

REPORT ON EXAMINATION
OF
ALLIED WORLD SPECIALTY INSURANCE COMPANY
AS OF
DECEMBER 31, 2019

Office of the
Commissioner



Delaware
Department of Insurance

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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 14 day of June, 2021

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April 6, 2021

Honorable Trinidad Navarro
Commissioner of Insurance
Delaware Department of Insurance
1351 West North Street, Suite 101
Dover, Delaware 19904

Dear Commissioner:

In compliance with instructions and pursuant to statutory provisions contained in Examination Authority Number 20.010, dated November 20, 2019, an examination has been made of the affairs, financial condition and management of

ALLIED WORLD SPECIALTY INSURANCE COMPANY

hereinafter referred to as the Company or AWSIC. AWSIC was incorporated under the laws of the State of Delaware as a stock company with its home office located at 251 Little Falls Drive, Wilmington, Delaware 19808. Due to the COVID-19 Pandemic, the examination was conducted offsite. The administrative office of the Company is located at 199 Water Street, New York, New York 10038.

The report of examination thereon is respectfully submitted.

SCOPE OF EXAMINATION

The Delaware Department of Insurance (Department) performed a risk-focused financial examination of the Company. The previous examination of the Company covered the five-year period from January 1, 2010 through December 31, 2014. This examination covers the five-year period from January 1, 2015 through December 31, 2019 and encompasses a general review of transactions during the period, the Company's business

policies and practices, as well as management and relevant corporate matters, with a determination of the financial condition of the company as of December 31, 2019. Transactions subsequent to the examination date were reviewed where deemed necessary.

The examination of the Company was performed as part of the multi-state coordinated examination of the Fairfax Group of regulated United States property and casualty insurance companies (Fairfax U.S. Group) as of December 31, 2019. Delaware is the lead state for the Fairfax U.S. Group examination. The examination was conducted concurrently with that of the Company's U.S. affiliates. The companies in the Fairfax U.S. Group and their state of domicile are summarized as follows by subgroups:

Hudson Subgroup – 100% owned by Odyssey Re Subgroup below:

<u>Company Name</u>	<u>NAIC Number</u>	<u>State of Domicile</u>
Hudson Insurance Co	25054	DE
Hudson Excess Insurance Co	14484	DE
Hudson Specialty Insurance Co	37079	NY

Odyssey Re Subgroup:

<u>Company Name</u>	<u>NAIC Number</u>	<u>State of Domicile</u>
Greystone Insurance Co	10019	CT
Odyssey Reinsurance Co	23680	CT

Crum & Forster Subgroup:

<u>Company Name</u>	<u>NAIC Number</u>	<u>State of Domicile</u>
United States Fire Ins Co	21113	DE
Crum & Forster Specialty Ins Co	44520	DE
North River Insurance Co	21105	NJ
First Mercury Insurance Co	10657	DE
Crum & Foster Ind. Co	31348	DE
Seneca Ins Co Inc.	10936	NY
Seneca Specialty Ins Co.	10729	DE
Crum & Forster Ins Co	42471	NJ
American Underwriters Ins Co	10251	AK
MTAW Insurance Co	16498	DE

Zenith Subgroup:

<u>Company Name</u>	<u>NAIC Number</u>	<u>State of Domicile</u>
Zenith Insurance Co	13269	CA
ZNat Insurance Co	30120	CA

Allied World Subgroup: 1

<u>Company Name</u>	<u>NAIC Number</u>	<u>State of Domicile</u>
Allied World Natl Assur Co	10690	NH
Allied World Assur Co US Inc.	19489	DE
Allied World Surplus Lines Ins Co	24319	AK
Allied World Specialty Insurance Co	16624	DE
Allied World Insurance Company	22730	NH
Vantapro Specialty Insurance Co	44768	AK
Vault Recip. Exchange	16186	FL
Vault E&S Ins Co	16237	AK

Riverstone Subgroup: 2

<u>Company Name</u>	<u>NAIC Number</u>	<u>State of Domicile</u>
Commonwealth Insurance Co of America	10220	DE
TIG Insurance Co	25534	CA

We conducted our examination in accordance with the *National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook* (Handbook) and generally accepted statutory insurance examination standards consistent with the Insurance Code and Regulations of the State of Delaware. The NAIC 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

¹ Fairfax Financial Holdings Limited and Allied World Assurance Company Holdings, Ltd announced in a November 12, 2020 press release, that through their subsidiaries, they entered into an agreement to sell their majority interest in Vault Holdings, Inc., which includes Vault E&S Insurance Company and Vault Reciprocal Exchange. The transaction closed on March 1, 2021.

² TIG Insurance Company sold Commonwealth Insurance Company of America to Brit Insurance USA Holdings Inc., effective April 30, 2018.

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, pursuant to the General Corporation Law of the State of Delaware as required by 18 *Del. C.* § 321, along with general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature, are not included within the examination report but separately communicated to other regulators and/or the Company.

During the course of this examination, consideration was given to work performed by the Company's external accounting firm PricewaterhouseCoopers LLC (PwC). Certain auditor work papers of the 2019 PwC audit of the Company have been incorporated into the work papers of the examiners and have been utilized in determining the scope, areas of emphasis in conducting the examination, and in the area of risk mitigation and substantive testing.

SUMMARY OF SIGNIFICANT FINDINGS

There are no significant findings and no changes were made to the Financial Statements as a result of this Examination.

COMPANY HISTORY

The Company, formerly known as Darwin National Assurance Company, was incorporated on January 14, 1972, under the laws of the state of North Carolina under the name Peninsula Property and Casualty Company, commenced business on January 14, 1972, and subsequently re-domesticated to the state of Maryland. General Electric Mortgage Insurance Services, Inc. held all of the outstanding shares of the Company from its inception until December 30, 1993, when Peninsula Insurance Company (PIC), domiciled in the state of Maryland, acquired the Company. On June 30, 1994, the Company was sold to an affiliate, Security Insurance Company, and subsequently re-domesticated to Delaware on December 15, 1994. The Company was then sold back to PIC, and, on December 22, 1995, the Company was sold to Aegis Holding, Inc. and became known as U.S. Aegis Energy Insurance Company as of February 29, 1996.

On May 1, 2004, the Company was acquired by the Darwin Group. On May 21, 2004, the Company's name changed to Darwin National Assurance Company. On October 20, 2008, Darwin Professional Underwriters (DPU), an intermediate holding company, and its subsidiaries were acquired by Allied World Insurance Company (AWIC). DPU's name was subsequently changed to AW Underwriters, Inc. (AWUI). On October 28, 2014, the Company's name was changed to AWSIC.

On July 6, 2017, Fairfax Financial Holdings Limited (FFHL) (indirectly through 1102952 B.C. Unlimited Liability Company and Fairfax Financial Holdings (Switzerland) GmbH (Fairfax Switzerland)) completed the acquisition of 94.6% of the outstanding shares of the Company's ultimate parent, Allied World AG (AWAG). Contemporaneously, with the acquisition of AWAG, Ontario Municipal Employees Retirement System, a pension plan manager for government employees in the province of Ontario through OCM Goldfish Inc.

(collectively known as OMERS), and other third parties invested in Fairfax Switzerland, thereby acquiring an indirect equity interest in AWAG along with FFHL. The remaining 5.4% of the outstanding shares of AWAG were acquired by Fairfax Switzerland on August 17, 2017, in a merger transaction under Swiss law pursuant to which Allied World Assurance Company Holdings, GmbH (Allied World Switzerland) became the surviving entity to AWAG. The merger resulted in co-investors holding an indirect ownership interest in Allied World Switzerland of 32.6%. The co-investors have dividend right in priority to FFHL, and FFHL has the ability to purchase the shares owned by the co-investors over seven years.

During 2019, each of Fairfax Switzerland and Allied World Switzerland re-domesticated from Switzerland to Bermuda. Shortly after this re-domestication, Fairfax Switzerland and Allied World Switzerland effected a merger under Bermuda law, with Fairfax Switzerland being the surviving entity and then subsequently changing its name to Allied World Assurance Company Holdings, Ltd (AWH Bermuda). AWH Bermuda currently serves as the principal holding company for the Allied World group of companies.

Capitalization

The Restated Certificate of Incorporation provides that the authorized capital stock of the Company shall be 5,000 shares of \$2,000 par value common stock. As of December 31, 2019, 2,600 shares were issued and outstanding, resulting in total capital stock of \$5,200,000. All shares of the Company are owned by AWUI.

Dividends

The Company made one dividend payment over the period covered by this exam period to its sole shareholder, AWUI.

<u>Stock</u>	<u>Type</u>	<u>Amount</u>	<u>Paid Date</u>
Cash	Ordinary	\$12,000,000	2018

MANAGEMENT AND CONTROL

Directors

Pursuant to the General Corporation Laws of the State of Delaware, as implemented by the Company's Certificate of Incorporation and bylaws, all corporate powers and its business property and affairs are managed by, or under the direction, of its Board of Directors (Board).

Directors shall be elected annually by the sole shareholder and the number of directors, who will constitute the entire Board, shall consist of no less than two (2) and no more than fifteen (15) members. The directors shall hold office until the next Annual Shareholders Meeting or until their successors are elected or appointed. The Board, duly elected in accordance with its bylaws and serving at December 31, 2019, is as follows:

<u>Name</u>	<u>Primary Business Affiliation</u>
John Richard Bender	President and Chief Executive Officer AWH Bermuda
Wesley David Dupont	Chief Operating Officer AWH Bermuda
Louis Phillip Iglesias	President Allied World North America

Committees of the Board

The Department has exempted the Company from Audit committee requirements under 18 *Del. Admin. Code* § 30114.1. There are no committees of the Board.

Officers

In accordance with its bylaws, officers serving the Company shall consist of a President, a Secretary, a Treasurer, and may, at the discretion of the Board, include a Chairman and one or more Vice-Chairmen and one or more Vice Presidents (including Executive Vice Presidents and Senior Vice Presidents). The following individuals were elected as officers of the Company and were serving in that capacity at December 31, 2019:

<u>Name</u>	<u>Title</u>
Louis Phillip Iglesias	CEO
Karen Leshowitz Colonna	Secretary, Senior VP and Deputy General Counsel
Robert John Larson	Treasurer and Vice President, Finance
Robert Lane Bowden II	Executive VP, Chief Marketing Officer
James Bernard Paulhus	VP, Finance and Assistant Treasurer
Marlene Faye Mourad	VP, Associate General Counsel, Assistant Secretary

Corporate Records

The recorded minutes of the shareholder and Board were reviewed for the period under examination. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions and events including approval of investment transactions in accordance with 18 *Del. C.* §1304. In addition, the review of Company files indicated that written correspondence was submitted to the Department with regards to the changes in officers and directors during the period under examination in compliance with 18 *Del. C.* §4919.

Insurance Holding Company System

The Company is a member of an Insurance Holding Company system known as FFHL as defined under 18 *Del. C.* §5001 of the Delaware Insurance Code. FFHL is a publicly listed company whose subordinate voting shares trade on the Toronto Stock Exchange under the symbol FFH. As of December 31, 2019, FFHL had consolidated assets of \$70,508

million and shareholders' equity of \$17,907 million. 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 percent or more of the voting securities of any other person.” Pursuant to this presumption, V. Prem Watsa and The Watsa Family Trust, which collectively owned or controlled 10% or more of the voting shares of the Company as of the examination date, are also considered controlling entities of the Company.

An abbreviated organizational chart of FFHL as of December 31, 2019, with domicile in brackets, along with the control percentages of the upstream affiliates' control of the downstream affiliate is presented below:

		Equity Ownership Percentage	Voting Control Percentage	
V. Prem Watsa and the Watsa Family Trust {1}{8}	{2}	6.73 %	42.49%	{3}
All Other Publicly Traded Shares Held {4}	{5}	93.27%	57.51%	{6}
Fairfax Financial Holdings Limited [Canada] {7}		100.00%	100.00%	
FFHL Group Ltd. [Canada]		100.00%	100.00%	
1102952 B.C. Unlimited Liability Company [British Columbia]		100.00%	100.00%	
Allied World Assurance Company Holdings, Ltd* [Bermuda]		70.89%	70.89%	
Allied World Assurance Company Holdings I, Ltd[[Bermuda]		100.00%	100.00%	
Allied World Assurance Holdings (Ireland) Ltd [Bermuda]		100.00%	100.00%	
Allied World Assurance Holdings (U.S) Inc		100.00%	100.00%	
Allied World Insurance Company [NH]		100.00%	100.00%	
Allied World Assurance Company (U.S.) Inc.		100.00%	100.00%	
AW Underwriters Inc. [DE]		100.00%	100.00%	
Allied World Specialty Insurance Company		100.00%	100.00%	

*- OMERS Administration Corporation Owns 100% of OCM Goldfish Inc., which owns 20.4% of Allied World Assurance Company Holdings (Bermuda).

Notes 1 through 8 more fully describe the ownership and voting percentages throughout the holding company.

{1} Through voting and economic ownership control, both directly and indirectly, of the following individual and entities: Mr. V. Prem Watsa, 2771489 Canada Limited, The One Zero Nine Holdco Limited and The Sixty-Two Investment Company Limited.

{2} Calculated as follows:

<u>Description</u>	<u>Shares Outstanding</u>	<u>Shares Owned/Controlled</u>	<u>Percentage of total shares outstanding</u>
Total SVS Shares outstanding	26,082,299		
SVS Shares owned personally and through 1109 HoldCo		258,790	0.9922%
Additional SVS shares under control and direction		2,100	0.0081%
SVS Shares held through Sixty Two HoldCo		50,620	0.1941%
Total SVS shares owned/controlled		311,510	1.1943%
Total MVS Shares Outstanding	<u>1,548,000</u>		
Total MVS + SVS Shares Outstanding	<u>27,630,299</u>		
MVS Shares owned and controlled through Sixty Two Holdco		<u>1,548,000</u>	<u>100%</u>
Total MVS + SVS Shares owned and controlled by Mr. Watsa		<u>1,859,510</u>	<u>6.73%</u>

{3} Calculated as 0.58% through V. Prem Watsa and 41.91% through ownership in the three entities as described above. It should be noted that pursuant to Canadian securities filing requirements, 2100 subordinate voting shares owned by immediate family members of Mr. Watsa are also considered to be under the control and/or direction of Mr. Watsa and are therefore included in the voting control percentages reported herein.

{4} No other individual or entity owns or controls greater than 10% of the voting common shares of FFH as of December 31, 2019.

{5} Calculated as 100.00% - 6.73% {2}.

{6} Calculated as 100.00% - 42.49% {3}.

{7} FFH common shares are publicly traded on the Toronto Stock Exchange in Canadian dollars under the symbol FFH and in US dollars under the symbol FFH.U. As of December 31, 2019, FFH has issued 1,548,000 multiple voting common shares,

26,082,299 subordinate voting common shares, 58,239,178 non-voting preferred Series C thru M. FFH's equity attributable to Shareholders as of December 31, 2019, totals \$14,378.1 million (\$U.S.) which consists of \$13,042.6 million (includes \$3.8 million of multiple voting shares) related to voting common shares (90.71% of the total) and \$1,335.5 million related to non-voting preferred shares (9.29% of the total).
{8} During the second quarter of 2020, Mr. V. Prem Watsa purchased an additional 482,600 subordinate voting common shares through 12002574 Canada Inc., which is wholly owned by him, with the result that the total aggregate voting control increased from 42.49% to 43.61% as at June 30, 2020.

Agreements with Affiliates

The following agreements, approved by the Department, were in effect between the Company and its parent, affiliates, and subsidiaries as of December 31, 2019:

Expense Sharing Agreements

Effective January 1, 2016, the Company entered into individual Master Administrative and Cross Services Agreements with AWAC Services Company, AWAC Services Company (Ireland) Limited and AWAC Services Company (Bermuda), Ltd. (collectively AWAC Services). Under the agreements, AWAC Services provided administrative services including but not limited to investment/asset management, administrative services, claims, actuarial, human resources and internal audit services to the Company. In addition, the Company was permitted to provide cross services and equipment, including furniture, office supplies, phones, software, and computers to AWAC Services. For services provided by AWAC Services to the Company, the Company reimbursed AWAC Services for costs incurred plus 10%, and charges were billed quarterly. For services provided to AWAC Services by the Company, AWAC Services reimbursed the Company for costs incurred plus 10%, and charges were billed quarterly. For equipment provided to AWAC Services, actual costs were billed without a mark-up. These agreements were terminated and replaced with the Master Intercompany Service Agreement effective July 3, 2019, as detailed below.

Effective July 3, 2019, the Company entered into a Master Service Agreement whereby members of AWH Bermuda group of companies, can be a service provider or receive services from another member based on terms defined in the agreement, which are similar to the terms in the prior agreement detailed above. Service recipients reimburse service providers for costs incurred plus 10% for services under this agreement.

The Company incurred net expenses of \$5,645,481 in 2019 related to services provided by affiliates under these agreements, which represents the Company's 25% share of the pooling agreement with four affiliates described in the "Reinsurance" section of this report.

Service Agreement

The Company is a party to a Service Agreement with Allied World Surplus Lines Company (AWSL) whereby the Company provides underwriting, claims, management, and administrative services to AWSL in exchange for a management fee. This agreement was assigned to the Company from AWUI effective December 31, 2007. Under the agreement, the Company produces, underwrites, binds and administers policies; negotiates, binds and executes ceded reinsurance agreements; performs administrative and accounting services and administers and settles claims on behalf of AWSL. In exchange for these services, AWSL pays the Company the lower of 32.0% of gross premiums written on business produced by the Company on behalf of AWSL, or actual expenses incurred by the Company. The Company charged expenses of \$36,898,762 to AWSL in 2019 under this agreement.

Investment Management Agreement

Effective July 27, 2017, the Company entered into an Investment Management Agreement with Hamblin Watsa Investment Counsel Ltd. (Hamblin Watsa), a subsidiary of Fairfax, whereby Hamblin Watsa manages the investment portfolio of the Company and

performs investment administration services for the Company. The Company pays Hamblin Watsa a base fee amount of 0.30% of the market value of the portfolio, subject to various adjustments based upon a performance benchmark of 200+ basis points above the actual annual S&P 500 performance. In 2019, the Company paid Hamblin Watsa \$1,573,121 for investment management services.

Tax Allocation Agreement

Effective June 27, 2008, the Company entered into a Tax Allocation Agreement with other members of the consolidated group, which provides that estimated tax payments are made quarterly as if the Company were filing its own federal income tax return for such taxable year. The method of allocation among affiliates is subject to the written tax sharing agreements and based on separate return calculations with current credit for net losses to the extent the losses provide a benefit in the consolidated tax return. Any separate tax liability owed by the Company is payable to its parent within ten days of the filing date. The Company's parent will pay separate tax return refunds within thirty days of filing, except as otherwise noted.

TERRITORY AND PLAN OF OPERATION

Territory

As of December 31, 2019, the Company has a certificate of authority to write business in Delaware and is licensed to write property and casualty business on an admitted basis in all 50 U.S. States, the District of Columbia and Puerto Rico. The Company also has a Canadian Branch, which is licensed in all provinces and territories in Canada.

For 2019, the Company wrote 41% of its direct business in the following jurisdictions: Texas (11%), New York (11%), Florida (7%), California (7%) and New Jersey (4%). The remaining 59% of direct business was written in the remaining jurisdictions.

Plan of Operation

The Company products were placed through a network of insurance intermediaries, including wholesalers and regional and national retail brokerage firms. In addition to writing direct business the Company also acquires business through the use of program administrators. In 2019, the Company wrote \$402,962,659 in net written premiums. Direct written premiums in 2019 by line of business were as follows:

<u>Lines of Business</u>	<u>Premiums</u>	<u>Percentage of Total</u>
Other liability - Occurrence	\$ 30,197,843	10%
Other liability - Claims -made	112,697,399	37%
Commercial Auto	68,972,844	22%
Other	<u>95,703,763</u>	<u>31%</u>
Total	<u>\$ 307,571,849</u>	<u>100%</u>

REINSURANCE

The Company reported the following distribution of net written premiums for 2019:

Direct written premiums	\$307,571,849
Reinsurance assumed from affiliates	402,952,657
Reinsurance assumed from non-affiliates	<u>1,352,310</u>
Total gross (direct and assumed)	<u>\$711,876,816</u>
Reinsurance ceded to affiliates	209,752,007
Reinsurance ceded to non-affiliates	<u>99,172,150</u>
Total ceded	<u>\$308,924,157</u>
Net written premiums	<u>\$ 402,952,659</u>

The Company retained 56% of its gross business in 2019.

Assumed

As shown above, in addition to the \$402,952,657 assumed premiums from affiliates through intercompany pooling of business, the Company assumed \$1,352,310 in premiums from other unaffiliated insurers.

Ceded

External Ceded

The Company's ceded reinsurance program is managed on a global basis, and the purchase of reinsurance is a centralized function. Reinsurance treaties are generally purchased on an annual basis and are therefore subject to yearly renegotiation. The amount of risk ceded to reinsurers is subject to maximum limits which vary by line of business and by type of coverage. The panel of reinsurers is approved by the Allied Group Risk Security Committee. Third party reinsurance is allocated amongst the Allied Group.

Internal Ceded

Intercompany Pooling Agreement

Effective January 1, 2012, the Company was a party to an amended and restated intercompany pooling agreement to include five of the U.S. Companies, whereby all business after affiliated and unaffiliated reinsurance, is ceded to the Company's direct parent, AWIC. AWIC then retains 45% of the pooled companies' business, with the remainder retroceded to the U.S. Companies, as follows: AWSIC (25%), AWAC (10%), Allied World National Assurance Company (10%), and Allied World Surplus Lines Insurance Company (10%). Under the terms of the agreement, the Company cedes 100% of all direct, assumed and ceded (or net) underwriting assets and liabilities, to AWIC, after third party reinsurance. In turn, AWIC cedes to the Company its participation percentage share of the pooled business. The pooling agreement was approved by the Department during the third quarter of 2012.

Multi-line Quota Share

The Company was a participant in a multi-line quota share agreement with AW Bermuda. Under this agreement, the Company ceded 70% of all direct, assumed and ceded policy liabilities prior to the pooling agreement to its affiliate, Allied World Assurance

Company, Ltd. (AW Bermuda). The affiliated multiline quota share reinsurance agreement with AW Bermuda was terminated as of January 1, 2018. There has been no business ceded to AW Bermuda that is effective January 1, 2018, and subsequent, and any losses that relate to underwriting years 2017 and prior, irrespective of when the claims are reported, will continue to be ceded and recoverable from AW Bermuda.

Group Excess of Loss

Effective January 1, 2019, the Company entered into an excess of loss reinsurance contract with AW Bermuda. Under this contract, AW Bermuda agrees to reinsure the excess liability which may accrue to the Company under its policies derived from the Company's business. The contract effective period is January 1, 2019 through December 31, 2019. Section A of the contract provides for \$50,000,000 excess of \$50,000,000 catastrophe occurrence excess of loss reinsurance. Section B of the contract, a whole account aggregate stop loss cover, provides 21 loss ratio points of coverage in excess of an aggregate retention equal to 84 loss ratio points (Aggregate Retention) for the term of the contract. AW Bermuda shall not provide any reinsurance coverage until the Company has incurred losses in excess of the Aggregate Retention. The premium amount for this contract was \$4,875,000, which represents Company's the 25% share of the pooling agreement. The total premium for the five pooled companies was \$19,500,000.

Effective January 1, 2018, the Company entered into an excess of loss reinsurance contract with AW Bermuda. Under this contract, AW Bermuda agreed to reinsure the excess liability which may accrue to the Company under its policies derived from the Company's business. The contract effective period was January 1, 2018 through December 31, 2018. Section A of the contract provides for \$65,000,000 excess of \$35,000,000 catastrophe occurrence excess of loss reinsurance. Section B of the contract, a whole account aggregate

stop loss cover, provides 21 loss ratio points of coverage in excess of an aggregate retention equal to 84 loss ratio points for the term of the contract. AW Bermuda shall not provide any reinsurance coverage until the Company has incurred losses in excess of the Aggregate Retention. The liability of AW Bermuda to the Company shall not exceed an aggregate limit equal to 21 loss ratio points for the term of this contract. The premium amount for this contract was \$3,995,500, which represents the Company's 25% share of the pooling agreement. The total premium for the five pooled companies was \$15,982,000.

After the acquisition of the Allied Group by the Fairfax Group, a reinsurance facility was established whereby at the outset of each calendar year the Allied Group, including the Company, agree on cession levels (up to a maximum of 10%) of certain contracts for U.S. business to affiliate, Odyssey Reinsurance Company (Odyssey), or to affiliate, CRC Reinsurance Limited (CRC). This facility is referred to as the Fairfax Internal Reinsurance Vehicle or FIRV. The Company is a party to various reinsurance agreements whereby it cedes percentages (less than 10%) to Odyssey and/or CRC, which ultimately feed into the FIRV.

FINANCIAL STATEMENTS

The following financial statements, as reported and filed by the Company with the Department, are reflected in the following:

- Statement of Assets as of December 31, 2019
- Statement of Liabilities and Surplus as of December 31, 2019
- Statement of Income for the year ended December 31, 2019
- Statement of Capital and Surplus Account for the year ended December 31, 2019
- Reconciliation of Capital and Surplus for the Period December 31, 2015, to December 31, 2019

ALLIED WORLD SPECIALTY INSURANCE COMPANY**Statement of Assets
As of December 31, 2019**

	<u>Ledger Assets</u>	<u>Nonadmitted Assets</u>	<u>Net Admitted Assets</u>
Bonds	\$ 221,990,274	\$ -	\$ 221,990,274
Preferred Stocks	4,563,563		4,563,563
Common Stocks	321,031,340		321,031,340
Mortgages: First Liens	10,294,665		10,294,665
Cash, Cash equivalents, Short Term Investments	170,639,708		170,639,708
Other invested assets	90,411,096		90,411,096
Receivable for Securities	9,013	-	9,013
Subtotals, Cash and Invested Assets	<u>\$ 818,939,659</u>	<u>\$ -</u>	<u>\$ 818,939,659</u>
Investment income due and accrued	1,994,279	-	1,994,279
Uncollected premiums	76,190,964	2,747,678	73,443,286
Deferred premiums	35,544,677	-	35,544,677
Amounts recoverable from reinsurers	72,706,282	-	72,706,282
Funds held or deposited with reinsurance companies	5,728		5,728
Current federal and Foreign income tax recoverable	5,410,722		5,410,722
Net deferred tax asset	23,936,300	17,483,100	6,453,200
Electronic data processing equipment and software	636,716	636,716	-
Furniture and Equipment	2,366,578	2,366,578	-
Receivables from parent; subsidiaries and affiliates	39,304,759	-	39,304,759
Aggregate write-ins for other than invested assets	38,160,541	905,379	37,255,162
Total Assets	<u>\$ 1,115,197,205</u>	<u>\$ 24,139,451</u>	<u>\$ 1,091,057,754</u>

ALLIED SPECIALTY INSURANCE COMPANY
Statement of Liabilities and Surplus
As of December 31, 2019

	<u>2019</u>
Losses	\$ 314,669,090
Loss adjustment expenses	3,455,654
Other expenses (excluding taxes; licenses and fees)	116,899,487
Commission payable, contingent commissions, and other similar charges	2,901,669
Other expenses (excluding taxes; licenses and fees)	19,051,674
Taxes, licenses and fees (excluding federal and foreign income taxes)	2,361,808
Current federal and foreign income taxes	
Unearned premiums (after deducting unearned premiums for ceded reinsurance of \$165,473,642 and including warranty reserves of \$0)	212,680,984
Ceded reinsurance premiums payable (net of ceding commissions)	37,939,779
Provision for reinsurance	934,679
Payable to parent; subsidiaries and affiliates	9,546,213
Payable for securities	-
Aggregate write-ins for liabilities	6,613,577
Total liabilities excluding protected cell liabilities	<u>\$ 727,054,614</u>
Total liabilities	<u>\$ 727,054,614</u>
Aggregate write-ins for special surplus funds	-
Common capital stock	3,500,000
Preferred capital stock	-
Gross paid in and contributed surplus	194,048,905
Unassigned funds (surplus)	166,454,235
Surplus as regards policyholders	<u>\$ 364,003,140</u>
Totals of liabilities & surplus	<u><u>\$ 1,091,057,754</u></u>

ALLIED WORLD SPECIALTY INSURANCE COMPANY
Statement of Income
For the Year Ended December 31, 2019

Underwriting Income	2019
Premiums earned	\$ 374,822,702
Deductions	
Losses incurred	203,879,138
Loss adjustment expenses incurred	61,106,538
Other underwriting expenses incurred	<u>103,219,326</u>
Total underwriting deductions	\$ 368,205,002
Net underwriting gain (loss)	<u>\$ 6,617,700</u>
 Investment Income	
Net investment income earned	\$ 15,882,702
Net realized capital gains (losses) less capital gains tax of \$45,300	<u>170,416</u>
Net investment gain (loss)	<u>\$ 16,053,118</u>
 Other Income	
Net gain (loss) from agents' or premium balances charged off	\$ -
Finance and service charges not included in premium	-
Aggregate write-ins for miscellaneous income	<u>(983,090)</u>
Total other income	<u>\$ (983,090)</u>
Net income before dividends to policyholders; after capital gains tax and before all other federal and foreign income taxes	<u>\$ 21,687,728</u>
Dividends to policyholders	<u>-</u>
Net income; after dividends to policyholders; after capital gains tax and before all other federal and foreign income taxes	\$ 21,687,728
Federal and foreign income taxes incurred	<u>1,398,489</u>
Net Income	<u><u>\$ 20,289,239</u></u>

ALLIED WORLD SPECIALTY INSURANCE COMPANY
Capital and Surplus Account
As of December 31, 2019

	<u>2019</u>
Surplus as regards to policyholders; December 31, 2018	\$ 341,512,608
Net income	20,289,239
Change in net unrealized capital gains (losses) less capital gains tax of \$(695,715)	6,087,365
Change in net unrealized foreign exchange capital gain (loss)	5,613,323
Change in net deferred income tax	(3,870,234)
Change in nonadmitted assets	(5,388,091)
Change in provision for reinsurance	(481,088)
Aggregate write-ins for gains and losses in surplus	<u>240,018</u>
Net change in capital and surplus for the year	<u>\$ 22,490,532</u>
Capital and surplus; December 31, 2019	<u><u>\$ 364,003,140</u></u>

ALLIED WORLD SPECIALTY INSURANCE COMPANY
Reconciliation of Capital and Surplus
As of December 31, 2015, to December 31, 2019

	<u>Common Capital Stock</u>	<u>Gross Paid-in and Contributed Surplus</u>	<u>Unassigned Surplus</u>		<u>Total</u>
1/1/2015	3,500,000	183,188,330	210,707,180		397,395,510
12/31/2015		922,788		(2)	922,788
12/31/2015	-	-	7,371,625	(1)	7,371,625
12/31/2016		1,145,407		(2)	1,145,407
12/31/2016	-	-	6,269,779	(1)	6,269,779
12/31/2017		8,658,997		(2)	8,658,997
12/31/2017	-	-	(2,569,269)	(1)	(2,569,269)
12/31/2018		133,383		(2)	133,383
12/31/2018			(12,000,000)	(3)	(12,000,000)
12/31/2018	-	-	(65,815,605)	(1)	(65,815,605)
12/31/2019	-	-	22,490,532	(1)	22,490,532
	<u>\$ 3,500,000</u>	<u>\$ 194,048,905</u>	<u>\$ 166,454,242</u>		<u>\$ 364,003,140</u>

(1) Represents net income, change in unrealized capital gains/(losses), change in net unrealized foreign exchange capital gain, change in net deferred income tax, change in nonadmitted assets, change in provision for reinsurance, aggregate write-ins for gains and losses in surplus.

(2) Contributed Capital.

(3) Ordinary Dividend.

**ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS RESULTING FROM
THE EXAMINATION**

There were no changes made to the Financial Statements as a result of this Examination.

COMMENTS ON FINANCIAL STATEMENT ITEMS

Note 1

<u>Losses</u>	<u>\$314,669,090</u>
<u>Loss Adjustment Expenses</u>	<u>\$116,899,487</u>

The examination liabilities for the aforementioned captioned items are the same as those balances reported by the Company as of December 31, 2019. The examination analysis of Loss and Loss Adjustment Expense reserves was conducted in accordance with Statutory Accounting Principles, including NAIC *Accounting Practices and Procedures Manual*, SSAP No. 55.

SUBSEQUENT EVENTS

COVID-19 Impact

On March 11, 2020, the World Health Organization declared COVID-19 a pandemic, and national, state and local governments have implemented a range of policies and actions to combat it. The extent of the impact of COVID-19 on world economies and the Company will depend on future developments, which are highly uncertain and difficult to predict, including the severity and duration of the pandemic, and the actions taken by government authorities and other third parties to contain or address its impact. Various government officials, including U.S. state insurance commissioners, have taken actions to protect consumers from hardship caused by COVID-19 that, in the aggregate, may adversely impact the Company's results of operations in the near term. While it is likely that certain lines of business may experience increased loss activity due to COVID-19, there are also segments

in which the Company operates that may benefit from improved loss experience due to reduced exposures. Company Management will continue to monitor developments, and their impacts on the Company including its operations, capital position (including the risk-based capital ratio), the fair value of investments, and estimates reported in the financial statements and accompanying notes.

The Company and FFHL do not directly consider a pandemic event in their regular stress testing, the potential credit and market price fluctuation risks arising from COVID-19 crisis are captured in regular stress testing conducted, both at the Fairfax level and subsidiary group level (including the Allied Group) and the performance of Fairfax's subsidiaries investment portfolios since the start of the crisis falls within expectations. With nearly \$10 billion of cash and short-term investments held across its insurance portfolios at year end 2019, FFHL believes it has ample liquidity to withstand a prolonged economic slowdown.

At the date of this report, the extent and severity of the COVID-19 pandemic is not yet fully clarified by the Allied subgroup, but they do not expect a material adverse effect on any specific lines of business or products and the Company was fully operational and was providing services to its policyholders.

The Department has been in communication with the Company regarding the impact of COVID-19 on its business operations and financial position and continues to closely monitor any impact on the Company and will take necessary action if a solvency concern arises.

Capital Contribution from Parent

The Company received a capital contribution from parent AWUI of \$75 million in cash on December 8, 2020.

COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS

There were no recommendations contained in the prior examination report issued by the Department as of December 31, 2014.

SUMMARY OF RECOMMENDATIONS

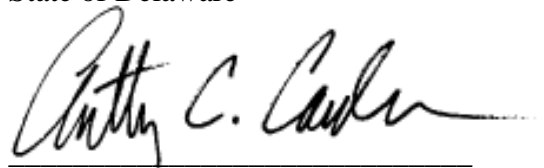
There were no recommendations as a result of this examination.

The assistance and cooperation of the consulting actuarial firm, INS Consultants, Inc., the consulting information systems specialist firm, INS Services, Inc., the Company's outside audit firm, PwC, and the Company's management and staff was appreciated and is acknowledged.

Respectfully submitted,


A handwritten signature in black ink, reading "Hails Taylor", written over a horizontal line.

Hails Taylor, CFE
Examiner In-Charge
State of Delaware

A handwritten signature in black ink, reading "Anthony C. Cardone", written over a horizontal line.

Anthony Cardone, CPA, CFE
Supervising Examiner
State of Delaware

I, Hails Taylor, hereby verify and attest, under penalty of perjury, that the above is a true and correct copy of the examination report and findings submitted to the Delaware Department of Insurance pursuant to examination authority 20.010.



Hails Taylor, CFE