

ORGANIZATIONAL EXAMINATION
OF
ATEGRITY SPECIALTY INSURANCE COMPANY
AS OF
JULY 31, 2018

Trinidad Navarro
Commissioner



Delaware Department of Insurance

I, Trinidad Navarro, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON ORGANIZATIONAL EXAMINATION, made as of July 31, 2018 of

ATEGRITY SPECIALTY INSURANCE COMPANY

is a true and correct copy of the document filed with this Department.

Attest By: Reyn Brown

Date: October 1, 2018



In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 3 day of October, 2018.

Trinidad Navarro

Trinidad Navarro
Insurance Commissioner

Trinidad Navarro
Commissioner



Delaware Department of Insurance

REPORT ON ORGANIZATIONAL EXAMINATION
OF
ATEGRITY SPECIALTY INSURANCE COMPANY
AS OF
JULY 31, 2018

The above-captioned report was completed by examiners of the Delaware Department of Insurance.

Consideration has been duly given to the comments, conclusions and recommendations of the examiners regarding the status of the company as reflected in the report.

This report is hereby accepted, adopted and filed as an official record of this Department.

A handwritten signature in blue ink that reads "Trinidad Navarro".

Trinidad Navarro
Insurance Commissioner

Dated this 3 day of October, 2018

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SALUTATION

September 5, 2018

Honorable Trinidad Navarro
Insurance Commissioner
State of Delaware
841 Silver Lake Boulevard
Dover, DE 19904

Dear Commissioner:

In accordance with instructions and pursuant to statutory provisions contained in Exam Authority No. 18.914, an Organizational Examination has been conducted of the

Ategrity Specialty Insurance Company

hereinafter referred to as ASIC or Company, incorporated under the laws of the State of Delaware as a stock, property and casualty, domestic surplus lines insurance company.

The Company's registered agent is Corporation Trust Center with its registered office located at 1209 Orange Street, Wilmington, DE 19801. The Company's administrative office address is located at 15990 N. Greenway Hayden Loop, Suite D160, Scottsdale, AZ 85255.

The report of such examination is respectfully submitted herewith.

SCOPE OF EXAMINATION

This organizational examination was conducted in conjunction with the Company's application for a surplus lines Certificate of Authority in the State of Delaware. The Company's corporate records, records applicable to and attendant with its application, as well as financial data as of July 31, 2018, have been reviewed.

HISTORY

The Company was incorporated on March 16, 2018, under the laws of the State of Delaware and is authorized to issue fifteen thousand (15,000) common shares with \$100 par value per share. The following common stock certificates were issued by the Company to Ategrity Specialty Holdings LLC (Ategrity Holdings), a Delaware holding corporation:

<u>Certificate</u>	<u>Shares</u>	<u>Date</u>	<u>Capital</u>	<u>Surplus</u>	<u>Total</u>
#1	5,000	8/24/2018	\$500,000	\$17,498,000	\$17,998,000

MANAGEMENT AND CONTROL

Board of Directors

In accordance with its Bylaws, adopted March 29, 2018, the business and affairs of the Company shall be managed by a Board of Directors (Board). The number of Directors shall be no less than one nor more than nine and may be changed by resolution of the Board. The Directors are to be elected at the annual meeting of the Company's stockholder and shall hold office until his successor shall be elected and qualified.

The Directors serving as of the examination date were as follows:

Michael Dean Miller, Chairman of the Board
Thomas Alan Hulst
Roger Max Williamson
Stuart Jason Zimmer

Committees of the Board

No committees of the Board have been constituted as of the examination date.

Officers

In accordance with its Bylaws, the Officers of the Company shall be a Chief Executive Officer and other Officers as deemed necessary, who shall be elected by the Board and who shall hold office until their successors are elected and qualified. Any number of offices may be held

by the same person unless the Certificate of Incorporation or the Bylaws otherwise provide. The Officers serving as of the examination date were as follows:

<u>Officer</u>	<u>Office</u>
Michael Dean Miller	Chief Executive Officer, President & Secretary
Jeffrey Harold Marshall	Senior Vice President - Chief Financial Officer
John Edward Goodloe	Senior Vice President - Brokerage Underwriting
Joseph Andrew Griffith	Senior Vice President - Chief Information Officer

The Company completed the National Association of Insurance Commissioners (NAIC) Form 11 - Biographical Affidavit for each of the Directors and Officers noted above.

The Company completed the NAIC Form 12 - Uniform Consent to Service of Process (Power of Attorney), dated and effective April 2, 2018.

Conflict of interest statements were completed by all Officers and Directors. There were no disclosed conflicts of interest at the present time.

HOLDING COMPANY SYSTEM

At formation, the Company became a member of an Insurance Holding Company System. 18 *Del. C.* § 5001(3) states that “control shall be presumed to exist if any person, directly or indirectly, owns, controls, holds with the power to vote, or holds proxies representing 10% or more of the voting securities of any other person.”

The organizational structure as of the examination date with control percentages of the upstream entities’ control of the downstream entity [and domicile in brackets] is presented below:

Economic

	Ownership Control <u>Percent</u>	Voting Control <u>Percent</u>
Stuart Zimmer and a number of affiliated family trusts {1}	100%	100%
Ategrity Specialty Holdings LLC [DE]	100%	100%
Ategrity Specialty Insurance Company [DE]		
Sequentis Specialty Holdings Limited [Bermuda]	100%	100%
Sequentis Reinsurance Company Limited [Bermuda]		

{1} Considered the ultimate controlling entities of the Company. Financial Statement has been provided to the Delaware Department of Insurance (Department).

FIDELITY BOND AND OTHER INSURANCE COVERAGE

The Company is covered by a financial institution bond with an aggregate liability limit of \$1,000,000. Based on the 2018 pro forma information submitted by management, the minimum suggested coverage per the NAIC *Financial Condition Examiners Handbook – Exhibit R* is \$250,000.

AGREEMENTS

As of the examination date, the Company is not a party to any intercompany tax allocation agreement, claim services agreement, management agreement or administrative services agreement.

The Company entered into a custodial agreement with non-affiliate Wells Fargo Bank, N.A. effective August 9, 2018.

The Company entered into an investment management agreement with non-affiliate New England Asset Management, Inc. (NEAM) effective August 14, 2018.

PLAN OF OPERATION

The Company intends to sell the following lines of business through wholesale channels: commercial property, commercial general liability, burglary and theft, boiler and machinery, and inland marine. These product lines will be written on a non-admitted basis in all 50 States. Built

within their strategy will be the use of Insurance Service Office policy forms, terms and conditions, as well as rating models. These products are generally accepted by all of the Company's wholesale distribution sources.

The Company will market its products through licensed wholesale agents/brokers. These agents are licensed by each state of operation and are the marketing arm of the non-admitted carrier. In accordance with state laws, the Company will not advertise to consumers. Some advertising will be done in trade publications that are sent to the agency force both within the admitted and non-admitted markets. The licensed wholesale agents will be responsible for marketing the products to retail agents. Claims will be handles in-house.

REINSURANCE

Upon licensure by the Department and the beginning of premium writings, the Company anticipates entering into an 80% quota share reinsurance agreement with affiliate Sequentis Reinsurance Company Limited (Sequentis) whereby the Company will cede 80% of its net retained premiums and liabilities to Sequentis. For each underwriting year, Sequentis shall allow and pay the Company a ceding fee on policies equal to 38% of the ceded percentage of the net premiums written. Upon licensure, the Company intends to file and obtain approval of this reinsurance agreement through a Form D filing with the Department.

CAPITAL AND SURPLUS REQUIREMENTS

18 *Del. C.* § 511(a) requires \$500,000 as the minimum common capital stock for a stock insurance company authorized to write multiple lines property and casualty insurance. 18 *Del. C.* § 1932(a) requires \$15,000,000 as the minimum policyholder surplus for a domestic surplus lines insurer. The Delaware Domestic/Foreign Insurers Bulletin No. 45, effective October 14, 2011, requires that newly-formed Delaware-domestic surplus lines insurers have \$15,000,000 as

the minimum capital and surplus. Consequently, the minimum required amounts for this examination are as follows:

Common Capital Stock	\$ 500,000
Gross Paid-in and Contributed Surplus	<u>14,500,000</u>
Capital and Surplus as Regards Policyholders	<u>\$15,000,000</u>

FINANCIAL DATA

The financial position of the Company as of July 31, 2018, as determined by this organizational examination, was as follows:

<u>Assets</u>		<u>Note</u>
Cash, Cash Equivalents and Short-term Investments	\$14,118,987	1
Other Invested Assets	1,562,631	2
Current Federal Income Tax Recoverable	367,828	
EDP Equipment and Software (Net)	931,181	
Receivable from Parent, Subsidiary and Affiliates	72,468	3
Aggregate Write-ins for Other Than Invested Assets		
Prepaid Expenses	0	4
Rent Deposit	0	4
Total Admitted Assets	<u>\$17,053,095</u>	

Liabilities, Capital and Surplus

General Expenses Due and Accrued	\$581,782
Total Liabilities	<u>\$581,782</u>
Common Capital Stock	\$500,000
Gross Paid In and Contributed Surplus	17,498,000
Unassigned Funds	<u>(1,526,687)</u>
Capital and Surplus as Regards Policyholders	<u>\$16,471,313</u>
Total Liabilities, Capital and Surplus	<u>\$17,053,095</u>

NOTES TO FINANCIAL STATEMENTS

Note 1 Cash, Cash Equivalents and Short-term Investments \$14,118,987

The reported balance of \$14,118,987 consists of cash in two checking accounts at Bank of America, which was confirmed directly with the financial institution.

Note 2 Other Invested Assets \$1,562,631

The reported balance of \$1,562,631 consists of the Company’s investment participation in the ZP Utility Insurance Fund, L.P., which was founded by Stuart Zimmer, one of the Company’s Board Members.

Note 3 Receivable from Parent, Subsidiaries and Affiliates \$72,468

The reported balance of \$72,468 is receivable from Sequentis, the Company’s intended affiliated reinsurer.

Note 4 Aggregate Write-ins for Other Than Invested Assets \$0

The exam balance of \$0 consists of \$92,327 in pre-paid expenses and \$47,723 in rent deposits, which are non-admitted assets per SSAPs #4, #20, and #29.

RECOMMENDATIONS

There are no recommendations as a result of the examination.

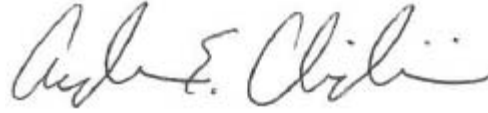
CONCLUSION

Based on the organizational examination conducted as of July 31, 2018, the financial condition of the Company is as follows:

Assets	\$17,053,095
Liabilities	<u>581,782</u>
Capital and Surplus as Regards Policyholders	<u>\$16,471,313</u>

Upon completion of the organizational examination, the Company has complied with the capitalization requirements for the State of Delaware. The examination was conducted by the undersigned.

Respectfully Submitted,

A handwritten signature in cursive script, appearing to read "Andrew E. Chiodini".

Andrew E. Chiodini, CFE
Examiner-In-Charge
Department of Insurance
State of Delaware