator Agreement

Effective January 1, 2007, the Company entered a program administrator agreement with Napa River Insurance Services, Inc. (“NRIS”). Pursuant to the agreement, the Company appoints NRIS as its general agent, in the state of California, to underwrite, issue and deliver insurance policies or contracts of business known by both parties as the California Healthcare Liability Program. The program administrator agreement was approved by the Department pursuant to Section 1505(d) of the New York Insurance Law.

5. Expense Sharing Agreement

Effective November 1, 2008, the Company entered an expense sharing agreement with Odyssey Reinsurance Company (“ORC”), formerly Odyssey America Reinsurance Corporation. Pursuant to the agreement, ORC shall provide the Company office space and management services, including, but not limited to, underwriting, actuarial, claims, accounting, financial, legal, personnel, data processing services and treasury. It requires that expenses should be allocated in a fair, reasonable and consistent manner according to New York Department Regulation 30. The expense sharing agreement was approved by the Department pursuant to Section 1505(d) of the New York Insurance Law.

6. Underwriting Management Services and Cost Sharing Agreement

Effective, June 1, 2014, the Company entered an underwriting management services and cost sharing agreement with United States Fire Insurance Company (“USF”). Pursuant to the agreement, USF shall provide certain underwriting, policy service and administrative services to the Company relating to the runoff of certain policies of environmental liability insurance. The underwriting management service and cost sharing agreement was approved by the Department pursuant to Section 1505(d) of the New York Insurance Law.

7. Master Administrative Services Agreement

Effective July 30, 2014, the Company entered a master administrative services agreement with its affiliates, which are part of the Fairfax Holdings Group. Pursuant to the agreement, the Company agrees to provide to and accept, from the other parties, certain administrative and general services and facilities subject to such guidelines, procedures and limitations as may be duly established and approved by the Board of Directors of the receiving party. The services include, but not limited to, accounting, underwriting, claims, reinsurance, actuarial, legal and human resources. The master administrative services agreement was approved by the Department pursuant to Section 1505(d) of the New York Insurance Law.

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2014, based upon the results of this examination:

Net premiums written to surplus as regards policyholders	34%
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	64%
Premiums in course of collection to surplus as regards policyholders	0%

All of the above ratios fall within the benchmark ranges set forth in the Insurance Regulatory Information System of the National Association of Insurance Commissioners.

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

	<u>Amounts</u>	<u>Ratios</u>
Losses and loss adjustment expenses incurred	\$111,016,801	68.60%
Other underwriting expenses incurred	20,730,260	12.80
Net underwriting gain	<u>30,095,535</u>	<u>18.60</u>
Premiums earned	<u>\$161,842,596</u>	<u>100.00%</u>

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. There were no adjustments made to the Company's filed balance sheet as a result of this examination.

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$222,303,606		\$222,303,606
Preferred stocks	3,492,163		3,492,163
Common stocks	64,815,066		64,815,066
Cash, cash equivalents and short-term investments	23,990,645		23,990,645
Investment income due and accrued	3,270,317		3,270,317
Uncollected premiums and agents' balances in the course of collection	6,238,990	5,535,810	703,180
Deferred premiums, agents' balances and installments booked but deferred and not yet due	16,762,822		16,762,822
Amounts recoverable from reinsurers	13,352,354		13,352,354
Current federal and foreign income tax recoverable and interest thereon	1,141,937		1,141,937
Net deferred tax asset	7,662,937	1,036,455	6,626,482
Electronic data processing equipment and software	801,764	781,423	20,341
Loss clearing	10,430,484		10,430,484
Intangible asset	1,534,108	1,534,108	
Miscellaneous receivable	61,209	61,209	
Other assets	<u>1,905</u>	<u>1,905</u>	<u> </u>
Total assets	<u>\$375,860,307</u>	<u>\$8,950,910</u>	<u>\$366,909,397</u>

Liabilities, Surplus and Other Funds

Losses and loss adjustment expenses		\$ 87,374,586
Other expenses (excluding taxes, licenses and fees)		1,120,358
Taxes, licenses and fees (excluding federal and foreign income taxes)		118,196
Unearned premiums		24,642,861
Ceded reinsurance premiums payable (net of ceding commissions)		48,272,500
Amounts withheld or retained by company for account of others		129,749
Provision for reinsurance		3,100,000
Payable to parent, subsidiaries and affiliates		6,654,153
Stat X/S ceded commission		8,698,867
UML LPT reserve		<u>19,590</u>
Total liabilities		<u>\$180,130,860</u>
<u>Surplus and Other Funds</u>		
Common capital stock	\$ 7,500,000	
Gross paid in and contributed surplus	33,500,000	
Unassigned funds (surplus)	<u>145,778,537</u>	
Surplus as regards policyholders		<u>186,778,537</u>
Total liabilities, surplus and other funds		<u>\$366,909,397</u>

Note: 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, as reported by the Company, for the four-year examination period, January 1, 2011 through December 31, 2014, was \$49,255,587, as detailed as follows:

Underwriting Income

Premiums earned		\$161,842,596
Deductions:		
Losses and loss adjustment expenses incurred	\$111,016,801	
Other underwriting expenses incurred	<u>20,730,260</u>	
Total underwriting deductions		<u>131,747,061</u>
Net underwriting gain		\$ 30,095,535

Investment Income

Net investment income earned	\$ 36,356,373	
Net realized capital gain	<u>1,612,419</u>	
Net investment gain		37,968,792

Other Income

Aggregate write-ins for miscellaneous income	\$ <u>(3,314,445)</u>	
Total other income		<u>(3,314,445)</u>
Net income before federal and foreign income taxes		\$ 64,749,882
Federal and foreign income taxes incurred		<u>15,494,295</u>
Net income		\$ <u>49,255,587</u>

C. Capital and Surplus

Surplus as regards policyholders increased \$55,573,245, as reported by the Company, during the four-year examination period January 1, 2011 through December 31, 2014, detailed as follows:

Surplus as regards policyholders per report on examination as of December 31, 2010			\$131,205,292
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income	\$49,255,587		
Net unrealized capital gains	12,322,489		
Change in net deferred income tax	2,345,002		
Change in non-admitted assets		44,001	
Change in provision for reinsurance		2,900,000	
Dividends to stockholders		4,053,423	
Aggregate write-ins for gains and losses in surplus	<u> </u>	<u>1,352,409</u>	
Total gains and losses	<u>\$63,923,078</u>	<u>\$8,349,833</u>	
Net increase in surplus			\$ <u>55,573,245</u>
Surplus as regards policyholders per report on examination as of December 31, 2014			<u>\$186,778,537</u>

4. **LOSSES AND LOSS ADJUSTMENT EXPENSES**

The examination liability for the Company's loss and loss adjustment expenses is the same as reported by the Company as of December 31, 2014.

The examination analysis of the loss and loss adjustment expense reserves was conducted in accordance with generally accepted actuarial principles and statutory accounting principles, including the NAIC Accounting Practices & Procedures Manual, Statement of Statutory Accounting Principle No. 55 ("SSAP No. 55").

It is recommended that the Company's future actuarial reports include details of the actual versus expected analysis and the ULAE analysis.

5. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

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

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Management</u>	
It is recommended that the Company convene regularly scheduled quarterly meetings of its board of directors as stated in its by-laws and maintain complete minutes of such proceedings.	5
The Company has complied with this recommendation.	
B. <u>Accounts and Records</u>	
i. It is recommended that the Company adhere to SSAP No. 6 in determining its non-admitted agent's balance.	16
The Company has complied with this recommendation.	
ii. It is recommended that the Company establish an aging policy for program administrators to use policy effective date as due date to determine the non-admitted balance.	16
The Company has complied with this recommendation.	
C. <u>Losses and Loss Adjustment Expenses</u>	
It is recommended that the Company adhere to NAIC annual statement instructions by reporting earned premiums and losses incurred from tail policies in the "Occurrence" sections of Schedule P for each respective line of business.	20
The Company has complied with this recommendation.	

6. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>		<u>PAGE NO.</u>
A.	<u>Description of Company</u>	
	It is recommended that the Company comply with Sections 1608(d) and 1505(c) and submit to the Department for approval all transactions meeting the thresholds of Section 1608(d) and 1505(c) of the New York Insurance Law.	4
B.	<u>Losses and Loss Adjustment Expenses</u>	
	It is recommended that the Company's future actuarial reports include details of the actual versus expected analysis and the ULAE analysis	23

APPOINTMENT NO. 31274

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:

Justin Mathew

as a proper person to examine the affairs of the

Hudson 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 6th day of April, 2015

BENJAMIN M. LAWSKY
Superintendent of Financial Services



By:

Rolf Kaumann
Deputy Chief Examiner