

**EXAMINATION REPORT**  
**OF**  
**ALLIED WORLD SPECIALTY INSURANCE COMPANY**  
**AS OF**  
**DECEMBER 31, 2023**

TRINIDAD NAVARRO  
COMMISSIONER



STATE OF DELAWARE  
DEPARTMENT OF INSURANCE

REPORT ON EXAMINATION  
OF  
ALLIED WORLD SPECIALTY INSURANCE COMPANY  
AS OF  
DECEMBER 31, 2023

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", is positioned above a horizontal line.

Trinidad Navarro  
Insurance Commissioner

Dated this 13 day of June, 2025

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May 1, 2025

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

Dear Commissioner:

In accordance with instructions and pursuant to statutory provisions contained in Examination Certification No. 24.010, dated February 5, 2024, an examination has been made of the affairs, financial condition and management of

**ALLIED WORLD SPECIALTY INSURANCE COMPANY**

hereinafter referred to as the Company or AWSIC. The Company was incorporated under the laws of the State of Delaware as a stock property and casualty insurance company with its statutory home office located at 251 Little Falls Drive, Wilmington, Delaware 19808. The Company's main administrative office is located at 199 Water Street, New York, New York 10038. The report of examination thereon is respectfully submitted.

**SCOPE OF EXAMINATION**

We have performed our multi-state examination of the Company. The last examination of the Company was conducted by the Delaware Department of Insurance (Department) as of December 31, 2019. This examination covers the period of January 1, 2020 through December 31, 2023. Transactions subsequent to the examination date were reviewed as deemed necessary.

The examination of the Company was performed as part of the multi-state coordinated examination of the regulated United States property and casualty insurance company subsidiaries (Fairfax U.S. Group) of Fairfax Financial Holdings Limited (FFHL) as of December 31, 2023. Delaware is the lead state for the Fairfax U.S. Group examination. The examination was conducted concurrently with that of the Company's U.S. affiliates. The companies in the Fairfax U.S. Group and their state of domicile are summarized as follows by sub-groups:

**Crum & Forster Sub-group:**

<b><u>Company Name</u></b>	<b><u>NAIC Number</u></b>	<b><u>Domicile State</u></b>
United States Fire Insurance Company (USF)	21113	DE
Crum & Forster Specialty Insurance Company (CFSIC)	44520	DE
North River Insurance Company (NRIC)	21105	NJ
First Mercury Insurance Company (FMIC)	10657	DE
Crum & Forster Indemnity Company (Indemnity)	31348	DE
Seneca Insurance Company Inc. (SIC)	10936	NY
Seneca Specialty Insurance Company (Seneca Specialty)	10729	DE
Crum & Forster Insurance Company (CFIC)	42471	NJ
American Underwriters Insurance Company (AUIC)	10251	AR
MTAW Insurance Company (MTAW)	16498	DE
Monitor Life Insurance Company (MLIC)	81442	NY

**Hudson Sub-group – 100% owned by Odyssey Re Sub-group below:**

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

**Odyssey Re Sub-group:**

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

**Zenith Sub-group:**

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

**Allied World Sub-group:**

<b><u>Company Name</u></b>	<b><u>NAIC Number</u></b>	<b><u>Domicile State</u></b>
Allied World Assurance Company (U.S.) Inc (AWAC)	19489	DE
Allied World Insurance Company (AWIC)	22730	NH
Allied World National Assurance Company (AWNAC)	10690	NH
Allied World Specialty Insurance Company (AWSIC)	16624	DE
Allied World Surplus Lines Insurance Co. (AWSLIC)	24319	AR
Vantapro Specialty Insurance Company (VSIC)	44768	AR

**Riverstone Sub-group:**

<b><u>Company Name</u></b>	<b><u>NAIC Number</u></b>	<b><u>Domicile State</u></b>
TIG Insurance Company	25534	CA

We conducted our examination in accordance with the *National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook* (Handbook) and generally accepted statutory insurance examination standards consistent with the Insurance Code and Regulations of the State of Delaware. The NAIC Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company and evaluate system 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 audit firm, PricewaterhouseCoopers LLP (PwC). Certain auditor work papers of the 2023 audit of the Company have been incorporated into the work papers of the examiners and have been utilized in determining the scope, areas of emphasis in conducting the examination and in the area of risk mitigation and substantive testing.

### **SUMMARY OF SIGNIFICANT FINDINGS**

There are no significant findings or material changes to the financial statements as a result of this examination.

### **COMPANY HISTORY**

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

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

On July 6, 2017, FFHL, indirectly through 1102952 B.C. Unlimited Liability Company and Fairfax Financial Holdings (Switzerland) GmbH (Fairfax Switzerland), completed the acquisition of 94.6% of the outstanding shares of the Company's ultimate parent, Allied World Assurance Company Holdings, AG (Allied World AG) and its subsidiaries (collectively Allied Group). Contemporaneously, with the acquisition of Allied World AG, a pension plan manager for government employees in the province of Ontario, Canada, through OCM Goldfish, Inc. (OCM) and other third parties, invested in Fairfax Switzerland, thereby acquiring an indirect equity interest in Allied World AG along with FFHL. The remaining 5.4% of the outstanding shares of Allied World AG were acquired by Fairfax Switzerland on August 17, 2017, in a merger transaction under Swiss laws pursuant to which Allied World Assurance Company Holdings, GmbH (Allied World Switzerland) became the surviving entity to Allied World AG. The merger resulted in co-investors holding an indirect ownership interest in Allied World Switzerland of 32.6%.

On July 2, 2019, Allied World Switzerland re-domesticated to Bermuda and became a Bermuda company. In connection with this re-domestication, Allied World Switzerland changed its name to Allied World Assurance Company Holdings, Ltd. (AWACH Bermuda). On July 3, 2019, Fairfax Switzerland, the 100% direct parent entity of AWACH Bermuda, also re-

domesticated to Bermuda and became a Bermuda company. In connection with this re-domestication, Fairfax Switzerland changed its name to Fairfax Financial Holdings (Bermuda), Ltd. (FFH Bermuda). On July 10, 2019, FFH Bermuda effected a merger with AWACH Bermuda under Bermuda law, pursuant to which FFH Bermuda became the surviving entity and assumed all of the assets and liabilities of AWACH Bermuda. In connection with this merger, the surviving entity assumed AWACH Bermuda's name. AWACH Bermuda currently serves as the principal holding company for the Allied Group.

### Capitalization

The Company's Restated Certificate of Incorporation authorizes the issuance of five thousand (5,000) shares of common stock with a \$2,000 par value per share. As of December 31, 2023, two thousand one hundred (2,100) shares were issued and outstanding, resulting in total capital stock of \$4,200,000. All shares of the Company are owned by AWUI.

### Dividends

The Company's Board of Directors (Board) has not approved, authorized or paid any stockholder dividends 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, all corporate powers and its business property and affairs are managed by, or under the direction of, its Board. Directors shall be elected annually by the shareholder and shall consist of no less than two (2) and no more than fifteen (15) members. The directors shall hold office until the next annual shareholder meeting or until their successors

are elected or appointed. As of December 31, 2023, the directors and their principal business affiliations were as follows:

<u>Name</u>	<u>Principal Business Affiliation</u>
John R. Bender	Chairman, Reinsurance and Risk Management AWACH Bermuda
Wesley D. Dupont	Chief Operating Officer AWACH Bermuda
Louis P. Iglesias	President and Chief Executive Officer AWACH Bermuda

#### Committees of the Board

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

#### Officers

The bylaws require the election of a President, a Secretary, a Treasurer, and may, at the discretion of the Board, include a Chairman and one or more Vice Chairmen and one or more Vice Presidents (including Executive Vice Presidents and Senior Vice Presidents). As of December 31, 2023, the officers elected and serving were as follows:

<u>Name</u>	<u>Title</u>
Joseph E. Cellura	President, North America Casualty
Christian Gravier	President, North America Professional Liability
Karen L. Colonna	Secretary, Senior VP, Deputy General Counsel
Murzena J. Leung	Treasurer, VP - Finance
Robert L. Bowden II	Executive VP – Global Insurance
James B. Paulhus	SVP, Finance and Assistant Treasurer
Marlene F. Mourad	VP, Associate General Counsel, Assistant Secretary

### Corporate Records

The recorded minutes of the shareholder and Board, which were reviewed for the period under examination, 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, a review of Company files indicated that written correspondence was submitted to the Department with regards to any changes in officers and directors during the period under examination in compliance with 18 *Del. C.* §4919.

### Insurance Holding Company System

The Company is a member of an insurance holding company system known as FFHL as defined under 18 *Del. C.* §5001 of the Delaware Insurance Code. FFHL is a publicly-listed company whose subordinate voting shares (SVS) trade on the Toronto Stock Exchange under the symbol FFH. As of December 31, 2023, FFHL had consolidated assets (IFRS Basis) of \$91.985 billion and shareholders' equity of \$27.709 billion. 18 *Del. C.* §5001(3) states that "...Control shall be presumed to exist if any person, directly or indirectly, owns, controls, holds with the power to vote, or holds proxies representing ten percent (10%) or more of the voting securities of any other person."

V. Prem Watsa and The Watsa Family Trust collectively own or controlled 43.88% of the Company based on FFHL's voting share percentage as of the examination date and are considered the ultimate controlling entities of the Company.

An abbreviated organizational chart of FFHL as of December 31, 2023, with domicile in brackets, along with the control percentages of the upstream affiliates' control of the downstream affiliate is presented below:

Allied World Specialty Insurance Company

		<u>Equity</u> <u>Ownership</u> <u>Percentage</u>	<u>Voting</u> <u>Control</u> <u>Percentage</u>	
V. Prem Watsa and the Watsa Family Trust {1} {8}	{2}	9.84%	43.88%	{3}
All Other Publicly-Traded Shares Held {4}	{5}	90.16%	56.12%	{6}
Fairfax Financial Holdings Limited [Canada] (FFHL) {7}		100.0%	100.0%	
FFHL Group Ltd. [Canada] (FFHL Group)		100.0%	100.0%	
1102952 B.C. Unlimited Liability Company [Canada]		100.0%	100.0%	
Allied World Assurance Company Holdings, Ltd. [Bermuda]*		83.41%	83.41%	
Allied World Assurance Company Holdings I, Ltd [Bermuda]		100.0%	100.0%	
Allied World Assurance Holdings (Ireland) Ltd [Bermuda]		100.0%	100.0%	
Allied World Holdings (U.S.) Inc. [DE]		100.0%	100.0%	
Allied World National Assurance Company [NH]		100.0%	100.0%	
Allied World Insurance Company [NH]		100.0%	100.0%	
<b>Allied World Assurance Company (U.S.) Inc. [DE]</b>		100.0%	100.0%	
AW Underwriters Inc. [DE]		100.0%	100.0%	
<b>Allied World Specialty Insurance Company [DE]</b>		100.0%	100.0%	
Allied World Surplus Lines Insurance Company [AR]		100.0%	100.0%	
Vantapro Specialty Insurance Company [AR]		100.0%	100.0%	

\* On September 27, 2022, FFHL purchased 41% of the OMERS Administration Corporation (OAC), co-investors' indirect interest of AWACH Bermuda for \$650.0 million, resulting in the co-investors owning 17.1% of AWACH Bermuda. On June 23, 2023, FFHL purchased an additional 0.5% of the co-investors' indirect interest of AWACH Bermuda for \$30.6 million, and, as a result, the co-investors currently own approximately 16.59% of AWACH Bermuda. OAC owns 100% of OCM, which in turn owns 16.59% of AWACH Bermuda.

Allied World Specialty Insurance Company

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

- {1} Through voting and economic ownership control, both directly and indirectly, of the following individual and entities: Mr. V. Prem Watsa, 2771489 Canada Limited, The Second 1109 Holdco Limited, and The Sixty-Two Investment Company Limited
- {2} Calculated as follows:

<b>Description</b>	<b>Shares Outstanding</b>	<b>Shares Owned/Controlled</b>	<b>Percentage of total shares outstanding</b>
Total SVS outstanding	22,254,478		
<b>Prem Watsa SVS Shares:</b>			
SVS Shares owned through Second 810 HoldCo Ltd.		257,517	1.1572%
SVS Shares owned through 12002574 Canada Inc.		195,100	.8767%
SVS shares held directly {8}		289,491	1.3008%
SVS Shares held through Sixty Two HoldCo		50,620	.2275%
Additional SVS shares under control and direction		2,100	.0094%
<b>Total SVS shares owned/controlled</b>		794,828	3.5715%
Total MVS Shares Outstanding	1,548,000		
MVS Shares owned and controlled through Sixty Two Holdco		1,548,000	100%
Total MVS + SVS Shares Outstanding	23,802,478		
<b>Total MVS + SVS Shares owned and controlled by Mr. Watsa</b>		2,342,828	9.8428%

- {3} Calculated as 1.95% through ownership of SVS shares held by V. Prem Watsa directly and / or through the Second 810 HoldCo Ltd. and 12002574 Canada Inc. as delineated in Note {2} above (including 2,100 additional SVS shares under his control and / or direction) and 41.93% through ownership of MVS and SVS shares held through Sixty-Two HoldCo. It should be noted that pursuant to Canadian securities filing requirements, the 2,100 subordinate voting shares owned by immediate family members of Mr. Watsa are also considered to be under the control and / or direction of Mr. Watsa and are, therefore, included in the voting control percentages reported herein.
- {4} No other individual or entity owns or controls greater than 10% of the voting common shares of FFHL as of December 31, 2023.
- {5} Calculated as 100.00% - 9.84% {2}
- {6} Calculated as 100.00% – 43.88% {3}
- {7} FFHL common shares are publicly-traded on the Toronto Stock Exchange (TSX) in Canadian dollars under the symbol FFH and in US dollars under the symbol FFH.U. As of December 31, 2023, FFHL has issued 1,548,000 multiple voting common shares, 22,254,478 subordinate voting common shares, and 58,239,178 non-voting preferred Series C thru M. FFHL's equity attributable to Shareholders as of December 31, 2023, totals \$22.950 billion (\$ U.S.) which consists of \$21.615 billion (includes \$3.8 million of multiple voting shares) related to voting common shares (94.18% of the total) and \$1.335 billion related to non-voting preferred shares (5.82% of the total).
- {8} On May 13, 2024, FFHL re-purchased 275,000 SVS shares from Mr. Watsa for cancellation, reducing the number of shares held directly by Mr. Watsa to 14,491. As a result, the 1.95% year-end 2023 ownership percentage shown in Note {3} above would be reduced to approximately 1.24% after cancellation in 2024.

### Agreements with Affiliates

The Company was a party to the following agreements, approved by the Department, in effect as of December 31, 2023:

#### *First Amended and Restated Master Intercompany Services Agreement*

Effective November 9, 2020, the Company entered into a First Amended and Restated Master Intercompany Services Agreement whereby members of Allied Group can be either a service provider or receive services from another member based on terms defined in the agreement. Under the agreements, services available to members include but are not limited to investment/asset management, administrative services, claims, actuarial, human resources and internal audit. In addition, equipment including furniture, office supplies, phone, software and computer hardware are available to members. For services provided by members to another, the quarterly billing is at incurred cost plus 10%. For equipment provided by members to another, the

quarterly billing is at incurred cost only. The Company incurred net expenses of \$4,437,026 in 2023 related to services and equipment provided by affiliates under this agreement, which represents the Company's 25% share of the intercompany pooling agreement with affiliates described in the "Reinsurance" section of this report.

*Investment Management Agreement*

Effective July 27, 2017, the Company entered into an Investment Management Agreement with Hamblin Watsa Investment Counsel Ltd. (Hamblin Watsa), a subsidiary of FFHL, and FFHL, whereby Hamblin Watsa manages the investment portfolio of the Company and performs investment administrative services for the Company. The Company pays Hamblin Watsa a base fee amount of 0.3% of the market value of the portfolio, subject to various adjustments based upon a performance benchmark of 200+ basis points above the actual annual S&P 500 performance. If the actual portfolio performance is less than the S&P 500 benchmark, then the fee is 90% of the base fee. If the portfolio performance is in excess of the S&P 500 benchmark, the Company pays an additional basis point fee. In 2023, the Company paid Hamblin Watsa \$5,199,401 for investment management services.

*Amended and Restated Tax Allocation Agreement*

Effective January 1, 2022, the Company entered into an Amended and Restated Tax Allocation Agreement with other members of the consolidated group, which provides that estimated tax payments are made quarterly as if the Company were filing a separate federal income tax return for such taxable year. The method of allocation among affiliates is subject to the written tax sharing agreement and based upon separate return calculations with current credit for net losses to the extent that the losses provide a benefit in the consolidated tax return. Any separate tax liability owed by the Company is payable to its parent within ten days of the filing date. The

Company's parent will pay separate tax return refunds within thirty days of filing, except as otherwise noted. This Amended and Restated Tax Allocation Agreement replaced the earlier similar agreement effective June 27, 2008.

*Unconditional Financial Guaranty Agreement*

Effective August 16, 2021, the Company entered into an Unconditional Financial Guaranty Agreement with VSIC, whereby the Company became the guarantor for VSIC, the primary obligor, so that VSIC can conduct insurance business in the state of Maine.

**TERRITORY AND PLAN OF OPERATION**

Territory

As of December 31, 2023, the Company is licensed on an admitted basis to transact business in all fifty U.S. states, the District of Columbia and Puerto Rico. The Company also has a Canadian branch, and is licensed to write business in all of the provinces and territories of Canada. The Company holds both a federal license to transact U.S. Longshore and Harbor Workers' Compensation and U.S. Defense Base Act insurance.

Plan of Operation

The Company's products were placed through a network of insurance intermediaries, including wholesalers and regional and national brokerage firms. In addition to writing direct business, the Company also acquires business through the use of program administrators.

In 2023, the Company's reported \$536,243,774 in direct written premiums by line of business and jurisdiction were as follows:

<u>Line of Business</u>	<u>Premiums</u>	<u>Percent</u>
Other Liability – Claims Made	\$313,535,973	58.47%
Fire	79,425,134	14.81%
Other Commercial Auto Liability	43,082,337	8.03%
Other Liability - Occurrence	30,936,682	5.77%
Allied Lines	<u>30,892,855</u>	<u>5.76%</u>
Subtotal	\$497,872,981	92.84%
All Other Lines of Business Combined	<u>\$ 38,370,793</u>	<u>7.16%</u>
Total Direct Written Premiums	<u>\$536,243,774</u>	<u>100.00%</u>
<u>Jurisdiction</u>	<u>Premiums</u>	<u>Percent</u>
California	\$ 72,512,763	13.52%
New York	43,833,436	8.17%
Texas	34,107,922	6.36%
Massachusetts	25,945,617	4.84%
Illinois	16,503,550	3.08%
Pennsylvania	<u>15,659,659</u>	<u>2.92%</u>
Subtotal	\$208,562,947	38.89%
All Other Jurisdictions Combined	<u>\$327,680,827</u>	<u>61.11%</u>
Total Direct Written Premiums	<u>\$536,243,774</u>	<u>100.00%</u>

### REINSURANCE

The Company reported the following distribution of written premiums for the year ended December 31, 2023:

Direct written premiums	\$ 536,243,774
Reinsurance assumed from affiliates	778,529,333
Reinsurance assumed from non-affiliates	<u>6,780,471</u>
Subtotal assumed	\$785,309,804
Gross written premiums (direct and assumed)	\$1,321,553,578
Reinsurance ceded to affiliates	\$ 356,969,623
Reinsurance ceded to non-affiliates	<u>186,054,636</u>
Subtotal ceded	<u>\$ 543,024,249</u>
Net written premiums	<u>\$ 778,529,329</u>

The Company retained 58.91% of its gross business in 2023.

Assumed

As shown above, in addition to the \$778,529,333 assumed premiums through the Intercompany Pooling Agreement (described in further detail below), the Company assumed \$6,780,471 in premiums from other non-affiliated insurers.

Ceded

*Internal Ceded*

The Company ceded \$356.970 million to affiliates in 2023 under the following arrangements further described below:

<u>Affiliate</u>	<u>Reinsurance Agreement</u>	<u>Amount</u>
AWIC Intercompany Agreement	\$327,405,000	Pooling Odyssey
Reinsurance Company	FIRV	21,399,000
CRC Reinsurance Limited	FIRV	10,000
Allied World Assurance Company, Ltd.	Group Excess of Loss	1,398,000
All Other Affiliates Combined	Various	<u>6,758,000</u>
Total Ceded to Affiliates		<u>\$356,970,000</u>

Reinsurance Allocation Agreement

Effective January 1, 2021, the Company entered into a Reinsurance Allocation Agreement with other affiliated insurers that are members of Allied Group. When group reinsurance coverages are purchased, each entity is allocated the premiums and recoveries. Each Allied Group entity shall pay its proportional share of the total reinsurance agreement premium as determined by each Allied Group entity's percentage contribution to the total exposure as determined by the Allied Group's catastrophe modeling team.

### Intercompany Pooling Agreement

Effective January 1, 2012, the Company entered into an Amended and Restated Intercompany Pooling Agreement with other Allied World sub-group of U.S. insurers, whereby all business after affiliated and unaffiliated reinsurance is ceded to AWIC. Under the terms of the agreement, the Company cedes 100% of all direct, assumed and ceded (or net) underwriting assets and liabilities to AWIC after third party reinsurance. In turn, AWIC cedes to the Company its participation percentage share of the pooled business. AWIC retains 45% of the pooled business, with the remainder retroceded to the U.S. insurers as follows: AWSIC – 25%, AWAC – 10%, AWNAC – 10% and AWSLIC – 10%. This agreement was approved by the Department during the third quarter of 2012. The Company ceded \$327.405 million of written premiums to the pool in 2023.

### Fairfax Internal Reinsurance Vehicle

After the acquisition of the Allied Group by the Fairfax Group, a reinsurance facility was established called the Fairfax Internal Reinsurance Vehicle (FIRV) where at the outset of each calendar year, the Allied World sub-group, including the Company, agree on cession levels (up to a maximum of 10%) of certain contracts for U.S. business to affiliate Odyssey Reinsurance Company (Odyssey Re), a Connecticut-domiciled reinsurer, or to affiliate CRC Reinsurance Limited (CRC), a Barbados-domiciled reinsurer. The Company is a party to various reinsurance agreements whereby it cedes percentages (less than 10%) to Odyssey Re and/or CRC, which ultimately feed into the FIRV. The Company ceded \$21.399 million and \$0.010 million, respectively, to Odyssey Re and CRC, respectively, in 2023.

Group Excess of Loss

Effective January 1, 2023 through December 31, 2023, the Company, along with affiliates AWIC, AWNAC, AWAC and AWSLIC, entered into an Excess of Loss Reinsurance Agreement with Allied World Assurance Company, Ltd. (AW Bermuda), whereby AW Bermuda agrees to reinsure the excess liability which may accrue to the Company under its policies. The agreement provides per occurrence reinsurance catastrophe cover in excess of \$50 million. AW Bermuda's liability under this per occurrence reinsurance protection shall not exceed \$100 million per occurrence and \$200 million in respect of all loss occurrences during the term of this agreement. The agreement also provides 21 loss ratio points of coverage in excess of an annual aggregate retention equal to 84 loss ratio points (Aggregate Retention) for the term of the agreement. AW Bermuda shall not provide any coverage until the Company has incurred losses in excess of the Aggregate Retention. The premium amount for these annually renewed agreements during the period under examination, along with the Company's allocated share and the amount actually booked to the general ledger, were as follows:

Agreement Calendar <u>Year</u>	<u>Premium</u>	AWSIC Calculated <u>25% share (1)</u>	AWSIC Booked <u>Share (2)</u>	AWSIC Booked <u>Percentage</u>
2023	\$37,500,000	\$9,375,000	\$1,397,838	3.73%
2022	30,000,000	7,500,000	1,273,234	4.24%
2021	24,900,000	6,225,000	887,698	3.57%
2020	17,800,000	4,450,000	437,815	2.46%

(1) Per the Annual Statement, Notes to Financial Statements, Note 10.B

(2) Per the general ledger and the Annual Statement, Schedule F – Part 3

The remainder of the agreement's annual premium was allocated and booked to AWIC

### Multi-line Quota Share Agreement

The Company is a participant in a multi-line quota share reinsurance agreement with AW Bermuda. Under this agreement, the Company cedes 70% of all direct, assumed and ceded policy liabilities to AW Bermuda prior to the Intercompany Pooling Agreement. This agreement was terminated as of January 1, 2018. There has been no premiums ceded to AW Bermuda after January 1, 2018. Any losses that relate to underwriting years 2017 and prior, irrespective of when the claims are reported, will continue to be ceded and recoverable from AW Bermuda.

### *External*

The Company's ceded reinsurance program is managed on a global basis, and the purchase of reinsurance is a centralized function. Reinsurance treaties are generally purchased on an annual basis and are, therefore, subject to annual negotiation at renewal. The amount of risk ceded to reinsurers is subject to maximum limits which vary by line of business and by type of coverage. The panel of reinsurers is approved by the Allied Group Risk Security Committee. Third party reinsurance is allocated amongst the Allied Group insurers. The Company ceded \$186.055 million to non-affiliates in 2023. In total, the Company has per occurrence limit property catastrophe treaties with limits of \$200 million excess of \$165 million and an aggregate property catastrophe bond that provides coverage of \$200 million excess of \$250 million.

**FINANCIAL STATEMENTS**

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

- Assets as of December 31, 2023
- Liabilities, Surplus and Other Funds as of December 31, 2023
- Statement of Income for the year ended December 31, 2023
- Reconciliation of Capital and Surplus for the Period from the Prior Examination as of December 31, 2019 to December 31, 2023

Statement of Assets  
As Of December 31, 2023

	Ledger Assets	Non-admitted Assets	Net Admitted Assets
Bonds	\$ 965,549,092	\$ -	\$ 965,549,092
Preferred stocks	10,554,153	-	10,554,153
Common stocks	699,781,976	-	699,781,976
Mortgage loans on real estate - first liens	270,034,853	-	270,034,853
Cash, cash equivalents and short-term investments	97,901,616	-	97,901,616
Derivatives	3,332,145	-	3,332,145
Other invested assets	161,286,513	-	161,286,513
Investment income due and accrued	14,116,021	-	14,116,021
Uncollected premiums in course of collection	82,330,062	3,416,026	78,914,036
Deferred premiums booked but not yet due	132,087,873		132,087,873
Amounts recoverable from reinsurers	65,135,768	-	65,135,768
Funds held by reinsured companies	6,993,634	-	6,993,634
Net deferred tax asset	40,061,443	11,884,670	28,176,773
EDP equipment and software	963,185	963,185	-
Furniture and equipment	2,887,955	2,887,955	-
Receivable from parent, subsidiaries and affiliates	64,625,801	-	64,625,801
Aggregate write-ins for other than invested assets	60,675,199	1,288,744	59,386,455
Total Assets	<u>\$ 2,678,317,288</u>	<u>\$ 20,440,580</u>	<u>\$2,657,876,708</u>

Statement of Liabilities, Surplus and Other Funds  
As Of December 31, 2023

		<u>Note</u>
Losses	\$ 808,039,297	1
Reinsurance payable on paid losses and loss adjustment expenses	8,370,943	
Loss adjustment expenses	294,299,584	1
Commissions payable	2,323,030	
Other expenses	20,273,823	
Taxes, licenses and fees (excluding federal income taxes)	1,959,145	
Current federal income taxes	3,818,757	
Unearned premiums	447,524,420	
Ceded reinsurance premiums payable (net of ceding commissions)	53,492,654	
Funds held by company under reinsurance treaties	5,497,558	
Provision for reinsurance	3,141,579	
Payable to parent, subsidiaries and affiliates	5,636,230	
Derivatives	4,705,670	
Payable for securities	24,923,391	
Aggregate write-ins for liabilities	8,703,515	
Total liabilities	<u>\$ 1,692,709,596</u>	
Common capital stock	\$ 4,200,000	
Gross paid in and contributed surplus	424,048,905	
Unassigned funds (surplus)	536,918,207	
Surplus as regards policyholders	<u>\$ 965,167,112</u>	
Total liabilities & surplus	<u><u>\$ 2,657,876,708</u></u>	

Statement of Income  
For The Year Ended December 31, 2023

**Underwriting Income**

Premiums earned	\$ 727,200,940
<b>Deductions</b>	
Losses incurred	\$ 420,302,216
Loss adjustment expenses incurred	90,655,885
Other underwriting expenses incurred	174,857,872
<b>Total underwriting deductions</b>	<u>\$ 685,815,973</u>
Net underwriting gain (loss)	<u>\$ 41,384,967</u>

**Investment Income**

Net investment income earned	\$ 74,596,407
Net realized capital gains (losses) less capital gains tax of \$(646,105)	<u>(12,886,479)</u>
Net investment gain (loss)	<u>\$ 61,709,928</u>

**Other Income**

Net gain (loss) from agents' or premium balances charged off (amount recovered \$ 0, amount charged off \$)	\$ -
Finance and service charges not included in premium	-
Aggregate write-ins for miscellaneous income	168,175
Total other income	<u>\$ 168,175</u>
Net income before dividends to policyholders; after capital gains tax and before all other federal and foreign income taxes	<u>\$ 103,263,070</u>
Dividends to policyholders	<u>-</u>
Net income; after dividends to policyholders; after capital gains tax and before all other federal and foreign income taxes	\$ 103,263,070
Federal and foreign income taxes incurred	24,364,140
Net Income	<u><u>\$ 78,898,930</u></u>

Reconciliation of Capital and Surplus  
For the Period from the Prior Examination  
December 31, 2019, to December 31, 2023

	Common Capital Stock	Gross Paid-in and Contributed Surplus	Unassigned Surplus		Total
12/31/2019	\$ 3,500,000	\$ 194,048,905	\$ 166,454,235		\$ 364,003,140
12/31/2020	-	-	(69,507,413)	(1)	(69,507,413)
12/31/2020	-	-	83,471,794	(2)	83,471,794
12/31/2020	-	75,000,000	-	(3)	75,000,000
12/31/2021	-	-	5,923,528	(1)	5,923,528
12/31/2021	-	-	133,962,161	(2)	133,962,161
12/31/2021	-	35,000,000	-	(3)	35,000,000
12/31/2022	-	-	64,978,713	(1)	64,978,713
12/31/2022	-	-	(6,942,879)	(2)	(6,942,879)
12/31/2022	700,000	120,000,000	-	(3)	120,700,000
12/31/2023	-	-	78,898,930	(1)	78,898,930
12/31/2023	-	-	79,679,138	(2)	79,679,138
	<u>\$ 4,200,000</u>	<u>\$ 424,048,905</u>	<u>\$ 536,918,207</u>		<u>\$ 965,167,112</u>

- (1) Net Income
- (2) Represents the compilation of 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, aggregate write-ins for gains and losses in surplus
- (3) Capital contributions

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

There were no changes to the financial statements as a result of this examination.

**COMMENTS ON FINANCIAL STATEMENT ITEMS**

Note 1

Losses	\$808,039,297
Loss Adjustment Expenses	\$294,299,584

The examination liabilities for the aforementioned captioned items are the same as those balances reported by the Company as of December 31, 2023. 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, SSAP No. 55 – Unpaid Claims, Losses and Loss Adjustment Expenses*.

**SUBSEQUENT EVENTS**

There were no material subsequent events.

**SUMMARY OF RECOMMENDATIONS**

There are no recommendations as a result of this examination.

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

Respectfully submitted,



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Andrew Chiodini, CFE  
Examiner In-Charge  
State of Delaware

*Anthony Cardone*

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Anthony Cardone, CPA, CFE  
Supervising Examiner  
State of Delaware

Allied World Specialty Insurance Company

I, Andrew Chiodini, 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. 24.010.

A handwritten signature in black ink, reading "Andrew E. Chiodini". The signature is written in a cursive style with a horizontal line under the name.

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Andrew Chiodini, CFE