

EXAMINATION REPORT
OF
CANOPIUS US INSURANCE, INC.
AS OF
DECEMBER 31, 2019

Office of the
Commissioner



Delaware
Department of Insurance

REPORT ON EXAMINATION
OF
CANOPIUS US INSURANCE, INC.
AS OF
DECEMBER 31, 2019

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.

Handwritten signature of Trinidad Navarro in blue ink.

Trinidad Navarro
Insurance Commissioner

Dated this 27 day of May, 2021

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May 7, 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 Exam Authority No. 20.021, dated March 12, 2020, an examination has been made of the affairs, financial condition and management of

CANOPIUS US INSURANCE, INC.

hereinafter referred to as the Company or CUSI. The Company was incorporated under the laws of the State of Delaware as a stock company with its registered office located at 1209 Orange Street, Wilmington, Delaware 19801. The examination was conducted remotely given office closures and travel restrictions in connection with the COVID-19 pandemic. The administrative office of the Company is located at 200 South Wacker Drive, Chicago, Illinois 60606. The report of examination is respectfully submitted.

SCOPE OF EXAMINATION

We have performed our multi-state examination of the Company. The last examination was conducted as of December 31, 2016 by the Delaware Department of Insurance (Department). This examination covered the period of January 1, 2017 through December 31, 2019. Our examination was performed as part of the coordinated examination of Centerbridge Capital

Partners Group of regulated entities wherein the State of Delaware is the lead state. To the fullest extent, the efforts, resources, project material 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, pursuant to the *General Corporation Laws* 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, Ernst and Young Global Limited (EY). Certain auditor

workpapers of the 2019 audit of the Company and certain of its affiliates have been incorporated into the workpapers of the examiners. The workpapers were 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 the Company's Financial Statements as a result of this examination.

COMPANY HISTORY

The Company was originally incorporated as Omega US Insurance, Inc. (Omega US) on September 5, 2006, under the laws of the State of Delaware. The Company commenced business on May 14, 2007 and began writing business in 2008. On August 20, 2012, Omega US Holdings, Inc. (Omega Holdings) and Omega US were acquired by Canopus Group Ltd. (CGL). At this time, the Company adopted its current name, Canopus US Insurance, Inc., and its holding company was renamed from Omega Holdings to Canopus US Holdings, Inc. (CUSH). During this period, the Company was controlled by funds managed by Bregal Capital, LLP.

On May 1, 2014, NKSJ Holdings, Inc. (NKSJ Holdings) acquired all outstanding shares of CGL and obtained ownership and ultimate control of its subsidiaries including the Company. On May 22, 2015, the business operations of CGL were transferred to CUSH pursuant to 18 *Del. C.* § 5003(e) and CGL was dissolved. NKSJ Holdings subsequently changed its name to Sompo Japan Nipponkoa Holdings, Inc. and later changed its name to Sompo Holdings, Inc (Sompo Group) in October 2016. During this period, the Company, CUSH and other affiliates were reorganized under the Sompo Canopus AG Holding Company and subsequently changed its name to Canopus AG (CAG) on January 4, 2018.

On March 9, 2018, CAG was sold via a management buyout to a private equity consortium led by Centerbridge Partners, LP (Centerbridge Partners). Since the Centerbridge Partners acquisition, the Company has been operating as part of the Canopus Group, which was reorganized under the Fortuna Holdings Limited (FHL) holding company structure. FHL is ultimately controlled by the general partners of CCP III Cayman GP, Ltd. (CCP). On August 6, 2019, CAG merged with the newly formed Canopus Group Limited (CGL Jersey) and CAG was dissolved, which resulted in Canopus Group's redomestication from Switzerland to Jersey.

Capitalization

The Company's Certificate of Incorporation authorized 10,000 shares of common stock with a \$350 par value. As of December 31, 2019, the Company had 10,000 common shares issued and outstanding totaling \$3.5 million. All outstanding common shares of the Company are owned by CUSH. As of December 31, 2019, the Company reported gross paid in and contributed surplus of \$159.6 million.

Dividends

No dividends were declared or paid during the examination period.

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 (Board). The Company's bylaws require its Board consist of not less than one member nor more than fifteen individuals. Directors are elected annually by the stockholder for a term of one year. Directors duly elected and serving as of December 31, 2019, were as follows:

<u>Name</u>	<u>Title</u>	
Michael Clive Watson	Chairman and Chief Executive Officer	Canopus Group, Ltd.
Andrew Robert Fowles	President and Chief Underwriting Officer	Canopus US Insurance, Inc.
Nigel Sinclair Meyer	Group Chief Financial Officer	Canopus US Insurance, Inc.
Brett Andrew Saternus	Deputy Chief Underwriting Officer	Canopus US Insurance, Inc.

Officers

Officers were elected in accordance with the Company's bylaws during the period under examination. The bylaws require election of a President, Secretary and Treasurer. Any number of offices may be held by the same person. The primary officers serving as of December 31, 2019, were as follows:

<u>Name</u>	<u>Title</u>
Andrew Robert Fowles	President and Chief Underwriting Officer
Nigel Sinclair Meyer	Group Chief Financial Officer and Treasurer
Brett Andrew Saternus	Deputy Chief Underwriting Officer
Molly Anne Wade	Financial Controller
Philip Paul Hicks	Group Company 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, 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 as defined under 18 *Del. C.* § 5001 of the Delaware Insurance Code. The Company is a wholly owned subsidiary of CUSH and an indirect subsidiary of CCP. CCP is a limited partnership ultimately controlled by

Canopus US Insurance, Inc.

its general partners. The following is an abbreviated organizational chart of the insurance holding company system as of December 31, 2019:

<u>Company</u>	<u>Domicile</u>
CCP III Cayman GP Ltd. ¹	Cayman Islands
Centerbridge Associates III, L.P.	Delaware
Fortuna Holdings Limited ²	Jersey
Canopus Group, Ltd.	Jersey
Canopus Holdings UK Ltd.	England and Wales
Flectat, Ltd.	England and Wales
Canopus Reinsurance Ltd.	Bermuda
Canopus Services, Ltd.	England and Wales
Canopus US Holdings, Inc.	United States
Canopus US Insurance, Inc.	Delaware
Canopus Underwriting Agency, Inc.	United States
Canopus Re Underwriting Management, Inc.	United States
Versant Health, Inc. ³	Delaware
Versant Health Holdco, Inc.	Delaware
Superior Vision Corp.	Delaware
Superior Vision Holdings, Inc.	Delaware
Superior Vision Services, Inc.	Delaware
Superior Vision Insurance, Inc.	Arizona
Block Vision Holdings Corporation	Delaware
Superior Vision Plan of Wisconsin, Inc.	Wisconsin
Superior Vision Benefit Management, Inc.	New Jersey
Block Vision of Texas, Inc.	Texas
MEC Health Care, Inc.	Maryland
Superior Vision of New Jersey, Inc.	New Jersey

¹CCP is a Cayman Islands exempt company formed in 2014. CCP is the ultimate controlling person of CUSI within the meaning of 18 *Del. C.* § 5001(3) and gained effective control of CUSI on March 9, 2018.

²FHL is a Jersey limited liability company formed to consummate the management buyout by the private equity consortium led by Centerbridge Partners. All of the issued and outstanding shares of FHL are owned by Fortuna MidCo, Ltd.

³Versant Health Inc. is owned by Centerbridge Capital Partners III, LP and FFL funds with ownership percentages of 71.6% and 23.1%, respectively. Subsequent to the examination period, CCP sold Versant Health, Inc. and its subsidiaries to MetLife, Inc. in January 2021. As a result, the insurance entities owned by Versant Health, Inc. are no longer affiliated with the Company through common ownership.

The following is a description of the legal entities in the insurance holding company system with significant affiliated relationships with the Company followed by a summary of the significant agreements:

- CGL Jersey is a holding company that provides a Board to oversee the business strategy and operations for the Canopus Group, including the Company. The CGL Jersey Board is comprised of seven members including three senior officers of the group and four independent non-executive Directors.
- CUSH is the holding company for the Canopus Group's operations in the United States.
- Canopus Services, Ltd. (CSL) – CSL provides a variety of services to affiliated entities such as accounting, tax returns, legal, actuarial and information technology support.
- Canopus Underwriting Agency, Inc. (CUAI) - CUAU provides underwriting services for affiliated entities.
- Flectat, Ltd. – Flectat is a corporate member of Lloyds of London (Lloyds) and produces business under Lloyds syndicate 4444 (Syndicate 4444). The Company and other affiliates assume insurance risk from Flectat for a range of business classes through its insurance underwriting entities including Syndicate 4444.
- Canopus Reinsurance, Ltd. Bermuda (CRe) – CRe moved from Switzerland to Bermuda on June 28, 2019 and has been granted a Class 4 reinsurer license by the Bermuda Monetary Authority. The reclassification significantly extends CRe's scope, enabling it to increase gross written premiums and write more third-party risks.

Agreements with Affiliates

The following is a summary of the Company's significant affiliated agreements in force as of December 31, 2019:

- Services Agreement - Effective August 31, 2012, the Company entered into a Services Agreement with CUSH and CSL. In accordance with the agreement, CSL provides or contracts with affiliates or third parties to provide services including financial, accounting, reporting, legal, investment, personnel, actuarial and other services. The Company pays

CSL the actual cost of services provided plus five percent of such costs.

- Tax Allocation Agreement - Effective February 24, 2009, the Company became party to a Tax Allocation Agreement with the entity now known as CUSH. In accordance with the agreement, the Company is assessed by CUSH for the federal income tax liabilities of the Company and is paid by CUSH for the federal income tax benefits it generates in accordance with the agreement. The Company's tax liabilities are based on the results of its own operations on a standalone basis. Transactions under the agreement are settled within reasonable time as specified in the agreement.
- Intra Group Services Agreement - Effective October 1, 2017, the Company entered into an Intra Group Services Agreement with CUIAI. In accordance with the agreement, the Company provides or contracts with affiliates or third parties to provide CUIAI services including financial, accounting and reporting, cash management, personnel services, premium and claims management and other services. CUIAI pays the Company the actual cost of services provided.
- Net Worth Maintenance Agreement - Effective December 21, 2017, the Company entered into a letter of understanding confirming a policyholder surplus maintenance agreement with the entity now known as CGL Jersey. In accordance with the letter of understanding, CGL Jersey agreed to provide the Company capital resources in an amount and quality sufficient to enable the Company to maintain policyholder surplus of not less than \$100 million within ten business days of the Board's conclusion that the Company's policyholder surplus has fallen below \$100 million.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2019, the Company was eligible to write surplus lines business in all fifty states and the District of Columbia and is admitted in the State of Delaware. The Company primarily writes commercial, personal property and liability insurance on a non-admitted basis exclusively through managing general agents.

REINSURANCE

The Company assumes and cedes insurance risk utilizing reinsurance agreements with both affiliates and third parties. The Company reported direct, assumed and ceded premiums for the years ended December 31, 2019 and the prior examination date as of December 31, 2016 as follows:

	<u>2019</u>	<u>% of Total Gross & Assumed Business</u>	<u>2016</u>	<u>% of Total Gross & Assumed Business</u>
Direct Business	\$ 57,856,355	62.69%	\$ 33,698,341	100.00%
Reinsurance assumed (from affiliates)	30,719,864	33.29%	-	-
Reinsurance assumed (from non-affiliates)	3,714,370	4.02%	-	-
Gross direct and assumed business	<u>\$ 92,290,589</u>	<u>100.00%</u>	<u>\$ 33,698,341</u>	<u>100.00%</u>
Reinsurance ceded (to affiliates)	88,800	0.10%	497,605	1.48%
Reinsurance ceded (to non-affiliates)	8,963,214	9.71%	3,808,438	11.30%
Net direct and assumed business	<u>\$ 83,238,575</u>	<u>90.19%</u>	<u>\$ 29,392,298</u>	<u>87.22%</u>

The Company's primary reinsurance programs consists of assumptive reinsurance arrangements with both affiliates and third parties as well as an affiliated and third party ceded reinsurance program designed to limit the Company's exposure to certain levels of risk. The following is a summary of primary components of each program.

Assumed Reinsurance

- Affiliated - On January 24, 2018, the Company and Fleclat entered into a two-year Collateralized Reinsurance Agreement (CRA) with an effective date of January 1, 2018.

In accordance with the CRA, the Company assumes a 40% proportional share of Flectat's North American Facilities portfolio, which is CUSI's sister team at Syndicate 4444. The lines of business reinsured under the CRA include the same lines of business currently being written by the Company. In conjunction with the execution of the CRA, the Company also executed a collateral agreement or Trust Deed with Flectat for \$35 million. The Trust Deed provides for the Company to guarantee Flectat's underwriting liabilities with Lloyd's. Accordingly, the Company transferred \$35 million of investments in January 2018 and an additional \$20 million in 2019 per the increased collateral requirements under the terms of the agreement.

- Unaffiliated – The Company has a fronting agreement with State National Group (SNG), which enables the Company to provide improved product offerings. The Company underwrites and issues policies on behalf of SNG and assumes premium, less a ceding fee, and 100% of the losses. The Company manages losses under the agreement in the same manner as it processes losses associated with its direct written premium business.

Ceded Reinsurance

- Affiliated - Effective June 22, 2019, the Company entered an excess of loss treaty with CRe covering specified classes of business in force as of the agreements effective date and written subsequently. In accordance with the agreement, CRe provides the Company catastrophic reinsurance coverage in the amount of \$12 million in excess of \$7.5 million per occurrence subject to an annual limit of \$25 million. The amount reinsured by CRe for any one occurrence is determined based on the combined losses of the Company and the losses of the North American Facilities account of Syndicate 4444 for the same event as specified in the contract.

- Unaffiliated – The Company partners with various third-party reinsurers to obtain quota share reinsurance and excess of loss reinsurance coverage. These arrangements allow the Company to build its product offerings, improve performance on various lines of business and maintain aggregate protection for specified business segments and insured perils. Additionally, the Company may benefit from the Canopius Group’s global property reinsurance program. The program is split into four underlying books with multiple-umbrella covers designed to provide coverage both vertically and horizontally through the aggregate layers.

FINANCIAL STATEMENTS

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, Surplus and Other Funds as of December 31, 2019
- Statement of Income for the Year Ended December 31, 2019
- Reconciliation of Capital and Surplus for the Period from the Prior Examination as of December 31, 2016 to December 31, 2019

**Statement of Assets
as of December 31, 2019**

	<u>Assets</u>	<u>Non admitted Assets</u>	<u>Net Admitted Assets</u>
Bonds	\$ 164,371,597	\$ -	\$ 164,371,597
Common stocks	18,482,301	-	18,482,301
Cash	10,364,807	-	10,364,807
Subtotals, cash and invested assets	<u>\$ 193,218,705</u>	<u>\$ -</u>	<u>\$ 193,218,705</u>
Investment income due and accrued	1,036,457	-	1,036,457
Uncollected premiums and agents' balances in the course of collection	10,300,351	21,920	10,278,431
Deferred Premiums, Agents' Balance booked but not due	14,855,763	-	14,855,763
Other amounts receivable under reinsured contracts	667,030	-	667,030
Net deferred tax asset	7,971,397	5,088,623	2,882,774
Electronic data processing equipment and software	464,091	462,290	1,801
Furniture and equipment	45,931	45,931	-
Receivable from parent, subsidiaries and affiliates	402,648	-	402,648
Aggregate write-ins for other than invested assets	168,634	316,076	(147,442)
Totals	<u><u>\$ 229,131,007</u></u>	<u><u>\$ 5,934,840</u></u>	<u><u>\$ 223,196,167</u></u>

**Statement of Liabilities Surplus and Other Funds
as of December 31, 2019**

		Notes
Losses	\$ 40,088,476	1
Loss adjustment expenses	8,907,286	1
Commissions payable, contingent commissions	881,691	
Other expenses	1,958,507	
Taxes, licenses and fees	14,269	
Current federal and foreign income taxes	682,116	
Unearned premiums	37,114,343	
Ceded reinsurance premiums payable	1,721,013	
Provisions for reinsurance	177,000	
Payable to parent, subsidiaries, and affiliates	993,357	
Payable for Securities	4,562	
Aggregate write-ins for liabilities	23,300	
Total liabilities	\$ 92,565,920	
Common capital stock	\$ 3,500,000	
Gross paid in and contributed surplus	159,650,000	
Unassigned funds (surplus)	(32,519,753)	
Surplus as regards policyholders	\$ 130,630,247	
Totals	\$ 223,196,167	

**Statement of Income
for the Year Ended December 31, 2019**

Premiums earned	\$	73,113,838
DEDUCTIONS:		
Losses incurred	\$	36,668,467
Loss adjustment expenses incurred		7,318,757
Other underwriting expenses incurred		26,115,229
Total underwriting deductions	\$	<u>70,102,453</u>
Net underwriting gain	\$	<u>3,011,385</u>
INVESTMENT INCOME:		
Net investment income earned	\$	4,237,823
Net realized capital gains		668,687
Net investment gain	\$	<u>4,906,510</u>
OTHER INCOME:		
Aggregate write-ins for miscellaneous income	\$	<u>658,882</u>
Net income after capital gains tax and before all other federal and foreign income tax	\$	8,576,777
Federal and foreign income taxes incurred		706,160
Net income	\$	<u><u>7,870,617</u></u>

**Reconciliation of Capital and Surplus
for the Period from the Prior Examination
as of December 31, 2016 to December 31, 2019**

	Common Capital Stock	Gross Paid In & Contributed Surplus²	Unassigned Funds (Surplus)	Total
December 31, 2016	\$ 3,500,000	\$ 159,650,000	\$ (48,321,017)	\$ 114,828,983
2017 Net Income	-	-	8,275,459	8,275,459
2017 Other Changes ¹	-	-	(944,241)	(944,241)
December 31, 2017	<u>\$ 3,500,000</u>	<u>\$ 159,650,000</u>	<u>\$ (40,989,799)</u>	<u>\$ 122,160,201</u>
2018 Net Income	-	-	(3,553,740)	(3,553,740)
2018 Other Changes ¹	-	-	2,251,949	2,251,949
December 31, 2018	<u>\$ 3,500,000</u>	<u>\$ 159,650,000</u>	<u>\$ (42,291,590)</u>	<u>\$ 120,858,410</u>
2019 Net Income	-	-	7,870,617	7,870,617
2019 Other Changes ¹	-	-	1,901,220	1,901,220
December 31, 2019	<u><u>\$ 3,500,000</u></u>	<u><u>\$ 159,650,000</u></u>	<u><u>\$ (32,519,753)</u></u>	<u><u>\$ 130,630,247</u></u>

¹Other Changes in Unassigned Funds (Surplus) for each year: Change in net unrealized capital gains/losses, Change in net deferred income taxes, Change in non-admitted assets and Change in the provision for reinsurance.

²Subsequent to the examination period, the Company received a capital contribution in the amount of \$10 million from CGL Jersey on February 23, 2021.

ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS RESULTING FROM THE EXAMINATION

There were no changes made to the Company's Financial Statements as a result of this examination.

COMMENTS ON FINANCIAL STATEMENT ITEMS

Note 1:

Losses¹	\$ 40,088,476
Loss Adjustment Expenses	8,907,286

The Department retained the actuarial services of INS Consultants Inc. (Consulting Actuary) to perform a risk-focused review of the Company's significant reserving and pricing activities. The Consulting Actuary assisted in review of the inherent risks, management oversight and other mitigating controls over the Company's actuarial processes and procedures. The

Consulting Actuary performed an independent reserve analysis including an assessment of the Company's reserves for compliance with applicable *Actuarial Standards of Practice* and the NAIC *Accounting Practices and Procedures Manual*.

¹ Subsequent to the examination date, CUSI entered into a loss portfolio transfer agreement with Alimco Re Ltd. (Alimco Re) in the amount of \$13.8 million with an effective date of September 30, 2020 and a closing date of February 1, 2021. Under the terms of the agreement the Company transferred the United States general liability, construction runoff portfolio covering policies issued from 2008 to 2016 to Alimco Re.

SUBSEQUENT EVENTS

Subsequent events were evaluated through the date that this examination report was available to be issued. Based on this evaluation, the following significant transactions were deemed material for disclosure in this examination report.

Capital Contribution

On February 23, 2021, the Company received approval for a capital contribution in the amount of \$10 million from CGL Jersey. The Company received the capital contribution on February 23, 2021.

Significant Transactions and Agreements

In January 2021, CCP sold Versant Health, Inc. and its subsidiaries to MetLife, Inc. As a result, the insurance entities owned by Versant Health, Inc. are no longer affiliated with the Company through common ownership.

CUSI entered into a loss portfolio transfer agreement with Alimco Re in the amount of \$13.8 million with an effective date of September 30, 2020 and a closing date of February 1, 2021. Under the terms of the agreement the Company transferred the United States general liability, construction runoff portfolio covering policies issued from 2008 to 2016 to Alimco Re.

Other Significant Events

Beginning in March of 2020, the World has experienced and continues to experience a pandemic related to the COVID-19 virus. As of the date of this examination report, the Company's operations and financial condition had not been materially impacted.

SUMMARY OF RECOMMENDATIONS

There were no recommendations as a result of this examination. The assistance and cooperation of examiners representing the states on the coordinated examination is acknowledged. In addition, the assistance of the contract information technology specialist, INS Services, Inc.; the consulting actuarial firm, INS Consultants, Inc.; and the Company's management and staff was appreciated and is acknowledged.

Respectfully submitted,



Patrick White, CFE
Examiner In-Charge
State of Delaware



Richard Palmatary, CFE
Supervising Examiner
State of Delaware

Canopus US Insurance, Inc.

I, Patrick White, 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 Exam Authority No. 20.021.

A handwritten signature in black ink that reads "Patrick White". The signature is written in a cursive style with a horizontal line underneath it.

Patrick White, CFE