

REPORT ON EXAMINATION

OF

NAVIGATORS SPECIALTY INSURANCE COMPANY

AS OF

DECEMBER 31, 2019

DATE OF REPORT

DECEMBER 7, 2021

EXAMINER

DILBRINA BELGRAVE, AFE, CISA

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## Department of Financial Services

**KATHY HOCHUL**  
Governor

**ADRIENNE A. HARRIS**  
Superintendent

February 14, 20221

Honorable Adrienne A. Harris  
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 32031 dated January 13, 2020, attached hereto, I have made an examination into the condition and affairs of Navigators Insurance Company as of December 31, 2019, and submit the following report thereon.

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

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

Due to the COVID-19 pandemic, this examination was conducted remotely.

## 1. SCOPE OF EXAMINATION

The Department has performed an examination of the Navigators Specialty Insurance 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 where deemed appropriate by the examiner.

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

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

On May 23, 2019, The Hartford Financial Services Group, Inc. (“The Hartford”) acquired The Navigators Group, Inc. (“NAVIG”), including NAVIG subsidiaries, Navigators Insurance Company (“NIC”) and the Company. NAVIG, NIC, and the Company are now beneficially owned by The Hartford, the ultimate parent entity. The acquisition was approved by the Department on May 16, 2019.

### 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 seven nor more than ten members. The board meets four times during each calendar year. At December 31, 2019, the board of directors was comprised of the following seven members:

| <u>Name and Residence</u>                            | <u>Principal Business Affiliation</u>   |
|--|---|
| Henry Clay Bassett, Jr.<br>Pound Ridge, New York     | Senior Vice President, Head of Reinsurance and<br>Deputy Chief Underwriting Officer,<br>The Hartford Financial Services Group, Inc. |
| Eapen Attapurathu Chandy<br>Glastonbury, Connecticut | Assistant Vice President and Assistant Treasurer,<br>The Hartford Financial Services Group, Inc.                                    |
| Douglas Graham Elliot<br>Rocky Hill, Connecticut     | President,<br>Navigators Insurance Company  |
| Michael Ross Fisher<br>Avon, Connecticut             | Senior Vice President Specialty Commercial,<br>The Hartford Financial Services Group, Inc.  |
| Brion Scott Johnson<br>Avon, Connecticut             | Chief Investment Officer,<br>Hartford Investment Management Company   |
| Mary Blake Nasenbenny<br>Aurora, Illinois            | Senior Vice President - Claim Group Benefit<br>and Workers’ Compensation,<br>The Hartford Financial Services Group, Inc.            |

Vincent Christopher Tizzio  
Atlantic Highlands, New Jersey

Chief Executive Officer and Head of Global  
Specialty,  
The Hartford Financial Services Group, Inc.

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

| <u>Name</u>               | <u>Title</u>                                      |
|---------------------------|---|
| Douglas Graham Elliot     | President   |
| James Michael Yanosy      | Senior Vice President and Chief Financial Officer |
| Allison Gayle Niderno     | Vice President and Controller                     |
| Kathleen Elizabeth Jorens | Senior Vice President and Treasurer               |

B. Territory and Plan of Operation

As of December 31, 2019, the Company did not write business in New York. NSIC underwrites its business on an excess and surplus lines basis in the other 49 states, the District of Columbia, and the U.S. Virgin Islands. As of the examination date, the Company was authorized to transact the kinds of insurance as defined in the following numbered paragraphs of Section 1113(a) of the New York Insurance Law:

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

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).

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 \$4,400,000.

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

| <u>Calendar Year</u> | <u>Direct Premiums</u> |
|----------------------|------------------------|
| 2015                 | \$357,343,244          |
| 2016                 | \$383,426,500          |
| 2017                 | \$411,389,780          |
| 2018                 | \$434,686,789          |
| 2019                 | \$521,804,514          |

The Company primarily underwrites general liability and professional liability on an excess and surplus lines basis. The Company participates in the group's multi-channel distribution platform which utilizes global, national, and regional brokers as well as wholesalers. NSIC did not assume business during the examination period.

C. Reinsurance Ceded

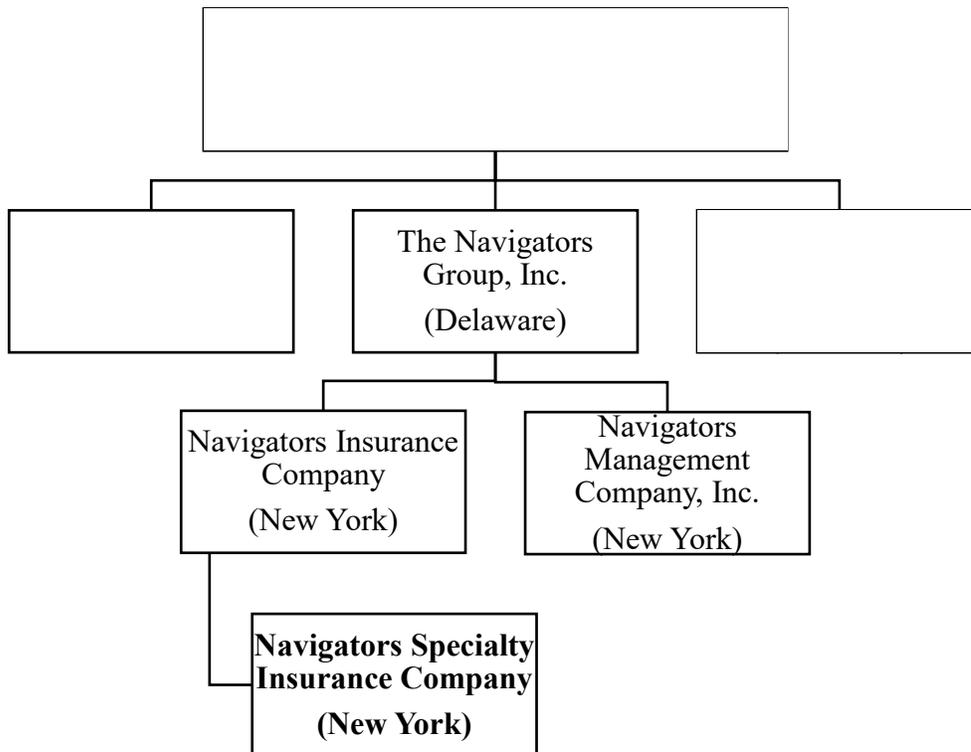
The Company cedes 100% of its business to its parent, NIC, pursuant to the terms of an inter-company quota share reinsurance agreement, effective January 1, 1999. This agreement was approved by the Department.

D. Holding Company System

The Company is a member of the Hartford Fire & Casualty Group. The Company is 100% owned by NIC, a New York corporation, which is ultimately controlled by The Hartford, a public company. The Vanguard Group, Inc. ("Vanguard"), at the time of acquisition of the Company by The Hartford, owned more than 10% of the shares of The Hartford. At that time, the Department granted Vanguard a disclaimer of control.

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



### Holding Company Agreements

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

Effective May 31, 2019, the Company and NIC entered into an Investment Management Agreement with Hartford Investment Management Company (“HIMCO”). Pursuant to the terms of the agreement, HIMCO acts as the Company’s attorney-in-fact and investment manager. The terms of the agreement grant HIMCO full powers to manage (including the power to acquire and dispose of), in accordance with the

terms and conditions of the agreement, each portion of the assets of NIC and NSIC from time to time. This agreement was approved by the Department on May 28, 2019.

Effective November 27, 2019, the Company and NIC entered into a Service and Cost Allocation with Hartford Fire Insurance Company (“HFIC”). Pursuant to the terms of the agreement, HFIC provides a variety of operating services to NIC and NSIC as needed to allow each such entity to conduct its business. Such operating services may include, but are not limited to, employees, office space, insurance, advertising, taxes, licenses and investment expenses, and other fees related to corporate services provided by one party to the other. This agreement was approved by the Department on May 28, 2019.

The Company is party to an inter-company liquidity agreement with The Hartford. Pursuant to the terms of the agreement, The Hartford acts as an administrator for an inter-company liquidity facility under which certain subsidiaries and affiliates of The Hartford can borrow and lend to one another in accordance with the terms of the agreement. The Hartford and the Company are required to receive prior approval from the Department to make or receive a loan. This agreement was approved by the Department on May 28, 2019.

#### Holding Company Agreements – subsequent to the examination date

Effective April 3, 2020, NSIC entered into the Third Amended and Restated Investment Pooling Agreement. Pursuant to this agreement, participants agree to invest certain cash balances that are available to each participant from time to time in the investment pool known as “The Hartford Short-Term Investment Pool”. This agreement was approved by the Department on February 24, 2020.

NSIC participates in an amended and restated tax allocation agreement with The Hartford and members of its holding company group. The agreement was effective May 6, 2020, and was submitted to the Department pursuant to the provisions of Department Circular Letter No. 33 (1979).

### 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:

#### Assets

|  | <u>Assets</u>        | <u>Assets Not<br/>Admitted</u> | <u>Net Admitted<br/>Assets</u> |
|--|----------------------|--------------------------------|--------------------------------|
| Bonds  | \$148,000,260        | \$ 0                           | \$148,000,260                  |
| Cash, cash equivalents and short-term<br>investments                     | 4,034,326            | 0                              | 4,034,326                      |
| Receivables for securities   | 111                  |                                | 111                            |
| Investment income due and accrued  | 1,555,150            | 0                              | 1,555,150                      |
| Uncollected premiums and agents' balances in<br>the course of collection | <u>44,934,846</u>    | <u>0</u>                       | <u>44,934,846</u>              |
| Total assets   | <u>\$198,524,693</u> | <u>\$ 0</u>                    | <u>\$198,524,693</u>           |

Liabilities, Surplus and Other FundsLiabilities

|  |                  |
|--|------------------|
| Other expenses (excluding taxes, licenses and fees)            | \$ 1,330         |
| Current federal and foreign income taxes                       | 1,121,651        |
| Net deferred tax liability                                     | 10,709           |
| Ceded reinsurance premiums payable (net of ceding commissions) | 44,934,846       |
| Payable to parent, subsidiaries and affiliates                 | 793,013          |
| Other liabilities  | <u>34</u>        |
| <br>Total liabilities  | <br>\$46,861,583 |

Surplus and Other Funds

|   |                          |
|---|--------------------------|
| Common capital stock                            | \$ 5,000,000             |
| Gross paid in and contributed surplus           | 86,000,000               |
| Unassigned funds (surplus)                      | <u>60,663,110</u>        |
| <br>Surplus as regards policyholders            | <br><u>151,663,110</u>   |
| <br>Total liabilities, surplus, and other funds | <br><u>\$198,524,693</u> |

Note: The Internal Revenue Service has completed its audits of the Company's consolidated Federal Income Tax returns from tax years 2014 and 2015. No material adjustments were made subsequent to the date of examination and arising from said audits. The examiner is unaware of any potential exposure of the Company to any tax assessment and no liability has been established herein relative to such contingency.

B. Statement of Income

Net income for the examination period as reported by the Company was \$18,659,893 as detailed below:

Income

|  |                  |                     |
|--|------------------|---------------------|
| Net investment income earned                       | \$20,884,662     |                     |
| Net realized capital gains                         | <u>2,786,614</u> |                     |
| Net investment gain or (loss)                      |                  | \$23,671,276        |
| Net income before federal and foreign income taxes |                  | 23,671,276          |
| Federal and foreign income taxes incurred          |                  | <u>5,011,383</u>    |
| Net income   |                  | <u>\$18,659,893</u> |

C. Capital and Surplus

Capital paid in is \$5,000,000 consisting of 250 shares of \$20,000 par value per share common stock. Gross paid in and contributed surplus is \$86,000,000. Gross paid in and contributed surplus, and capital paid in remained the same during the examination period.

Surplus as regards policyholders increased \$18,694,087 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 |                         |                          | \$132,969,023        |
|   | <u>Gains in Surplus</u> | <u>Losses in Surplus</u> |                      |
| Net income  | \$18,659,893            | \$0                      |                      |
| Net unrealized capital gains or (losses)  | 1,321                   | 0                        |                      |
| Change in net deferred income tax   | 24,509                  | 0                        |                      |
| Change in nonadmitted assets  | <u>8,364</u>            | <u>0</u>                 |                      |
| Total gains and losses  | \$18,694,087            | \$0                      |                      |
| Net increase (decrease) in surplus  |                         |                          | <u>18,694,087</u>    |
| Surplus as regards policyholders as reported by the Company as of December 31, 2019 |                         |                          | <u>\$151,663,110</u> |

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

#### 4. **LOSSES AND LOSS ADJUSTMENT EXPENSES**

As noted in section 2C of this report, NSIC participates in an inter-company quota share reinsurance agreement in which NSIC cedes 100% of its premiums written to its parent, NIC. The examination liability for the captioned items of \$0 is the same as reported by the Company as of December 31, 2019. 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 NAIC Accounting Practices and Procedures Manual, Statement of Statutory Accounting Principles No. 55.

#### 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 and 2021, 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. 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 does not contain any comments or recommendations.

Respectfully submitted,

\_\_\_\_\_/S/\_\_\_\_\_  
Dilbrina Belgrave, AFE, CISA  
Senior Insurance Examiner

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

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

\_\_\_\_\_/S/\_\_\_\_\_  
Dilbrina Belgrave

Subscribed and sworn to before me

this \_\_\_\_\_ day of \_\_\_\_\_, 2022.

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:

**Dilbrina Belgrave**

as a proper person to examine the affairs of the

**Navigators Specialty Insurance Company**

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

**COMPANY**

with such other information as she 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 13th day of January, 2020

LINDA A. LACEWELL  
Superintendent of Financial Services



By:

*Joan P. Riddell*

Joan Riddell  
Deputy Bureau Chief