

Report on Examination

of

ASCOT SPECIALTY INSURANCE COMPANY
Warwick, Rhode Island

as of

December 31, 2019



State of Rhode Island
Department of Business Regulation
Insurance Division



State of Rhode Island
DEPARTMENT OF BUSINESS REGULATION
1511 Pontiac Avenue, Bldg. 69-2
Cranston, Rhode Island 02920

Insurance Division

ADOPTION ORDER

The attached Report of Examination as of December 31, 2019, of the condition and affairs of

ASCOT SPECIALTY INSURANCE COMPANY

was recently completed by duly qualified examiners, pursuant to the provisions of the Rhode Island General Laws.

Due consideration has been given to the comments of the examiners regarding the operation of the Companies and their financial condition, as reflected in the report.

It is therefore ORDERED that said Report be, and it is hereby, adopted and filed and made an official record of this Department as of this date.

Department of Business Regulation

Dated May 12, 2021

Elizabeth Kelleher Dwyer
Superintendent of Insurance

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February 26, 2021

Ms. Elizabeth Kelleher Dwyer
Superintendent of Insurance
State of Rhode Island
Department of Business Regulation
1511 Pontiac Avenue, Bldg. 69-2
Cranston, Rhode Island 02920

Dear Superintendent Dwyer:

In accordance with your instructions and pursuant to Chapters 13.1 and 35 of Title 27 of the General Laws of the State of Rhode Island, an examination has been made as of December 31, 2019, of the financial condition and affairs of

ASCOT SPECIALTY INSURANCE COMPANY

located at 10 Jefferson Boulevard, Warwick, Rhode Island. The report of such examination is herewith submitted.

Ascot Specialty Insurance Company is also referred to within this report as "ASIC," or "the Company." An organization examination was performed as of November 20, 1989. Since the Company has reported no gross (direct and assumed) written premiums until 2019, there have been no financial examinations performed on ASIC until 2019. The current examination as of December 31, 2019 was conducted by the Insurance Division of the State of Rhode Island ("Insurance Division") representing the Northeast Zone of the National Association of Insurance Commissioners.

SCOPE OF EXAMINATION

The current examination was performed as of December 31, 2019 and was performed in compliance with the above-mentioned sections of the General Laws of the State of Rhode Island, as amended. The current examination was conducted in accordance with the National Association of Insurance Commissioners (“NAIC”) *Financial Condition Examiners Handbook* (“Handbook”) risk-focused examination process, and was performed in conjunction with the 2019 full-scope coordinated multi-state risk-focused examination (“Coordinated Exam”) of Ascot Insurance US Group LLC (“Ascot Group”). The Coordinated Exam encompassed two (2) entities within the Ascot Group holding company system; Ascot Insurance Company (a Colorado domestic insurance company), and ASIC. The Colorado Division of Insurance served as the Lead State for the Coordinated Exam.

The Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer’s surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management’s compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is

identified, the impact of such adjustment will be documented separately following the Company's financial statements.

This examination report includes significant findings of fact, and general information about the insurers and their financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.) are not included within the examination report but separately communicated to other regulators and/or the Companies.

SUMMARY OF SIGNIFICANT FINDINGS

There were no material adverse or significant non-compliance findings noted during the examination conducted as of December 31, 2019.

COMPANY HISTORY

Ascot Specialty Insurance Company derives its corporate existence and powers from the provisions of the Rhode Island Business Corporations Act, General Law 7-1.1. Originally, the name of the company was Frontier Insurance Company. The charter was amended on June 16, 1986, changing the name to Coventry Insurance Company.

The Company, with its immediate parent (Ascot Insurance Company, formerly known as Greyhawk Insurance Company), was acquired by Ascot US Holding Corporation, with approval from the Rhode Island Department of Business Regulation, on October 2, 2018.

The Company's name was changed by Unanimous Written Consent of the Board of Directors on October 4, 2018, to Ascot Specialty Insurance Company.

The Company adopted bylaws by Unanimous Written Consent of the Board of Directors on October 4, 2018.

The Company revised its Articles of Incorporation on October 31, 2018, with approval from the Department of Business Regulation to update, among other items, statutory references; expressly permit engagement in all lawful business; and to transact all lines of property and casualty insurance.

The Restated Articles of Incorporation provide that the Company is authorized to issue 500 shares of common capital stock. The Company's capital stock is 100% owned by Ascot Insurance Company. As of December 31, 2019, the Company has issued 500 shares, with no par value for a total value of \$232,485.00.

MANAGEMENT AND CONTROL

Stockholders

The bylaws, in the form adopted by the shareholder of the Company on October 4, 2018, provide that an Annual Meeting of Stockholders shall be determined by the Board of Directors.

Special meetings of the stockholders, for any purpose or purposes, unless otherwise prescribed by law, may be called by the Chief Executive Officer and shall be called by the Secretary at the direction of a majority of the Board of Directors, or at the request in writing of stockholders owning a majority of the capital stock of the Company issued and outstanding, and entitled to vote.

Board of Directors

The Charter provides that the corporate powers of the Company shall be exercised through its Board of Directors ("Board"). On October 4, 2018, the Board approved bylaws providing that the Board shall consist of not less than five (5) and not more than twenty-one (21) members.

The directors shall be elected at each Annual Meeting of the Stockholders to hold office until his or her successor is elected and qualified or until his or her earlier death, resignation or removal. Vacancies and newly created directorships resulting from any increase in the number of directors may be filled by a majority of the directors then in office though less than a quorum, and each director so chosen shall hold office until his or her successor is elected and qualified or until his or her earlier death, resignation or removal.

Regular Meetings

The bylaws require that the Board of Directors shall hold a regular meeting, to be known as the annual meeting, immediately following each annual meeting of the stockholders.

Other regular meetings of the Board of Directors shall be held at such time and at such place as shall from time to time be determined by the Board.

Special Meetings

The bylaws permit Special Meetings to be called by the Chief Executive Officer. Special Meetings shall be called by the Secretary on the written request of any Director.

Actions Without Meeting

Unless otherwise restricted by the Articles of Incorporation or the bylaws, any action required or permitted to be taken at any meetings of the Board of Directors or of any committee thereof may be taken without a meeting, if all members of the Board or committee, as the case may be, consent thereto in writing, and the writing or writings are filed with the minutes of proceedings of the Board or committee.

At December 31, 2019 the following individuals served as Directors of the Company:

Name	Business Affiliation	Term Expires
John R. Berger	Chairman of the Board, Chief Executive Officer Ascot Re	2020
Joseph W. Roberts	Chief Financial Officer	2020
Susan J. Sutherland	Independent Trustee of the Eaton Vance Funds	2020
Gregory Wolyniec	Chief Executive Officer & President	2020
Brian J. Green	General Counsel & Secretary.	2020

The Charter provides that the Board of Directors may elect various committees from time to time as they see fit and may delegate to such committees such other powers as they may deem expedient. As of December 31, 2019, there are no committees of the Board.

Officers

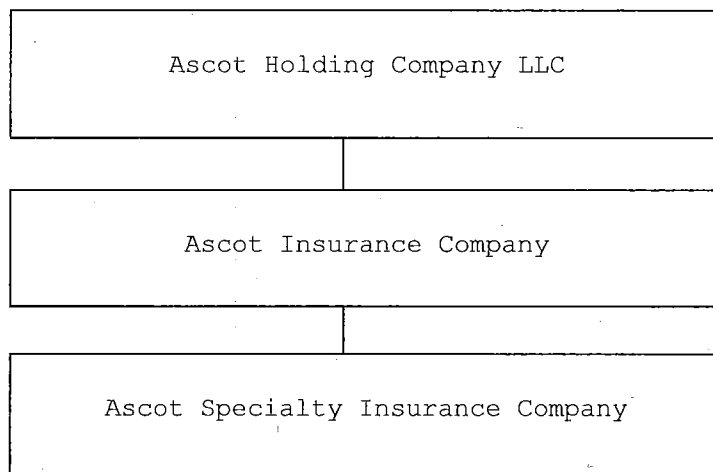
The bylaws provide that the officers of the Company shall be elected at the annual meeting of the Board of Directors and shall hold office until their successors are elected and qualified. The Board shall elect a Chairman, a Chief Executive Officer, a Chief Administrative Officer, a Chief Financial Officer, a Treasurer and Secretary. The Board may also elect one or more Vice Presidents and such other officers and agents as it shall deem appropriate. The Officers serving and their respective titles at December 31, 2019 are as follows:

Gregory Wolyniec	Chief Executive Officer & President
Joseph W. Roberts	Chief Financial Officer
Brian J. Green	General Counsel & Secretary
Peter M. Grayston	Treasurer

ORGANIZATIONAL STRUCTURE

At December 31, 2019, Ascot Insurance Company owns 100% of the issued and outstanding common capital stock of the Company.

An abbreviated organizational structure at December 31, 2019 follows:



Intercompany Agreements

As of December 31, 2019, the Company was a party to the following Intercompany Agreements:

1. Intercompany Services and Cost Allocation Agreement with an affiliate, Ascot US Services Company LLC. Under the terms of this agreement, shared costs are incurred and paid for by the Company. Primarily, these shared costs include overhead allocations of operating expenses.
2. Underwriting Services Agreement with an affiliate, Ascot Underwriting Inc. Under the terms of this agreement, shared underwriting costs are incurred and paid for by the Company.
3. Net Worth Maintenance Agreement with its ultimate controlling entity, Ascot Group Limited (“AGL”). Under the terms of this agreement, AGL agrees to cause the Company to maintain capital equivalent to at least the “Strongest” category of implied balance sheet strength according to A.M. Best’s Stochastic Best’s Capital Adequacy Ratio (BCAR) at all times and if they were to fall below it, AGL will contribute liquid assets to ensure the Company has the ability to meet its financial obligations on a timely basis. As of December 31, 2019, the Company has not utilized the benefits of the agreement.
4. Tax Allocation Agreement with Ascot US Holding Corporation and its US subsidiaries. In accordance with the Tax Allocation Agreement, federal income tax liabilities are allocated using a separate return method with benefit for net operating losses and other tax attributes as they are used in the consolidated tax return.

5. Program Administrator Agreement under which an affiliate, Ethos Specialty Insurance Services LLC, performs underwriting services for the Company.

TERRITORY AND PLAN OF OPERATION

A review of certificates of authority or compliance in effect at December 31, 2019 verified that the Company is licensed to transact business in Rhode Island. The Company is eligible to write on a non-admitted basis in all states other than Rhode Island, in addition to the District of Columbia.

The Restated Articles of Incorporation empower the Company to issue policies and transact all lines of property and casualty insurance.

REINSURANCE

At December 31, 2019, the Company was a party to the following ceded reinsurance contracts, across all lines of business.

- Trade Credit, 70% Quota Share, \$100MM Max Policy Aggregate Limit
- Ocean Marine, 60% Quota Share, \$10MM Max Policy Limit
- Ocean Marine, 30% Quota Share, \$10MM Max Policy Limit
- Lawyers Professional Liability, 50% Quota Share, \$10MM Max Policy Limit
- Environmental, 80% Quota Share, \$27MM Max Policy Limit
- Inland Marine: Net \$1.25M per occurrence
 1. 50% Quota Share %10MM Max Policy Limit
 2. Excess of Loss \$7.5MM excess 2.5MM

3. Excess of Loss \$10MM excess 10MM

- Inland Marine Facultative
 - \$4MM excess \$1MM part of \$100MM
 - \$6MM part of \$30MM
 - Equipment Breakdown Facultative various participation subject to a \$25MM maximum
 - Contractors Equipment
 - Layer A, \$1MM excess \$500K
 - Layer B, \$2.5MM excess \$1MM
 - Excess Casualty, 65% Quota Share, \$10MM Max Policy Limit

All US reinsurance contracts and material amendments are reviewed by the Company's Chief Executive Officer & President, US Head of Reinsurance, US General Counsel and the lead underwriter for the relevant line of business. The Board does not review and approve specific reinsurance contracts, but approves management's plan for purchasing reinsurance.

Both the Company and Ascot Insurance Company are named as cedants on all US reinsurance contracts. There are no agreements with the brokers and the Company does not delegate underwriting authority to its reinsurance brokers.

No assumed reinsurance is written by the Company.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the Rhode Island Insurance Division Department of Business Regulation and present the financial condition of the Company for the period ending December 31, 2019. The accompanying comments on the financial statements reflect any examination adjustments to the amounts reported in the annual statements and should be considered an integral part of the financial statements.

Statement of Assets, Liabilities, Surplus and Other Funds
December 31, 2019

Statement of Income
Year Ended December 31, 2019

Reconciliation of Capital and Surplus
December 31, 2014 to December 31, 2019

Analysis of Examination Adjustments
December 31, 2019

ASCOT SPECIALTY INSURANCE COMPANY

Statement of Assets

December 31, 2019

	December 31, 2019
Bonds	<u>\$ 74,296,624</u>
Cash and cash equivalents	7,473,217
Short-term investments	0
Total cash and invested assets	<u>81,769,841</u>
Interest, dividends and real estate	
Income due and accrued	471,934
Uncollected premiums and agents' balances in the course of collections	3,104,170
Deferred premiums and agents' balances and installments booked but deferred and not yet due	22,875
Amounts recoverable from reinsurers	7,144
Aggregate write-ins for other than Invested assets	<u>37,898</u>
 Total Assets	 <u><u>\$85,413,862</u></u>

Statement of Liabilities Surplus and Other Funds

Losses	\$1,332,467
Loss adjustment expenses	706,583
Other expenses (excluding taxes, licenses and fees)	201,018
Taxes, licenses and fees	152,436
Net deferred tax liability	452,636
Unearned premium	8,014,903
Ceded reinsurance premiums payable	7,296,905
Funds held by company under reinsurance treaties	7,127
Provision for reinsurance	98,848
Payable to parent, subsidiaries and affiliates	2,582,403
Aggregate write-ins for liabilities	<u>447,138</u>
 Total liabilities	 <u>\$ 21,292,464</u>
 Common capital stock	 \$232,485
Gross paid-in and contributed surplus	76,575,000
Unassigned funds (surplus)	<u>(12,686,088)</u>
 Surplus as regards policyholders	 <u>\$64,121,397</u>
 Total	 <u><u>\$85,413,862</u></u>

ASCOT SPECIALTY INSURANCE COMPANY

Statement of Income

Year Ended December 31, 2019

Underwriting Income

Premiums earned		\$ 3,122,313
Deductions:		
Losses incurred	\$ 1,332,467	
Loss expenses incurred	1,078,490	
Other underwriting expenses	<u>14,554,148</u>	
Total underwriting deductions		<u>16,965,105</u>
Net underwriting gain (loss)		<u>(13,842,793)</u>

Investment Income

Net investment income earned	1,888,013	
Net realized gain or (loss)	<u>169,861</u>	
Net Investment gain		<u>2,057,874</u>
Aggregate write-in for miscellaneous income		<u>(18,598)</u>
Net (loss) before federal and foreign Income taxes		(11,803,517)
Federal and foreign income taxes incurred		<u>0</u>
Net Income (Loss)		<u>(\$11,803,517)</u>

ASCOT SPECIALTY INSURANCE COMPANY

Reconciliation of Capital and Surplus
December 31, 2014 to December 31, 2019

Capital and Surplus, December 31, 2014		\$1,889,700
	<u>Increase</u> <u>(Decrease)</u>	
Net Income (loss)	(\$12,193,979)	
Change in net unrealized capital gains or (losses)	(39,572)	
Change in net deferred income tax	(452,636)	
Change in non-admitted assets	(72,109)	
Change in provision for reinsurance	(98,848)	
Surplus adjustments: Paid in	75,050,000	
Aggregate write-ins for gains and losses in surplus	<u>38,841</u>	
Change in capital and surplus for the period		<u>62,231,697</u>
Capital and Surplus, December 31, 2019		<u>\$64,121,397</u>

ASCOT SPECIALTY INSURANCE COMPANY
Analysis of Examination Adjustments
December 31, 2019

The examination of the Company, performed as of December 31, 2019, did not disclose any material misstatements to the financial statements contained in its 2019 Annual Statement filing. Accordingly, the amounts reported by the Company have been accepted for purposes of this report.

COMMENTS ON FINANCIAL STATEMENTS

ASSETS

Bonds

\$74,296,624

The above amount is the net admitted value of bonds held by the Company and is the same as that reported in its 2019 Annual Statement. All bonds owned at year-end 2019 are held in accordance with a third-party custodial agreement.

One-hundred percent (100%) of all bonds in the Company's portfolio at December 31, 2019, were rated as Class 1 based upon evaluation methods established by the National Association of Insurance Commissioners, Securities Valuation Office. Class 1 securities are considered the "highest quality."

The amortized book value of bonds owned at December 31, 2019, represents 87.0% of the Company's total admitted assets. The book/adjusted carrying value, fair value, actual cost and par value of the bond portfolio at December 31, 2019, are as follows:

<u>Book/Adjusted Carrying Value</u>	<u>Fair Value</u>	<u>Actual Cost</u>	<u>Par Value</u>
\$74,296,624	\$75,929,462	\$74,102,710	\$74,247,097

LIABILITIES

<u>Losses</u>	<u>\$1,332,467</u>
<u>Loss Adjustment Expenses</u>	<u>706,583</u>

The reserves for losses and loss adjustment expenses reflected above are the same amounts as that reported by ASIC in its 2019 Annual Statement. The reported reserves were reviewed for reasonableness by INS Regulatory Insurance Services, Inc. (“INS”), consulting actuaries for the Rhode Island Insurance Division. INS relied upon the underlying data reported by the Company, which was tested by the examiners without exception. INS’ analyses included a review of the actuarial assumptions and methods utilized in determining the reserves, and such tests of actuarial calculations as deemed necessary.

Based upon the review performed by INS, ASIC’s reported reserves were found to be calculated in accordance with commonly accepted reserving methods and are based on appropriate actuarial factors given the risk exposures under the policy provisions. INS also concluded that the reported reserves make reasonable provision for all unpaid loss and loss adjustment expense obligations; in the aggregate, under the terms of their policies and agreements.

CAPITAL AND SURPLUS

Capital and Surplus \$64,121,397

The above amount is the same as that reported by the Company in its 2019 Annual Statement, and consists of the following:

Common capital stock	\$232,485
Gross paid in and contributed surplus	76,575,000
Unassigned funds (deficit)	<u>(12,686,088)</u>
Total surplus as regards policyholders	<u>\$64,121,397</u>

SUBSEQUENT EVENTS

A review of financial information, Company records, and the minutes to the Board of Directors' meetings for the period subsequent to the examination period was performed to ascertain whether any subsequent events have occurred which would have a material impact on the Company's operations or financial statements. In addition, an inquiry was made of the Company's management regarding subsequent events. Based upon our review, the following significant event occurred subsequent to December 31, 2019.

The COVID-19 pandemic has continued to develop throughout 2020, 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 of Ascot Specialty Insurance Company noted that there has not been a significant impact to the company. The Rhode Island Insurance Division has been in communication with ASIC regarding the impact of COVID-19 on its business operations and financial position. The Division continues to closely monitor the impact of the pandemic on ASIC and will take necessary action if a solvency concern arises.

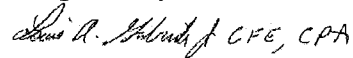
Based upon our review, with the exception of the COVID-19 pandemic discussed above, there were no significant events that occurred subsequent to December 31, 2019.

CONCLUSION

We have applied verification procedures to the data and information contained in this report using sampling techniques and other examination procedures as deemed appropriate. While sampling and other examination procedures do not give complete assurance that all errors and irregularities will be detected, had any been detected during this examination, such errors and/or irregularities would have been disclosed in this report. Other than what has been noted in the body of this report, we were not informed of, and did not become aware of any errors or irregularities that could have a material effect on the financial condition of the Company as presented in this report.

Participating in the examination with the undersigned were various staff insurance examiners from the Rhode Island Insurance Division. In addition, acknowledgment is made of INS Regulatory Insurance Services, Inc. for the services rendered to assist with the examination by providing actuarial specialists.

Respectfully submitted,

 *Louis A. Gabriele Jr., CFE, CPA*

Louis A Gabriele Jr, CPA, CFE
Insurance Examiner-In-Charge
Rhode Island Insurance Division