

REPORT ON EXAMINATION
OF
ATEGRITY SPECIALTY INSURANCE COMPANY
AS OF
DECEMBER 31, 2022

TRINIDAD NAVARRO
COMMISSIONER



STATE OF DELAWARE
DEPARTMENT OF INSURANCE

REPORT ON EXAMINATION
OF
ATEGRITY SPECIALTY INSURANCE COMPANY
AS OF
DECEMBER 31, 2022

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 14 day of June, 2024

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May 16, 2024

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

Dear Commissioner:

In compliance with instructions and pursuant to statutory provisions contained in Examination Certification No. 23.018, an examination has been made of the affairs, financial condition and management of

ATEGRITY SPECIALTY INSURANCE COMPANY

hereinafter referred to as the Company or ASIC. The Company was 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 administrative office of the Company is located at 14000 North Pima Rd. Suite 200, Scottsdale, Arizona.

SCOPE OF EXAMINATION

We have performed our single-state examination of ASIC. This is the first examination of the Company by the Delaware Department of Insurance (Department). This examination covers the period from September 26, 2018 through December 31, 2022.

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

During the course of this examination, consideration was given to work performed by the Company's external accounting firm Ernst & Young, LLP (EY). Certain auditor work papers of the 2022 EY audit of the Company have been incorporated into the work papers of the examiners and have been utilized in determining the scope, areas of emphasis in conducting the examination and in the area of risk mitigation and substantive testing.

SUMMARY OF SIGNIFICANT FINDINGS

There were no significant findings or material changes in financial statements as a result of this examination.

COMPANY HISTORY

The Company was incorporated on March 16, 2018, under the laws of the State of Delaware and commenced business on September 26, 2018.

Capitalization

The Company's Certificate of Incorporation authorizes the issuance of 15,000 shares of common stock with a \$100 par value and the issuance of 100,000 shares of preferred stock with a \$100 par value. As of December 31, 2022, the Company had 5,000 common shares issued and outstanding totaling \$500,000. All outstanding common and preferred shares of the Company are owned by Ategrity Specialty Holdings LLC (Ategrity Holdings), a Delaware holding company.

As of December 31, 2022, the Company reported gross paid in and contributed surplus of \$75,907,543. Additionally, the Company reported a surplus note of \$2,000,000. The Company received the following capital contributions from Ategrity Holdings during the examination period:

<u>Year</u>	<u>Contributions Received</u>
2018	\$57,498,000
2019	125,400
2020	6,184,650
2021	11,522,470
2022	<u>577,023</u>
Total	<u>\$75,907,543</u>

MANAGEMENT AND CONTROL

Directors

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

In accordance with the Company's bylaws, the number of Directors shall consist of no less than one and no more than nine members, and may consist of any number of Directors as may later be determined by resolution of the Board. Directors shall be elected by the sole stockholder and shall hold office until successors are elected and qualified, or until earlier resignation or removal. The members of the Board, serving as of December 31, 2022, each elected or appointed in accordance with the Company bylaws were as follows:

<u>Name</u>	<u>Title</u>
Stuart Jason Zimmer	Chairman
Thomas Alan Hulst	
Justin Gregg Cohen	

Officers

In accordance with its bylaws, officers serving the Company shall be a Chief Executive Officer. The Board may also elect a Chairman of the Board and other such officers as considered necessary for the proper conduct of the business of the Company. The senior officers, duly appointed in accordance with the bylaws and serving as of December 31, 2022, were as follows:

<u>Name</u>	<u>Title</u>
Justin Gregg Cohen	Chief Executive Officer
David Rosenzweig	Chief Financial Officer
Chris Schenk	Chief Underwriting Officer

Susan Denise Gable

Vice President - Claims

Corporate Records

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

Insurance Holding Company System

The Company is a member of an insurance holding company system as it is defined under 18 *Del. C.* § 5001 (7) of the Delaware Insurance Code. The Company is a wholly owned subsidiary of Ategrity Holdings.

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

	Economic Ownership Control	Voting Control
	<u>Percent</u>	<u>Percent</u>
Stuart Zimmer and an affiliated family trust {1}	100%	100%
Zimmer Financial Services Group LLC	93.18%	93.18%
Ategrity Specialty Holdings LLC [DE]	100%	100%
Ategrity Specialty Insurance Company [DE]		
Sequentis Specialty Holdings Limited [Bermuda]	100%	100%
Sequentis Reinsurance Company Limited [Bermuda]		

{1} Considered the ultimate controlling entities of the Company. Financial Statement have been provided to the Department.

Agreements with Affiliates

Tax Allocation Agreement

Effective April 1, 2018, the Company entered into a Tax Allocation Agreement with Zimmer Financial Services Group LLC (ZFSG) (formerly Sequentis Financial LLC), its ultimate parent, and affiliates beginning with the 2018 tax year. The agreement provides for a method for financial and statutory accounting of allocating the consolidated tax liability among the various members of the affiliated group. The allocation of taxes shall be made on a separate return basis with current credit for any net operating losses, deductions, credits or other items utilized in the consolidated tax return. This agreement was approved by the Department on November 17, 2019.

Professional Services Agreement - Carrick Re/Sequentis Re

Effective September 30, 2021, the Company and Sequentis Reinsurance Company Limited (Sequentis Re) entered into an agreement with Carrick Re Limited (Carrick Re), whereby Carrick Re provides reinsurance administration for facultative agreements for services related to the resolution of services to the Company. Consideration for these services is 50% of all collections from certificates.

Surplus Note

On December 31, 2022, the Company issued a \$2,000,000, 2% surplus note to Ategrity Holdings in exchange for \$2,000,000 in cash. The surplus note was approved by the Department on December 16, 2022. The note has a 30-year term, is subject to prepayment at the option of ASIC at any time (subject to the prior approval of the Commissioner), and bears interest at a fixed rate of 2% annually, payable on July 31 of each year.

Letter of Credit

On December 21, 2020, JP Morgan Chase Bank issued a letter of credit agreement in the amount of \$35,000,000 on behalf of Sequentis Re for the benefit of the Company. On December 25, 2020, and amended on December 31, 2021 and on December 23, 2022, Barclays Bank issued a letter of credit agreement in the amount of \$35,000,000 on behalf of Sequentis Re for the benefit of the Company. There have been no drawdowns in 2022 and 2021.

TERRITORY AND PLAN OF OPERATION

Territory

As of December 31, 2022, the Company is licensed and/or authorized to transact business in Delaware and is eligible or approved to write surplus lines in forty-eight (48) U.S. states and the District of Columbia.

The Company's direct written premiums by state (top 6 states) is as follows:

<u>State</u>	<u>2022</u>	<u>Percent</u>
Florida	\$ 47,049,727	17.74%
California	45,478,152	17.15%
Texas	43,872,408	16.54%
New York	25,284,366	9.53%
New Jersey	13,780,125	5.20%
Pennsylvania	<u>12,522,972</u>	<u>4.72%</u>
Subtotal	\$ 187,987,750	70.89%
All others	<u>77,202,745</u>	<u>29.11%</u>
Total	<u>\$ 265,190,495</u>	<u>100.00%</u>

Plan of Operation

ASIC is an Excess and Surplus (E&S) lines insurance company formed in 2018 which bound its first policy in September 2018. In 2022, ASIC distributed its products through two primary channels: Brokerage and Contract Binding. In the Brokerage channel, the Company

sells its products through wholesale brokers. In the Contract Binding channel, the Company distributes its products through appointed general agents that underwrite on behalf of ASIC via their internet-based underwriting portal that ensures adherence to the Company's pricing and product design.

In 2022, ASIC had a network of 13 wholesale brokerage firms (with 67 appointed brokers) in the Brokerage channel and 28 agencies (with 113 offices) in the Contract Binding channel.

ASIC writes countrywide on a non-admitted basis through two underwriting divisions that serve different segments of the E&S market:

The Company's direct written premiums by line of business for the year ended December 31, 2022 are as follows:

Fire	\$ 18,070,828
Allied Lines	41,236,721
Cmp- non Liability	43,546,730
Cmp- Liability	25,996,451
Earthquake	929,120
Other Liability - occurrence	131,447,618
Other Liability - Claims made	219,262
Products liability - occurrence	3,743,765
Subtotal Direct Premium Written	<u>\$ 265,190,495</u>
Ceded to affiliates	144,104,289
Ceded to non affiliates	<u>85,062,918</u>
Total Ceded premium written	<u>\$ 229,167,207</u>
Net premium written	<u><u>\$ 36,023,288</u></u>
Net retained %	14%

REINSURANCE

The Company reported the following distribution of net written premiums for the year ended December 31, 2022:

Direct written premiums	\$265,190,495
Reinsurance assumed from affiliates	0
Reinsurance assumed from non-affiliates	<u>0</u>
Total gross (direct and assumed)	<u>\$265,190,495</u>
Reinsurance ceded to affiliates	\$144,104,289
Reinsurance ceded to non-affiliates	<u>85,062,918</u>
Total ceded	<u>\$229,167,207</u>
Net written premiums	\$ 36,023,288

Ceded Affiliates

Quota Share Sequentis Re

Effective January 1, 2019, the Company entered into an 80% quota share reinsurance agreement with affiliate Sequentis Re whereby the Company will cede 80% of its net retained premiums and liabilities to Sequentis Re. For each underwriting year, Sequentis Re shall allow and pay the Company a ceding commission on the ceded net written premiums at a rate that is reviewed by the Board annually.

Loss Portfolio Transfer Carrick Re

On December 30, 2021, the Company entered into a Loss Portfolio Transfer (LPT) of property reserves with Carrick Re, with an effective date of September 30, 2021. The reinsurance recoverable for the ceded losses and loss adjustment expense reserves under the LPT was \$2.4 million and \$7.0 million as of December 2022 and 2021, respectively. The Company has been accounting for this transaction as retrospective accounting in accordance

Ategrity Specialty Insurance Company

with SSAP No 62R. Subsequently, in 2023, Carrick Re was sold and is no longer affiliated with the group. The Department approved this on December 17, 2021.

Ceded Reinsurance – Non-Affiliates

Catastrophe Reinsurance

Effective July 1, 2022, the Company is party to a \$40 million XS \$10 million treaty which covers business classified by the Company as Property business within the Brokerage and Contract Binding Divisions.

Non-Catastrophe

The Company is party to a Property Per Risk cover (\$4 million XS \$1 million) for its Contract Binding Division, a Property Per Risk cover (\$4 million XS \$1 million) for a program and an Excess Property Quota Share agreement (25% cession). The Company also has in place a Primary Casualty Agreement (\$1.4 million XS \$600 thousand) and an Excess Casualty Quota Share agreement (80% cession) with limits of \$8 million.

FINANCIAL STATEMENTS

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

- Statement of Assets as of December 31, 2022
- Statement of Liabilities and Surplus as of December 31, 2022
- Statement of Income for the Year Ended December 31, 2022
- Capital & Surplus Account for the Year Ended December 31, 2022
- Reconciliation of Capital and Surplus for the Period March 6 2018 to December 31, 2022

Statement of Assets
As of December 31, 2022

	Ledger Assets	Nonadmitted Assets	Net Admitted Assets 2022
Bonds	\$ 37,251,242	\$ -	\$ 37,251,242
Cash	23,170,645	-	23,170,645
Cash equivalents	3,414,714	-	3,414,714
Other invested assets	20,610,248	-	20,610,248
Subtotals, cash and invested assets	<u>\$ 84,446,849</u>	<u>\$ -</u>	<u>\$ 84,446,849</u>
Investment income due and accrued	144,121	-	144,121
Uncollected premiums and agents' balances in the course of collection	42,721,511	2,198,599	40,522,912
Amounts recoverable from reinsurers	37,546,446	-	37,546,446
Electronic data processing equipment and software	5,586,748	5,541,400	45,348
Furniture and equipment	840,152	840,152	-
Receivables from parent; subsidiaries and affiliates	9,425,620		9,425,620
Aggregate write-ins for other-than-invested assets	908,214	650,607	257,607
Total Assets	<u><u>\$ 181,619,661</u></u>	<u><u>\$ 9,230,758</u></u>	<u><u>\$ 172,388,903</u></u>

Statement of Liabilities and Surplus
As of December 31, 2022

		<u>Notes</u>
Losses	\$ 33,153,221	1
Loss adjustment expenses	5,662,489	1
Commissions payable; contingent commissions and other similar charges	4,621,285	
Other expenses (excluding taxes; licenses and fees)	4,333,108	
Current federal and foreign income taxes	564,804	
Unearned premiums (after deducting unearned premiums for ceded reinsurance of \$115,639,629 and including warranty reserves of \$0)	19,914,795	
Advance premium	3,102,308	
Ceded reinsurance premiums payable (net of ceding commissions)	44,754,491	
Funds held by company under reinsurance treaties	2,451,281	
Amounts withheld or retained by company for account of others	3,287,268	
Provision for reinsurance (including \$1880781 certified)	34,093	
Aggregate write-ins for liabilities	(2,403,217)	
Total liabilities excluding protected cell liabilities	<u>\$ 119,475,926</u>	
Total liabilities	<u>\$ 119,475,926</u>	
Common capital stock	500,000	
Surplus notes	2,000,000	
Gross paid in and contributed surplus	75,907,543	
Unassigned funds (surplus)	(25,494,566)	
Surplus as regards policyholders	<u>\$ 52,912,977</u>	
Total liabilities & surplus	<u><u>\$ 172,388,903</u></u>	

Statement of Income
For the Year Ended December 31, 2022

Underwriting Income

Premiums earned	\$ 34,928,878
Deductions	
Losses incurred	\$ 21,423,149
Loss adjustment expenses incurred	3,917,559
Other underwriting expenses incurred	13,394,663
Total underwriting deductions	<u>\$ 38,735,371</u>
Net underwriting gain (loss)	<u>\$ (3,806,493)</u>

Investment Income

Net investment income earned	\$ 775,755
Net realized capital gains (losses) less capital gains tax of \$178,653	672,074
Net investment gain (loss)	<u>\$ 1,447,829</u>

Other Income

Net gain (loss) from agents' or premium balances charged off (amount recovered \$0 amount charged off \$0)	\$ -
Finance and service charges not included in premiums	-
Aggregate write-ins for miscellaneous income	(213,605)
Total other income	<u>\$ (213,605)</u>
Net income before dividends to policyholders; after capital gains tax and before all other federal and foreign income taxes	<u>\$ (2,572,269)</u>
Net income; after dividends to policyholders; after capital gains tax and before all other federal and foreign income taxes	\$ (2,572,269)
Federal and foreign income taxes incurred	1,111,298
Net income	<u><u>\$ (3,683,567)</u></u>

Capital & Surplus Account
For the Year Ended December 31, 2022

Surplus as regards policyholders; December 31 prior year	\$ 53,530,146
Net income	(3,683,567)
Change in net deferred income tax	(2,279,436)
Change in nonadmitted assets	2,795,112
Change in provision for reinsurance	(26,301)
Change in Surplus Notes	2,000,000
Surplus adjustments paid in	577,023
Aggregate write-ins for gains and losses in surplus	-
Change in surplus as regards policyholders for the year	<u>\$ (617,169)</u>
Surplus as regards policyholders; December 31 current year	<u><u>\$ 52,912,977</u></u>

Reconciliation of Capital and Surplus

For the Period March 6, 2018 to December 31, 2022

	<u>Common Stock</u>	<u>Surplus Notes</u>	<u>Gross Paid In Capital</u>	<u>Unassigned surplus</u>	<u>Total</u>
3/6/2018	\$ 500,000		\$ 17,498,000	\$ (1,526,684)	\$ 16,471,316
12/31/2018				(3,662,556) (1)	(3,662,556)
12/31/2018				(2,618,564) (2)	(2,618,564)
12/31/2018			40,000,000	(3)	40,000,000
12/31/2019				4,756,847 (1)	4,756,847
12/31/2019				(3,484,249) (2)	(3,484,249)
12/31/2019			125,400	(3)	125,400
12/31/2020				(4,502,081) (1)	(4,502,081)
12/31/2020				(2,889,185) (2)	(2,889,185)
12/31/2020			6,184,650	(3)	6,184,650
12/31/2021				(7,282,477) (1)	(7,282,477)
12/31/2021				(1,091,425) (2)	(1,091,425)
12/31/2021			11,522,470	(3)	11,522,470
12/31/2022				(3,683,567) (1)	(3,683,567)
12/31/2022				489,375 (2)	489,375
12/31/2022		2,000,000		(4)	2,000,000
12/31/2022			577,023	(3)	577,023
Ending Balanc	<u>\$ 500,000</u>	<u>\$ 2,000,000</u>	<u>\$ 75,907,543</u>	<u>\$ (25,494,566)</u>	<u>\$ 52,912,977</u>

(1) Represents net income.

(2) Change in unrealized capital gains (losses), Change in net unrealized foreign exchange capital gain, Change in net deferred income tax, Change in non-admitted assets, Change in provision for reinsurance.

(3) Capital infusions.

(4) Surplus note approved by the Department.

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

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

COMMENTS ON FINANCIAL STATEMENT ITEMS

Note 1:

Losses	\$33,153,221
Loss Adjustment Expenses	\$5,662,489

The examination liabilities for the aforementioned captioned items are the same as those balances reported by the Company as of December 31, 2022. The examination analysis of Loss and Loss Adjustment Expense reserves was conducted in accordance with Actuarial Principles and Standards of Practice and Statutory Accounting Principles, including NAIC Accounting Practices and Procedures Manual, Statement of Statutory Accounting Principles No. 55 *Unpaid Claims, Losses and Loss Adjustment Expenses* (SSAP No. 55).

SUBSEQUENT EVENTS

The Company entered into a series of related technology transactions (the Transactions) effective January 1, 2023 with ZFSG, the Company's ultimate parent, and Zimmer Technology Group, LLC, a wholly owned subsidiary of ZFSG (collectively, Zimmer) governing the sale, licensing, and services related to certain technologies (the Assets) developed and owned by the Company. As part of the Transactions, Zimmer acquired the Assets for a purchase price of \$13,501,289 paid in the form of a promissory note issued by ZFSG bearing interest at 7.42% per annum with a maturity date of December 31, 2029. Also as part of the Transactions, the Company obtained a license to continue using the Assets as part of the Company's operations for one year at a cost of \$750,000 per annum, with a right to renew the license for additional one year periods.

SUMMARY OF RECOMMENDATIONS

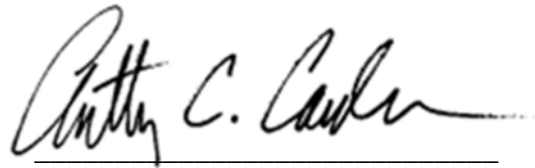
There were no recommendations as a result of this examination.

The assistance and cooperation of the Company's outside audit firm, EY, and the Company's management and staff was appreciated and is acknowledged.

Respectfully Submitted,

A handwritten signature in black ink, appearing to read "Gregg Bealuk", written over a horizontal line.


Gregg Bealuk, CFE
Examiner In-Charge
State of Delaware

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

Anthony Cardone, CPA, CFE
Supervising Examiner
State of Delaware

Ategrity Specialty Insurance Company

I, Gregg Bealuk, hereby verify and attest, under penalty of perjury, that the above is a true and correct copy of the examination report and findings submitted to the Delaware Department of Insurance pursuant to Examination Certification No. 23.018.

A handwritten signature in black ink, appearing to read "Gregg Bealuk", written in a cursive style.

Gregg Bealuk, CFE