



**REPORT ON EXAMINATION  
OF  
NAVIGATORS SPECIALTY INSURANCE COMPANY  
AS OF DECEMBER 31, 2022**

**EXAMINER:  
DATE OF REPORT:**

**LEE R. PROWELL  
JUNE 21, 2024**

## 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	6
	E. Significant ratios	8
3.	Financial statements	9
	A. Balance sheet	9
	B. Statement of income	11
	C. Capital and surplus	11
4.	Losses and loss adjustment expenses	12
5.	Compliance with prior report on examination	12
6.	Summary of comments and recommendations	12

KATHY HOCHUL  
Governor



ADRIENNE A. HARRIS  
Superintendent

June 21, 2024

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 32456 dated October 24, 2022, attached hereto, I have made an examination into the condition and affairs of Navigators Specialty Insurance Company as of December 31, 2022, and submit the following report thereon.

Wherever the designation “the Company” 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.

## 1. SCOPE OF EXAMINATION

The Department has performed an examination of Navigators Specialty Insurance Company, a multi-state insurer. The previous examination was conducted as of December 31, 2019. This examination covered the three-year period from January 1, 2020 through December 31, 2022. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

The examination was conducted in conjunction with the state of Connecticut, which was the lead state of the Hartford Fire & Casualty Group. The examination was performed concurrently with the examinations of the following insurers:

<u>Company</u>	<u>State of Domicile</u>
Hartford Life and Accident Insurance Company	Connecticut
Hartford Fire Insurance Company	Connecticut
Twin City Fire Insurance Company	Indiana
Hartford Underwriters Insurance Company	Connecticut
Trumbull Insurance Company	Connecticut
Sentinel Insurance Company, Ltd.	Connecticut
Hartford Casualty Insurance Company	Indiana
Property and Casualty Insurance Company of Hartford	Indiana
Hartford Insurance Company of The Midwest	Indiana
Navigators Insurance Company	New York
Hartford Accident & Indemnity Company	Connecticut
Hartford Insurance Company of the Southeast	Connecticut
Pacific Insurance Company, Limited	Connecticut
Hartford Insurance Company of Illinois	Illinois
Maxum Indemnity Company	Connecticut
Nutmeg Insurance Company	Connecticut
Hartford Lloyd's Insurance Company	Texas
Maxum Casualty Insurance Company	Connecticut
New England Insurance Company	Connecticut
First State Insurance Company	Connecticut
New England Reinsurance Corporation	Connecticut

Other states participating in this examination were Illinois, Indiana, and Texas.

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
- Summary of recommendations

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 became licensed on October 17, 1989, and commenced business on that same day. The Company 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") closed on its acquisition of The Navigators Group, Inc. ("NAVIG"), which included Navigators Insurance Company ("NIC") and the Company. 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 annually during each calendar year. Actions of the board of directors were also taken by written consent, as permitted by the bylaws, once in 2020, none in 2021 and twice in 2022. At December 31, 2022, 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	Director, The Hartford Financial Services Group, Inc
Eapen Attapurathu Chandy South Glastonbury, Connecticut	Director, The Hartford Financial Services Group, Inc
Michael Ross Fisher Avon, Connecticut	Director, The Hartford Financial Services Group, Inc
Mary Blake Nasenbenny La Grange, Illinois	Director, The Hartford Financial Services Group, Inc
Adrien Thomas Robinson Cornelius, North Carolina	Director, The Hartford Financial Services Group, Inc.
Amy Marie Stepnowski Glastonbury, Connecticut	Director, The Hartford Financial Services Group, Inc
Adin Morris Tooker Westport, Connecticut	Director, The Hartford Financial Services Group, Inc

As of December 31, 2022, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Michael Ross Fisher	President
James Michael Yanosy	Senior Vice President and Chief Financial Officer
Kathleen Elizabeth Jorens	Senior Vice President and Treasurer
Allison Gayle Niderno	Vice President and Controller
Kevin Floyd Barnett	Corporate Secretary
Suzanne Elizabeth Henderson	Vice President and Appointed Actuary

#### B. Territory and Plan of Operation

As of December 31, 2022, the Company did not write business in New York. The Company writes its business on an excess and surplus lines basis in the remaining 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 and 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, 69<sup>th</sup> 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 \$5,000,000.

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

<u>Calendar Year</u>	<u>Direct Premiums</u>
2020	\$617,035,164
2021	\$765,832,662
2022	\$810,044,242

The Company primarily underwrites general liability and professional liability business on excess and surplus lines basis. It participates in the group's multi-channel distribution platform, which utilizes

global, national, and regional brokers as well as wholesalers. The Company 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 intercompany quota share reinsurance agreement, effective January 1, 1999. This agreement was filed with the Department pursuant to the provisions of Section 1505(d)(2) of the New York Insurance Law.

Examination review found that the Schedule F data reported by the Company in its filed annual statement accurately reflected its reinsurance transactions.

D. Holding Company System

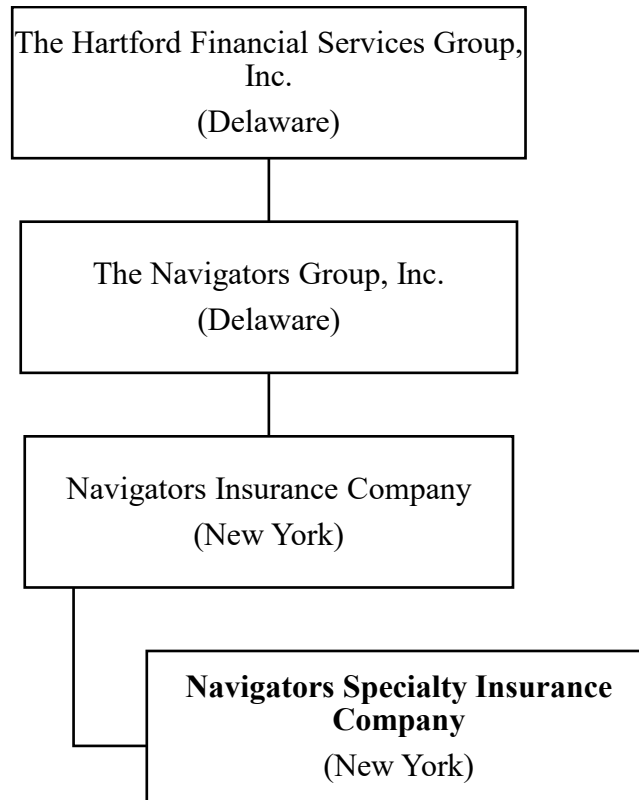
The Company is a member of the Hartford Fire & Casualty Group. The Company is wholly owned by Navigators Insurance Company, a New York corporation, which is wholly owned by The Navigators Group, Inc. a Delaware corporation, which, in turn, is wholly owned by The Hartford, a public company.

The Hartford is a holding company for a group of subsidiaries that provide property and casualty insurance, group benefits insurance and services, and mutual funds and exchange-traded funds to individuals and businesses in the U.S., the United Kingdom and other international locations.

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, 2022:





### Holding Company Agreements

At December 31, 2022, the Company was party to the following agreements with other members of its holding company system:

#### Tax Allocation Agreement

The Company and various specified affiliates and subsidiaries are party to an amended and restated tax allocation agreement with The Hartford. The agreement is effective May 6, 2020, and was submitted to the Department pursuant to the provisions of Department Circular Letter No. 33 (1979).

#### Investment Pooling Agreement

Effective April 3, 2020, the Company and various specified affiliates and subsidiaries of The Hartford are participants to the third amended and restated investment pooling agreement. Pursuant to the 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”. Each of the participants appoints Hartford Investment Management Company (“HIMCO”) as the investment manager of the pool. Participants shall pay to the investment manager quarterly fees in arrears, the equivalent of all indirect and direct costs incurred by the investment manager on behalf of such participants for the pool

during the relevant period, but not to exceed the total costs which such participants would have accrued in providing such services for themselves.

#### Investment Management Agreement

Effective May 31, 2019, the Company and its parent, NIC, are party to an investment management agreement with HIMCO. Pursuant to the terms of the agreement, the Company and NIC appoint HIMCO as its attorney-in-fact and investment manager. The agreement grants HIMCO full powers to manage the Company's and NIC's assets in accordance with the terms and conditions of the agreement.

#### Services and Cost Allocation Agreement

Effective November 27, 2019, the Company and NIC are party to a services and cost allocation agreement with Hartford Fire Insurance Company ("HFIC"). Pursuant to the terms of the agreement, HFIC provides a variety of operating services to NIC and the Company, as needed, to allow each 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.

#### Liquidity Agreement

Effective May 23, 2019, the Company entered into 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.

All agreements subject to Section 1505 of the New York Insurance Law were filed with this Department.

#### E. Significant Ratios

The Company's adjusted liabilities to liquid assets ratio of 45%, computed as of December 31, 2022, falls within the benchmark ranges set forth in the Insurance Regulatory Information System of the NAIC. The other operating ratios, namely, net premiums written to policyholders' surplus and the two-year overall operating ratio, are not presented because they are not meaningful due to the 100% cession of the Company's business to NIC, as described in section 2C of this report.

### 3. FINANCIAL STATEMENTS

#### A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2022, as reported by the Company:

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$146,273,706	\$0	\$146,273,706
Cash, cash equivalents and short-term Investments	15,010,113	0	15,010,113
Receivables for securities	83	0	83
Investment income due and accrued	1,422,876	0	1,422,876
Uncollected premiums and agents' balances in the course of collection	<u>71,365,832</u>	<u>0</u>	<u>71,365,832</u>
Total assets	<u>\$234,072,610</u>	<u>\$0</u>	<u>\$234,072,610</u>

Liabilities, Surplus and Other FundsLiabilities

Loss and loss adjustment expenses	\$	0
Current federal and foreign income taxes		61,218
Net deferred tax liability		32,627
Ceded reinsurance premiums payable (net of ceding commissions)		71,365,832
Remittances and items not allocated		8,834
Payable to parent, subsidiaries and affiliates		<u>1,029,758</u>
 Total liabilities	 \$	 72,498,269

Surplus and Other Funds

Common capital stock	\$ 5,000,000
Gross paid in and contributed surplus	86,000,000
Unassigned funds (surplus)	<u>70,574,341</u>
 Surplus as regards policyholders	 <u>\$161,574,341</u>
 Total liabilities, surplus and other funds	 <u>\$234,072,610</u>

Note: The Internal Revenue Service has not audited tax returns covering tax years 2020 through 2022. 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 \$9,933,149, as detailed below:

Investment Income

Net investment income earned	\$12,602,677	
Net realized capital gain	<u>22,481</u>	
Net investment gain		\$12,625,158

Other Income

Aggregate write-ins for miscellaneous income	-	499	
Total other income			<u>499</u>
Net income before federal and foreign income taxes			\$12,625,657
Federal and foreign income taxes incurred			<u>2,692,508</u>
Net income			<u>\$ 9,933,149</u>

C. Capital and Surplus

Surplus as regards policyholders increased \$9,911,231 during the three-year examination period January 1, 2020 through December 31, 2022, as reported by the Company, detailed as follows:

Surplus as regards policyholders as reported by the Company as of December 31, 2019			\$151,663,110
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income	\$9,933,149		
Change in net deferred income tax	<u>0</u>	<u>\$21,918</u>	
Total gains and losses	\$9,933,149	\$21,918	
Net increase (decrease) in surplus			<u>9,911,231</u>
Surplus as regards policyholders as reported by the Company as of December 31, 2022			<u>\$161,574,341</u>

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

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. Capital paid in and gross paid in and contributed surplus did not change during the examination period.

**4. LOSSES AND LOSS ADJUSTMENT EXPENSES**

The examination liability for the captioned items of \$0 is the same as reported by the Company as of December 31, 2022. This is consistent with the quota share agreement the Company has in place with its parent, as discussed in section 2C of this report, wherein the Company cedes 100% of its business to NIC. 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 the NAIC Accounting Practices and Procedures Manual, Statement of Statutory Accounting Principles No. 55.

**5. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION**

The prior report on examination did not contain any comments or recommendations.

**6. SUMMARY OF COMMENTS AND RECOMMENDATIONS**

This report on examination does not contain any comments or recommendations.

Respectfully submitted,

\_\_\_\_\_/S/\_\_\_\_\_  
Lee Prowell  
Financial Services Examiner 4

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

Lee Prowell, being duly sworn, deposes and says that the foregoing report, subscribed by him, is true to the best of his knowledge and belief.

\_\_\_\_\_/S/\_\_\_\_\_  
Lee Prowell

Subscribed and sworn to before me

this \_\_\_\_\_ day of \_\_\_\_\_, 2024.

*NEW YORK STATE*

*DEPARTMENT OF FINANCIAL SERVICES*

*I, Adrienne A. Harris, 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:*

***Lee Prowell***

*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 he shall deem requisite.*

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

*this 24th day of October, 2022*

*ADRIENNE A. HARRIS  
Superintendent of Financial Services*

*By:*

*Joan Riddell*

*Joan Riddell  
Deputy Bureau Chief*

