



STATE OF CONNECTICUT

INSURANCE DEPARTMENT

ORDER ADOPTING REPORT OF EXAMINATION

I, Andrew N. Mais, Insurance Commissioner of the State of Connecticut, having fully considered and reviewed the Examination Report (the "Report") of **HSB Specialty Insurance Company** (the "Company") as of December 31, 2022 do hereby adopt the findings and recommendations contained therein based on the following findings and conclusions.

TO WIT:

1. I, Andrew N. Mais, Insurance Commissioner of the State of Connecticut and as such is charged with the duty of administering and enforcing the provisions of Title 38a of the Connecticut General Statutes ("C.G.S.").
2. The Company is a domestic insurer authorized to transact the business of insurance in the State of Connecticut.
3. On December 11, 2023, the verified Report of the Company was filed with the Connecticut Insurance Department (the "Department").
4. In accordance with C.G.S. §38a-14(e)(3), the Company was afforded a period of thirty (30) days within which to submit to the Department a written submission or rebuttal with respect to any matters contained in the Report.
5. On February 12, 2024, the Company notified the Department of certain responses and comments on certain items contained in the Report.
6. Following review of the Report, it was deemed necessary and appropriate to modify the Report. A copy of the Report is attached hereto and incorporated herein as Exhibit A.

NOW, THEREFORE, it is ordered as follows:

1. That the Report of the Company is hereby adopted as filed with the Department.
2. That the Company shall comply with the recommendations set forth in the Report, and that failure by the Company to so comply shall result in sanctions or administrative action as provided by Title 38a of the C.G.S.
3. Section 38a-14(e)(4)(A) of the C.G.S. requires that:

"The secretary of the Board of Directors or similar governing body of the entity shall provide a copy of the report or summary to each director and shall certify to the Commissioner, in writing, that a copy of the report or summary has been provided to each director."

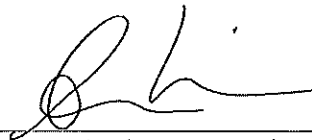
Please address the certification to the Commissioner but send said certification to the care/attention of William Arfanis, Assistant Deputy Commissioner of the Financial Regulation Division.

4. Section 38a-14(e)(4)(B) of the C.G.S. requires that:

"Not later than one hundred twenty days after receiving the report or summary the chief executive officer or the chief financial officer of the entity examined shall present the report of summary to the entity's Board of Directors or similar governing body at a regular or special meeting."

This will be verified by the Insurance Department either through analysis or examination follow-up.

Dated at Hartford, Connecticut, this 21st day of February, 2024.



Andrew N. Mais
Insurance Commissioner

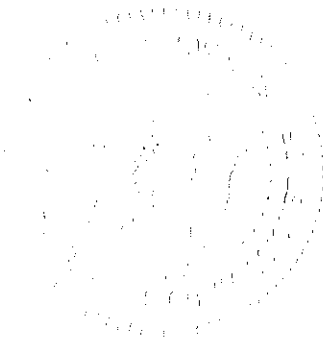


EXHIBIT A

EXAMINATION REPORT

OF

**HSB SPECIALTY INSURANCE COMPANY
(NAIC # 14438)**

AS OF

DECEMBER 31, 2022

BY THE

CONNECTICUT INSURANCE DEPARTMENT



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December 11, 2023

The Honorable Andrew N. Mais
Insurance Commissioner
State of Connecticut Insurance Department
153 Market Street
Hartford, Connecticut 06103

Dear Commissioner:

In compliance with your instructions and pursuant to the requirements of Section 38a-14 of the Connecticut General Statutes (CGS), the undersigned has made a financial examination of the condition and affairs of

HSB SPECIALTY INSURANCE COMPANY

(hereinafter referred to as the Company), a corporation with capital stock, incorporated under the laws of the State of Connecticut and having its main administrative and home office located at One State Street, Hartford, Connecticut. The report on such examination is respectfully submitted.

SCOPE OF EXAMINATION

The previous examination of the Company was conducted by the Financial Regulation Division of the Connecticut Insurance Department (Department) as of December 31, 2017. The current examination, which covers the period from January 1, 2018, through December 31, 2022, was conducted at the statutory home office of the Company.

As part of the examination planning procedures, the Department reviewed certain material submitted by the Company:

- Board of Directors (Board) and other committee minutes (through the latest 2023 minutes);
- reinsurance agreements, custodial agreements, and other documents related to significant transactions that require prior approval from 2018 through 2022;
- a review of the 2021 and 2022 statutory audit reports completed by the Company's independent certified public accountants, Ernst & Young LLP (E&Y);
- Management's Discussion and Analysis from 2018 through 2022;
- Statements of Actuarial Opinion from 2018 through 2022;
- documentation supporting the Model Audit Rule;
- 2021 Annual Report of Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft in München (Munich Re), the Company's ultimate parent;

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- Annual Statements filed with the Department from 2018 through 2022; and
- reports of the Company's Internal Audit Department from 2018 through 2022.

A comprehensive review was made of the financial analysis files and documents submitted to the Financial Analysis Unit of the Department, reports from the National Association of Insurance Commissioners (NAIC) database, as well as independent audit reports, all of which indicated no material concerns with respect to financial condition or regulatory compliance issues.

Work papers prepared by E&Y as of December 31, 2022, in connection with its annual statutory audit were reviewed and relied upon to the extent deemed appropriate.

Concurrent examinations were made of the Company's parent, The Hartford Steam Boiler Inspection and Insurance Company (HSBIIC) and affiliate, The Hartford Steam Boiler Inspection and Insurance Company of Connecticut (HSBCT).

The Department retained the services of INS Regulatory Insurance Services, Inc. (INS) to review the adequacy and effectiveness of the information technology (IT) systems controls to determine the level of reliance to be placed on the information generated by the data processing systems and to ensure compliance with CT Insurance Data Security Law CGS 38a-38.

The examination was conducted on a full scope, comprehensive basis in accordance with the procedures outlined in the NAIC Financial Examiners Handbook (Handbook). The 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, and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the Company.

Comments in this report are generally limited to exceptions noted or to items considered to be of a material nature.

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Failure of items in this report to add to totals or for totals to agree with captioned amounts is due to rounding.

HISTORY

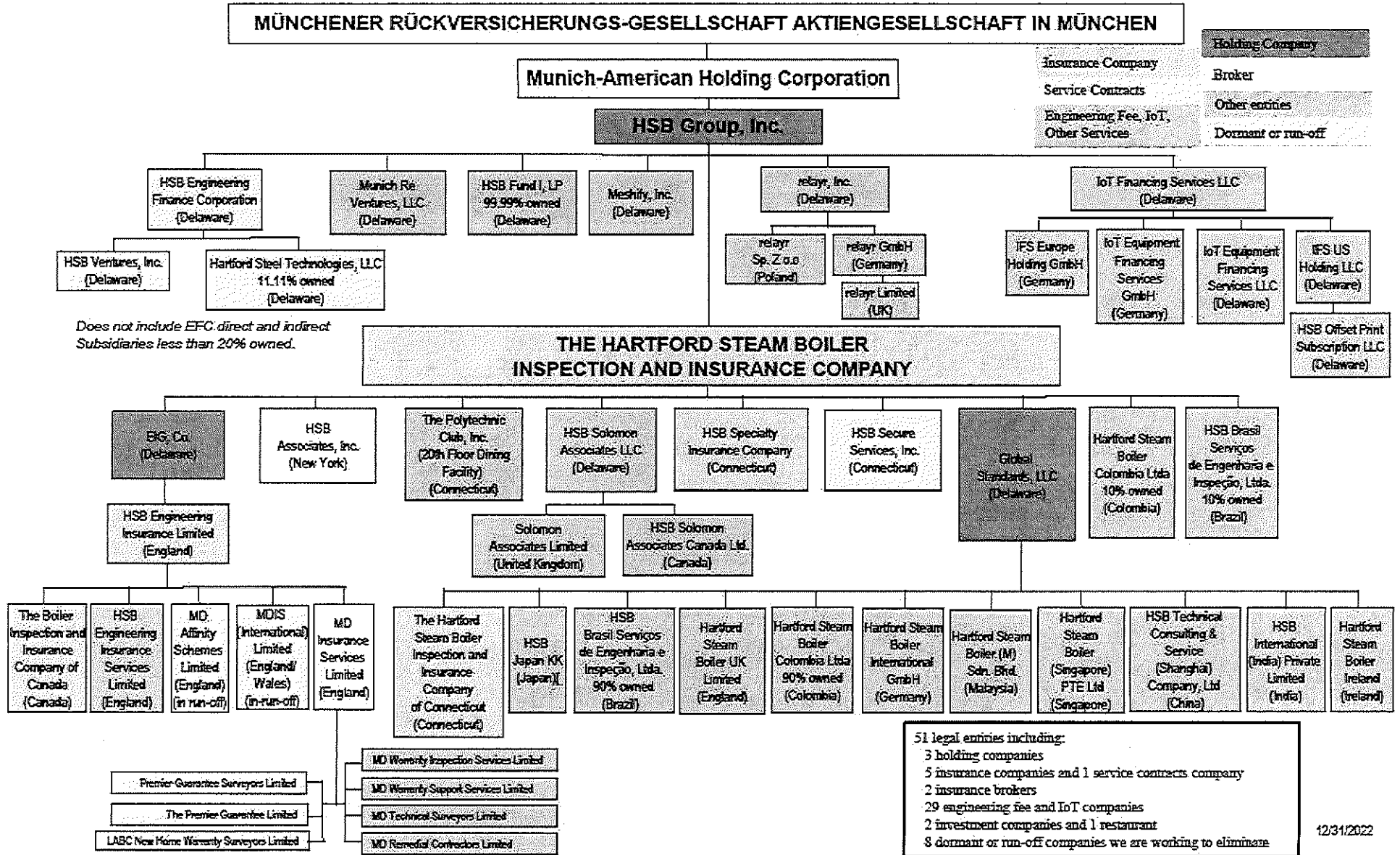
The Company was issued a Certificate of Incorporation by the Connecticut Secretary of State on June 11, 2012, pursuant to CGS Section 33-646. The Company is a direct and wholly owned subsidiary of HSBIIC, a Connecticut domiciled insurance company.

HSBIIC is a direct and wholly owned subsidiary of HSB Group, Inc. (HSB Group). HSB Group is a direct and wholly owned subsidiary of Munich-American Holding Corporation (MAHC). MAHC is 100% owned by Miinchener RiickversicherungsGesellschaft Aktiengesellschaft in Miinchen (Munich Re), an insurance group with global operations covering reinsurance, primary insurance and international health business.

ORGANIZATIONAL CHART

The following is an organizational chart of the Company, its parent, main subsidiaries, and affiliates as of December 31, 2022:

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HSB SPECIALTY INSURANCE COMPANY

MANAGEMENT AND CONTROL

The articles of incorporation, dated June 8, 2012, state: “the Corporation shall have the power to write boiler and machinery, fire, marine, casualty, liability, indemnity, and fidelity insurance and any and all other forms of insurance against hazards of risks of every kind and description which may lawfully be the subject of insurance except life and endowment insurance and contracts for the payment of annuities; to accept and to cede reinsurance of any such risks or hazards; to make inspections and render inspection and engineering services in connection with the design, construction, maintenance or operations of boilers, machinery or any equipment regardless of whether policies of insurance are issued in connection therewith; and to engage in any lawful act or activity for which corporations may be organized under the Connecticut Business Corporation Act”.

Annual Stockholders Meetings

The bylaws state that the annual meeting of shareholders shall be held in the City of Hartford or such place within Connecticut as the directors may appoint. The annual meeting shall be held on the third Tuesday of April in each year or some other day within two months thereafter as fixed by the directors.

Special meetings of the shareholders may be held at such time as fixed by the Board.

Board of Directors

The articles of incorporation state that the business, property and affairs of the Corporation shall be managed by or under the direction of a Board consisting of not less than three nor more than six directors, the exact number of directorships to be determined from time to time by resolution adopted by the affirmative vote of a majority of the entire Board.

At any meetings of the Board, the majority of directors present shall constitute a quorum for the transaction of business. Action of the Board shall be by majority vote of the Directors present.

Directors are elected each year at the Company’s annual shareholders meeting.

Members of the Board serving the Company at December 31, 2022, were as follows:

<u>Director</u>	<u>Principal Business Affiliation</u>
Peter Richter	Senior Vice President - HSBIIIC
Jean Anderson Cohn	Senior Vice President, General Counsel, Corporate Secretary and Compliance Officer - HSBIIIC
Amy Elizabeth Brodeur	Senior Vice President, Chief Accounting Officer & Treasurer - HSBIIIC

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Officers

According to the bylaws, there shall be a president and there may be a Chairman of the Board, each to be elected by the Board from their own number. The president shall be the chief executive officer and be responsible, under the direction of the Board, for the supervision, management and active control of the affairs and properties of the Company. There shall also be one or more vice presidents, a treasurer, a corporate secretary and such other officers as may be required for the prompt and orderly transaction of the business of the Company.

The principal officers of the Company at December 31, 2022, were as follows:

<u>Officer</u>	<u>Title</u>
Peter Richter	President
Amy Elizabeth Brodeur	Treasurer
Jean Anderson Cohn	Corporate Secretary

The Company has no exclusive committees of the Board.

RELATED PARTY AGREEMENTS

Tax Allocation Agreement

The Company has a written tax allocation agreement with MAHC setting forth the manner in which total consolidated federal income tax is allocated to each member of the consolidation. The Agreement allows for offsetting current period taxable losses against current period taxable income among the first level direct subsidiary subgroup. The tax sharing agreement was amended effective September 30, 2022 to also allow companies to recover tax attributes utilized in the consolidated tax return of MAHC and its subsidiaries in prior periods. There was no impact to the Company from the amendment. Generally the Agreement states that MAHC will not charge the Company more of the consolidated tax liability than the Company would have incurred had it filed a separate return. Intercompany tax balances are settled quarterly.

Investment Management Agreement

The Company is party to an Investment Management Agreement (IMA) with MEAG New York Corporation (MEAG) and MR Group Investment US Inc. (GIM US). Both MEAG and GIM US are members of the MAHC Holding Company system. Collectively, under the IMA, both MEAG and GIM US provide investment management services in connection with the Company's invested assets and other services available upon request.

Services and Systems Access Agreement

The Company is a party to a Services and Systems Access Agreement with HSBIIIC pursuant to which the Company pays an annual service fee to compensate HSBIIIC for its services. These services primarily include investment accounting, statutory and other financial reporting, data processing and administrative services.

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General Services and Cost Allocation Agreement

The Company is a party to a General Services and Cost Allocation Agreement with MAHC and Munich Re pursuant to which certain of MAHC's and Munich Re's subsidiaries, which are parties to the agreement can have access to certain services and facilities of the others and various general and administrative expenses can be allocated. Such services include accounting, tax and auditing, underwriting, claims, IT services and certain corporate services.

TERRITORY AND PLAN OF OPERATION

The Company is a Domestic Surplus Lines insurer and is eligible to write boiler and machinery (equipment breakdown), commercial multiple peril, marine, liability, reinsurance and several other lines of insurance in the State of Connecticut on a non-admitted basis.

As of December 31, 2022, the Company was eligible to write excess and surplus lines insurance business in 49 additional states, the District of Columbia and Puerto Rico.

Effective June 16, 2022, the Company terminated its Amended and Restated Managing General Agent Underwriting Agreement (the MG Agreement) with At-Bay Insurance Services LLC (At-Bay) and removed and cancelled all profit commissions set out in the MG agreement. Insurance policies written prior to the termination of the MG Agreement will continue to run-off through expiration of the policies.

At-Bay wrote \$96.9 million of Other Liability policy premiums for 2022.

REINSURANCE

The Company participates in a 100% Quota Share reinsurance agreement with HSBIIC in which 100% of all premiums, losses and allocated loss adjustment expenses during the exam period were ceded.

INFORMATION TECHNOLOGY CONTROLS

INS performed a risk-based assessment and review of the Company's IT General Controls (ITGCs) in accordance with NAIC requirements as outlined in the Handbook. The guidance and direction used to perform the review of the Company's ITGCs was derived from Exhibit C Part 1 – IT Planning Questionnaire (ITPQ) and Exhibit C Part 2 – IT Work Program (collectively, Exhibit C). The Company's responses to the ITPQ were evaluated, and certain controls within the IT control environment were tested to assess whether the selected controls were designed effectively and were functioning properly. Based upon the risk-based assessment and review, the Company's ITGCs were determined to be effective.

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ACCOUNTS AND RECORDS

The Company uses a PeopleSoft general ledger accounting system within a local area network. Security controls within PeopleSoft limit access to general ledger data based on user function. Manual and automated journal entries are prepared, and uploaded to the general ledger and trial balances are produced from the general ledger and run daily throughout the course of the quarterly close process. The Company uses SOVOS Statutory Reporting by Sovos Compliance, LLC to produce its statutory annual statement.

Detailed analyses were performed on individual general ledger accounts throughout the examination.

The 2022 year-end trial balance was reconciled to the annual statement without exception.

FINANCIAL STATEMENTS

The following statements represent the Company's financial position, as filed by the Company as of December 31, 2022. No adjustments were made to surplus as a result of the examination.

ASSETS

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$51,854,826		\$51,854,826
Cash, cash equivalents and short-term investments	9,824,520		9,824,520
Investment income due and accrued	133,056		133,056
Premiums and considerations:			
Uncollected premiums and agents' balances in the course of collection	3,292,052	\$1,212,680	2,079,372
Deferred premiums, agents' balances and installments booked but deferred and not yet due	18,548		18,548
Current federal and foreign income tax recoverable and interest thereon	368,489		368,489
Net deferred tax asset	564,551		564,551
Receivables from parent, subsidiaries and affiliates	4,654,913		4,654,913
Aggregate write-ins for other than invested assets	209,197		209,197
TOTALS	<u>\$70,920,152</u>	<u>\$1,212,680</u>	<u>\$69,707,472</u>

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LIABILITIES, SURPLUS AND OTHER FUNDS

Other expenses (excluding taxes, licenses and fees)	\$70,599
Advance Premium	1,336,272
Ceded reinsurance premium (net of ceding commissions)	2,911,483
Payable to parent, subsidiaries and affiliates	59,499
Aggregate write-ins for liabilities	1,264,583
Total Liabilities	5,642,436
Common capital stock	2,000,000
Gross paid in and contributed surplus	48,000,000
Unassigned funds (surplus)	14,065,036
Surplus as regards policyholders	64,065,036
TOTALS	<u>\$69,707,472</u>

STATEMENT OF INCOME

UNDERWRITING INCOME	
Premiums earned	\$0
DEDUCTIONS	
Other underwriting expenses incurred	(10,017,549)
Total underwriting deductions	(10,017,549)
Net underwriting gain or (loss)	10,017,549
INVESTMENT INCOME	
Net investment income earned	537,931
Net realized capital gains or (losses) less capital gains tax	(274,064)
Net investment gain	263,867
OTHER INCOME	
Finance and service charges not included in premiums	1,796
Total other income	1,796
Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	10,283,212
Net income after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	10,283,212
Federal and foreign income taxes incurred	925,592
Net income	9,357,620
CAPITAL AND SURPLUS ACCOUNT	
Surplus as regards policyholders, December 31 previous year	56,620,288
GAINS AND (LOSSES) IN SURPLUS	
Net income	9,357,620
Change in net unrealized capital gains or (losses) less capital gains tax	(1,126,537)
Change in net deferred income tax	(786,335)
Change in nonadmitted assets	7,444,748
Change in surplus as regards policyholders for the year	7,444,748
Surplus as regards policyholders, December 31 current year	<u>\$64,065,036</u>

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RECONCILIATION OF CAPITAL AND SURPLUS

The following is a reconciliation of capital and surplus for the period under examination:

Beginning of the Examination Period, January 1, 2018	\$50,677,934
Net income	14,475,715
Change in net unrealized capital gain/(loss)	(447,278)
Change in net deferred income tax	416,779
Change in non-admitted assets	(1,058,114)
Net Change in Capital and Surplus for the Examination Period	13,387,102
Capital and Surplus, December 31, 2022	<u>\$64,065,036</u>

LOSSES AND LOSS ADJUSTMENT EXPENSES \$0

The Department performed a review of reserving and pricing/underwriting risk. No material issues were noted during the review of reserving and pricing/underwriting risks.

SUBSEQUENT EVENTS

No significant subsequent events were identified through the date of the examination report.

SUMMARY OF RECOMMENDATIONS

None noted.

CONCLUSION

The results of this examination disclosed that as of December 31, 2022, the Company reported admitted assets of \$69,707,472, liabilities of \$5,642,436, and surplus as regards policyholders of \$64,065,036. During the period under examination, admitted assets increased \$13,499,202 liabilities increased \$112,100 and surplus as regards policyholders increased \$13,387,102.

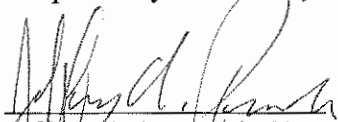
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SIGNATURE

In addition to the undersigned, William Arfanis, CFE, Wanchin Chou, FCAS, MAAA, Amy Waldhauer, FCAS, MAAA, Qing He, FCAS, MAAA, Keith Kleindienst, CFE, Robert Linnell, CFE, Riley Greider, Brian Llinares and Ken Roulier, AES, AFE, CISA, of the Department and the professional services firms of INS participated in this examination.

I, Jeffrey A. Prospero, CFE, CPA, do solemnly swear that the foregoing report of examination is hereby represented to be a full and true statement of the condition and affairs of the subject insurer as of December 31, 2022, to the best of my information, knowledge and belief.

Respectfully submitted,

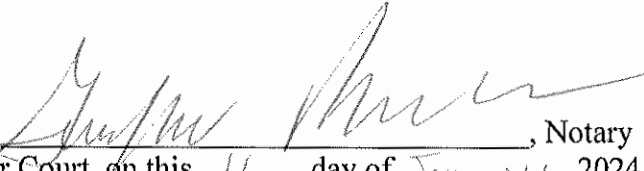


Jeffrey A. Prospero, CFE
Insurance Certified Financial Examiner
State of Connecticut
Insurance Department

State of Connecticut

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County of Hartford

Subscribed and sworn to before me, , Notary
Public/Commissioner of the Superior Court, on this 11, day of January, 2024.


Notary Public/Commissioner of the Superior Court

My commission expires June 30, 2026

