

REPORT ON EXAMINATION

OF

NAVIGATORS INSURANCE COMPANY

AS OF

DECEMBER 31, 2019

DATE OF REPORT

DECEMBER 7, 2021

EXAMINER

DILBRINA BELGRAVE, AFE, CISA

TABLE OF CONTENTS

<u>ITEM</u>		<u>PAGE NO.</u>
1.	Scope of examination	2
2.	Description of Company	3
	A. Corporate governance	3
	B. Territory and plan of operation	4
	C. Reinsurance ceded	6
	D. Holding company system	7
	E. Significant ratios	10
	F. Accounts and records	11
3.	Financial statements	12
	A. Balance sheet	12
	B. Statement of income	14
	C. Capital and surplus	15
	D. Analysis of changes to surplus	15
4.	Losses and loss adjustment expenses	16
5.	Subsequent events	17
6.	Compliance with prior report on examination	18
7.	Summary of comments and recommendations	19



Department of Financial Services

KATHY HOCHUL
Governor

ADRIENNE A. HARRIS
Superintendent

February 14, 2022

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 32030 dated January 31, 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 “NIC” 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 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 Navigators 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 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 commenced business on March 10, 1983.

On May 23, 2019, The Hartford Financial Services Group, Inc. (“The Hartford”) closed on its acquisition of The Navigators Group, Inc. (“NAVIG”), including NAVIG subsidiaries, NIC and Navigators Specialty Insurance Company (“NSIC”). NAVIG, NIC, and NSIC 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. Pound Ridge, New York	Senior Vice President, Head of Reinsurance and Deputy Chief Underwriting Officer, The Hartford Financial Services Group, Inc.
Eapen Attupurathu Chandy Glastonbury, Connecticut	Assistant Vice President and Assistant Treasurer, The Hartford Financial Services Group, Inc.
Douglas Graham Elliot Rocky Hill, Connecticut	President, Navigators Insurance Company
Michael Ross Fisher Avon, Connecticut	Senior Vice President - Specialty Commercial, The Hartford Financial Services Group, Inc.
Brion Scott Johnson Avon, Connecticut	Chief Investment Officer, Hartford Investment Management Company
Mary Blake Nasenbenny Aurora, Illinois	Senior Vice President - Claim Group Benefit and Workers’ Compensation, 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 was licensed to write business in all 50 states, the District of Columbia, Guam, Puerto Rico, and the US Virgin Islands. The Company is also licensed in the United Kingdom where it 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
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
I & R	As authorized by Section 4102(C), insurance of every kind or description outside of the USA and reinsurance of every kind or description

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 \$35,000,000.

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

<u>Calendar Year</u>	<u>Direct Premiums</u>	<u>Assumed Premiums</u>	<u>Total Gross Premiums</u>
2015	\$502,627,742	\$531,909,509	\$1,034,537,251
2016	\$558,520,417	\$540,978,649	\$1,099,499,066
2017	\$609,242,988	\$625,085,600	\$1,234,328,588
2018	\$677,936,255	\$727,562,647	\$1,405,498,902
2019	\$790,383,515	\$836,849,418	\$1,627,232,933

NIC is a global specialty insurance underwriter specializing in marine and energy, specialty lines, and professional liability business. NIC participates in the group's multi-channel distribution platform which utilizes global, national, and regional brokers as well as wholesalers.

Assumed reinsurance accounted for 51% of NIC's gross premium written as of December 31, 2019. Approximately 62% of this business is assumed from its wholly owned subsidiary, NSIC, pursuant to an inter-company quota share reinsurance agreement that went into effect on January 1, 1999. Under the agreement, NIC assumes 100% of NSIC's premiums written. This agreement was approved by the Department pursuant to the provisions of Section 1505 of the New York Insurance Law.

The other 38% of NIC's assumed reinsurance business consists mainly of property/casualty coverage assumed on a quota share and excess of loss basis. These treaties are with both U.S. and non-U.S. cedants.

C. Reinsurance Ceded

The following is a listing of the Company's major reinsurance cessions:

<u>Type of Treaty</u>	<u>Cession</u>
<u>Casualty Mainframe</u>	
Casualty Quota Share	30% of \$25,000,000 limit
Casualty Excess of Loss, Layer 1C	73.75% of \$5,000,000 excess of \$5,000,000
Casualty Excess of Loss, Layer 1N	17% of \$5,000,000 excess of \$5,000,000
Casualty Excess of Loss, Layer 2	\$7,500,000 excess of \$10,000,000
<u>Auto</u>	
Auto Liability Excess of Loss	\$500,000 excess of \$500,000
<u>Financial Institutions</u>	
UK US Financial Institutions Quota Share	65% of risk up to \$10,000,000
<u>Inland Marine</u>	
Inland, E&S Property Equipment Breakdown Quota Share	100% up to \$100,000,000
Inland Marine Excess of Loss	\$8,000,000 excess of \$2,000,000 per risk with an occurrence limit of \$16,000,000.
<u>Financial Lines</u>	
Financial Lines Quota Share	50% of \$25,000,000 limit of Section 1.
Financial Lines Excess of Loss	50% of \$8,000,000 excess of \$2,000,000 of Section 2.
<u>Marine</u>	
Marine Cargo Quota Share	37.5% of \$50,000,000 limit
Marine Liability Quota Share	60% of \$6,000,000
Transport Quota Share	35% of \$25,000,000
Political Violence & Terrorism Excess of Loss, 2 layers	50% of \$5,000,000 excess of \$5,000,000 \$10,000,000 excess of \$10,000,000
Marine & Energy Mainframe Excess of Loss, 5 layers	\$150,000,000 excess of \$10,000,000
Fine Art Quota Share	70% up to \$40,000,000
<u>Property</u>	
US E&S Property Quota Share	65% not to exceed \$10,000,000 any one risk.
Property Automatic Risk Excess of Loss, 4 layers	\$190,000,000 excess of \$10,000,000

The Company cedes most of its business to authorized reinsurers.

Retroactive Reinsurance

Effective May 23, 2019, the Company and its affiliated insurance entities purchased a retroactive reinsurance agreement (“Navigators ADC”) with an authorized non-affiliate. Under the terms of the agreement, the reinsurer is providing coverage for \$300 million of adverse net loss & defense and cost containment expenses (“DCC”) reserve development that attaches at \$100 million above the Company’s existing net loss & DCC reserves as of December 31, 2018, subject to the treaty agreement of \$1.816 billion for incidents prior to December 31, 2018. This agreement was entered into in conjunction with the sale of the Company to The Hartford, as described in section 2 of this report. The Hartford paid a consideration of \$91.4 million, of which \$75.3 million was paid by the Company. A special surplus account entitled “Retroactive Reinsurance” was established in the amount of \$(75.3) million.

All significant 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 material reinsurance transactions. 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, Statement of Statutory Accounting Principles (“SSAP”) No. 62R. Representations were supported by an attestation from the Company’s President. Additionally, examination review indicated that the Company was not a party to any finite reinsurance agreements. All ceded reinsurance agreements were accounted for utilizing reinsurance accounting as set forth in SSAP No. 62R and Department Regulation No. 20.

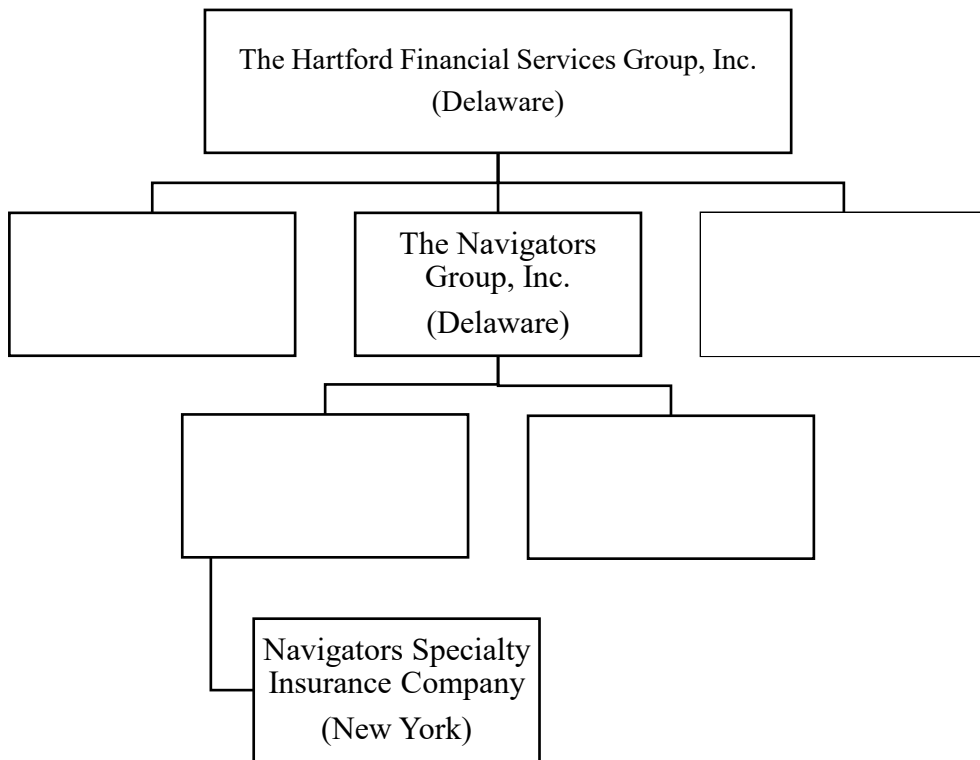
D. Holding Company System

The Company is a member of Hartford Fire & Casualty Group. The Company is 100% owned by The Navigators Group, Inc., a Delaware corporation, which is wholly-owned 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.

The Company provides a variety of customized insurance products including property, liability, marine, professional liability, bonds, and accident and health reinsurance under the Global Specialty business section of The Hartford.

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

Effective May 23, 2019, NIC and Navigators Management Company (“NMC”) executed an agency agreement withdrawal from the Agency Agreement in which NIC and NMC were parties to effective January 1, 2018. Under the 2018 agreement, NIC appointed NMC as its legal representative and agent for the purpose of procuring, underwriting, and servicing policies on NIC’s behalf. Pursuant to the withdrawal agreement, NMC has withdrawn from the Agency Agreement and NIC has revoked NMC’s appointment.

Effective May 31, 2019, NIC entered into an Investment Management Agreement with Hartford Investment Management Company (“HIMCO”). Pursuant to the terms of the agreement, NIC appointed HIMCO as its 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, 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.

As of the examination date, NIC 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.

Holding Company Agreements – subsequent to the examination date

Effective April 3, 2020, NIC 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.

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

E. Significant Ratios

The Company’s net premiums written to policyholders’ surplus ratio, computed as of December 31, 2019, falls within the benchmark range set forth in the Insurance Regulatory Information System of the NAIC. The adjusted liabilities to liquid assets ratio and the two-year overall operating ratio fall outside the benchmark ranges due to the examination reserve change.

<u>Operating Ratios</u>	<u>Result</u>
Net premiums written to policyholders’ surplus	239%
Adjusted liabilities to liquid assets	107%
Two-year overall operating	113%

Underwriting Ratios

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

	<u>Amount</u>	<u>Ratio</u>
Losses and loss adjustment expenses incurred	\$3,434,145,437	75.90%
Other underwriting expenses incurred	1,566,378,402	34.62%
Net underwriting gain (loss)	<u>(476,081,019)</u>	<u>(10.52)%</u>
Premiums earned	<u>\$4,524,442,820</u>	<u>100.00%</u>

The Company's reported risk-based capital ("RBC") score was 334.8% at December 31, 2019. The RBC score is a measure of the minimum amount of capital appropriate for a reporting entity to support its overall business operations in consideration of its size and risk profile. An RBC score of 200% or below can result in regulatory action. There were financial adjustments, as described herein under sections 3D and 4 of this report, that impacted the Company's RBC score.

F. Accounts and Records

Based on discussions with management, it was noted that the file maintained by the Company to support uncollected premiums in the course of collection, does not contain sufficient detail to verify the age of the receivable. Section 1301 of the New York Insurance Law states, in part:

"Admitted Assets. (a) In determining the financial condition of a domestic or foreign insurer or the United States branch of an alien insurer for the purposes of this chapter, there may be allowed as admitted assets of such insurer, unless otherwise specifically provided in this chapter, only the following assets owned by such insurer . . .

(6) Premiums in course of collection, other than life insurance premiums, not more than ninety days past due, less commissions payable thereon. The foregoing limitation of ninety days shall not apply to: (i) premiums payable directly or indirectly by the United States government or any of its instrumentalities, (ii) reinsurance premiums payable by ceding insurers authorized to transact such business in this state, or (iii) reinsurance premiums payable which may be offset by amounts carried by the assuming insurer as liabilities for amounts due to the ceding insurer for unpaid losses or other mutual debts. However, reinsurance premiums more than ninety days past due shall not be allowed in excess of ten per centum of the reinsurer's total admitted assets as shown on its most recent annual statement on file in the office of the superintendent pursuant to section three hundred seven of this chapter. . . ."

Paragraph 9(a) of SSAP No. 6 states in part, "uncollected premium—to the extent that there is no related unearned premium, any uncollected premium balances which are over ninety days due shall be non-admitted. If an installment premium is over ninety days due, the amount over ninety days due plus all future installments that have been recorded on that policy shall be non-admitted..."

Based on the above, it appears that the Company is not aging uncollected premiums in accordance with Paragraph 9(a) of SSAP No. 6 or comply with Section 1301(a)(6) of the New York Insurance Law.

It is recommended that the Company report its uncollected premiums and agents' balances in the course of collection pursuant to Section 1301(a)(6) of the New York Insurance Law and Paragraph 9 of SSAP No. 6.

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 Admitted</u>	<u>Net Admitted Asset</u>
Bonds	\$2,796,360,452	\$ 0	\$2,796,360,452
Preferred stocks	51,615,575	0	51,615,575
Common stocks	151,663,110	0	151,663,110
First liens - mortgage loans on real estate	138,425,133	0	138,425,133
Properties occupied by the company	827,932	0	827,932
Cash, cash equivalents and short-term investments	168,313,430	0	168,313,430
Other invested assets	4,440,612	0	4,440,612
Receivables for securities	681,667	0	681,667
Investment income due and accrued	21,865,526	0	21,865,526
Uncollected premiums and agents' balances in the course of collection	88,556,155	20,052,937	68,503,218
Deferred premiums, agents' balances and installments booked but deferred and not yet due	159,641,889	0	159,641,889
Amounts recoverable from reinsurers	68,067,530	0	68,067,530
Funds held by or deposited with reinsured companies	15,522,638	0	15,522,638
Net deferred tax asset	61,074,122	4,707,366	56,366,756
Contingent commission ceded	672,283	0	672,283
Prepaid expense	21,385	21,385	
Other assets	<u>22,711,968</u>	<u>0</u>	<u>22,711,968</u>
Total assets	<u>\$3,750,461,407</u>	<u>\$24,781,688</u>	<u>\$3,725,679,719</u>

Liabilities, Surplus, and Other FundsLiabilities

Losses and loss adjustment expenses	\$1,789,919,081
Reinsurance payable on paid losses and loss adjustment Expenses	3,880,106
Commissions payable, contingent commissions and other similar charges	11,999,567
Other expenses (excluding taxes, licenses and fees)	515,177
Taxes, licenses and fees (excluding federal and foreign income taxes)	3,124,468
Current federal and foreign income taxes	8,672,856
Unearned premiums	808,477,867
Ceded reinsurance premiums payable (net of ceding commissions)	100,562,631
Funds held by company under reinsurance treaties	3,099,687
Amounts withheld or retained by company for account of Others	12,505,238
Provision for reinsurance	5,024,454
Payable to parent, subsidiaries and affiliates	26,201,223
Payable for securities	37,028,610
Retroactive reinsurance reserves ceded	(74,462,726)
Other liabilities	<u>3,416,703</u>
Total liabilities	\$2,739,964,942

Surplus and Other Funds

Common capital stock	\$ 5,000,000
Gross paid in and contributed surplus	411,122,108
Unassigned funds (surplus)	<u>569,592,669</u>
Surplus as regards policyholders	<u>985,714,777</u>
Total liabilities, surplus, and other funds	<u>\$3,725,679,719</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

The net income for the examination period as reported by the Company was \$224,232,067, as detailed below:

Underwriting Income

Premiums earned		\$4,524,442,820
Deductions:		
Losses and loss adjustment expenses incurred	\$3,108,245,437	
Other underwriting expenses incurred	<u>1,566,378,402</u>	
Total underwriting deductions		<u>4,674,623,839</u>
Net underwriting gain or (loss)		\$ (150,181,019)

Investment Income

Net investment income earned	\$382,774,646	
Net realized capital gains	<u>80,070,524</u>	
Net investment gain or (loss)		462,845,170

Other Income

Net gain or (loss) from agents' or premium balances charged Off	\$(2,817,533)	
Miscellaneous income	<u>(1,191,518)</u>	
Total other income or (loss)		<u>(4,009,051)</u>
Net income before federal and foreign income taxes		\$308,655,100
Federal and foreign income taxes incurred		<u>84,423,033</u>
Net income		<u>\$224,232,067</u>

C. Capital and Surplus

Capital paid in is \$5,000,000 consisting of 100 shares of \$50,000 par value per share common stock. Gross paid in and contributed surplus is \$411,122,108. Gross paid in and contributed surplus, and capital paid in remained the same during the examination period.

Surplus as regards policyholders increased \$91,768,810 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			\$893,945,967
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income	\$224,232,067		
Net unrealized capital gain / loss		\$ 862,974	
Change in net unrealized foreign exchange capital gain / loss		3,719,480	
Change in net deferred income tax		3,073,019	
Change in nonadmitted assets		316,427	
Change in provision for reinsurance	10,045,275		
Dividends to stockholders	<u>0</u>	<u>134,536,632</u>	
Total gains and losses	\$234,277,342	\$142,508,532	
Net increase (decrease) in surplus			<u>91,768,810</u>
Surplus as regards policyholders, as reported by the Company as of December 31, 2019			<u>\$985,714,777</u>

D. Analysis of Changes to Surplus

Surplus as regards policyholders as of December 31, 2019, as reported by the Company			\$985,714,777
	<u>Surplus Increase</u>	<u>Surplus Decrease</u>	
Examination change in loss and loss adjustment expense reserves		\$465,000,000	
Retroactive reinsurance credit	\$139,100,000		
Net increase (decrease) in surplus			<u>(325,900,000)</u>
Surplus at December 31, 2019, per report on examination			<u>\$659,814,777</u>

4. **LOSSES AND LOSS ADJUSTMENT EXPENSES**

The examination loss and loss adjustment expense liability, before considering the portion of the reinsurance benefit allocated to the Company under the Navigators ADC, is \$465 million greater than the \$1.790 billion reported by the Company in its filed annual statement as of December 31, 2019. The statutory credit taken under the Navigators ADC is reflected utilizing retroactive accounting as is required per statutory accounting principles. The Navigators ADC mitigates the Department's net non-retroactive reinsurance recommended loss and loss adjustment expense reserve deficiency of \$465 million. The Department recommends that the filed retroactive reinsurance credit of \$74.5 million be increased by \$139.1 million to a revised amount of \$213.6 million. Therefore, on an overall net of retroactive reinsurance basis, the Department recommends loss and loss adjustment expense reserves to be \$325.9 million (\$465 million - \$139.1 million) greater than the Company's filed net reserves as of December 31, 2019. The examination analysis of the loss and loss adjustment expense reserves was conducted in accordance with generally accepted actuarial standards and statutory accounting principles, including SSAP No. 55.

The Company does not agree with the Department's conclusion. The Company's 2019 actuarial opinion concluded that the Company's reported net loss and loss adjustment expense liabilities are reasonable and computed in accordance with accepted actuarial standards and principles. Despite a significant amount of meetings, the Company and the Department could not agree on the reserve liability to be reflected at December 31, 2019. The disagreement primarily involves from the selection of appropriate actuarial assumptions for each of the Schedule P lines where there is a recommended reserve deficiency, which include: Other Liability - Occurrence (contributing the bulk of the deficiency), and Commercial Automobile and Special Liability. Notwithstanding the Company's disagreement, it has generally recognized increasing reserve deficiencies by virtue of each Statement filed subsequent to December 31, 2019. Cumulatively, the Company has subsequently recognized a \$185 million reserve deficiency on the 2019 and prior accident years as reflected through its filed annual statement as of December 31, 2021.

Section 1303 of the New York Insurance Law states, in part:

“Every insurer shall . . . maintain reserves in an amount estimated in the aggregate to provide for the payment of all losses or claims incurred on or prior to the date of statement, whether reported or unreported, which are unpaid as of such date and for which such insurer may be liable, and also reserves in an amount estimated to provide for the expenses of adjustment or settlement of such losses or claims.”

Further, Paragraph 10 of SSAP No. 55 states, in part:

“The liability for claim reserves and claim liabilities, unpaid losses, and loss/claim adjustment expenses shall be based upon the estimated ultimate cost of settling the claims (including the effects of inflation and other societal and economic factors), using past experience adjusted for current trends, and any other factors that would modify past experience . . .”

It is strongly recommended that the Company continue to strictly monitor its reserve liabilities and take all necessary and appropriate actions to ensure that reserves are adequate, pursuant to the provisions of Sections 1303 and 4117 of the New York Insurance Law and SSAP No. 55, especially given:

- 1) The Department’s reserve recommendations versus the Company’s filed reserves;
- 2) The Company has thus far only booked \$185 million of the \$465 million reserve deficiency reflected in this report.

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 two recommendations 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.	
B.	<u>Accounts and Records</u>	
	It was recommended that the Company comply with SSAP No. 55 and classify paid loss adjustment expenses correctly as either DCC or A&O.	13
	The Company has complied with this recommendation.	

7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>		<u>PAGE NO.</u>
A.	<u>Accounts and Records</u>	
	It is recommended that the Company report its uncollected premiums and agents' balances in the course of collection pursuant to Section 1301(a)(6) of the New York Insurance Law and Paragraph 9 of SSAP No. 6.	11
B.	<u>Loss and Loss Adjustment Expenses</u>	
	It is strongly recommended that the Company continue to strictly monitor its reserve liabilities and continue to take all necessary and appropriate actions to ensure that reserves are adequate, pursuant to the provisions of Sections 1303 and 4117 of the New York Insurance Law and SSAP No. 55.	17

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 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