REPORT ON EXAMINATION
OF
ATLANTIC SPECIALTY INSURANCE COMPANY

AS OF DECEMBER 31, 2021

EXAMINER:	**SUSAN WEIJOLA**
DATE OF REPORT:	**NOVEMBER 30, 2022**

TABLE OF CONTENTS

November 30, 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 32291 dated August 11, 2021, attached hereto, I have made an examination into the condition and affairs of Atlantic Specialty Insurance Company as of December 31, 2021, and submit the following report thereon.

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

1. SCOPE OF EXAMINATION

The Department has performed an examination of Atlantic Specialty Insurance Company*,* a multi-state insurer. The previous examination was conducted as of December 31, 2016. This examination covered the five-year period from January 1, 2017, through December 31, 2021. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

New York was the lead state of the Intact Financial Group. The examination was performed concurrently with the examinations of the following insurers:

Company	**State of Domicile**
The Guarantee Company of North America USA ("GCNAUSA")	Michigan
Homeland Insurance Company of Delaware ("HODE")	Delaware
Homeland Insurance Company of New York ("HONY")	New York
OBI America Insurance Company ("OBIA")	Pennsylvania
OBI National Insurance Company ("OBIN")	Pennsylvania

Other states participating in this examination were Delaware, Michigan, and Pennsylvania.

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.

2. DESCRIPTION OF COMPANY

Atlantic Specialty Insurance Company ("ASIC") was incorporated under the laws of the State of New York on June 27, 1986, as Atlantic Reinsurance Company. It became licensed and commenced business on December 24, 1986. On February 14, 1995, the Company changed its name to Atlantic Specialty Insurance Company. On March 31, 2004, the White Mountains Insurance Group, Ltd. ("White Mountains"), a Bermuda holding company, acquired the Company through OneBeacon Insurance Company ("OBIC"). OBIC was wholly owned by OneBeacon Insurance Group LLC ("OBLLC"), an intermediate insurance holding company domiciled in the State of Delaware. OBLLC was an indirect wholly owned subsidiary of OneBeacon Insurance Group, Ltd. ("OneBeacon" or "OneBeacon Group"), a holding company domiciled in Bermuda. In 2006, White Mountains sold 27.6% of OneBeacon shares to the public in an initial public offering, while retaining the majority of ownership.

OneBeacon Background and Restructuring

In 2001, White Mountains acquired CGU Plc, the United States property and casualty insurance operations of a London-based holding company. CGU Plc was rebranded as OneBeacon in the same year. Historically, OneBeacon had provided a wide range of insurance products including commercial, personal, and specialty lines. OBIC was the parent of most of the US operating subsidiaries and was the lead insurer of the One Beacon Grou,p, and had retained a majority of the business through an intercompany pooling arrangement. Shortly after the acquisition by White Mountains, OneBeacon began to focus on increasing its specialty operations, which led to the acquisition of the Company. The Company had been a minor participant in the OneBeacon Group relative to premium writings and intercompany pooling agreement participation. OneBeacon sold its non-specialty commercial renewal rights and personal lines business in 2009 and 2010, respectively, and placed the remaining commercial business into run-off.

Beginning in 2012, OneBeacon implemented significant changes to simplify its operating structure. In 2012, OneBeacon terminated the intercompany pooling agreement and aggregated the run-off business into OBIC in order to accommodate a sale of the run-off business. Between 2012 and 2014, the insurance subsidiaries of OBIC were merged, sold, or transferred within the OneBeacon Group. A sale of substantially all of the run-off business was executed in 2014. Group management made the Company the lead insurer of the OneBeacon Group and the parent of five insurance subsidiaries, namely HODE, HONY, OBIA, OBIN, and OneBeacon Specialty Insurance Company ("OBSIC"), a Pennsylvania-domiciled insurer. Effective August 1, 2014, the Company assumed all of the insurance liabilities of its insurance subsidiaries through 100% quota share reinsurance agreements.

Effective January 1, 2015, the Company ceded approximately 50% of its gross premiums written, net of external reinsurance, to Split Rock Insurance, Ltd. ("Split Rock"), a Bermuda affiliate. Effective January 1, 2018, the Company decided not to renew the agreement with Split Rock, primarily due to the U.S. tax law changes of the Tax Cuts and Jobs Act of 2017.

The OneBeacon restructuring impacted the Company by drastically increasing the Company's size, premium volume, and significance within the group.

On May 2, 2017, Intact Financial Corporation ("Intact"), a Canadian corporation, and OneBeacon announced that they had entered into a definitive agreement with White Mountains, which provided for the merger of an indirect subsidiary of Intact with and into OneBeacon. As a result of that transaction, as of September 28, 2017, the date the transaction closed, Intact indirectly owns 100% of the outstanding shares of OneBeacon, including the Company. The Department approved this transaction on September 22, 2017.

In 2018, the Company's indirect wholly-owned subsidiary, OneBeacon Select Insurance Company ("OBSEL), received approval to surrender its license to Pennsylvania, its state of domicile, and began its dissolution process. OBSEL was liquidated and its bonds were transferred to its parent, HONY.

On July 24, 2019, the Company's board of directors approved the dissolution of its wholly-owned subsidiary, OneBeacon Specialty Insurance Company ("OBSIC"). It is noted that OBSIC never wrote business. OBSIC's assets were liquidated on December 29, 2020.

On December 2, 2019, Intact purchased the Guarantee Company of North America ("GCNA"). On January 2, 2020, GCNA sold The Guarantee Company of North America (US) Holdings, Ltd. and its subsidiaries, including GCNAUSA, to OneBeacon U.S. Financial Services, Inc.

On February 18, 2020, OneBeacon Insurance Group LLC's name was changed to Intact Insurance Group USA LLC. In addition, the following name changes were made:

Old Name	New Name
OneBeacon Insurance Group (Holdings) Ltd.	Intact Insurance Group USA Holdings Inc.
OneBeacon U.S. Financial Services, Inc.	Intact U.S. Financial Services Inc.
OneBeacon U.S. Enterprises Holdings, Inc.	Intact U.S. Enterprises Holdings, Inc.
OneBeacon U.S. Holdings, Inc.	Intact U.S. Holdings, Inc.
OneBeacon Services, LLC	Intact Services USA LLC
OneBeacon Sports and Leisure LLC	Intact Sports and Leisure LLC
OneBeacon Entertainment LLC	Intact Entertainment LLC

On March 26, 2020, GCNA US Holdco and its direct subsidiaries were contributed by Intact U.S. Financial Services Inc. ("Intact USFS") to an indirect subsidiary, Intact Insurance Group USA LLC.

On October 30, 2020, the Company acquired all outstanding shares of GCNAUSA from GCNA US Holdco. The Company paid cash of $20,536,561, which was the statutory book value of GCNAUSA as of September 30, 2020. Effective January 1, 2020, the Company assumes 100% of GCNAUSA's insurance business pursuant to a quota share reinsurance agreement.

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 19 members. The board meets four times during each calendar year. At December 31, 2021, the board of directors was comprised of the following seven members:

Name and Residence	Principal Business Affiliation
Paul John Brehm Minneapolis, Minnesota	Senior Vice President, Actuarial, Global Specialty Lines, Intact Financial Corporation
Robert Charles Gallagher Brooklyn, New York	Executive of Global Marine Strategy, Global Specialty Lines, Intact Financial Corporation
Louis Marcotte Quebec, Canada	Executive Vice President and Chief Financial Officer, Intact Financial Corporation

Name and Residence	Principal Business Affiliation
Timothy Michael Miller Deephaven, Minnesota	Chief Executive Officer, Global Specialty Lines, Intact Financial Corporation
Lynn Ann O’Leary Inver Grove Heights, Minnesota	Senior Vice President, Chief Operations Officer, Global Specialty Lines, Intact Financial Corporation
John Charles Treacy Stillwater, Minnesota	Chief Financial Officer, U.S., Intact Financial Corporation
Mark Alan Tullis Toronto, Canada	Vice Chairman, Intact Financial Corporation

As of December 31, 2021, the principal officers of the Company were as follows:

Name	Title
Timothy Michael Miller	President, U.S., and Specialty Solutions
Kara Lea Benson Barrow	Secretary
John Charles Treacy	Senior Vice President, Treasurer, and Chief Financial Officer
Lars Truman Johnson	Chief Actuary
Paul John Brehm	Senior Vice President and Chief Underwriting Officer
Lynn Ann O’Leary	Senior Vice President and Chief Operations Officer
Joseph Topale	Chief Information Security Officer
America Mary Glaude	Chief Human Resources Officer
Sarah Anne Kolar	General Counsel

B. Territory and Plan of Operation

As of December 31, 2021, the Company was licensed to write business in all 50 states, the District of Columbia, Guam, Puerto Rico, 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:

Paragraph	Line of Business
3	Accident & health
4	Fire
5	Miscellaneous property
6	Water damage
7	Burglary and theft
8	Glass
9	Boiler and machinery
10	Elevator
11	Animal
12	Collision
13	Personal injury liability
14	Property damage liability
15	Workers' compensation and employers' liability
16	Fidelity and surety
17	Credit
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine
21	Marine protection and indemnity
26(A)(B)(C)(D)	Gap
27	Prize indemnification
28	Service contract reimbursement
29	Legal services

The Company is also empowered to transact such workers' compensation insurance as may be incidental 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). The Company is also licensed to write insurance and reinsurance of every kind or description, including those located or resident outside of the United States, its territories, and possessions, except with respect to life insurance, title insurance, and contracts for the payment of annuities, as specified in Section 4102(c)(i)(ii) of the New York Insurance Law. Finally, the Company is also licensed to do within this State the business of special risk insurance pursuant to Article 63 of the New York Insurance Law.

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. However, pursuant to Section 6302(c)(1) of the New York Insurance Law, in order to be licensed to write special risks, the Company is required to maintain a surplus as regards policyholders of at least 200% of its authorized control level risk-based capital. As such, the Company was required to maintain a minimum surplus to policyholders in the amount of $346,642,386 as of December 31, 2021.

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

Calendar Year	Direct Premiums	Assumed Premiums	Total Gross Premiums
2017	$ 985,537,484	$ 258,504,587	$1,244,042,071
2018	$ 985,677,942	$ 244,591,951	$1,230,269,893
2019	$1,072,116,211	$ 255,986,556	$1,328,102,767
2020	$1,083,899,780	$ 292,309,462	$1,376,209,242
2021	$1,290,464,847	$ 321,049,647	$1,611,514,493*

*rounding difference of $1

The Company provides a wide range of commercial specialty products and services through a network of independent agents, regional and national brokers, wholesalers, and managing general agents. In 2021, the major lines of business that contributed to direct premiums written include surety (14.8%), ocean marine (11.0%), inland marine (8.7%), other accident and health (8.7%), commercial multiple peril (8.3%), and management liability (8.0%). Significant assumed business includes fire (22.9%) and allied lines (19.5%).

Approximately 98% of the assumed business is from the Company's affiliates. The Company assumes 100% of its subsidiaries' business, pursuant to the following reinsurance agreements:

1) Amended and Restated 100% Quota Share Reinsurance Agreement with HONY dated August 1, 2016, and effective since October 1, 2012. It is noted that HONY mainly writes excess and surplus lines business;
2) 100% Quota Share Reinsurance Agreement with HODE, effective October 1, 2012. It is noted that HODE mainly writes excess and surplus lines business;
3) 100% Amended and Restated Quota Share Reinsurance Agreement with OBIA, dated August 1, 2016, and effective since May 1, 2015. It is noted that OBIA solely writes workers' compensation business;
4) Amended and Restated 100% Quota Share Reinsurance Agreement with OBIN, dated August 1, 2016, and effective since October 1, 2012. It is noted that OBIN primarily writes workers' compensation business; and

5) 100% Quota Share Reinsurance Agreement with GCNAUSA, effective January 1, 2020. It is noted that GCNAUSA solely writes surety business.

The above agreements represent approximately 97% of the Company's assumed premiums. Approximately 1% of the Company's assumed premiums is due to the following reinsurance agreements with non-U.S. affiliates:

1) Surety General 100% Facultative Reinsurance Agreement with Intact Insurance Company, effective September 1, 2013; and,
2) Producing Office Agreement with Royal & Sun Alliance Insurance Limited ("RSA"), effective September 30, 2021 (RSA became an affiliate with the Company on June 1, 2021, when Intact acquired indirect control of RSA). Pursuant to the terms of this agreement, RSA will cede and the Company will accept 100% of the coverage of the members of RSA's global network, consisting of RSA and certain other insurers with whom RSA has entered into business cooperation agreements.

C. Reinsurance Ceded

In addition to its stand-alone reinsurance contracts, the Company is a member company of the Intact Financial Corporation reinsurance program. The Company's reinsurance program is structured as follows:

Type of Treaty	Cession
Property	
Per Risk Excess of Loss Four Layers	$96,000,000 in excess of $4,000,000 each loss, each risk, with an occurrence limit of $12,000,000 and annual limit of $30,000,000 for the first layer, CAD $20,000,000 occurrence limit and annual limit of CAD $40,000,000 for the second layer which applies only to policies issued in Canada, $30,000,000 occurrence limit and annual limit of $100,000,000 for the third layer, and $70,000,000 occurrence limit and annual limit of $140,000,000 for the fourth layer.
USA and Caribbean Excess of Loss	$60,000,000 in excess of $40,000,000 each loss occurrence subject to annual limit of $120,000,000.

Type of Treaty	Cession
US Specialty Property Catastrophe Excess of Loss	$76,000,000 in excess of $14,000,000 each loss occurrence subject to annual limit of $76,000,000.
Catastrophe Excess of Loss Two Layers	CAD $450,000,000 in excess of CAD $150,000,000 each loss occurrence subject to annual limit of CAD $200,000,000 for the first layer, and CAD $700,000,000 for the second layer.
Optional Third Event Cat Cover Excess of Loss Two Layers	CAD $150,000,000 in excess of CAD $100,000,000 each loss occurrence subject to annual limit of CAD $50,000,000 for the first layer, and CAD $100,000,000 for the second layer.
Casualty	
Per Policy Excess of Loss Two Layers	$18,000,000 in excess of $3,000,000 each loss occurrence subject to annual limit of $72,000,000 for the first layer, and $45,000,000 for the second layer.
Casualty Clash Excess of Loss Four Layers	$50,000,000 in excess of $10,000,000 each loss occurrence subject to annual limit of $20,000,000 for the first layer, $30,000,000 for the second layer, and $50,000,000 for the third layer. $20,000,000 in excess of $60,000,000 each loss occurrence subject to annual limit of $40,000,000 (workers compensation catastrophe only).
Workers' Compensation Excess of Loss Two Layers	$13,000,000 in excess of $2,000,000 each loss occurrence subject to annual limit of $24,000,000 for the first layer, and $10,000,000 for the second layer.
Marine Excess of Loss Three Layers	$57,500,000 in excess of $2,500,000 each loss occurrence subject to annual limit of $37,500,000 for the first layer, $45,000,000 for the second layer, and $70,000,000 for the third layer.
IFC US Surety Contract Excess of Loss Four Layers	$171,250,000 in excess of $3,750,000 in excess of $7,500,000 annual aggregate deductible each loss occurrence subject to annual limit of $62,500,000 for the first layer, $90,000,000 limit for the second layer, $100,000,000 for the third layer, and $150,000,000 for the fourth layer.
IFC US Surety Commercial Excess of Loss Four Layers	$167,500,000 in excess of $7,500,000 each loss occurrence subject to annual limit of $62,500,000 for

Type of Treaty	Cession
	the first layer, $90,000,000 limit for the second layer, $100,000,000 for the third layer, and $150,000,000 for the fourth layer.
Film Completion Bond Excess of Loss Three Layers	$23,000,000 in excess of $2,000,000 each loss, each risk occurrence subject to annual limit of $9,000,000 for the first layer, $15,000,000 for the second layer, and $30,000,000 for the third layer.
Group Medical Per Person Excess of Loss	Unlimited excess of $1,000,000 each loss occurrence.
Financial Institutions Quota Share	45% quota share subject to a $10,000,000 per policy limit and an annual limit of 250% of the gross net written premium income.
Cyber Liability Quota Share	70% quota share subject to a $10,000,000 per policy limit and an annual limit of $90,000,000 or 300% of gross ceded reinsurance premium, whichever is greater.
Commercial Management Liability Quota Share	50% quota share subject to a $10,000,000 per policy limit and an annual limit of the greater of 250% of the ceded gross net written premium income or $55,000,000.
Kidnap and Ransom Quota Share	100% quota share subject to a limit of up to $5,000,000 per insured event per policy section.
Equipment Breakdown Quota Share	100% quota share subject to a limit of $100,000,000 per any one accident and/or any one electronic circuitry impairment or any one policy.

Effective January 1, 2021, the Company entered into a Property Catastrophe Excess of Loss Agreement with Intact Insurance Company, an unauthorized affiliate. This agreement covers all of the Company's policies classified as property, including the property portion of commercial multiple peril, issued or renewed during the period January 1, 2021, through December 31, 2021. The reinsurer's liability is $110,000,000 in excess of $20,000,000 each loss occurrence subject to a reinsurer's annual limit of liability of $115,000,000 for the first layer, $77,600,000 limit for the second layer, and $27,400,000 for the third layer.

In addition to the working covers previously described herein, the Company limits its aggregate exposure pursuant to the provisions of a stop loss reinsurance agreement with authorized, certified, and unauthorized reinsurers. This agreement provides coverage for reimbursement of expenses and costs or business interruption losses as per the Company's specific cyber/privacy breach coverage attaching to the property section of commercial policies.

A majority of the ceded business was to authorized reinsurers. 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.

It is 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.

Letters of credit obtained by the Company to take credit for cessions to unauthorized reinsurers were reviewed for compliance with Department Regulation No. 133. Upon examination, it was noted that not all of the letters of credit were in compliance; however, the Company subsequently amended the letters of credit to comply with the regulation.

It is recommended the Company institute procedures to ensure compliance with all provisions of Department Regulation No. 133.

During the review of the letters of credit, it was noted that the bank information for LOC# S405088N reported in Schedule F Part 4 was not updated as amended on July 12, 2019. Specifically, Bank of America was not included in the 2020 and 2021 filed annual statements (Schedule F Part 4).

It is recommended that the Company institute procedures to ensure that Schedule F Part 4 accurately reflects the issuing or confirming banks for letters of credit reported in Schedule F Part 3.

Effective July 1, 2020, the Company and affiliate Split Rock entered into a Reinsurance Partial Commutation and Release Agreement with respect to the Multiple Line Quota Share Reinsurance Contract ("2017 Reinsurance Agreement"), dated December 29, 2016. Under the 2017 Reinsurance Agreement, the Company ceded to Split Rock 50% of the insurance business for the period January 1, 2017, to January 1, 2018, including the healthcare line of business for the accident year 2017 ("2017 Healthcare Portion"). The Partial Commutation commutes the 2017 Healthcare Portion of the 2017 Reinsurance Agreement and fully settles and commutes all liabilities and obligations of Split Rock. The total amount of reserves commuted was $14,681,049.

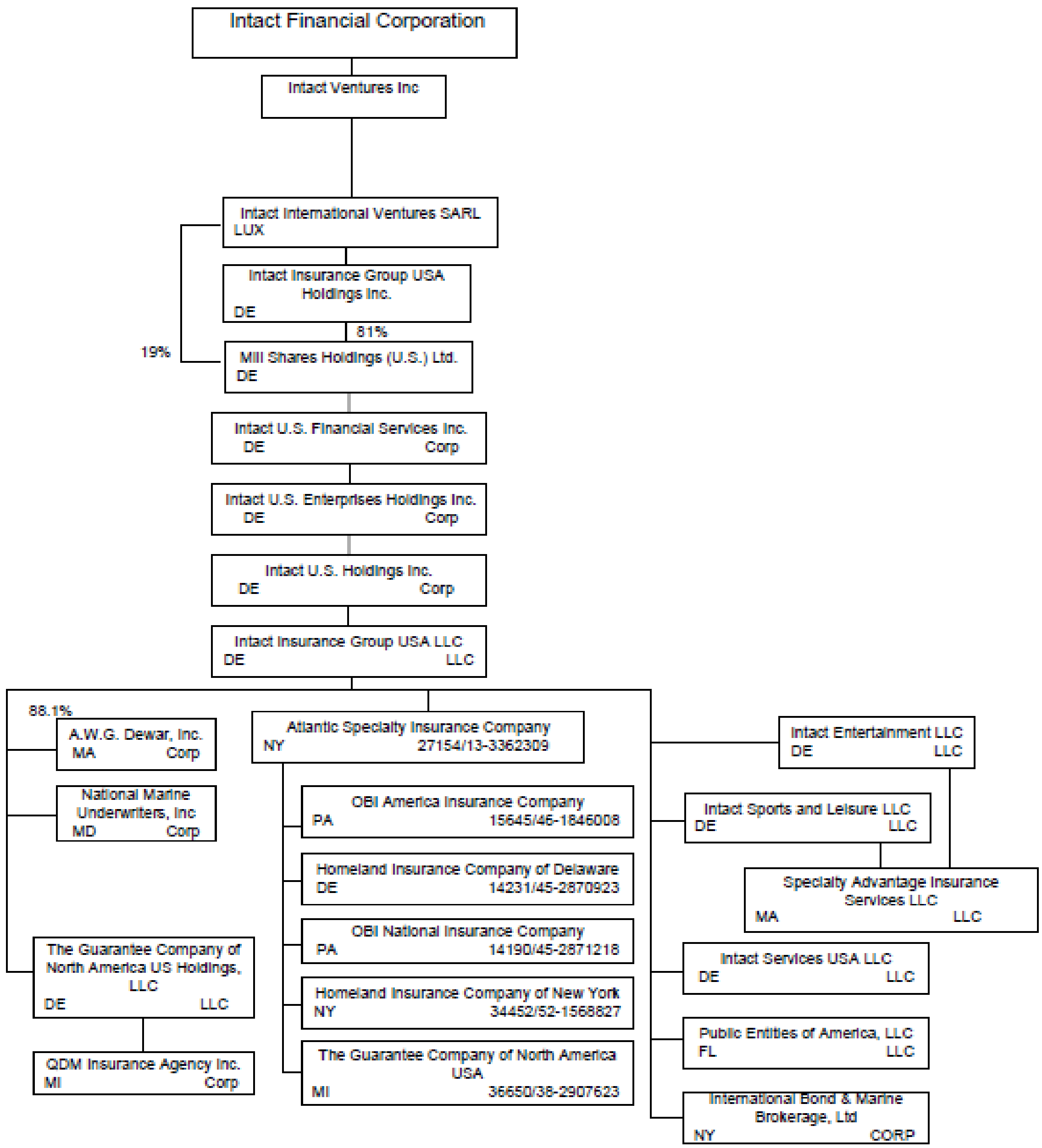
The Partial Commutation came as a result of the Company's exit from the healthcare business in 2019. The Company entered into a Master Transaction Agreement, Loss Portfolio Transfer and Prospective Quota Share Reinsurance Agreement dated as of December 31, 2019 ("2019 Agreement") with the Medical Protective Company ("Medpro"), an unaffiliated Indiana domiciled insurer, under which Medpro assumed all related healthcare liabilities, with a few specific claim exclusions. Pursuant to the 2017 Reinsurance Agreement, 50% of the 2017 Healthcare Portion was ceded to Split Rock. This portion could not be ceded directly from the Company to Medpro and the 2017 Healthcare Portion was excluded, by definition, from the liabilities ceded under the 2019 Agreement. Split Rock and Medpro entered into a separate Loss Portfolio Transfer and Prospective Quota Share Reinsurance Agreement dated December 31, 2019 ("SRI Retrocession Agreement") retroceding Split Rock's 50% quota share of the 2017 healthcare liabilities to Medpro. Pursuant to the Partial Commutation Agreement, premiums paid to Medpro by Split Rock for the SRI Retrocession Agreement for the benefit of the Company, represent full satisfaction of all past, present and future obligations and liabilities owed by Split Rock to the Company under the quota share agreement.

D. <u>Holding Company System</u>

The Company is a member of the Intact Financial Group which consists of six affiliated property and casualty insurance companies operating under common management and control. The Company is a wholly-owned subsidiary of Intact Insurance Group USA LLC ("IIGU"), a Delaware limited liability company. Intact, a public company that is listed on the Toronto Stock Exchange, is the ultimate parent company. Intact is the largest provider of property and casualty insurance in Canada. It also provides insurance in the UK, Europe, the United States, and the Middle East through the Intact and RSA brands.

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, 2021:



Holding Company Agreements

At December 31, 2021, the Company was a party to the following agreements with other members of its holding company system:

Producing Office Agreement

As described in section 2B of this report, effective September 30, 2021, the Company and its England-based affiliate RSA, entered into a producing office agreement. In addition to the reinsurance arrangement defined in the agreement, the terms of the agreement also provide for RSA to perform certain administrative services in relation to policies issued through RSA's global network, including services related to policy administration, invoicing, and premium collection and claim handling services.

Administrative Services Agreement

Effective October 1, 2012, the Company is a party to an administrative services agreement with OneBeacon Services, LLC, now known as Intact Services USA LLC ("Intact Services"), in which Intact Services provides administrative and management support services to the Company. The Company also utilizes the agreement as a means to settle cash balances due under the intercompany reinsurance agreements.

The Company incurred $257.0 million in expenses during 2021 under the administrative services agreement with Intact Services. The Company did not incur expenses under any other agreement in 2021 that met the materiality threshold established by the examination team.

In addition, the Company and Intact Services have a shared services agreement, effective January 1, 2019, with Intact and certain Canadian property and casualty subsidiaries of Intact. Under this agreement, the Intact companies on the one hand, and the Company and Intact Services on the other hand, shall provide to each other when and as needed, operational support services. Such services may be provided directly or indirectly by a party.

Intercompany Reinsurance Agreements

As described in section 2A of this report, the Company is a party to 100% quota share reinsurance agreements with its subsidiaries HONY, HODE, OBIA, OBIN, and GCNA pursuant to which the Company assumes all liabilities incurred under or in connection with all contracts and policies of insurance issued by the subsidiaries. Under the terms of the agreements, the Company pays or provides services for, all non-investment expenses, both underwriting and non-underwriting, for no fee or cost as long as the reinsurance agreements are in effect.

Investment Management Agreement

The Company, and various affiliates, have an investment management agreement with Intact Investment Management, Inc. ("IIM"), effective December 20, 2017, and subsequently amended. Pursuant to the terms of the agreement, IIM agrees to direct the investments in the investment account in accordance with the investment guidelines agreed upon by the Company, each affiliated company, and IIM (the "Standard Guidelines"). The board of directors (or other similar governing body) of the Company and each affiliated company shall oversee the activities of IIM pursuant to the agreement and shall retain ultimate and final authority over the investment account, in each case, in relation to their respective investment assets, decisions, and policies, including but not limited to decisions regarding the purchase and sale of securities.

Tax Allocation Agreement

Effective October 16, 2017, the Company is a party to a federal tax allocation agreement that covers the allocation, settlement, and financial statement presentation of current federal taxes. Under the terms of the agreement, the Company and its affiliates shall compute the amount of income taxes or estimated tax or refund each company would have to make or be entitled to if it filed a return, declaration, or refund claim as a separate corporation and had not been a member of the affiliated group.

Guaranty Agreement

The Company also has in place a financial guaranty with OBIA, effective October 2016. The guaranty requires the Company to make a capital contribution to OBIA if OBIA fails to maintain the minimum capital requirements of the state of Maine.

The agreements and all amendments were filed with this Department pursuant to Section 1505 of the New York Insurance Law.

E. Significant Ratios

The Company's operating ratios, computed as of December 31, 2021, fall within the benchmark ranges set forth in the Insurance Regulatory Information System of the NAIC.

Operating Ratios	Result
Net premiums written to policyholders' surplus	162%
Adjusted liabilities to liquid assets	85%
Two-year overall operating	93%

Underwriting Ratios

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

	Amount	Ratio
Losses and loss adjustment expenses incurred	$3,360,965,429	64.07%
Other underwriting expenses incurred	2,123,517,733	40.48%
Net underwriting gain (loss)	(238,320,491)	(4.55)%
Premiums earned	$5,246,162,671	100.00%

The Company's reported risk-based capital ("RBC") score was 429.9% at December 31, 2021. 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 no financial adjustments in this report that impacted the Company's RBC score.

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2021, as reported by the Company:

Assets	Assets	Assets Not Admitted	Net Admitted Assets
Bonds	$1,827,267,076	$ 0	$1,827,267,076
Common stocks	907,727,665	0	907,727,665
Cash, cash equivalents and short-term investments	174,241,408	0	174,241,408
Other invested assets	18,580,298	0	18,580,298
Receivables for securities	1,550,376	0	1,550,376
Investment income due and accrued	7,691,826	0	7,691,826
Uncollected premiums and agents' balances in the course of collection	122,974,581	7,954,186	115,020,395
Deferred premiums, agents' balances and installments booked but deferred and not yet due	173,943,380	0	173,943,380
Amounts recoverable from reinsurers	20,501,270	0	20,501,270
Funds held by or deposited with reinsured Companies	3,603,297	0	3,603,297
Net deferred tax asset	43,461,354	0	43,461,354
Electronic data processing equipment and software	2,492,470	1,582,452	910,018
Furniture and equipment, including health care delivery assets	3,983,432	3,983,432	0
Receivables from parent, subsidiaries and affiliates	56,848,041	494,918	56,353,123
Lease incentives / improvements	9,226,141	9,226,141	0
Sundry balances	7,627,027	0	7,627,027
Brokerage sharing receivable	7,553,521	7,553,521	0
Prepaid expenses	4,353,130	4,353,130	0
Total assets	$3,393,626,293	$35,147,780	$3,358,478,513

Liabilities, Surplus and Other Funds

Liabilities

Losses and loss adjustment expenses		$1,320,245,762
Reinsurance payable on paid losses and loss adjustment expenses		649,863
Commissions payable, contingent commissions and other similar charges		22,875,240
Other expenses (excluding taxes, licenses and fees)		1,938,897
Taxes, licenses and fees (excluding federal and foreign income taxes)		18,695,073
Current federal and foreign income taxes		20,256,476
Unearned premiums		655,993,449
Advance premium		571,816
Ceded reinsurance premiums payable (net of ceding commissions)		21,015,605
Funds held by company under reinsurance treaties		1,031,325
Amounts withheld or retained by company for account of others		555,342,085
Provision for reinsurance		1,483,000
Drafts outstanding		430,106
Payable for securities		1,545,333
Accrued rent		5,667,583
Sundry balances		45,532
Ceded retroactive reinsurance reserves		(121,262,511)
Total liabilities		$2,506,524,634
Surplus and Other Funds		
Special surplus - retroactive reinsurance	$108,786,594	
Common capital stock	$9,000,546	
Gross paid in and contributed surplus	568,560,486	
Unassigned funds (surplus)	165,606,253	
Surplus as regards policyholders		$ 851,953,879
Total liabilities, surplus and other funds		$3,358,478,513

Note: The Internal Revenue Service has not audited tax returns covering tax years 2017 and/through 2021. 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 $250,020,183, as detailed below:

Underwriting Income

Premiums earned		$5,246,162,671
Deductions:		
Losses and loss adjustment expenses incurred	$3,360,965,429	
Other underwriting expenses incurred	2,123,517,733	
Total underwriting deductions		5,484,483,162
Net underwriting gain or (loss)		$(238,320,491)

Investment Income

Net investment income earned	$ 229,232,327	
Net realized capital gain	172,789,707	
Net investment gain or (loss)		402,022,034

Other Income

Net gain or (loss) from agents' or premium balances charged off	$ (6,767,779)	
Finance and service charges not included in premiums	1,743,487	
Retroactive Reinsurance Income (expense)	108,786,594	
Miscellaneous (expense)	(3,990,238)	
Total other income		99,772,064
Net income before dividends to policyholders and before federal and foreign income taxes		$ 263,473,607
Dividends to policyholders		602,473
Net income after dividends to policyholders but before federal and foreign income taxes		$ 262,871,134
Federal and foreign income taxes incurred		12,850,951
Net income		$ 250,020,183

C. Capital and Surplus

Surplus as regards policyholders increased $227,106,211 during the five-year examination period January 1, 2017 through December 31, 2021, as reported by the Company, detailed as follows:

	Gains in Surplus	Losses in Surplus	
Surplus as regards policyholders as reported by the Company as of December 31, 2016			$624,847,668
Net income	$250,020,183		
Net unrealized capital gains or (losses)	41,445,764	$ 0	
Change in net deferred income tax		3,611,864	
Change in nonadmitted assets	1,718,223		
Change in provision for reinsurance		1,213,000	
Cumulative effect of changes in accounting principles	13,232,666		
Capital changes paid in	538		
Surplus adjustments paid in	36,013,701		
Dividends to stockholders	0	110,500,000	
Total gains and losses	$342,431,075	$115,324,864	
Net increase (decrease) in surplus			227,106,211
Surplus as regards policyholders as reported by the Company as of December 31, 2021			$851,953,879

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

At January 1, 2017, the Company had $9,000,008 of capital paid in consisting of 101,764 shares of $88.44 par value per share of common stock. Pursuant to a Stock Redemption and Retirement Plan, and charter amendment, on August 31, 2018, the Company repurchased from its direct parent, OneBeacon Insurance Group LLC ("OBIGLLC"), and subsequently retired, 4,939 shares of its authorized, issued and outstanding common stock at a book value of $6,073.39 per share, resulting in the distribution of $29,996,480 to OBIGLLC. This transaction resulted in a decrease of the Company's capital stock shares from 101,764 to 96,825 and an increase in the par value per share from $88.44 to $92.96. The Department approved this transaction on August 3, 2018, pursuant to Section 1411(d) of the New York Insurance Law.

On December 12, 2019, pursuant to a Stock Redemption and Retirement Plan, and charter amendment, the Company repurchased from OBIGLLC, and subsequently retired, 4,068 shares of its authorized, issued and outstanding common stock at a book value of $7,373.37 per share, resulting in the distribution of $29,994,869 to OBIGLLC. This transaction resulted in a decrease of the Company's capital stock shares from 96,825 to 92,757 and an increase in the par value per share from $92.96 to $97.04. The Department approved this transaction on December 2, 2019, pursuant to Section 1411(d) of the New York Insurance Law.

On January 22, 2021, pursuant to a Stock Redemption and Retirement Plan and charter amendment, the Company repurchased from its parent, Intact Insurance Group USA LLC ("IIGU"), and subsequently retired, 5,812 shares of its authorized, issued and outstanding common stock at a book value of $7,741.64 per share, resulting in the distribution of $44,994,412 to IIGU. This transaction resulted in a decrease of the Company's capital stock shares from 92,757 to 86,945 and an increase in the par value per share from $97.04 to $103.52. The Department approved this transaction on January 22, 2021, pursuant to Section 1411(d) of the New York Insurance Law.

Capital paid in is $9,000,546 consisting of 86,945 shares of $103.52 par value per share of common stock. Gross paid in and contributed surplus is $568,560,486. Gross paid in and contributed surplus increased by $36,013,701 during the examination period, as follows:

Year	Description		Amount
2016	Beginning gross paid in and contributed surplus		$532,546,785
2017	Surplus contribution	$119,000,000	
2018	Surplus change due to common stock re-purchase and retirement	(7,997,324)	
2019	Surplus change due to common stock re-purchase and retirement	(29,995,156)	
2021	Surplus change due to common stock re-purchase and retirement	(44,993,819)	
	Total surplus adjustment		36,013,701
2021	Ending gross paid in and contributed surplus		$568,560,486

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of $1,320,245,762 is the same as reported by the Company as of December 31, 2021. The examination analysis of the loss and loss adjustment expense reserves was conducted in accordance with actuarial standards of practice and statutory accounting principles, including SSAP No. 55.

5. SUBSEQUENT EVENTS

Effective January 1, 2022, IIGU purchased from The Globe Insurance Company Limited, an Intact USA LLC affiliate incorporated and registered under the laws of England and Wales, 100% of the issued and outstanding shares of stock of Royal & Sun Alliance Insurance Agency, Inc. ("RSAIA"), a Delaware corporation, for its fair market value of $16,700,000.

On August 23, 2022, the Department approved an extraordinary dividend from the Company to its direct parent, IIGU, in the amount of $16,038,333.

6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

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

ITEM		PAGE NO.
A.	Ceded Reinsurance It was recommended that any arbitration clause as part of a reinsurance agreement state that the arbitration is governed by New York Law. It is also recommended that the governing law clause state that the contract is governed by the laws of New York. The Company has complied with this recommendation.	10

7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

ITEM			PAGE NO.
A.		Reinsurance Ceded	
	i.	It is recommended the Company institute procedures to ensure compliance with all provisions of Department Regulation No. 133.	12
	ii.	It is recommended that the Company institute procedures to ensure that Schedule F Part 4 accurately reflects the issuing or confirming banks for letters of credit reported in Schedule F Part 3.	12

Respectfully submitted,

_______________/S/________________
Susan Weijola
Associate Insurance Examiner

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

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

____________/S/___________
Susan Weijola

Subscribed and sworn to before me

this_________ day of __________________, 2023.

APPOINTMENT NO. 32291

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:*

Susan Weijola

as a proper person to examine the affairs of the

Atlantic 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 11th day of August, 2021

LINDA A. LACEWELL
Superintendent of Financial Services

By:

Joan Riddell

Joan Riddell
Deputy Bureau Chief