

EXAMINATION REPORT
OF THE
ALTERRA AMERICA INSURANCE COMPANY
AS OF
DECEMBER 31, 2015

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 EXAMINATION, made as of December 31, 2015 of the

ALTERRA AMERICA INSURANCE COMPANY

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

Attest By: Reynold Brown

Date: June 5, 2017



In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 5th day of June, 2017.

Trinidad Navarro
Trinidad Navarro
Insurance Commissioner

Trinidad Navarro
Commissioner



Delaware Department of Insurance

REPORT ON EXAMINATION
OF THE
ALTERRA AMERICA INSURANCE COMPANY
AS OF
DECEMBER 31, 2015

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, reading "Trinidad Navarro", written over a horizontal line.

Trinidad Navarro
Insurance Commissioner

Dated this 5th day of June, 2017

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SALUTATION

March 3, 2017

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

Commissioner:

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority No. 16-008, dated March 30, 2016, an examination has been made of the affairs, financial condition and management of the

ALTERRA AMERICA INSURANCE COMPANY

hereinafter referred to as “Company” or “AAIC”, incorporated under the laws of the State of Delaware as a stock company with its home office located at 1209 Orange Street, Wilmington, Delaware. The examination was conducted at the offices of the Company located at Ten Parkway North, Deerfield, Illinois.

The examination report thereon is respectfully submitted.

SCOPE OF EXAMINATION

In coordination with the Illinois Department of Insurance, we have performed our examination of Alterra America Insurance Company, a multi-state insurer. The last examination covered the period from January 1, 2009 through December 31, 2010. This examination covers the period of January 1, 2011 through December 31, 2015.

We conducted our examination in accordance with the NAIC *Financial Condition Examiners Handbook* (NAIC Handbook). 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 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 (e.g., subjective conclusions, proprietary information, etc.), 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 auditing firm, KPMG LLP. Certain auditor work papers have been incorporated into the work papers of the examination.

SUMMARY OF SIGNIFICANT FINDINGS

There were no significant findings or material adjustments to the Company's financial statements that warranted disclosure in this examination report.

COMPANY HISTORY

The Company was acquired by Alterra Excess & Surplus Insurance Company (AESIC) on June 2, 2008 from The Travelers Indemnity Company (Travelers). The change of control was approved by the Indiana Department of Insurance on May 28, 2008. The Company's name was changed from Commercial Guaranty Casualty Insurance Company to Max America Insurance Company.

On May 12, 2010, Alterra Capital Holdings Limited (formerly Max Capital Group Ltd.) (Alterra Capital) completed its acquisition of Harbor Point Limited, a privately held Bermuda based reinsurance group, through an amalgamation. On December 21, 2010, the Company was contributed as a dividend from AESIC to Alterra USA. Subsequently, the Company acquired all capital stock of AESIC and \$8.4 million of goodwill by means of a capital contribution from Alterra USA. Alterra USA, subsequently on December 21, 2010, contributed all outstanding stock of the Company to Alterra Reinsurance USA Inc. (Alterra Re USA) through a capital contribution, thereby making the Company (subsequently named Alterra America Insurance Company) a direct wholly owned subsidiary of Alterra Re USA.

On May 1, 2013, Markel Corporation (Markel), a Virginia domiciled holding Company, became the ultimate controlling parent and sole shareholder of Alterra Capital Holdings Limited (Alterra Capital), a Bermuda exempt limited liability company and all of its subsidiaries

including AESIC, AAIC and Alterra Reinsurance USA Inc. (subsequently renamed Markel Global Reinsurance Company).

Common Capital Stock

The Articles of Incorporation provide for authorized capital in the amount of \$9,000,000, consisting of 18,000 shares of common stock with a par value of \$500. In addition, the Company has 5,000 shares of preferred stock authorized, par value \$1,000 per share, none of which is issued or outstanding. As of December 31, 2015, there were 18,000 common shares issued and outstanding representing \$9,000,000 in common capital stock. There were no changes made to the common capital stock during the examination period.

All shares outstanding as of December 31, 2015 were owned by the Company's parent, Markel Global Reinsurance Company which is wholly owned by Alterra USA Holdings Limited, which is ultimately owned by Markel Corporation.

Gross Paid In and Contributed Surplus

At December 31, 2015, the Company reported a balance of gross paid in and contributed surplus in the amount of \$171,176,050. The following changes were made to this account during the examination period:

Balance, December 31, 2010	\$ 106,176,050
December 31, 2013	60,000,000
December 31, 2014	<u>5,000,000</u>
Balance, December 31, 2015	<u>\$ 171,176,050</u>

Dividends to Stockholders

During the period under examination, the Company paid no stockholder dividends.

MANAGEMENT AND CONTROL

Shareholder

At December 31, 2015, the sole shareholder of the Company was Markel Global Reinsurance Company, which is ultimately owned by Markel Corporation.

Board of Directors

Pursuant to the General Corporation Laws of the State of Delaware, as implemented by the Company's Articles of Incorporation and bylaws, all corporate powers are exercised by or under the direction of the Board of Directors. The bylaws provide that the Company's business shall be managed by or under the direction of its Board of Directors. On August 16, 2012, the bylaws were amended to designate the Parent Audit Committee as the audit committee of AAIC in accordance with the Delaware insurance statutes and regulations. Article VIII was also amended to provide for indemnification of the Corporation Audit Committee Members to the same extent indemnification and advancement of expenses are provided to the directors and officers of the Company. There were no amendments to the Articles of Incorporation for AAIC during the period under examination.

At December 31, 2015, the members of the Board of Directors were as follows:

<u>Name and Residence</u>	<u>Principal Occupation</u>
Gerard Albanese, Jr. Richmond, Virginia	Executive Vice President and Chief Underwriting Officer Markel Corporation
Francis Michael Crowley Richmond, Virginia	President/Co-Chief Operating Officer Markel Corporation
Britton Lee Glisson Doswell, Virginia	Chief Administrative Officer Markel Corporation

Bradley James Kiscaden
Glen Allen, Virginia

Executive Vice President and Chief Actuarial
Officer
Markel Corporation

Richard Reeves Whitt, III
Glen Allen, Virginia

President/Co-Chief Operating Officer
Markel Corporation

Committees

The Company's bylaws provide for the Board of Directors, by resolution, to designate one or more committees as deemed appropriate. As of December 31, 2015, the Company was represented in the following committees with the Markel Group of insurance companies:

Audit Committee
Risk Management Committee
Compensation Committee
Nominating Committee
Reinsurance Committee

It was noted that all members of the audit committee are independent and five of the members qualify as financial experts.

Officers

In accordance with the bylaws, the principal Officers of the Company shall consist of a President, a Treasurer, a Secretary and such Vice Presidents, Assistant Treasurers, Assistant Secretaries or other officers as may be elected by the Board of Directors or appointed by the President. Key officers elected and serving at December 31, 2015 were:

<u>Officer</u>	<u>Position</u>
Francis Michael Crowley	President
Richard Reeves Whitt, III	Senior Vice President
Anne Galbraith Waleski	Vice President & Treasurer
Deidre Ikenberry Balbuena	Vice President
Nora Newton Crouch	Vice President

Richard Randolph Grinnan	Vice President and Secretary
Robin Russo	Vice President
Bryan William Sanders	Vice President
Robert Glenn Whitt, III	Controller

Corporate Records

The recorded minutes of the sole shareholder and Board of Directors 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 the authorization of investments as required by 18 Del. C. §1304 “Authorization; record of investments”.

Articles of Incorporation and Bylaws

On August 16, 2012, the bylaws were amended to designate the parent Audit Committee as the audit committee of AAIC in accordance with the Delaware insurance statutes and regulations and have the Company Audit Committee members perform the audit committee functions of the Company that would otherwise be performed by the directors of the Company. Also, Section 5.5 was added and Article VIII was amended to provide for indemnification of the Corporation Audit Committee Members to the same extent indemnification and advancement of expenses is provided to the directors and officers of the Company.

The Company did not amend its Articles of Incorporation during the period under examination.

Holding Company System

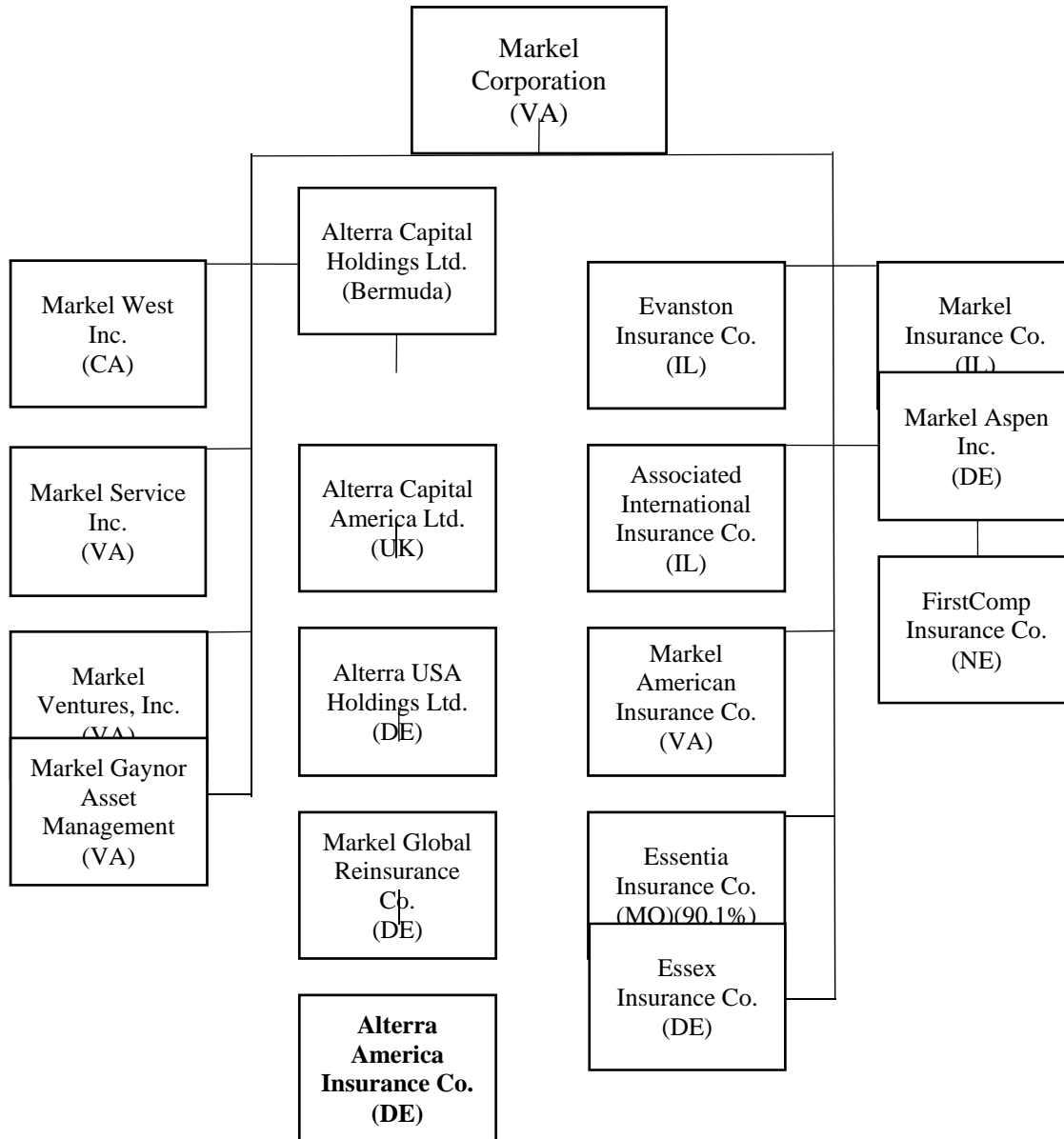
The Company is a member of an insurance holding company system as defined under 18 Del. C. §5001(5) “Insurance holding company system”.

Effective May 1, 2013, Markel Corporation, an insurance holding company domiciled in the Commonwealth of Virginia, became the ultimate controlling parent and sole shareholder of

Alterra America Insurance Company

Alterra Capital Holdings Limited, a Bermuda exempted Limited Liability Company and all of its subsidiaries including Markel Global Reinsurance Company which is the sole shareholder of AAIC.

The following is an abbreviated organizational chart that reflects the identities and interrelationships between the Company and other members of the holding company system as of December 31, 2015:



Affiliated Agreements

The Company is party to agreements with its parents and affiliates as follows:

Intercompany Services Agreement

Effective January 1, 2015, AAIC entered into a Management Agreement with Markel Service, Incorporated (MSI), whereby MSI acts as the exclusive business and underwriting

manager for AAIC. This Agreement replaces and terminates the two prior agreements with Alterra Specialty Services and Alterra Insurance USA Inc.

Binding Authority Agreement

Effective January 1, 2015, AAIC entered into a Binding Authority Agreement with Markel West, Inc. (MW) whereby MW was granted certain underwriting authority with respect to the business of AAIC.

Investment Management Services Agreement

Effective May 1, 2013, AAIC entered into an Investment Advisory Agreement with Markel-Gayner Asset Management Corporation (Markel-Gayner). Markel-Gayner provides investment advisory services to AAIC with respect to its debt and equity investment portfolio. As compensation for its services, Markel-Gayner receives an annual fee equal to one percent of the equity portfolio's market value, payable in quarterly installments. Effective January 1, 2015, AAIC and Markel-Gayner entered into an Amendment to the Investment Advisory Agreement to allow a 20 basis point annual fee on the non-equity portfolio.

Cash Management

Effective May 1, 2013, AAIC entered into a Service Agreement with Markel Services, Inc. (MSI). The agreement provides cash management services including investment, banking account management and administration services to AAIC. As compensation for its services, MSI shall receive a fee equal to its expenses related to these services.

Allocation Agreement

Effective May 1, 2013, AAIC entered into the First Amended and Restated Allocation Agreement to which Markel and its other insurance company subsidiaries are parties, providing for the ongoing apportionment of premium, retention and recovery for policies ceded to joint

reinsurance programs providing reinsurance cover to the Markel insurer affiliates. The purpose of this agreement is to comply with the requirements under SSAP No. 62 that allocation agreements for multiple cedent reinsurance agreements be in writing.

Tax Allocation Agreement

Effective January 1, 2013, AAIC became a party to the Tax Allocation Agreement among Markel and its affiliates which is a standard form tax allocation agreement that sets forth the basis on which those Markel entities joining in Markel's annual consolidated federal income tax returns are to share in the tax liabilities, losses, deductions, tax credits and other tax attributes associated with Markel's consolidated tax returns. The general rule applicable under the agreement is that each entity's share of the consolidated federal income tax liability of the affiliated group is to be equal to the federal income tax liability it would incur had it filed a separate tax return.

TERRITORY AND PLAN OF OPERATION

The Company is a multiple line insurance carrier that writes commercial property and casualty products on an admitted basis in fifty U.S. States and the District of Columbia.

AAIC writes predominantly other liability claims-made, inland marine, other liability – occurrence, and commercial multiple peril products. The Company's business is distributed through large retail agents and wholesale brokers. The Company has a Program Administrator Agreement with Ullico Casualty Group, Inc. and Ullico Labor Captive, IC (collectively referred to as Ullico), whereby Ullico acts as a non-affiliated Managing General Agent (MGA) for the Company's union liability and fiduciary liability business.

Direct premiums written as of December 31, 2015 were as follows:

<u>State</u>	<u>Premium</u>	<u>State</u>	<u>Premium</u>
Alabama	\$ 2,884,859	Nebraska	1,262,535
Alaska	815,128	Nevada	1,491,213
Arizona	2,513,122	New Hampshire	361,788
Arkansas	907,514	New Jersey	9,516,567
California	18,337,270	New Mexico	280,150
Colorado	2,179,740	New York	40,279,994
Connecticut	675,515	North Carolina	3,101,758
Delaware	486,385	North Dakota	504,413
District of Columbia	2,874,499	Ohio	6,464,512
Florida	19,212,137	Oklahoma	2,536,979
Georgia	4,965,389	Oregon	2,556,504
Hawaii	7,602,445	Pennsylvania	5,179,668
Idaho	523,302	Rhode Island	445,337
Illinois	11,146,184	South Carolina	1,279,155
Indiana	2,271,976	South Dakota	134,134
Iowa	1,098,230	Tennessee	3,974,882
Kansas	1,288,302	Texas	26,597,736
Kentucky	791,633	Utah	866,690
Louisiana	7,206,511	Vermont	149,706
Maine	404,304	Virginia	5,318,486
Maryland	4,110,498	Washington	2,644,584
Massachusetts	4,690,057	West Virginia	299,037
Michigan	3,997,246	Wisconsin	2,842,688
Minnesota	2,747,497	Wyoming	499,263
Mississippi	2,441,478	Guam	-
Missouri	2,091,967	Puerto Rico	-
Montana	98,282	U.S. Virgin Islands	-
		TOTAL	\$ 226,949,252

The Company's total direct written premium by lines of business consists of the following:

<u>Line of Business</u>	<u>Amount</u>
Fire	\$ (9,521)
Allied lines	(29,318)
Commercial multiple peril	32,365,135
Ocean marine	13,895,969
Inland marine	54,098,171
Other liability - occurrence	44,563,098
Other liability - claims-made	82,065,717
	<u>\$ 226,949,252</u>

The Company ceded and assumed business as follows:

Direct business	\$ 226,949,252
Reinsurance assumed from affiliates	15,612,239
Reinsurance assumed from non affiliates	70,403
Ceded to affiliates	(53,421,699)
Ceded to non affiliates	(85,642,075)
Net	<u>\$ 103,568,120</u>

REINSURANCE

The largest net aggregate amount insured in any one risk excluding Worker's Compensation at December 31, 2015 was \$12,500,000 for the professional liability line of business. The following reinsurance agreements were in-force at December 31, 2015.

Assumed Reinsurance – Affiliated Companies

For the year ended December 31, 2015, the Company assumed \$15,612,239 from Markel American Insurance Company for the following contract which is a fronting arrangement for business written for Ullico Organized Labor Protection Group:

Type of Agreement	Business Covered	Ceding Company	Liability Assumed
Ullico 100% Quota Share	Policies issued to the Ullico Organized Labor Protection Group classified as Union Liability, Fiduciary Liability, Governmental Liability, & Excess Fiduciary Liability	Markel American Insurance Company	100% Quota Share

Assumed Reinsurance – Unaffiliated Companies

For the year ended December 31, 2015, the Company assumed \$70,403 in unaffiliated gross premiums, which represented approximately .44% of total assumed premiums.

Ceded Reinsurance – Affiliated Companies

The Company reported \$53,421,699 of premiums ceded to Evanston Insurance Company at year end December 31, 2015. These premiums related to a Quota Share Agreement with Alterra Excess and Surplus Insurance Company which was commuted on October 1, 2015. Alterra Excess and Surplus Insurance Company was merged into Evanston Insurance Company on December 31, 2015.

Ceded Reinsurance – Unaffiliated Companies

Combined Casualty Quota Share Agreements

Business Covered: Umbrella Liability, Excess Transportation, Excess Liability, Environmental Liability, Professional Liability (but only as respects Specified Medical, Architects and Engineers, Agents and Brokers, Lawyers, Accountants Professional Liability, Miscellaneous Errors and Omissions, Information Technology, and Data Breach sub-segments), Products Liability, Specialty Primary Liability, Management Liability, Specialty Umbrella and Specialty Excess.

Alterra America Insurance Company

Type of Agreement	Policy Limits	Company Retention	Reinsurers' Limits
(All Policies)	\$-0- to \$3,000,000	100%	None
(Specialty Excess & Specialty Umbrella)	\$3,000,001 to \$5,000,000	61.30% Quota Share	38.70% Quota Share
(All Other)	\$3,000,001 to \$5,000,000	67.75% Quota Share	32.25% Quota Share
(Specialty Excess & Specialty Umbrella)	\$5,000,001 to \$10,000,000	48.40% Quota Share	51.60% Quota Share
(All Other)	\$5,000,001 to \$10,000,000	57% Quota Share	43% Quota Share
(Specialty Excess & Specialty Umbrella)	\$10,000,001 to \$15,000,000	36.962% Quota Share	63.038% Quota Share
(All Other)	\$10,000,001 to \$15,000,000	42.638% Quota Share	57.362% Quota Share
Umbrella and Excess liability, Environmental, Medical Professional Liability	\$15,000,001 to \$20,000,000	35.5% Quota Share	64.5% Quota Share
Umbrella and Excess liability, Environmental, Medical Professional Liability	\$20,000,001 to \$25,000,000	31.20% Quota Share	68.80% Quota Share

Global Professional Liability Agreements
Global Insurance Inland Marine Agreements
Global Insurance Ocean Marine Agreements

Type of Agreement	Business Covered	Company Retention	Reinsurers' Limits
Professional Liability	D&O, E&O, A&E Management Liability, Employment Practices Max Policy Limits- \$25M	50% Quota Share	50% Quota Share
Excess Liability Quota Share Agreements	Policies written by the Global Insurance GL Excess Liability Div. classified as Excess Liability with max limits of \$25M for policies attaching below \$5M	38% Quota Share	62% Quota Share
June 1, 2015 to June 1, 2016: 50% placed	Business classified as Umbrella and First Excess Liability with max limits of \$5M for policies attaching below \$1M	50% Quota Share	50% Quota Share
Inland Marine 20% Quota Share	Policies written by the Global Insurance Marine Division & classified as Inland Marine: Maximum policy limits \$10M	80% Quota Share	20% Quota Share
Inland Marine Excess of Loss per occurrence	Policies written by the Global Insurance Marine Division and classified as Inland Marine	\$3M per occurrence with \$2M annual aggregate deductible	\$62M excess \$3M each and every occurrence

AON Marine Excess of Loss	Business written by the Global Insurance Marine Division and classified as Ocean Marine and Losses arising from The Water Quality Insurance Syndicate	\$2M per loss occurrence	\$18M excess of \$2M per loss occurrence
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Ullico Labor Captive Quota Share Agreement

Ullico Labor Captive Quota Share Agreement	Policies issued by Ullico Casualty Group, Inc. on behalf of AAIC to Ullico Labor Protection Group and its members relating to Union Liability, Fiduciary, Governmental and Excess Fiduciary Liability: Max. limits on Union Liab. - \$5M	35% retention on the first \$2M of coverage for policies effective 1/1/15 and subsequent, 100% for limits excess \$2M; Excess Fidelity Liability ranges from 25% for policies with limits of \$3M to 81% for policies with limits of \$15M	65% of the first \$2M of coverage for policies effective 1/1/15 and subsequent: Excess Fidelity Liability ranges from 75% for policies with limits of \$3M to 19% for policies with limits of \$15M
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FINANCIAL STATEMENTS

The following statements show the assets, liabilities, surplus and other funds of the Company, as determined by this examination, as of December 31, 2015:

Statement of Assets and Liabilities
Statement of Income
Reconciliation of Capital and Surplus

Statement of Assets and Liabilities
December 31, 2015

	<u>Assets</u>	Nonadmitted <u>Assets</u>	Net Admitted <u>Assets</u>
Bonds	\$186,081,351	\$0	\$186,081,351
Cash and Short-Term	52,298,417	0	52,298,417
Investment Income Due and Accrued	1,830,555	0	1,830,555
Uncollected Premiums and Agents' Balances in Course of Collection	15,087,517	1,545,132	13,542,385
Deferred Premiums	2,364,700	0	2,364,700
Amounts Recoverable from Reinsurers	3,599,049	0	3,599,049
Current Federal and Foreign Income Tax	2,847,051	0	2,847,051
Receivables form parent, subsidiaries and affiliates	190,574,000	0	190,574,000
Aggregate Write-ins for Other Than Invested Assets	<u>1,628,737</u>	<u>0</u>	<u>1,628,737</u>
Total Assets	<u>\$456,311,377</u>	<u>\$1,545,132</u>	<u>\$454,766,245</u>

Alterra America Insurance Company

Losses	\$201,592,485
Loss adjustment expenses	11,192,468
Commissions payable	249,910
Taxes, licenses and fees	4,595,650
Unearned premiums	63,450,771
Ceded reinsurance premiums payable	14,855,993
Provision for reinsurance	<u>1,629,956</u>
Total liabilities	\$297,567,234
Common capital stock	9,000,000
Gross paid in and contributed surplus	171,176,050
Unassigned funds	<u>(22,977,039)</u>
Surplus as regards policyholders	\$157,199,011
Total liabilities, surplus and other funds	<u>\$454,766,245</u>

Statement of Income
December 31, 2015

UNDERWRITING INCOME

Premiums earned	\$	50,613,384
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DEDUCTIONS

Losses incurred	\$	28,318,848
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Loss adjustment expenses incurred		8,556,850
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Other underwriting expenses incurred		42,193,635
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Total Underwriting Deductions	\$	79,069,333
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Net Underwriting Gain or (Loss)	\$	(28,455,949)
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INVESTMENT INCOME

Net investment income earned	\$	301,187
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Net realized capital gains (losses) less capital gains tax		15,678,436
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Net Investment Gain or (Loss)	\$	15,979,623
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OTHER INCOME

Net income after dividends to policyholders and before federal income taxes	\$	(12,476,326)
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Federal and foreign income taxes incurred		(3,016,757)
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Net Income (Loss)	\$	(9,459,569)
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Reconciliation of Capital and Surplus
December 31, 2011 to December 31, 2015

Capital and Surplus, December 31, 2010	\$	<u>111,770,510</u>
Net loss	\$	(21,999,939)
Change in net unrealized capital gains (losses)		(4,894,248)
Change in net deferred income tax		(1,965,896)
Change in non-admitted assets and related items		8,993,552
Change in provision for reinsurance		(1,629,956)
Change in accounting principles		
Surplus paid in		65,000,000
Aggregate write-ins		1,924,987
		<hr/>
Capital and Surplus, December 31, 2015	\$	<u>157,199,011</u>

SUBSEQUENT EVENTS

There were no significant subsequent events that warranted disclosure in this examination report.

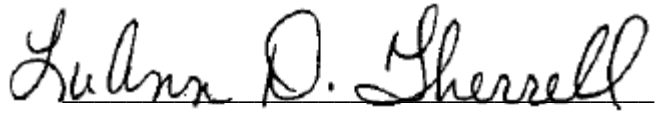
SUMMARY OF RECOMMENDATIONS

There are no recommendations that warrant disclosure in the report.

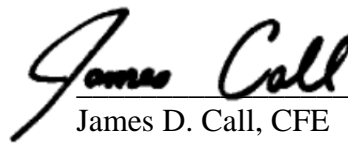
CONCLUSION

The assistance and cooperation of the Company's outside audit firm, KPMG LLP and the Company's management and staff were appreciated and are acknowledged.

Respectfully submitted,



Lu Ann D. Therrell, CFE
Examiner In-Charge
Delaware Department of Insurance



James D. Call, CFE
Supervisor In-Charge
Delaware Department of Insurance