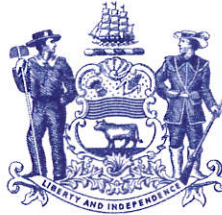


**EXAMINATION REPORT**  
**OF**  
**XL SPECIALTY INSURANCE COMPANY**  
**AS OF**  
**DECEMBER 31, 2015**

Trinidad Navarro  
Commissioner



Delaware Department of Insurance

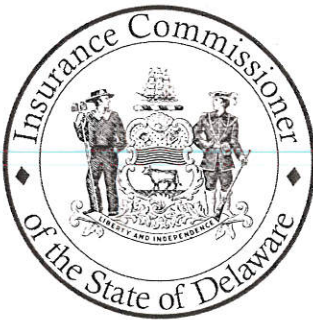
I, Trinidad Navarro, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of December 31, 2015 of the

**XL SPECIALTY INSURANCE COMPANY**

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

Attest By: Rufus Brown

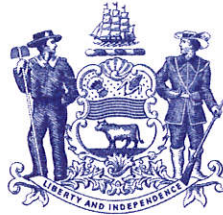
Date: May 12, 2017



In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 12<sup>th</sup> day of May, 2017.

Trinidad Navarro  
Trinidad Navarro  
Insurance Commissioner

Trinidad Navarro  
Commissioner




Delaware Department of Insurance

REPORT ON EXAMINATION  
OF THE  
XL SPECIALTY 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.

  
\_\_\_\_\_  
Trinidad Navarro  
Insurance Commissioner

Dated this 12<sup>th</sup> day of May, 2017

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**SALUTATION**

April 26, 2017

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

Dear Commissioner:

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority No. 16.017, dated May 31, 2016, an examination has been made of the affairs, financial condition and management of

**XL SPECIALTY INSURANCE COMPANY**

hereinafter referred to as the “Company” or “XLS” and 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 administrative office of the Company located at Two Harbor Point, 100 Washington Boulevard, Stamford, CT 06902. 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 last examination was conducted as of December 31, 2010, by the Department. This examination covered the period of January 1, 2011, through December 31, 2015, 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 at December 31, 2015. 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 X.L. America group of companies as of December 31, 2015. The New York Department of Financial Services (DFS) was the lead state. The examination was conducted concurrently with that of its Delaware domiciled subsidiaries, XL Insurance America, Inc. (XLIA), XL Select Insurance Company (Select), Greenwich Insurance Company (GIC), and Indian Harbor Insurance Company (IHIC). To the fullest extent, the efforts, resources, project materials and findings were coordinated and made available to all examination participants.

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 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, 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, LLP, (PwC). Certain auditor work papers of their 2015 audit 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 were no significant findings or material changes in financial statements as a result of this examination.

### **COMPANY HISTORY**

The Company was originally incorporated under the laws of New Mexico as the International Cargo and Surety Insurance Company on November 14, 1979. The Company re-domesticated to the State of Illinois in 1989 and changed its name to Intercargo Insurance

Company. On November 23, 1999, the Company changed its name to XL Specialty Insurance Company (XL Specialty). On August 16, 2002, the Company re-domiciled from the State of Illinois to the State of Delaware. On June 30, 2003, the holding company of X.L. America, Inc., a Delaware Corporation, was restructured. XL Reinsurance America Inc. (XLRA) contributed all of the issued and outstanding shares of Indian Harbor Insurance Company (Indian Harbor), then a North Dakota domiciled insurer (now a Delaware domiciled insurer), to XL Specialty. There have been no changes during the current examination period.

#### Capitalization

The Company's Certificate of Incorporation authorizes the issue of 500,000 shares of common stock with a \$15.00 par value. As of December 31, 2015, the Company had 387,500 common stock shares issued and outstanding totaling \$5,812,500. As noted above, all outstanding common stock shares of the Company are owned by XLRA. As of December 31, 2015, the Company reported gross paid in and contributed surplus of \$127,724,270.

#### Dividends

Dividends approved by the Department and paid to the sole stockholder during examination period were as follows:

<u>Date Declared</u>	<u>Date Paid</u>	<u>Dividend Paid</u>
April 25, 2011	May 2, 2011	\$ 17,000,000*
March 20, 2013	March 27, 2013	\$ 16,866,761
April 9, 2014	April 14, 2014	\$ 22,100,000
March 25, 2015	April 15, 2015	\$ 7,190,000

(\*) - In 2011 the Company declared a \$17 million dividend, of that dividend, \$4,411,000 was used to reduce Paid-in Capital (return of capital), and the remaining \$12,589,000 was a cash dividend paid May 2, 2011.



No dividends were declared or paid in 2012.

## **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, the property and affairs of the Company must be managed by or under the direction of its Board of Directors. The Company's bylaws require its Board of Directors consist of not less than one or more than twenty-one members, except that in the absence of any such delegation, the number shall be six.

Each Director is elected annually by the stockholder and holds office until the next annual election and until their successors are elected and qualify except as removed for cause and the successor elected by a special meeting of the stockholder. Directors duly elected and serving as of December 31, 2015, were as follows:

<u>Name</u>	<u>Business Affiliation</u>
Joseph Anthony Tocco	President and Chief Executive Officer
Donna Marie Nadeau	Executive Vice President
Robert Michael Shine	Executive Vice President
David Douglas Brooks	Senior Vice President
James Michael DiVirgilio	Senior Vice President
James Michael Norris	Senior Vice President
Todd David Zimmerman	Senior Vice President

### Officers

Officers were elected in accordance with the bylaws during the period under examination. The bylaws require election of a President, a Secretary and a Treasurer, and may, at the discretion of the Board of Directors, include one or more Executive Vice Presidents and a Chief Executive Officer (CEO) (collectively the Senior Officers). The Senior Officers shall be

elected by the Board of Directors. Additional other officers (Subordinate Officers) may be elected by the Board of Directors or appointed by the CEO. Any number of offices may be held by the same person. The primary officers serving as of December 31, 2015, were as follows:

<u>Name</u>	<u>Title</u>
Joseph Anthony Tocco	President and Chief Executive Officer
Andrew Robert Will	Vice President and Controller
Gabriel George Carino III	Vice President and Treasurer
Toni Ann Perkins	Vice President and Secretary

#### Corporate Records

The recorded minutes of the shareholder and Board of Directors were reviewed for the period under examination. The recorded minutes of the Board of Directors 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, review of Company files indicated that written notification 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 XL Group plc., (XL Group Ireland) as defined under 18 Del. C. §5001 of the Delaware Insurance Code. The Company is a wholly-owned subsidiary of XL Reinsurance America Inc., (XLRA) which is a wholly-owned subsidiary of X.L. America, Inc., whose ultimate parent is XL Group Ireland.

XL Group Ireland, through its subsidiaries, is a global insurance and reinsurance company providing property, casualty and specialty products to industrial, commercial and



XL Insurance Company of New York, Inc. (NY)  
XL Group Investments LLC (DE)  
XL Group Investments Ltd  
**XL Specialty Insurance Company (DE)**  
Indian Harbor Insurance Company (DE)

\* Redomesticated to Bermuda in 2016. Named changed to XL Group Ltd.

\*\* X.L. America, Inc. – General Partner  
Garrison Investments Inc. – Limited Partner

### **AGREEMENTS WITH AFFILIATES**

The Company is party to several inter-company agreements and transactions, which were disclosed in the Form B filings with the Delaware Insurance Department.

#### **Expense Sharing Agreement**

The Delaware XL Pool Members (GIC, IHIC, XLIA, Select, Specialty) entered into an expense sharing agreement effective July 1, 2001, and most recently amended May 1, 2015, with X.L. America and X.L. Global Services, Inc., and certain affiliated companies. The agreement calls for X.L. Global Services, Inc. to provide information and technology services, planning, expense management and budget support, project management and application development support, reinsurance services, actuarial services, human resource services and other services. The services are charged on a cost basis. A report covering all the items and incurred charges and/or credits is furnished quarterly with the final payment being remitted within thirty days upon receipt of the quarterly report.

#### **Tax Sharing and Payment Agreement**

Effective September 1, 2001, and most recently amended May 1, 2015, X.L. America maintains a tax sharing agreement with its subsidiaries (including the Company), whereby the Members of the group agree to pay an amount equal to the federal income tax liability which such Member would have incurred if such Member had filed a separate federal income tax

return. For each estimated tax period of any year, the estimated federal income tax liability of each Member shall be determined and shall be paid within 10 days of receipt of notice. The final amount required to be paid for any taxable year shall be paid on or before the date on which the consolidated return of the group is required to be filed without regard to any extension of time to file.

#### Investment Management Agreement

Effective July 1, 2004, and amended thereafter, the Company appointed XL Investment Management Limited (XLIML), a Bermuda Company, now known as XL Group Investment Ltd (XLGIL), to provide investment management, financial advisory and administrative services as required. XLGIL shall act in accordance with investment laws in Delaware and in accordance to the overall investment policy established by the Company under the direction of the Board. XLGIL shall have the authority to negotiate, contract and terminate investment fund managers for each portfolio, in accordance with the overall investment policy guidelines. Fees for this service are .06% (or 6 basis points) of total assets under management.

#### Internal Allocation Agreement

Effective January 1, 2010, XLRA as Pool Leader, on behalf of the Pool Members, XL Insurance Company Limited, XL Insurance Switzerland Ltd., XL Re Ltd., XL Insurance (Bermuda) Ltd., XL London Market Ltd. on behalf of the Underwriting Members of Lloyds Syndicates Nos. 588, 861, 990, and 1209, XL Re Latin America Ltd., XL Insurance Mexico, XL Resseguros Brazil, XL Re Europe Limited, collectively known as the Allocating Companies, agreed to an internal reinsurance allocation. The allocating companies intend to purchase on behalf of themselves and their insurer affiliates and subsidiaries, various forms of reinsurance and retrocessional coverage. This agreement shall allocate the respective reinsurance premium

costs and reinsurance contract recoveries. The shared reinsurance and retrocessional contracts will be allocated in an equitable manner reflecting the relative exposures of each of the Allocating Companies.

## **TERRITORY AND PLAN OF OPERATION**

### **Territory**

As of December 31, 2015, the Company was licensed to transact the business of insurance in all 50 states, including the District of Columbia, Guam, Puerto Rico, U.S. Virgin Islands, and Northern Mariana Islands. The principal office facilities of the Company are located in Stamford, Connecticut.

### **Plan of Operation**

At December 31, 2015, approximately 48% of the Company's direct premiums written were produced in six states.

The XL Catlin Group operates in the insurance and reinsurance markets. Effective January 1, 2017, the Property and Casualty Operating Model includes three Business Groups in the Insurance segment:

**Global Lines:** Includes the majority of business lines with products which are available globally, including Specialty and energy businesses.

**International:** Includes Property, Casualty and Professional/ Financial Lines businesses operating in markets outside of North America.

**North America:** Includes the Property, Casualty and Professional businesses.

The Company operates in the North America business group. The Company's top three lines of direct premiums as of December 31, 2015 were: Other liability - occurrence, Other

liability - claims made, and Ocean marine. These three lines account for approximately 75% of direct premiums written by the Company in 2015.

The Company distributes its insurance products and services through brokers and agents, appointed and licensed as required by the various jurisdictions in which it operates. The Company accepts business produced by major national brokerage firms, as well as regional and independent producers.

The Company has agreements with unaffiliated managing general agents (MGAs) to produce business on its behalf. Direct premiums by MGAs in 2015 which exceeded 5% of the Company's policyholder surplus were produced by the following MGA:

	<u>Total Direct Premium Written</u>
Arthur J. Gallagher (AJG)	\$ 9,087,852

AJG is a MGA as defined in 18 Del. C. §1802(3) "Managing general agent" and was properly disclosed in the 2015 annual statement Notes to the Financial Statements.

### REINSURANCE

The Company reported the following distribution of premiums written for the years ended December 31, 2015, and the prior examination date of December 31, 2010:

	<u>2015</u>	<u>% GPW</u>	<u>2010</u>	<u>% GPW</u>
Direct business	\$ 1,391,406,236	92.9%	\$ 1,097,341,854	93.4%
Reinsurance assumed from affiliates	79,628,110	5.3%	64,696,736	5.5%
Reinsurance assumed from non-affiliates	26,993,166	1.8%	12,427,142	1.1%
Gross premiums written	<u>\$ 1,498,027,512</u>	<u>100%</u>	<u>\$ 1,174,465,732</u>	<u>100%</u>
Reinsurance ceded to affiliates	\$ 1,418,399,402	94.7%	\$ 1,109,768,996	94.5%
Reinsurance ceded to non-affiliates	-	0.0%	-	0.0%
Total ceded	<u>\$ 1,418,399,402</u>	<u>94.7%</u>	<u>\$ 1,109,768,996</u>	<u>94.5%</u>
Net premiums written	<u>\$ 79,628,110</u>	<u>5.3%</u>	<u>\$ 64,696,736</u>	<u>5.5%</u>

Affiliated Reinsurance

The Company is a participant of the XL America Group Reinsurance Pooling Agreement most recently amended December 1, 2013 “Fifth and Amended Restated Inter-Company Reinsurance Pooling Agreement”.

The pool percentages for the Company and its insurance pool Members (XL Pool) are as follows:

<u>NAIC #</u>	<u>Company</u>	<u>Pool Percentage as of December 31, 2015</u>
20583	XL Reinsurance America Inc. (NY)	65%
22322	Greenwich Insurance Company (DE)	12%
24554	XL Insurance America, Inc. (DE)	10%
19607	XL Select Insurance Company (DE)	2%
40193	XL Insurance Company of New York, Inc. (NY)	3%
37885	XL Specialty Insurance Company (DE)	6%
36940	Indian Harbor Insurance Company (DE)	2%

Under the terms of the Pooling Agreement, 100% of all the member’s gross premiums, losses, insurance expenses and related underwriting activity of the Pool Members are ceded to the Pool Leader, XLRA. After placement of specific unaffiliated reinsurance, the Pool Leader then will reinsure 50% of the remaining business under the Quota Share Reinsurance Agreements (QS Agreement) with an affiliated off-shore reinsurance company, XL Insurance (Bermuda) Limited (XLIB), which is a subsidiary of XL Group, the ultimate parent of the Company.

All ceded reinsurance balances related to external reinsurance contracts are recorded in the statutory financial statements of XLRA and all reinsurers which are parties to such contracts are included in XLRA’s Schedule F. Any Schedule F penalty determined within XLRA’s Schedule F is shared by the Pool Members in accordance with their Pooling Agreement participation percentages.



For 2015, the Company ceded approximately 100% of its direct premium written (\$1,391.4 million) and 100% of its business assumed from non-affiliates (\$27 million) and losses to its upstream parent, XL Reinsurance America Inc., pursuant to the terms of the affiliated reinsurance agreement, while assuming approximately \$79.6 million from affiliates (100% of its assumed premium).

As of December 31, 2015, the Company reported total gross reinsurance recoverables of approximately \$3,674 million. Gross reinsurance recoverables consisted of \$0 recoverables for known paid loss and paid LAE and approximately \$952.5 million for known case loss and known case LAE reserves. The Company also reported reinsurance recoverables of approximately \$2,098 million pertaining to IBNR loss and LAE reserves. The remaining \$623.4 million in gross reinsurance recoverables pertained to unearned premiums and contingent commissions. The Company reported held collateral in the amount of approximately \$64.4 million.

#### Non-Affiliate Reinsurance

The X.L. America Group Pool leader, XLRA, places all non-affiliate ceded reinsurance for the benefit of itself and the Pool members.

The Company's ceded reinsurance program for its property business consists of excess of loss and facultative coverage on both per risk and event basis. The Core Property Risk and Catastrophe Program (losses occurring basis) includes coverage on worldwide ("WW") business, which excludes the US ("excluding US"), as well as coverage which includes the US.

**Specific Insurance segment coverage is detailed below:**

<u>Type of Treaty</u>	<u>Cession</u>
Property Per Risk Excess of Loss, 5 Layers	\$970,000,000 excess of \$30,000,000. 1 <sup>st</sup> Layer (90% placed) 2 <sup>nd</sup> Layer (95% placed)
Property – US Catastrophe, 3 Layers	\$550,000,000 excess of \$100,000,000 1 <sup>st</sup> Layer (90% placed) 2 <sup>nd</sup> Layer (95% placed)
Property International Catastrophe, 2 Layers	\$125,000,000 excess of \$75,000,000
Quarterly Volatility Cover	\$100,000,000 excess of \$85,000,000 (42.5% placed)
Risk Clash Excess of Loss on Inland Marine, Specialty & Property – Loss Occurring Basis	\$70,000,000 excess of \$70,000,000 (71.4286% placed)
US Ocean Inland Marine Excess of Loss – Losses Occurring Basis, 3 layers	\$35,000,000 excess of \$5,000,000
Engineering Excess of Loss – Losses Occurring Basis	\$20,000,000 excess of \$20,000,000
Surety Excess of Loss – Losses Occurring Basis	\$50,000,000 excess of \$12,500,000 1 <sup>st</sup> Layer (87.5% placed) 2 <sup>nd</sup> Layer (100% placed)
<u>Programs</u>	
Americas Casualty Quota Share Programs	40% quota share up to \$75,000,000
Non-Programs	40% quota share up to \$75,000,000
Product Recall – Risks Attaching Basis Max Net on a \$15m policy is \$9m	\$5,000,000 excess of \$10,000,000 Retention (60%) 1 <sup>st</sup> layer (60% placed)
Select Professional Public Entity Quota Share	30% quota share up to \$10,000,000
Programs Division Property Catastrophe XOL Coverage A	\$25,000,000 excess of \$25,000,000
Coverage B 3 Layers	\$15,000,000 excess of \$10,000,000 excess of \$15,000,000; 2 <sup>nd</sup> Event \$10,000,000
Top Layer	\$5,000,000 excess of \$50,000,000

XL Specialty Insurance Company

Design, Select and Cyber & Technology 55% quota share, limit \$10,000,000  
Qualified Primary and Excess Quota Share –  
Risks Attaching Basis

Professional

Construction Professional Liability Quota Share – 50% quota share, limit \$25,000,000  
Risks Attaching Basis

North American Professional Quota Share – 50% quota share, limit \$25,000,000  
Risks Attaching Basis

Professional Select Lawyers Quota Share – Risks 50% quota share, limit \$5,000,000  
Attaching Basis

Specialty Lines

*Global Marine and Energy*

Global Marine – Ongoing. 7 Layers, Excluding \$205,000,000 excess of \$7,500,000  
Gulf of Mexico Wind Energy Paid Losses from  
2<sup>nd</sup> to 6<sup>th</sup> Layer

*Aerospace*

Aviation Quota Share 100% of 5% quota share.  
(Legacy XL business) Hull – Limit \$200,000,000  
Liability – Limit \$2,000,000,000

Aviation War Excess of Loss Hull - \$15,000,000 excess of \$10,000,000  
(Legacy XL business) Other – Layer 1, \$15,000,000 excess of  
\$75,000,000  
Layer 2, \$25,000,000 excess of \$100,000,000

General Aviation Risk Excess of Loss Hull – \$65,000,000 excess of \$10,000,000  
(XL Catlin combined) Liability – \$490,000,000 excess of  
\$10,000,000

Aviation Core Excess of Loss \$395,000,000 excess of \$40,000,000  
(XL Catlin combined)

Aviation Quota Share 20% quota share on core and general aviation  
(XL Catlin combined) business  
Hull – Limit \$75,000,000  
Liability – Limit \$750,000,000

Hull War Quota Share (XL Catlin combined)	60% quota share of \$40,000,000 hull
Space Quota Share (Satellite Launch)	66.5% quota share of any one satellite, any one launch, limit \$40,000,000

Workers Compensation

Workers Compensation Underlying Construction Excess of Loss – Losses Occurring Basis, 2 Layers	\$15,000,000 excess of \$5,000,000 1 <sup>st</sup> layer (75% placed) 2 <sup>nd</sup> layer (75% placed)
Workers Compensation Catastrophe Losses Occurring Basis, 3 Layers (Single Insured Event)	\$260,000,000 excess of \$25,000,000
Workers Compensation Catastrophe Losses Occurring Basis, 3 Layers (Multiple Insured Event)	\$260,000,000 excess of \$40,000,000

Political Risks

Political Risks Trade Receivables QS and XOL – Risks Attaching Basis	QS - 40% quota share, limit \$75,000,000 XOL - 3 layers, \$40,000,000 excess of \$5,000,000
Political Risks and Credit QS and XOL – Risks Attaching Basis	QS – 25% quota share, limit \$100,000,000 XOL - 5 layers, \$70,000,000 excess of \$5,000,000
Crisis Management War Terrorism & Political Violence (WTPV) Quota Share - Risks Attaching Basis	25% quota share, limit \$200,000,000

Exclusive of the businesses ceded under the terms of the XLIB 50% QS, the majority of the business is ceded to authorized and certified reinsurers.

Third Amended and Restated Quota Share Reinsurance Agreement (QS Agreement)

Effective July 1, 2000, XLRA entered into a 75% Quota Share Reinsurance Agreement with XL Re Ltd. (XLRE), a Bermuda property and casualty insurance company. According to the terms of the agreement, the pool leader, will reinsure on a quota share basis 75% of the pool

members business to XLRE. Effective September 1, 2006, XLRA entered into the Second Amended and Restated Quota Share Reinsurance Agreement, which refined the definition of “Loss Expenses Incurred”, decreased the ceding commission rate, and refined the terms of loss adjustment and claims management expenses. Effective January 1, 2008, XLRA entered into the Third Amended and Restated Quota Share Reinsurance Agreement, which decreased the quota share percentage to 50%. The agreement was non-objected to by the Department on January 16, 2008. Effective October 1, 2009, XLRA entered into an agreement to transfer by substitution and novation of all past, present and future reinsurance obligations under the Quota Share Reinsurance Agreement between XLRA and XLRE to XL Insurance (Bermuda) Ltd. (XLIB). Under this agreement, XLIB assumes all of the obligations of XLRE under the Third and Amended Restated Quota Share Reinsurance Agreement.

**Specific Reinsurance segment coverage is detailed below:**

The XL Re group has a “Core” Catastrophe program under which XLRA and its Toronto Branch are covered. A description of this coverage is as follows:

<u>Type of Treaty</u>	<u>Cession</u>
Property Catastrophe Excess of Loss	
Layer 1:	
US Wind	50% of \$50,000,000 excess of \$325,000,000
US EQ	50% of \$50,000,000 excess of \$225,000,000
	Aggregate recoverable maximum
	\$100,000,000
Layer 2:	
US Wind	50% of Aggregate \$100,000,000 excess of \$200,000,000
Property Catastrophe Industry Loss Warranty on Natural Perils	Industry loss > \$50bn: \$10,000,000 excess of \$10,000
	Industry loss > \$40bn: \$5,000,000 excess of \$10,000
	Industry loss > \$30bn: \$7,500,000 excess of \$10,000

XL Specialty Insurance Company

Risk Clash Excess of Loss on Non Marine \$70,000,000 excess of \$70,000,000

Property Facultative Per Risk Excess of Loss,  
3 Layers \$65,000,000 excess of \$10,000,000

### **FINANCIAL STATEMENTS**

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

- Statement of Assets as of December 31, 2015
- Statement of Liabilities, Surplus and other Funds as of December 31, 2015
- Statement of Income for the year ended December 31, 2015
- Reconciliation of Capital and Surplus for the Period from the Prior Examination as of December 31, 2011 to December 31, 2015

**Statement of Assets  
as of December 31, 2015**

	<u>Assets</u>	<u>Non admitted Assets</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 231,128,444	\$ 0	\$ 231,128,444	1
Common stocks	45,259,907		45,259,907	2
Cash, Cash Equivalents and Short-term Investments	127,835,572		127,835,572	
Other invested assets	0		0	
Receivables for securities	1,109,310		1,109,310	
Subtotals, cash and invested assets	<u>\$ 405,333,233</u>	<u>\$ 0</u>	<u>\$ 405,333,233</u>	
Investment income due and accrued	1,123,211		1,123,211	
Uncollected premiums and agents' balances in the course of collection	22,967,613	3,763,308	19,204,305	
Deferred Premiums, Agents' Balance booked but not due	7,953,574		7,953,574	
Accrued retrospective premiums	1,979,011	5,969	1,973,042	
Funds held by or deposited with reinsured companies	49,991		49,991	
Other amounts receivable under reinsurance companies	261,225		261,225	
Current federal and foreign income tax recoverable and interest thereon	1,866,755		1,866,755	
Net deferred tax asset	14,226,904	4,147,800	10,079,104	
Guaranty funds receivable or on deposit	41,491		41,491	
Receivable from parent, subsidiaries and affiliates	10,393,941	204,301	10,189,640	
Receivable from Federal Crop Insurance Corporation	3,911,607		3,911,607	
Deductible recoverable	658,997	440,867	218,130	
Funds held or deposited - direct business	4,185		4,185	
Miscellaneous receivable	185,464	185,464	0	
Totals	<u><u>\$ 470,957,202</u></u>	<u><u>\$ 8,747,709</u></u>	<u><u>\$ 462,209,493</u></u>	

**Liabilities, Surplus and other Funds  
As of December 31, 2015**

		<u>Notes</u>
Losses	\$ 165,465,611	3
Reinsurance payable on paid losses and LAE	(498,360)	
Loss adjustment expenses	28,331,728	3
Commissions payable, contingent commissions	388,602	
Other expenses	4,529,538	
Taxes, licenses and fees	1,906,968	
Unearned premiums	39,304,042	
Advanced premiums	3,717,590	
Funds held by company under reinsurance treaties	64,396,509	
Amounts withheld or retained by company for account of others	3,150,777	
Remittances and items not allocated	(17,676,258)	
Provisions for reinsurance	3,926,771	
Payable to parent, subsidiaries, and affiliates	19,612,897	
Payable for securities	1,053,809	
Funds held or deposited - direct business	7,843,346	
Deferred commission revenue	3,972,792	
Deposit liability	69,053	
Escheat funds	(40)	
Total liabilities	<u>\$ 329,495,375</u>	
Common capital stock	\$ 5,812,500	
Gross paid in and contributed surplus	127,724,270	
Unassigned funds (surplus)	(822,652)	
Surplus as regards policyholders	<u>\$ 132,714,118</u>	
Totals	<u><u>\$ 462,209,493</u></u>	



**Statement of Income**  
**For the Year Ended December 31, 2015**

		Notes
Premiums earned	\$ 77,069,120	
Losses incurred	\$ 45,371,223	
Loss adjustment expenses incurred	9,499,709	
Other underwriting expenses incurred	27,949,166	
Total underwriting deductions	\$ 82,820,098	
Net underwriting gain (loss)	\$ (5,750,978)	
Net investment income earned	4,783,273	
Net realized capital gains or (losses)	23,550	
Net investment gain (loss)	\$ 4,806,823	
Net gain (loss) from agents' or premiums balances charged off	\$ (192,367)	
Foreign exchange gain (loss)	(2,915,304)	
Miscellaneous other income	(91,911)	
Interest on deposits	(1,617)	
Net interest on funds held	(58,931)	
Total other income	\$ (3,260,130)	
Net income after dividends to policyholders	(4,204,285)	
Dividends to policyholders	-	
Net income, after dividends to policyholders	\$ (4,204,285)	
Federal and foreign income taxes incurred	(1,672,097)	
Net income	\$ (2,532,188)	
Surplus as regards policyholders, December 31, 2014	\$ 143,180,326	
Net income (losses)	(2,532,188)	
Change in net unrealized capital gains (losses)	(909,416)	
Change in net unrealized foreign exchange capital gain (loss)	(149)	
Change in net deferred income tax	196,848	
Change in non-admitted assets	(542,894)	
Change in provision for reinsurance	316,381	
Surplus adjustment: Paid in	195,210	
Dividends to stockholders	(7,190,000)	
Net change in capital and surplus for the year	\$ (10,466,208)	
Surplus as regards policyholders, December 31, 2015	\$ 132,714,118	

**Reconciliation of Capital and Surplus  
for the Period from the Prior Examination  
As of December 31, 2010 to December 31, 2015**

	Deferred Tax Adjustment	Common Capital Stock	Gross Paid-in and Contributed Surplus	Unassigned Surplus	Total
12/31/2010	\$ 2,838,516	\$ 5,812,500	\$ 131,798,019	\$ 38,300,332	\$ 178,749,367
12/31/2011 1				2,202,739	2,202,739
12/31/2011 2	86,066				86,066
12/31/2011 5			(4,411,000)	(12,589,000)	(17,000,000)
12/31/2012 1				4,629,437	4,629,437
12/31/2013 1				6,466,475	6,466,475
12/31/2013 3			75,720		75,720
12/31/2013 4				(16,866,761)	(16,866,761)
12/31/2014 1				6,870,962	6,870,962
12/31/2014 3			66,321		66,321
12/31/2014 4				(22,100,000)	(22,100,000)
12/31/2015 1				(3,471,418)	(3,471,418)
12/31/2015 3			195,210		195,210
12/31/2015 4				(7,190,000)	(7,190,000)
6	<u>\$ 2,924,582</u>	<u>\$ 5,812,500</u>	<u>\$ 127,724,270</u>	<u>\$ (822,652)</u>	<u>\$ 132,714,118</u>

- 1) Represents net income, change in unrealized capital gains (losses), change in unrealized foreign exchange gains (losses), change in net deferred income tax, change in non- admitted assets, and change in provision for reinsurance.
- 2) Deferred tax adjustment
- 3) Surplus Adjustment: Paid In - Required adjustment per SSAP No. 104
- 4) Dividends were approved by the Board.
- 5) A \$17 million dividend was declared, \$12.6 million was paid as a cash dividend and \$4.2 million was used to reduce gross paid-in and contributed surplus.
- 6) The total Deferred Tax Adjustment for 2011 is reflected in the Unassigned Surplus total for 2015.

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

There were no adjustments to the Company's financial statements as a result of this examination.

**COMMENTS ON FINANCIAL STATEMENT ITEMS****Note 1:****Schedule D - Bonds****\$ 231,128,444**

As of December 31, 2015, the Company reported long term bond investments on Schedule D – Part 1 with book adjusted carrying values in the amount of approximately \$231.1 million and fair market values of approximately \$234.1 million. The Company reported \$50.1 million in cash equivalent US Government Bonds. Bonds were comprised of the following classes:

U.S. Government Bonds	\$ 211,156,059	75.1%
U.S. States, Territories, Possessions Bonds	\$ 884,802	0.3%
U.S. Special Revenue	7,070,214	2.5%
Industrial & Miscellaneous	12,017,369	4.3%
Sub-total Bonds (Schedule D)	<u>\$ 231,128,444</u>	<u>82.2%</u>
Government CE Bonds	<u>50,103,957</u>	<u>17.8%</u>
Total Bonds	<u><u>\$ 281,232,401</u></u>	<u><u>100.0%</u></u>

Of the Company's total bond holdings, 99.5% were categorized as Class 1 with respect to NAIC credit quality standards and most were publicly traded securities. Bond maturities were heavily weighted to the short-term relative to maturity with 30.0%, 62.7%, 4.1% and 3.1% maturing in less than one year, one to five years, five to ten years, and ten to twenty years, respectively.

**Note 2:****Common Stocks****\$ 45,259,907**

As of December 31, 2015, the Company reported total common stocks in the amount of \$45.3 million, which was comprised of 100% of stock in their subsidiary IHIC (the reported amount was the fair value of 50,000 shares calculated at \$905.20 per share).

**Note 3:**

<b>Losses</b>	<b>\$ 165,465,611</b>
<b>Loss Adjustment Expenses</b>	<b>\$ 28,331,728</b>

The New York Department of Financial Services retained the services of Merlinos and Associates (Merlinos), to conduct an independent review of the Company's loss and LAE reserves as of December 31, 2015. The Merlinos analysis was performed using a risk- focused approach according to the guidelines contained in the NAIC Handbook. The review does not address the collectability of reinsurance recoverables.

The conclusions set forth in Merlinos report are based on information provided by the Company, including the 2015 Annual Statements and the related 2015 Statement of Actuarial Opinion with underlying actuarial work papers. Merlinos performed an analysis on the Company's book of business by segment of business on both a gross and a net basis for loss, defense and cost containment (DCC) expense and adjusting and other (A&O) expense. Merlinos also reviewed the Company's work papers which reconcile the year-end 2015 data to Schedule P.

The Delaware Department of Insurance appointed INS Consultants, Inc. (INS) to review the lead state's actuarial report. No material exceptions were noted during the INS actuarial review. The examination determined the Company's gross and net loss and loss adjustment expenses reserves were properly stated without material exception as of December 31, 2015.

**SUBSEQUENT EVENTS**

Effective January 1, 2016, XLRA, entered into a quota share reinsurance agreement with a Swiss-domiciled affiliated reinsurer, Catlin Re Switzerland Ltd. Bermuda Branch

(CRBB QS). The terms of the CRBB QS are substantially similar to those of the previous quota shares to XLIB, including the quota share rate of 50% and the ceding commission of 31%. The CRBB QS received all required regulatory approvals, including the approval of the New York Department of Financial Services. Effective January 1, 2017, this agreement was amended to increase the amount ceded to CRBB from 50% to 60%.

On February 1, 2016, XLRA completed the acquisition (Allied Acquisition) of Allied International Holdings, Inc. (Allied). Allied is the holding company of Allied Specialty Insurance, Inc. and T.H.E. Insurance Company (T.H.E.), a leading insurer of the outdoor entertainment industry in the U.S. T.H.E. is a property and casualty insurer domiciled in the State of Louisiana.

Effective July 25, 2016, the Company's ultimate parent, XL Group plc, re-domesticated from Ireland to Bermuda and changed its name to XL Group Ltd.

#### **COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS**

There were no recommendations contained in the prior examination report issued by the Delaware Department of Insurance as of December 31, 2010.

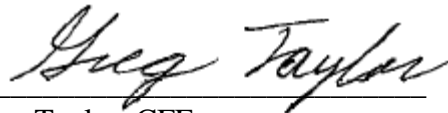
#### **SUMMARY OF RECOMMENDATIONS**

There were no recommendations as a result of this examination.

**CONCLUSION**

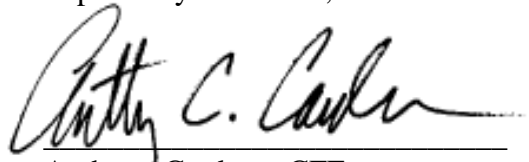
The assistance and cooperation of examiners representing the states on the coordinated examination is acknowledged. In addition, the assistance of the consulting actuarial firm, INS Consultants, Inc., the consulting information systems specialist firm, INS Services, Inc., the Company's outside audit firm, PricewaterhouseCoopers LLP; and the Company's management and staff was appreciated and is acknowledged.

Respectfully submitted,



Greg Taylor, CFE  
Examiner In-Charge  
State of Delaware

Respectfully submitted,



Anthony Cardone, CFE  
Supervising Examiner  
State of Delaware