

**STATE OF NORTH DAKOTA
BISMARCK, NORTH DAKOTA**

REPORT OF EXAMINATION

OF

**ASPEN SPECIALTY INSURANCE COMPANY
BISMARCK, NORTH DAKOTA**

**AS OF
DECEMBER 31, 2017**

STATE OF NORTH DAKOTA
DEPARTMENT OF INSURANCE

I, the undersigned, Commissioner of Insurance of the State of North Dakota do hereby certify that I have compared the annexed copy of the Report of Examination of the:

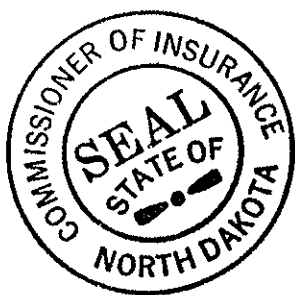
Aspen Specialty Insurance Company


Statutory Home Office
314 East Thayer Avenue
Bismarck, ND 58501

Administrative Offices
175 Capital Boulevard, Suite 300
Rocky Hill, CT 06067

as of December 31, 2017, with the original on file in this Department and that the same is a correct transcript therefrom and of the whole of said original.

IN WITNESS WHEREOF, I have hereunto
set my hand and affixed my official seal at my
office in the City of Bismarck, this 14 day of
May, 2019.





Jon Godfread
Insurance Commissioner

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Bismarck, North Dakota
March 15, 2018

Honorable Jon Godfread
Commissioner
North Dakota Insurance Department
600 East Boulevard Avenue, Dept. 401
Bismarck, ND 58505-0320

Dear Commissioner:

Pursuant to your instructions and statutory requirements, a financial examination has been made of the books, records and financial condition of:

Aspen Specialty Insurance Company

Rocky Hill, Connecticut

Aspen Specialty Insurance Company, hereinafter referred to as the "Company" or "ASIC", was last examined as of December 31, 2012, by the North Dakota Insurance Department.

SCOPE OF EXAMINATION

This examination was a risk focused financial condition examination conducted in accordance with North Dakota Century Code (N.D.C.C.) § 26.1-03-19.3 and observed guidelines and procedures contained in the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook*. The examination was conducted to determine the Company's financial condition, its compliance with statutes, and to review its corporate affairs and insurance operations. The last examination covered the period of January 1, 2008 through December 31, 2012. This examination covers the period of January 1, 2013 through December 31, 2017, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of this statutory examination.

The examination was conducted in accordance with examination policies and standards established by the North Dakota Insurance Department and procedures recommended by the NAIC. In accordance with the NAIC *Financial Condition Examiners Handbook*, the examination was planned and performed 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. The examination also included 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 included 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 was identified, the impact of such adjustment was documented separately following the Company's financial statements.

This exam was conducted concurrently with the Texas Department of Insurance with Texas serving as the lead state in the coordinated examination of the insurance companies that are part of Aspen U.S. Holdings, Inc. (Aspen Group) as shown below:

Aspen American Insurance Company (Texas)
Aspen Specialty Insurance Company (North Dakota)

STATUS OF PRIOR EXAMINATION FINDINGS

Our examination included a review to determine the current status of one Comment and Recommendation in our preceding Report on Examination which covered the period from January 1, 2008, to December 31, 2012. We determined that the Company had satisfactorily addressed this item.

SUMMARY OF SIGNIFICANT FINDINGS

There were no material adverse findings or material changes in the financial statements.

SUBSEQUENT EVENTS

Effective February 15, 2019, the Company's ultimate parent, Aspen Insurance Holdings Ltd. (AIHL) was acquired by certain investment funds managed by affiliates of Apollo Global Management, LLC. The impacts of the acquisition were felt mostly at the ultimate parent level and included new executive management and board representation. Operationally, only the investment management function is expected to be materially impacted at the Company level by this acquisition.

HISTORY

General

The Company was originally incorporated on September 24, 1996, by The Insurance Corporation of New York under the name Dakota Specialty Insurance Company ("Dakota Specialty"). Dakota Specialty's ultimate parent holding company was acquired by Trenwick Group, Inc. on October 27, 1999. On September 5, 2003, the Company was acquired by Aspen U.S. Holdings, Inc. (AUSH) and renamed Aspen Specialty Insurance Company.

The Articles of Incorporation state that the Company was organized for the purpose of transacting the following lines of insurance: fire, miscellaneous property, water damage, collision, motor vehicle and aircraft, marine, marine protection and indemnity and such insurance as a domestic stock fire or marine insurance company is now permitted to transact or may hereafter be permitted to transact under the insurance laws of the State of North Dakota. Effective August 1, 2013, N.D.C.C. § 26.1-44-03.2 was enacted to allow domestic insurers to become domestic surplus lines insurers. The Company requested approval to become a licensed domestic surplus lines insurer on July 31, 2013 and the North Dakota Insurance Department granted approval on August 2, 2013.

Effective October 1, 2016, AUSH contributed all 10,000 shares of the Company to Aspen American Insurance Company (AAIC). AAIC is now the sole shareholder of the Company.

Capital Stock

The Articles of Incorporation provide that the authorized capital of the Company is \$1,000,000 consisting of 10,000 shares of common stock with a par value of \$100 per share.

The following exhibit reflects the activity in the capital structure as reported in the Company's Annual Statements for the years indicated.

Year	Shares Issued	Common Capital Stock	Surplus Notes	Gross Paid-In and Contributed Surplus
2013	10,000	\$4,200,000	\$ 0	\$231,231,813
2014	10,000	1,000,000	0	243,431,813
2015	10,000	1,000,000	0	243,431,813
2016	10,000	1,000,000	0	253,031,813
2017	10,000	1,000,000	30,000,000	253,031,813

Capital stock balance was adjusted in 2014 to correct a prior examination finding. On December 22, 2017, the Company issued a surplus note to Aspen US Holdings, Inc., due December 22, 2022.

MANAGEMENT AND CONTROL

Board of Directors

The Bylaws provide that there be at least one director. A regular meeting of the Board of Directors shall be held immediately after and at the same place as the regular meeting of the shareholders, without any notice. Special meetings require at least ten days written notice.

Directors serving at December 31, 2017, were as follows:

<u>Name</u>	<u>Business Affiliations</u>
David A. Cohen	President & Chief Underwriting Officer
Kenneth G. Cadematori	Chief Financial Officer
Michael R. Cain	Group General Counsel
Clifton S. Hope	Executive Vice President
Bruce M. Eisler	EVP US Financial Products
Stephen G. Perrella	EVP Chief Claims Officer
Timothy P. Kenefick	EVP & Chief Actuary

<u>Name</u>	<u>Business Affiliations</u>
Robert M. Rokicki	Head of Onshore Energy & Construction

Officers

The Bylaws provide that the elected officers of the Company shall be a Chief Executive Officer, President, Vice President, Secretary and Treasurer, each of whom shall hold their office for one year. Any two or more offices may be held by the same person.

The officers duly elected by the Board of Directors and holding office at December 31, 2017, were as follows:

<u>Officer</u>	<u>Title</u>
David A. Cohen	President and Chief Underwriting Officer
Kerian Bunch	General Counsel & Secretary
Kenneth G. Cadematori	Chief Financial Officer
Peter C. Felix	Treasurer
Clifton S. Hope	Executive Vice President
Paul G. Glasscock	Assistant Treasurer
Leah Berger	Assistant Secretary
Timothy P. Lynch	Assistant Secretary

Committees

The Bylaws provide the Board of Directors may designate two or more persons to constitute an Executive Committee. The Bylaws also provide that the Board of Directors may designate other persons to constitute other committees as determined by the Board of Directors. The Company does not have their own respective committees or subcommittees in existence at December 31, 2017. All additional committees are under the Company's ultimate parent, AIHL.

Audit Committee

The Audit Committee of the Company's ultimate parent, AIHL is elected to serve as the Company's Audit Committee. As of December 31, 2017 the Audit Committee was made up of five individuals who are not management of the Company.

CORPORATE RECORDS

Articles of Incorporation and Bylaws

No Articles or Bylaws changes were noted during the examination period.

Board of Directors, Shareholder, and Committee Minutes

The minutes of the Board of Directors, shareholder, and AIHL Audit Committee meetings for the period under examination were read and found to be in compliance with the Bylaws, Articles of Incorporation and statutory requirements.

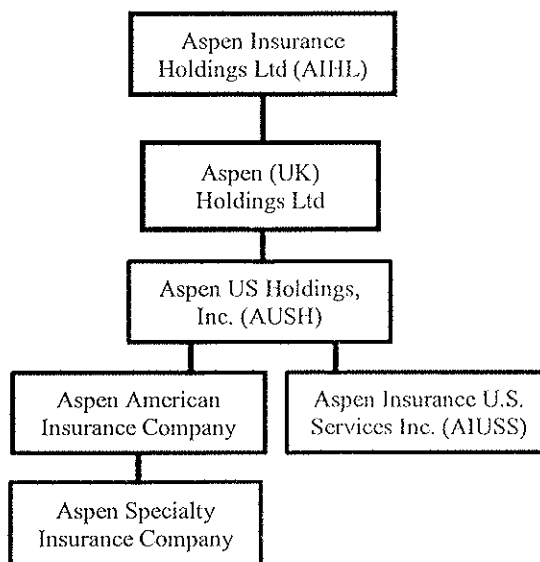
Investment transactions were ratified by the full board during its quarterly meetings in compliance with N.D. Admin. Code § 45-03-12-05(4)(a).

Conflict of Interest

The Company has an established procedure for the disclosure of potential conflicts of interest or any material interest or affiliation on the part of its officers, directors or key employees to its Board of Directors.

AFFILIATED COMPANIES

The Company is a member of the Aspen Group. The following chart depicts an abbreviated listing of the members of the group at December 31, 2017:



Aspen Insurance Holdings Limited (AIHL) is the ultimate controlling entity in the holding company system. It was incorporated in Bermuda under the name of Exali Reinsurance Holdings on May 23, 2002. Exali subsequently changed its name to Aspen Insurance Holdings Limited on November 20, 2002. AIHL stock is publicly traded on the New York and Bermuda stock exchanges. At December 31, 2017, no entity held more than a 10 percent ownership interest in AIHL.

Aspen (UK) Holdings Limited – A United Kingdom holding company created in 2002 for UK and Bermuda affiliates as well as Aspen U.S. Holdings, Inc.

Aspen U.S. Holdings, Inc. - A Delaware domiciled holding company formed in 2003 to hold U.S. operating companies.

Aspen Insurance U.S. Services Inc. – A service company created in 2003 and domiciled in Delaware. It provides employment and administrative services to all U.S. operations and entities within the Aspen Group.

Aspen American Insurance Company – A Texas domiciled company writing admitted business. On August 16, 2010, Aspen U.S. Holdings, Inc. purchased FFG Insurance Company from National Indemnity Insurance Company. On September 23, 2010, the name of FFG Insurance Company was changed to Aspen American Insurance Company.

INTERCOMPANY AGREEMENTS

Aspen Insurance U.S. Services Inc. (AIUSS), an affiliate, provides administrative and management services to the Company through an administrative service agreement dated November 18, 2004. AIUSS provides staff, equipment, facilities, and other resources necessary to perform all functions for the operation of the Company, including accounting, actuarial, tax, employment and general administrative services, information technology, legal, compliance, internal audit, marketing and promotion, underwriting and reinsurance, and claims. AIUSS may subdelegate its duties to third parties with the approval of the Company's Board of Directors. The North Dakota Insurance Department approved an amendment to the Company's administrative services agreement effective January 28, 2016, which capped the Company's expense allocations at 15% or actual, whichever is less. Under a 2018 amendment, this expense cap is scheduled to expire on December 31, 2020.

The Company entered into a service agreement effective January 1, 2005, with its international affiliates Aspen Insurance UK Limited, Aspen Bermuda Limited, and Aspen Insurance Holdings Limited who provides investment services, audit and IT support to the Company at cost plus seven percent.

On March 1, 2006, an affiliate, Aspen U.S. Holdings, Inc. and its direct subsidiaries, including the Company, entered into a tax sharing agreement in which a consolidated tax return is filed with the Internal Revenue Service.

Binding authority agreements were made with two affiliated surplus lines brokers, Aspen Specialty Insurance Management Co. (ASIM) and Aspen Specialty Insurance Solutions, LLC (ASIS) effective July 1, 2012. These affiliates provide the Company with underwriting services such as policy and endorsement issuance, underwriting, compliance review, quoting, binding, rating and premium collection and servicing for excess and surplus lines business. The fee paid by the Company to ASIM and ASIS is the lesser of 15 percent of earned premium, net of reinsurance ceded to unaffiliated reinsurers, or the actual cost incurred by ASIM and ASIS.

On January 1, 2012, the Company entered into an outwards reinsurance sharing agreement with affiliates Aspen Insurance UK Limited, Aspen Bermuda Limited, Aspen American Insurance Company and Aspen Managing Agency Limited to allocate reinsurance premium among the affiliates in connection with the multiple reinsurance agreements between the affiliates, as cedents, and nonaffiliated reinsurers.

On December 22, 2017, the Company issued a \$30 million surplus note to Aspen US Holdings (AUSH) at a rate of 3.15% per annum with a maturity date of December 22, 2022.

FIDELITY BOND AND OTHER INSURANCE

The Company is a named insured under a fidelity bond coverage issued to the Company's ultimate parent, AIHL, which provides \$10,000,000 of coverage for employee dishonesty. The amount of coverage meets the minimum amount recommended in the NAIC *Examiners Handbook*.

The Company has other types of insurance coverage including Professional Liability, Directors and Officers Liability, Automobile, Employment Practices Liability, Workers' Compensation, and Commercial Excess & Umbrella Liability which were considered adequate.

PENSION AND INSURANCE PLANS

The Company has no employees. Aspen Insurance U.S. Services Inc. provides administrative and management services to the Company.

STATUTORY DEPOSITS

The Company maintained the following deposits at December 31, 2017:

Location	Type of Asset	Statement Value	Fair Value
Massachusetts	Bond	\$ 700,000	\$ 696,661
New Mexico	Bond	105,000	104,500
New York	Bond	2,580,000	2,570,908
North Dakota*	Bond	2,500,000	2,481,933
South Carolina	Bond	120,000	120,180
		<u>\$6,005,000</u>	<u>\$5,974,182</u>

* Held for the benefit of all policyholders.

TERRITORY AND PLAN OF OPERATION

At December 31, 2017, the Company was licensed and qualified to transact business in the State of North Dakota as a domestic surplus lines company pursuant to N.D.C.C. § 26.1-44-03.2. The Company was also operating on an excess and surplus lines basis in 49 states and in the District of Columbia.

Other occurrence liability and allied lines business make up almost half of the Company's net written premiums.

GROWTH OF COMPANY

The table below shows the Company's written premium activity compared to its surplus over the examination period:

	Premiums Written				
	2017	2016	2015	2014	2013
Direct	\$540,614,914	\$474,269,460	\$501,280,930	\$426,377,692	\$311,023,129
Assumed	38,630,304	30,241,705	27,171,290	37,552,141	15,600,805
Ceded	537,678,674	441,759,488	464,184,846	419,773,227	285,631,968
Net Written Premiums	\$41,566,544	\$62,751,676	\$64,267,374	\$44,156,607	\$40,991,966
Surplus	139,206,986	143,788,052	152,126,938	\$131,940,196	\$116,569,506
Premium-to-Surplus Ratio	29.9%	43.6%	42.2%	33.5%	35.2%

The Company's direct premiums written grew in each year except 2016. Net premiums written fell in 2016 and 2017 but remained flat from 2013 to 2017. The Company ceded 85 percent of business written to affiliate, Aspen Bermuda Limited and received a capital contribution or surplus note in each year except 2015.

LOSS EXPERIENCE

The table below shows the Company's loss reserves and losses incurred over the exam period:

	2017	2016	2015	2014	2013
Loss reserves	\$148,510,745	\$78,555,638	\$62,429,684	\$31,338,233	\$18,280,456
LAE reserves	23,131,879	15,324,299	10,923,325	10,715,979	9,786,888
Total Reserves	\$171,642,624	\$93,879,937	\$73,353,009	\$42,054,212	\$28,067,344
Losses and LAE Incurred	\$64,672,274	\$48,483,972	\$42,282,485	\$31,583,893	\$20,065,884

The Company's loss and adjusting expense reserves and loss and adjusting expense incurred increased in each year under review. The 2017 spike in loss reserves was driven by a loss portfolio transfer.

REINSURANCE

A summary of the Company's most significant assumed and ceded reinsurance agreements in effect at December 31, 2017, are provided as follows:

Assumed

The Company has a 100% quota share contract with Aspen Insurance UK Limited, in which US property and casualty surplus lines business written by Aspen Specialty Insurance Management Company is ceded to the Company in exchange for a one percent fronting fee.

Ceded

The Company entered into an adverse development cover with affiliate, Aspen Bermuda Limited (ABL) effective January 1, 2009, which covers potential adverse development of the Company's booked/estimated reserves on business written prior to December 31, 2008.

On January 1, 2016, the Company entered into a Quota Share agreement with ABL to cede 85% of the Company's ultimate net loss on new and renewal business written as of January 1, 2016.

In addition, the Company has an Outwards Reinsurance Sharing Agreement effective January 1, 2012, with affiliated companies in which the affiliates will enter into certain external reinsurance agreements if beneficial to all the parties.

The Company has a Deed of Guaranty with affiliate, Aspen Bermuda Limited effective January 1, 2009, which covers any nonpayment of the Company's third-party reinsurer balances.

The reinsurance agreements were reviewed, and all contained the insolvency clause required by N.D.C.C. § 26.1-02-21 and all of the required clauses set forth in the NAIC's *Accounting Practices and Procedures Manual*.

ACCOUNTS AND RECORDS

The Company's accounting procedures, internal controls, and transaction cycles were reviewed during the course of the examination. The independent auditor's work papers were reviewed as of December 31, 2017, and balances, revenues and expenses were test checked to the extent deemed necessary.

Claim Complaints

N.D.C.C. § 26.1-04-03(10) requires that the Company adopt and implement reasonable standards for the prompt handling of written communications, primarily expressing grievances, received by the Company from insureds or claimants. The Company's complaints logs were reviewed and deemed compliant.

FINANCIAL STATEMENTS

The following pages present a Statement of Assets, Liabilities, Surplus, and Other Funds as of December 31, 2017. This statement is followed by supporting statements and reconciliations presented in the following order:

Statement of Assets, December 31, 2017

Statement of Liabilities, Surplus, and Other Funds, December 31, 2017

Statement of Income, Year 2017

Reconciliation of Capital and Surplus, January 1, 2013 through December 31, 2017

These financial statements are based on the statutory statements filed by the Company with the North Dakota Insurance Department and present the financial condition of the Company for the period ending December 31, 2017.

Aspen Specialty Insurance Company
Statement of Assets
December 31, 2017

	<u>Assets</u>	<u>Nonadmitted Assets</u>	<u>Net Admitted Assets</u>
Bonds	\$169,777,237		\$169,777,237
Cash	23,797,580		23,797,580
Cash Equivalents	51,484,633		51,484,633
Receivable for Securities	115,396		115,396
Investment Income Due and Accrued	993,293		993,293
Premiums and Considerations: Uncollected Premiums and Agents' Balances in Course of Collection	57,424,107	\$ 3,051,982	54,372,125
Amounts Recoverable from Reinsurers	85,186,094		85,186,094
Receivables from parent, subsidiaries and affiliates	3,877,877		3,877,877
Aggregate write-ins for other than invested assets:			
TPA Loss Funding	3,943,524	3,943,524	0
Miscellaneous Assets	12,063,247	0	12,063,247
Totals	<u>\$408,662,987</u>	<u>\$6,995,506</u>	<u>\$401,667,481</u>

Aspen Specialty Insurance Company
Statement of Liabilities, Surplus, and Other Funds
December 31, 2017

Losses		\$148,510,745
Loss Adjustment Expenses		23,131,879
Commissions Payable, Contingent Commissions and Other Similar Charges		3,565,274
Other Expenses		465,668
Taxes, Licenses and Fees		(215,235)
Current Federal and Foreign Income Taxes		535,556
Unearned Premiums		30,126,747
Ceded Reinsurance Premiums Payable (Net of Ceding Commissions)		104,205,995
Funds Held by Company		5,339
Remittances and Items not Allocated		1,780,157
Provision for Reinsurance		21,960,547
Payable to Parent, Subsidiaries and Affiliates		1,796,171
Aggregate Write-Ins: Retroactive Reinsurance Reserve Ceded		<u>(73,408,348)</u>
Total Liabilities		\$262,460,495
Aggregate Write-Ins: Retroactive Reinsurance Gain		1,263,382
Common Capital Stock	\$ 1,000,000	
Surplus Notes	30,000,000	
Gross Paid In and Contributed Surplus	253,031,813	
Unassigned Funds (Surplus)	<u>(146,088,209)</u>	
Surplus as Regards Policyholders		<u>139,206,986</u>
Total		<u>\$401,667,481</u>

Aspen Specialty Insurance Company
Statement of Income
December 31, 2017

Underwriting Income

Premiums Earned		\$51,581,204
Deductions:		
Losses Incurred	\$46,008,754	
Loss Expenses Incurred	18,663,520	
Other Underwriting Expenses Incurred	<u>1,848,108</u>	
Total Underwriting Deductions		<u>66,520,382</u>
Net Underwriting Gain or (Loss)		\$(14,939,178)

Investment Income

Net Investment Income Earned	\$ 5,183,549	
Net Realized Capital Gains or Losses	<u>122,366</u>	
Net Investment Gain or (Loss)		<u>5,305,915</u>

Other Income

Net Loss from Agents' or Premium Balances Charged Off		<u>26,833</u>
Net Income Before Federal Income Taxes		\$(9,606,430)
Federal Income Taxes Incurred		<u>(89,310)</u>
Net Income		<u><u>\$(9,517,120)</u></u>

Aspen Specialty Insurance Company
Reconciliation of Capital and Surplus Accounts
January 1, 2013, Through December 31, 2017

	2017	2016	2015	2014	2013
Capital and Surplus, December 31, Previous Year	\$143,788,052	\$152,126,938	\$131,940,196	\$116,569,506	\$101,160,795
Net Income	(9,517,120)	(12,549,219)	10,111,442	8,046,712	4,511,401
Change in Net Deferred Income Tax	(26,339,516)	4,676,599	21,662,917	0	0
Change in Nonadmitted Assets	16,180,706	(9,094,079)	(10,009,341)	(70,565)	593,820
Change in Provision for Reinsurance	(16,168,519)	(972,187)	(1,578,276)	(1,605,457)	303,489
Change in Surplus Notes	30,000,000	0	0	0	0
Paid In Capital	0	0	0	(3,200,000)	0
Paid In Surplus	0	9,600,000	0	12,200,000	10,000,000
Aggregate Write-Ins: Retroactive Reinsurance Gain	1,263,382	0	0	0	0
Net Change in Capital and Surplus for the Year	\$(4,581,066)	\$(8,338,886)	\$20,186,742	\$15,370,690	\$15,408,711
Capital and Surplus, December 31, Current Year	\$139,206,986	\$143,788,052	\$152,126,938	\$131,940,196	\$116,569,506

CONCLUSION

The financial condition of the Company, as of December 31, 2017, as determined by this examination is summarized as follows:

Admitted Assets		<u>\$401,667,481</u>
Total Liabilities	\$262,460,495	
Surplus as Regards Policyholders	<u>139,206,986</u>	
Liabilities, Surplus, and Other Funds		<u>\$401,667,481</u>

Since the last examination conducted as of December 31, 2012, the Company's admitted assets have increased \$157,214,126 its total liabilities have increased \$119,167,935, and its surplus as regards policyholders has increased \$38,046,191.

The courteous cooperation extended by the officers and employees of the Company during the course of the examination is gratefully acknowledged.

In addition to the undersigned, Matt Fischer, CFE and Ed Moody, CFE of the North Dakota Insurance Department, participated in this examination.

Respectfully submitted,



Colton Schulz, CFE
Supervising Examiner
North Dakota Insurance Department