

REPORT ON EXAMINATION

OF THE

NAVIGATORS INSURANCE COMPANY

AS OF

DECEMBER 31, 2009

DATE OF REPORT

SEPTEMBER 24, 2010

EXAMINER

JOSEPH REVERS

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STATE OF NEW YORK
INSURANCE DEPARTMENT
25 BEAVER STREET
NEW YORK, NEW YORK 10004

September 24, 2010

Honorable James J. Wrynn
Superintendent of Insurance
Albany, New York 12257

Sir:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 30435 dated December 8, 2009 attached hereto, I have made an examination into the condition and affairs of Navigators Insurance Company as of December 31, 2009, and submit the following report thereon.

Wherever the designation "the Company" appears herein without qualification, it should be understood to indicate Navigators Insurance Company.

Wherever the term "Department" appears herein without qualification, it should be understood to mean the New York Insurance Department.

The examination was conducted at the Company's administrative office located at 6 International Drive, Rye Brook, NY 10573.

1. SCOPE OF EXAMINATION

The Department has performed an association examination of Navigators Insurance Company. The previous examination was conducted as of December 31, 2004. This examination covered the five-year period from January 1, 2005 through December 31, 2009. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

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 Financial Condition Examiners Handbook of the NAIC:

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

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

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

2. DESCRIPTION OF COMPANY

Navigators Insurance Company was incorporated under the laws of the State of New York on July 16, 1981 and began writing business on April 1, 1983.

At as of December 31, 2009, capital paid in was \$5,000,000 consisting of 100 shares of common stock at \$50,000 par value per share. Gross paid in and contributed surplus was \$361,122,108. All the outstanding capital stock is owned by the Navigators Group, Inc., a publicly traded company, which is in turn 20% owned by Terence N. Deeks and family.

Gross paid in and contributed surplus increased by \$220,000,000 during the examination period, as follows:

<u>Year</u>	<u>Description</u>	<u>Amount</u>	<u>Amount</u>
2005	Beginning gross paid in and contributed surplus		\$141,122,108
2005	Surplus contribution	\$120,000,000	
2006	Surplus contribution	<u>100,000,000</u>	
	Total Surplus Contributions		<u>220,000,000</u>
2009	Ending gross paid in and contributed surplus		<u>\$361,122,108</u>

A. Management

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 twenty-one members. The board met four times during 2005 through 2008 and three times in 2009. At December 31, 2009, the board of directors was comprised of the following sixteen members:

Name and ResidencePrincipal Business Affiliation

H. Clay Basset, Jr.
Pound Ridge, NY

Senior Vice President, Chief Underwriting Officer
and Chief Risk Officer,
Navigators Insurance Company

Michael L. Civisca
West Nyack, NY

President,
Marine & Energy
Executive Vice President and Chief Operating
Officer,
Navigators Management Company, Inc.

Christopher C. Duca
Rockville Centre, NY

President,
Navigators Pro
President & Chief Executive Officer,
Navigators Management Company, Inc.

Richard S. Eisdorfer
Trumbull, CT

Senior Vice President and Chief Administrative
Officer,
Navigators Insurance Company

Stanley A. Galanski
Ridgefield, CT

President and Chairman,
Navigators Insurance Company

Paul V. Hennessy
Cheam, Surrey, UK

President,
Navigators Holdings (UK) Ltd.
Managing Director,
Navigators Underwriting Agency Ltd.

Noel Higgitt
Menlo Park, CA

Executive Vice President, Field Operations,
Navigators Insurance Company

Christopher A. Johnson
Oakland, CA

Senior Vice President, Marine & Energy,
Navigators Insurance Company

Russell J. Johnson
Seaford, NY

Senior Vice President, Marine & Energy,
Navigators Insurance Company

John W. Jones
Kingwood, TX

Senior Vice President, Marine & Energy,
Navigators Insurance Company

Jane E. Keller
Southport, CT

Senior Vice President and Chief Claims Officer,
Navigators Insurance Company

Francis W. McDonnell
Rye, NY

Senior Vice President and Chief Financial Officer,
Navigators Insurance Company

Gregory D. Olson
Seattle, WA

Senior Vice President, Marine & Energy,
Navigators Insurance Company

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Richard C. Rea Ockley, Surrey, UK	Managing Director, Navigators Management (UK), Ltd.
Jeff L. Saunders Hinsdale, IL	President, Excess Casualty, Navigators Insurance Company
Bradley D. Wiley Ringwood, NJ	Senior Vice President and Secretary, Navigators 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.

As of December 31, 2009, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Stanley A. Galanski	President and Chief Executive Officer
Francis W. McDonnell	Senior Vice President & Chief Financial Officer
Thomas C. Connolly	Vice President & Treasurer
Emily Brennan Miner	Associate Counsel & Secretary

B. Territory and Plan of Operation

As of December 31, 2009, the Company was licensed to write business in all fifty states, the District of Columbia, and the U.S. Virgin Islands. In addition, the Company is licensed in the United Kingdom where the Company operates as a branch.

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

<u>Paragraph</u>	<u>Line of Business</u>
12	Collision
13	Personal injury liability
14	Property damage liability
15	Workers' compensation and employers' liability
16	Fidelity and surety
17	Credit
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine
21	Marine protection and indemnity
29	Legal services

Based on the lines of business for which 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 Navigators Agencies produce business for the Company and its subsidiary, Navigators Specialty Insurance Company ("Specialty"). They specialize in writing marine and related lines of business, specialty liability insurance and professional liability coverages. Navigators Management Company, Inc. manages the insurance business and operations of Navigators Insurance Company.

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>	<u>Premiums Written in New York State as a Percentage of Total Premium</u>
2005	\$22,159,282	\$304,357,482	7.28%
2006	\$33,052,205	\$389,817,272	8.48%
2007	\$48,208,986	\$490,595,045	9.83%
2008	\$53,559,848	\$562,242,682	9.53%
2009	\$49,411,221	\$562,248,057	8.79%

C. ReinsuranceAssumed

Assumed reinsurance accounted for 23% of the Company's gross premium written at December 31, 2009. The Company's assumed reinsurance program consists mainly of its participation in an inter-company arrangement with its wholly-owned subsidiary, Navigators Specialty Insurance Company ("Specialty"), a New York domiciled property and casualty company. Under the agreement, which became effective January 1, 1999, the Company assumes 100% of Specialty's net direct business. The Company also assumes business from non-affiliates.

Ceded

The Company has structured its ceded reinsurance program to limit its exposure as follows:

<u>Type of Treaty</u>	<u>Cession</u>
<u>Marine Excess of Loss</u>	
First layer 100% unauthorized	\$2,500,000 excess of \$2,500,000 each risk, each loss written by the UK Branch.
<u>Whole Account</u> Marine only 71% authorized	\$7,500,000 excess of \$5,000,000 each risk, each loss, excluding natural catastrophe and energy.
<u>Whole Account</u> Energy only 82% %authorized	\$7,500,000 excess of \$5,000,000 each risk, each loss, excluding natural catastrophe.
<u>Whole Account</u> Marine and Offshore Energy 82% authorized	\$7,500,000 excess of \$5,000,000 each risk, each loss, natural catastrophe only.
<u>Whole Account</u> Marine and Offshore Energy 66% authorized	\$7,500,000 excess of \$12,500,000 each risk, each loss, excluding natural catastrophe.
<u>Whole Account</u> Marine and Offshore Energy 78% authorized	\$7,500,000 excess of \$12,500,000 each risk, each loss, natural catastrophe only.
<u>Whole Account</u> Marine and Offshore Energy 80% authorized	\$15,000,000 excess of \$20,000,000 each risk, each loss.

<u>Type of Treaty</u>	<u>Cession</u>
<u>Whole Account</u> Marine and Offshore Energy 79% authorized	\$30,000,000 excess of \$35,000,000 each risk, each loss.
<u>Whole Account</u> Marine and Offshore Energy 76% authorized	\$35,000,000 excess of \$65,000,000 each risk, each loss.
<u>Whole Account</u> Marine and Offshore Energy 100% authorized	\$40,000,000 excess of \$100,000,000 each risk, each loss.
<u>Whole Account</u> Marine and Offshore Energy 100% authorized	\$25,000,000 excess of \$140,000,000 each risk, each loss.
<u>Marine Quota Share Treaties</u>	
<u>Engineering Obligatory Quota Share</u> 41% authorized	90% quota share on all policies, subject to a Probable Maximum Loss of \$10,000,000 any one risk.
<u>Marine Liability Quota Share</u> 70% authorized	80% quota share on all policies, subject to a Probable Maximum Loss of \$5,000,000 any one risk.
<u>Offshore Energy Gulf of Mexico Windstorm Coverage</u> 100% authorized	64.29% quota share on all policies, subject to a maximum aggregate limit of \$70,000,000.
<u>War Quota Share Treaty</u> 100% authorized	100% quota share on risks classified as Marine War or Aviation War, subject to a maximum aggregate limit of \$40,000,000 marine and \$6,750,000 aviation.
<u>Non-Marine Excess of Loss</u>	
<u>Casualty</u> First layer 100% authorized	\$250,000 in excess of \$750,000 each loss occurrence.
Second layer 100% authorized	\$1,000,000 in excess of \$1,000,000 each loss occurrence.
<u>Property</u> 100% authorized	\$1,250,000 in excess of \$750,000 each risk, \$3,750,000 per occurrence limit.
<u>Clash</u> 100% authorized	\$3,000,000 in excess of \$2,000,000 each loss occurrence; subject to a maximum of \$9,000,000 all losses.

<u>Type of Treaty</u>	<u>Cession</u>
<u>Property Auto Fac</u> 100% authorized	\$13,000,000 in excess of \$2,000,000 each risk.
<u>Inland Marine</u> 100% authorized	\$8,000,000 in excess of \$2,000,000 each risk, Subject to a maximum of \$16,000,000 per occurrence.
<u>Specialty Construction</u> First layer 100% authorized	\$250,000 in excess of \$750,000 each loss occurrence. 40% placed.
Second layer 100% authorized	\$1,000,000 in excess of \$1,000,000 each loss occurrence, subject to a maximum of \$21, 000,000 80% placed.
<u>Specialty Casualty Clash</u> 100% authorized	\$3,000,000 in excess of \$2,000,000 each loss occurrence, subject to a limit of liability of \$9,000,000 all loss occurrences.
<u>Non-Marine Quota Share Treaties</u>	
<u>Specialty Equipment Breakdown</u> 100% authorized	100% quota share on Equipment Breakdown under Commercial Package policies up to \$25,000,000 per accident, per policy.
<u>Multi-Department Supported Umbrella</u> 100% authorized	90% of \$5,000,000 on Commercial Umbrella and Excess Liability policies.
<u>Surety Quota Share</u> 100% authorized	80% of all covered bonds, subject to a maximum of \$10,000,000 any one bond.
<u>Specialty Primary Casualty</u> 100% unauthorized	25% of \$2,000,000 per occurrence.
<u>Specialty Personal Umbrella</u> 100% authorized	70% for limits up to and including \$10,000,000.
<u>Life Science</u> 100% authorized	75% of \$10,000,000 per occurrence.
<u>Environmental Liability</u> 100% authorized	70% of up to \$15,000,000 for esp section policies, 70% of up to \$10,000,000 for all other policies.
<u>Excess Casualty Coverage</u> 100% authorized	60% on policies with limits up to \$10,000,000; 80% on policies with limits greater than \$10,000,000 and up to \$25,000,000.

<u>Type of Treaty</u>	<u>Cession</u>
<u>Excess Casualty Auto Carve Out</u> 100% authorized	90% quota share as respects first \$1,000,000 each occurrence.
<u>Personal Umbrella Coverage</u> 100% authorized	100% of \$5,000,000 for risks in all states except California and 90% of \$5,000,000 for risks in California.
<u>Professional Liability Coverage (A)</u> 100% authorized	95% quota share of 40% on risks equal or less than \$5,000,000; 50% on risks greater than \$5,000,000 up to \$10,000,000; 60% on risks greater than \$10,000,000 up to \$15,000,000; 75% on risks greater than \$15,000,000 up to \$25,000,000.
<u>Professional Liability Coverage (B)</u> 100% authorized	98.6667% quota share of 40% on risks equal or less than \$5,000,000; 50% on risks greater than \$5,000,000 up to \$10,000,000; 60% on risks greater than \$10,000,000 up to \$15,000,000.
<u>Architects and Engineers Coverage</u> 100% authorized	70% of up to \$5,000,000 each loss, each policy, each insured.

Letters of Credit

The Company participated in the Navigators Agencies Marine Pool (“the Pool”) formerly known as the Somerset Agencies Marine Pool with other unaffiliated insurers through 2005. In 2006, the Company’s participation in the Pool increased to 100%. Upon review of the letters of credit issued to the pool participants, it was noted that many of them include multiple applicants and beneficiaries, or indicate the beneficiary to be “Somerset Marine Incorporated (“Somerset Marine”) on behalf of Navigators Insurance Company”. For letters of credit with multiple beneficiaries, in the majority of instances, the amount of credit is allocated based on the percentage of the Company’s pool participation. For the remainder of the letters of credit, the amount of credit is allocated based on the actual amount due to each beneficiary.

The inclusion of more than one entity as beneficiary or indicating the beneficiary as an entity other than Navigators Insurance Company is in violation of Parts 79.1(b) and 79.1(c) of Department Regulation 133 which define “beneficiary” and “clean and unconditional,” respectively, as follows:

“(b) Beneficiary means the insurer in favor of which the letter of credit or its confirmation is established and shall include any successor by operation of law of any named beneficiary including, without limitation, any liquidator, rehabilitator, receiver or conservator.”

“(c) Clean and unconditional letter of credit or clean and unconditional confirmation means a letter of credit or confirmation which:

- (1) makes no reference to any other agreement, document or entity; and
- (2) provides that a beneficiary need only draw a sight draft under the letter of credit or confirmation and present it to promptly obtain funds and that no other document need be presented”.

The prior report on examination noted these violations and contained a recommendation that all letters of credit obtained by the Company comply with the provisions of Department Regulation 133. This examination has also determined that all letters of credit issued after the prior report on examination were in compliance with Department Regulation 133 and the Company has made a good faith effort to correct its existing letters of credit. As of the current examination date, the Company had corrected some of the letters of credit and has continued correcting others through the date of this report, but has not corrected all letters of credit.

It is again recommended that the Company continue its efforts to amend all of its outstanding letters of credit to indicate the sole beneficiary as “Navigators Insurance Company” pursuant to the provisions of Department Regulation 133.

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. Additionally, management has represented that all material ceded reinsurance agreements transfer both underwriting and timing risk as set forth in the NAIC Accounting Practices and Procedures Manual, Statements of Statutory Accounting Principles (“SSAP”) No. 62. Representations were supported by appropriate risk transfer analyses and an attestation from the Company's chief executive officer pursuant to the NAIC Annual Statement Instructions. Also, management indicated that the Company was not a party to any finite reinsurance agreements.

SSAP No. 62 Paragraph 8 lists the required terms that must be included in all reinsurance agreements. Paragraph 8d states:

“The agreement must provide for reports of premiums and losses, and payment of losses, no less frequently than on a quarterly basis, unless there is no activity during the period. . . .”

A number of reinsurance agreements reviewed during this examination did not contain a reports and remittances clause. The Company has indicated that they will address this upon renewal of its reinsurance agreements. Nevertheless, it is recommended that the Company include in every reinsurance agreement a provision that complies with SSAP No. 62 Paragraph 8d.

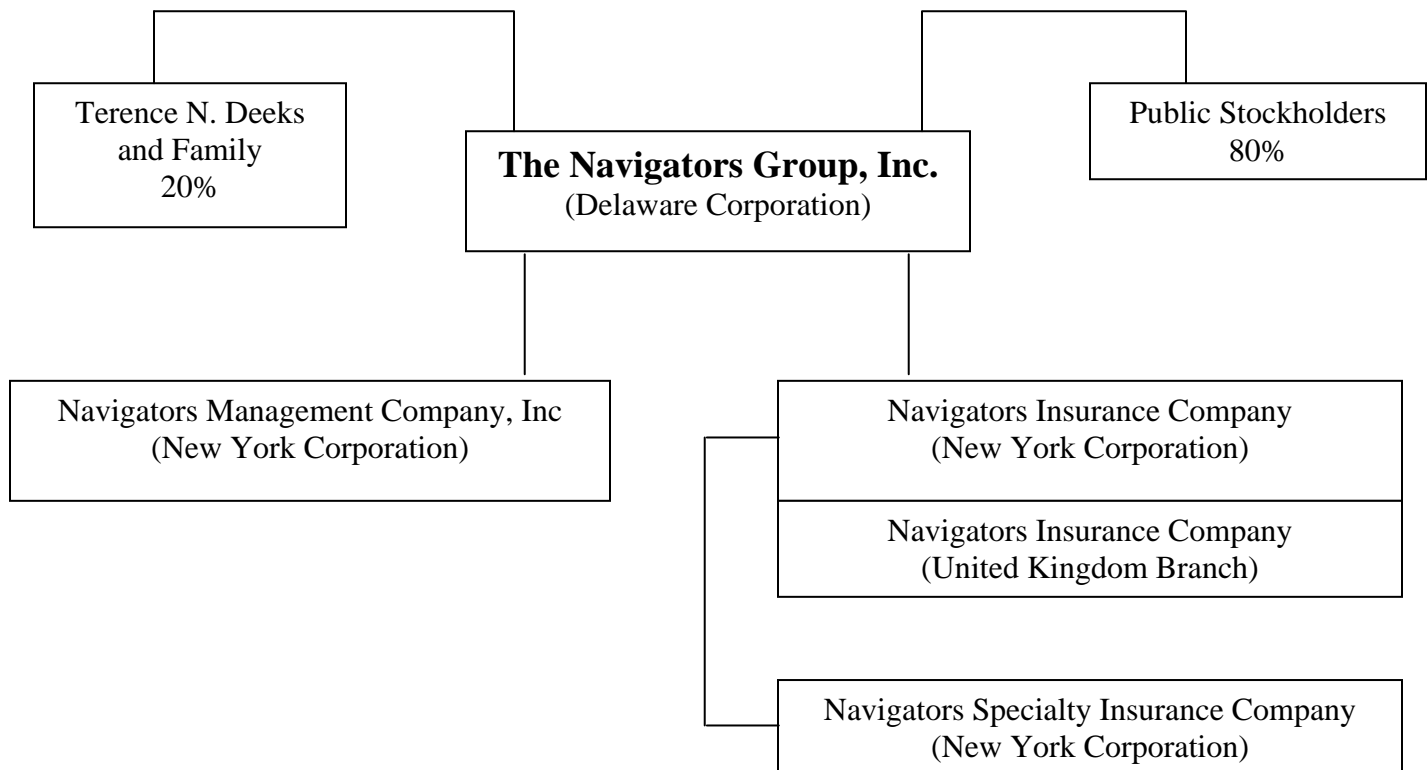
Examination review of the Schedule F data reported by the Company in its filed 2009 annual statement was found to accurately reflect its reinsurance transactions.

D. Holding Company System

The Company is a member of the Navigators Group. The Company is 100% owned by Navigators Group, Inc., a publicly traded holding company domiciled in the State of Delaware, which is 20% owned by Terence N. Deeks and Family. Mr. Deeks has been deemed to be the ultimate controlling person, as set forth in Section 1501 of the New York Insurance Law.

A review of the holding company registration statements filed with this Department indicated that such filings were complete and were filed in a timely manner pursuant to Article 15 of the New York Insurance Law and Department Regulation 52.

The following is an abbreviated chart of the holding company system at December 31, 2009:



At December 31, 2009, the Company was party to the following agreements with other members of its holding company system:

Tax Allocation Agreement

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

Agency Agreement

The Company participates in an agency agreement with Navigators Management Company (“NMC”). Pursuant to the terms of the agreement, NMC underwrites and services various lines of business on behalf of the Company. The agreement was effective January 1, 2002 and was approved by the Department pursuant to the provisions of Section 1505 of the New York Insurance Law.

Inter-Company Reinsurance Agreement

As noted in Section 2C of this report, the Company participates in an inter-company reinsurance agreement whereby the Company assumes 100% of the premiums written by its subsidiary, Navigators Specialty Insurance Company. The agreement was effective January 1, 1999 and was approved by the Department pursuant to the provisions of Section 1505 of the New York Insurance Law.

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2009, based upon the results of this examination:

Net premiums written to surplus as regards policyholders	.80:1
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	77.2%
Premiums in course of collection to surplus as regards policyholders	6.7%

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 five-year period covered by this examination:

	<u>Amounts</u>	<u>Ratios</u>
Losses and loss adjustment expenses incurred	\$1,229,249,931	63.18%
Other underwriting expenses incurred	630,551,625	32.41
Net underwriting gain	<u>85,841,978</u>	<u>4.41</u>
Premiums earned	<u>\$1,945,643,534</u>	<u>100.00%</u>

F. Accounts and Records

UK Custodial Bank

The Company holds investments in the custody of a UK bank to support the business of the Company's UK Branch, pursuant to the requirements of the UK Financial Services Authority. The custodial agreement for this account does not comply with the requirements of the NAIC Financial Condition Examiners Handbook. In its 2009 annual statement, the Company listed the UK custodial bank in General Interrogatory 26.01 (for agreements that comply with the requirements of the NAIC Financial Condition Examiners Handbook), rather than in General Interrogatory 26.02 (for all agreements that do not comply with the requirements of the NAIC Financial Condition Examiners Handbook). It is recommended that the Company list its UK custodian bank as an agreement that does not comply with the NAIC Financial Condition Examiners Handbook in the General Interrogatories in all future filed annual statements.

Certified Public Accountant ("CPA") Engagement Letter

The engagement letter between the Company and its independent CPA firm, dated December 4, 2009, does not include a provision requiring the CPA firm to retain the audit work papers and communications for six calendar years from the date of the audit report or until the filing of the report on examination covering the period of the audit, whichever is longer, as required by Part 89.2(c) of Department Regulation 118. It is recommended that the Company ensure that all future contracts with its independent CPA include all of the required provisions in Department Regulation 118.

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2009 as determined by this examination and as reported by the Company:

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$1,349,376,959	\$ 0	\$1,349,376,959
Common stocks	179,034,460		179,034,460
Properties occupied by the company	1,280,254		1,280,254
Cash, cash equivalents and short-term investments	32,018,532		32,018,532
Receivable for securities	15,014,147		15,014,147
Investment income due and accrued	14,822,670		14,822,670
Uncollected premiums and agents' balances in the course of collection	52,384,032	11,948,078	40,435,954
Deferred premiums, agents' balances and installments booked but deferred and not yet due	50,886,593		50,886,593
Amounts recoverable from reinsurers	49,599,329		49,599,329
Current federal and foreign income tax recoverable and interest thereon	4,820,404		4,820,404
Net deferred tax asset	67,247,811	19,458,776	47,789,035
Guaranty funds receivable or on deposit	428,484		428,484
Electronic data processing equipment and software	3,990,069	3,053,587	936,482
Furniture and equipment, including health care delivery assets	7,920,986	7,920,986	
Prepaid Expense	977,180	977,180	0
Contingent Commission Recoverable	1,918,116		1,918,116
Other assets	778,279		778,279
Total assets	<u>\$1,832,498,305</u>	<u>\$43,358,607</u>	<u>\$1,789,139,698</u>

Liabilities, Surplus and Other Funds

<u>Liabilities</u>	<u>Examination</u>	<u>Company</u>	<u>Surplus Increase (Decrease)</u>
Losses and loss adjustment expenses	\$ 852,400,000	\$ 807,275,013	\$(45,124,987)
Commissions payable, contingent commissions and other similar charges	390,600	390,600	
Other expenses (excluding taxes, licenses and fees)	1,888,803	1,888,803	
Taxes, licenses and fees (excluding federal and foreign income taxes)	1,616,512	1,616,512	
Unearned premiums	214,616,438	214,616,438	
Ceded reinsurance premiums payable (net of ceding commissions)	61,236,754	61,236,754	
Funds held by company under reinsurance treaties	8,343,851	8,343,851	
Amounts withheld or retained by company for account of others	1,364,373	1,364,373	
Provision for reinsurance	27,869,293	27,869,293	
Payable to parent, subsidiaries and affiliates	30,563,584	30,563,584	
Other liabilities	<u>(11,845,618)</u>	<u>(11,845,618)</u>	<u>0</u>
Total liabilities	<u>\$1,188,444,590</u>	<u>\$1,143,319,603</u>	<u>\$(45,124,987)</u>
<u>Surplus and Other Funds</u>			
Deferred Tax Asset admitted under 10R	\$ 9,950,519	\$ 9,950,519	
Common capital stock	5,000,000	5,000,000	
Gross paid in and contributed surplus	361,122,108	361,122,108	
Unassigned funds (surplus)	<u>224,622,481</u>	<u>269,747,469</u>	<u>\$(45,124,987)</u>
Surplus as regards policyholders	<u>600,695,108</u>	<u>645,820,095</u>	<u>\$(45,124,987)</u>
Total liabilities, surplus and other funds	<u>\$1,789,139,698</u>	<u>\$1,789,139,698</u>	

NOTE: The Internal Revenue Service has not audited the Company's consolidated tax returns covering tax years 2005 through 2009. 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

Surplus as regards policyholders increased \$410,258,785 during the five-year examination period January 1, 2005 through December 31, 2009, detailed as follows:

Underwriting Income

Premiums earned		\$1,945,643,534
Deductions:		
Losses and loss adjustment expenses incurred	\$1,229,249,931	
Other underwriting expenses incurred	<u>630,551,625</u>	
Total underwriting deductions		<u>1,859,801,556</u>
Net underwriting gain or (loss)		\$ 85,841,978

Investment Income

Net investment income earned	\$240,538,024	
Net realized capital gain	<u>(43,117,518)</u>	
Net investment gain or (loss)		197,420,506

Other Income

Net gain or (loss) from agents' or premium balances charged off	\$ (675,111)	
Aggregate write-ins for miscellaneous income	<u>1,306,463</u>	
Total other income		<u>631,352</u>
Net income after dividends to policyholders but before federal and foreign income taxes		\$ 283,893,836
Federal and foreign income taxes incurred		<u>126,851,666</u>
Net income		<u>\$ 157,042,170</u>

Surplus as regards policyholders per report on examination as of December 31, 2004			\$235,561,311
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income	\$157,042,170		
Net unrealized capital gains or (losses)	19,317,799		
Change in net unrealized foreign exchange capital gain (loss)		\$ 929,320	
Change in net deferred income tax	52,288,120		
Change in non-admitted assets		32,586,704	
Change in provision for reinsurance		11,279,392	
Cumulative effect of changes in accounting principles	7,330,606		
Surplus adjustments paid in	220,000,000		
Dividends to stockholders		56,000,000	
Aggregate write-ins for gains and (losses) in surplus	<u>9,950,519</u>	<u> </u>	
Total gains and (losses)	<u>\$465,929,214</u>	<u>\$100,795,416</u>	
Net increase (decrease) in surplus			<u>365,133,798</u>
Surplus as regards policyholders per report on examination as of December 31, 2009			<u>\$600,695,108</u>

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of \$852,400,000 is \$45,124,987 more than the \$807,275,013 reported by the Company as of December 31, 2009. The examination analysis was conducted in accordance with generally accepted actuarial principles and practices and was based on statistical information contained in the Company's internal records and in its filed annual statements.

5. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

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

<u>ITEM</u>		<u>PAGE NO.</u>
A.	It is recommended that the Company continue its efforts to amend all of its outstanding letters of credit to indicate the sole beneficiary as “Navigators Insurance Company” pursuant to the provisions of Department Regulation 133.	12

The Company has not fully complied with this recommendation. A similar comment is made in this report.

6. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>		<u>PAGE NO.</u>
A.	<u>Reinsurance</u>	
i.	It is recommended that the Company continue its efforts to amend all of its outstanding letters of credit to indicate the sole beneficiary as “Navigators Insurance Company” pursuant to the provisions of Department Regulation 133.	11
ii.	It is recommended that the Company include in every reinsurance agreement a provision that complies with SSAP No. 62 Paragraph 8d.	12
B.	<u>Accounts and Records</u>	
i.	It is recommended that the Company list its UK custodian bank as an agreement that does not comply with the NAIC Financial Condition Examiners Handbook in the General Interrogatories in all future filed annual statements.	14
ii.	It is recommended that the Company ensure that all future contracts with its independent CPA include all of the required provisions in Department Regulation 118.	14

Appointment No. 30435

**STATE OF NEW YORK
INSURANCE DEPARTMENT**

I, James J. Wrynn Superintendent of Insurance of the State of New York,
pursuant to the provisions of the Insurance Law, do hereby appoint:

Joseph Revers

as proper person to examine into the affairs of the

NAVIGATORS INSURANCE COMPANY

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

Company

with such other information as he shall deem requisite.

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

this 8th day of December, 2009



A handwritten signature in cursive script that reads "James J. Wrynn".

JAMES J. WRYNN
Superintendent of Insurance