

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

**REPORT OF EXAMINATION**

**OF**

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

**AS OF  
DECEMBER 31, 2022**

STATE OF NORTH DAKOTA  
INSURANCE DEPARTMENT

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


**QBE Specialty Insurance Company**

Statutory Home Office  
314 East Thayer Avenue  
Bismarck, North Dakota 58501

Administrative Office  
One General Drive  
Sun Prairie, Wisconsin 53596

as of December 31, 2022, 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 12 day of  
July, 2024.

  
\_\_\_\_\_  
Jon Godfread  
Insurance Commissioner



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Bismarck, North Dakota  
May 30, 2024

Honorable Jon Godfread  
Insurance Commissioner  
State of North Dakota  
600 East Boulevard Avenue  
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:

**QBE Specialty Insurance Company**

**Sun Prairie, Wisconsin**

hereinafter referred to as the "Company" or "QBESIC". The Company was last examined as of December 31, 2017, by the North Dakota Insurance Department.

**SCOPE OF EXAMINATION**

This examination was a multi-state, 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, 2013 through December 31, 2017. This examination covers the period of January 1, 2018 through December 31, 2022, 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 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 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. Statements were prepared by management and are therefore the responsibility of management.

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.

Concurrent examinations were made of the affiliated insurance companies within the QBE North America Group ("QBENA") listed below. Effective April 1, 2022, these companies entered into the QBE North America Pooling Agreement at the following percentages:

<u>Participating Companies</u>	<u>State of Domicile</u>	<u>Pool %</u>
QBE Insurance Corporation *	PA	43.00%
NAU Country Insurance Company	MN	20.00%
General Casualty Company of Wisconsin	WI	17.00%
QBE Specialty Insurance Company	ND	10.00%
QBE Reinsurance Corporation	PA	5.00%
Praetorian Insurance Company	PA	5.00%
Stonington Insurance Company	PA	0.00%
Regent Insurance Company	WI	0.00%
North Pointe Insurance Company	PA	0.00%
Southern Pilot Insurance Company	WI	0.00%
General Casualty Insurance Company	WI	<u>0.00%</u>
		100.00%

\* Lead Company

Examination efficiencies were achieved as the Company was a subject of the coordinated review of the QBENA information system controls, cyber security risks, and actuarial reserving and pricing functions completed by The INS Companies.

This examination was conducted by staff and contracted examiners for the Pennsylvania Insurance Department. A full review of the work relating to the Company was completed by North Dakota Insurance Department staff.

## **STATUS OF PRIOR EXAMINATION FINDINGS**

There were no examination findings in the preceding Report on Examination which covered the period from January 1, 2013, to December 31, 2017.

## **SUMMARY OF SIGNIFICANT FINDINGS**

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

## **SUBSEQUENT EVENTS**

No significant subsequent events were noted during the examination.

# HISTORY

## General

The Company was incorporated on August 5, 2002, under N.D.C.C. § 10-19.1, the North Dakota Business Corporation Act, and N.D.C.C. § 26.1-05, Organization and Operation of Domestic Companies. The Company's primary purpose is to engage in the business of property and casualty insurance. The Company is a wholly-owned subsidiary of QBE Insurance Group Limited, a publicly traded corporation listed on the Australian Stock Exchange, and QBE Holding, Inc., an insurance holding company domiciled in Delaware.

Effective August 1, 2013, the Company became a domestic surplus lines insurer in North Dakota.

## MANAGEMENT AND CONTROL

### Stockholder

In compliance with the bylaws, the Company held its annual meeting of the stockholder in March each year during the examination period. The purpose of the meetings was for the election of directors and for the transaction of any other business.

### Board of Directors

The Bylaws specify that the board of directors (Board) shall consist of no less than seven directors. During the examination period, the QBEIC Board acted on behalf of each of the QBENA insurance companies. Directors serving on the Board as of December 31, 2022, are listed below:

<u>Name and Address</u>	<u>Business Affiliations</u>
Todd J. Jones* Lititz, Pennsylvania	Chief Executive Officer QBE North America
Christopher Castaldo Princeton, New Jersey	Chief Financial Officer QBE North America
Laurie L. Harris New York, New York	Retired
Kristen D. Dauphinais Dallas, Texas	Retired
Shamla T. Naidoo Chicago, Illinois	Chief Information Security Officer IBM
David A. Horton Cambridge, United Kingdom	Chief Executive Officer QBE Insurance Group Limited

Daniel L. Jones  
Salt Lake City, Utah

Retired

Sharon A. Ritchey  
Longboat Key, Florida

Chief Strategy Officer  
Enlighten Operational Excellence

\*Effective August 31, 2023, Mr. Todd J. Jones resigned from the Board.

### **Officers**

In accordance with the Company's bylaws, the board of directors appointed the following officers who were serving as of December 31, 2022:

<b><u>Officer</u></b>	<b><u>Title</u></b>
Todd J. Jones*	Chief Executive Officer
Christopher Castaldo	Chief Financial Officer
Mark T. Pasko	Chief Legal Officer/Corporate Secretary
Kristen M. Bessette*****	Chief Actuary
Jason B. Pircher	Treasurer
Laura F. Coppola***	Chief Underwriting Officer
Adrian M. LaForgia***	Chief Risk Office
Anthony Gonzalez*****	Chief Information Security Officer
Eric A. Sanders****	Chief Claims and Risk Solutions Officer
Dana R. Schulenberg**	Interim Chief People Officer
John Yoon	Chief Accounting Officer
Daniel S. Fortin	Executive Vice President
Thomas J. Fitzgerald*****	Executive Vice President

Effective February 8, 2023, David M. Mulligan was appointed as the Companies' Chief Operating Officer.

\*Effective August 31, 2023, Mr. Jones resigned from the Board and Julie M. Wood was appointed as Interim Chief Executive Officer and President. On September 18, 2023, Ms. Wood was appointed as Chief Executive Officer of the Companies.

\*\*Effective March 4, 2023, Ms. Schulenburg was removed as Interim People Officer and Rachel L. Pollack was appointed Chief People Officer.

\*\*\*Effective March 8, 2024, Ms. Coppola resigned. Mr. La Forgia was removed as Chief Risk Officer and appointed Interim Chief Underwriting Officer effective the same date. In addition, Joseph M. Sherno was appointed Interim Chief Risk Officer.

\*\*\*\*Effective March 1, 2024, Mr. Sanders resigned. Todd M. Greeley was appointed Chief Claims Officer effective March 11, 2024.

\*\*\*\*\*Effective August 1, 2023, Mr. Gonzalez was removed as an officer and Heidi L. Thiede was appointed Interim Chief Information Security Officer.

\*\*\*\*\*Effective January 16, 2023, Mr. Fitzgerald resigned and left the Companies. Michael W. Foley was appointed Executive Vice President effective April 1, 2023.

\*\*\*\*\*Effective May 3, 2024, Kristin M. Bessette resigned. Joseph Milicia was appointed Chief Actuary effective May 6, 2024.

### **Committees**

The bylaws do not mandate any specific committee, but serving the Board at December 31, 2022 was an Administrative Committee, Audit Committee, Remuneration Committee, and a Risk & Capital Committee.

### **Audit Committee**

The Audit Committee is established by the Board of the Company. and includes a minimum of three non-executive directors, one of whom is designated as the Committee Chairman. The majority of the committee members must be independent. Membership at December 31, 2022 was:

Laurie Harris – Chair\*  
Kristen Dauphinais\*  
David Horton

Daniel Jones  
Shamla Naidoo\*  
Sharon Ritchey\*

\*Non-executive Directors

## **CORPORATE RECORDS**

### **Articles of Incorporation and Bylaws**

There were no amendments to the Bylaws or Articles of Incorporation during the period under examination.

### **Board of Directors, Stockholders and Committee Minutes**

The minutes of meetings of the shareholders and Board of Directors were reviewed for the period under examination and subsequent period. The minutes reflected the elections of directors and officers, approvals of investment transactions, and approvals of other pertinent matters requiring corporate review.

### **Conflict of Interest**

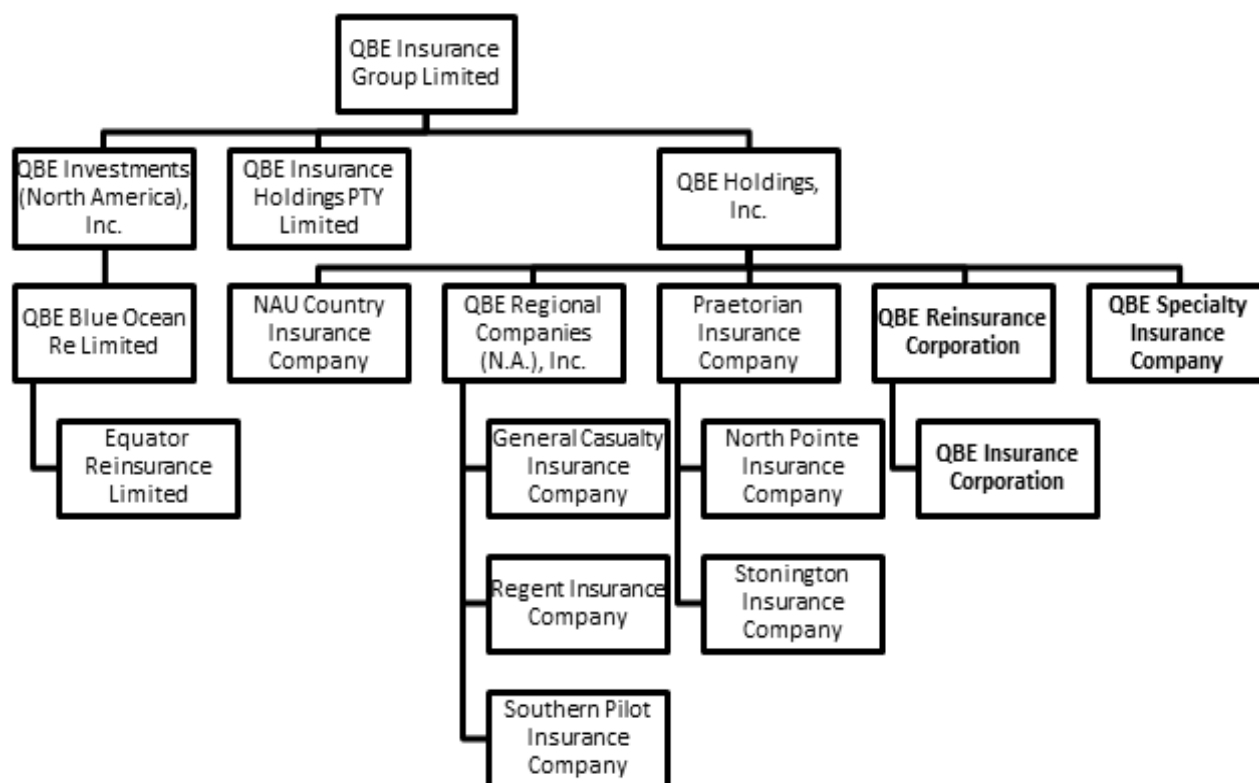
The Board of Directors has adopted a code of conduct and a policy statement on conflict of interest for disclosure of any possible conflicts. The procedure requires all directors, officers, and employees to annually complete and sign a questionnaire indicating all possible conflicts.

The conflict of interest statements for the years under examination were reviewed and all conflicts were noted and accepted.

## **AFFILIATED COMPANIES**

The Company is a member of the QBE Insurance Group Limited, a widely held, publicly traded company, listed on the Australian Stock Exchange. The following abbreviated organizational chart represents the entities with a material relationship with the Company, within the QBENA group:





## **INTERCOMPANY AGREEMENTS**

### **Investment Management Agreement**

The Company entered into the Global Investment Services Management Agreement, effective January 1, 2017, with QBE Group Services Pty Limited and other QBE affiliates. The Agreement sets forth the terms and conditions under which investment management and advisory services are provided to the Company. The 2017 Agreement replaced a former Investment Management Agreement with QBE Management Services Pty Limited.

### **Intercompany Cost Allocation and Management Services Agreement**

Effective January 1, 2010, the Company entered into the Intercompany Cost Allocation and Management Services Agreement (Services Agreement) with QBE Americas, Inc. and its affiliates in order to achieve operating economies and to ensure that the charges for services, certain property, equipment, and facilities incurred reflect actual costs as determined in a fair and equitable manner. These services include, but are not limited to facilities, finance, accounting, human resources, risk management, internal audit, information systems, actuarial, legal, and underwriting.

### **Tax Sharing Agreement**

On January 1, 2008 the Company entered into a Tax Sharing Agreement with QBE Investments (North America) Inc., and other Affiliated Companies. This Agreement sets forth the methods for allocating consolidated, combined or unitary income taxes among the members and provisions concerning the administration of such returns, according to Section 1.1552-1(a)(2) of the Internal Revenue Code. Each subsidiary computes its federal income tax liability as if the subsidiary was filing a separate return and settles such amounts with a designated Remittance Agent.

## **FIDELITY BOND AND OTHER INSURANCE**

At December 31, 2022, the Company was a named insured on a fidelity bond issued to QBE Insurance Group, Ltd. by Willis Crime insurance Policy. The bond has an aggregate loss limit of \$15 million. The coverage amount meets the minimum amount recommended in the NAIC Examiner's Handbook.

## **STATUTORY DEPOSITS**

The statutory deposits of the Company at December 31, 2022, were confirmed with the applicable Insurance Departments and are as follows:

<b>Where Deposited</b>	<b>Type of Security</b>	<b>Book Value</b>	<b>Fair Value</b>
Massachusetts	Bond	\$ 1,443,766	\$ 1,436,793
New York	Bond	3,026,848	2,940,495
North Dakota*	Bond	3,000,000	2,951,435
		7,470,615	7,328,723

\*The bond on deposit with the State of North Dakota is held for the protection of all policyholders.

## **TERRITORY AND PLAN OF OPERATIONS**

At December 31, 2022, the Company was licensed as a domestic surplus lines insurer in North Dakota, and was writing specialty lines of property and casualty business in 49 states and the District of Columbia.

The Company operates under the general agency and managing general agency system. In 2022, the five states with the largest amount of direct premiums written in descending order were, Florida, California, Texas, New York, and New Jersey. These five states accounted for 63 percent of the Company's total direct written premium.

## REINSURANCE

### Pooling Agreement

Insurance subsidiaries of QBENA participate in the QBENA intercompany reinsurance pooling agreement. Under this agreement, the results of underwriting operations of each company from all lines and types of business are transferred to and combined with the lead company, QBEIC, and the combined results are then reapportioned to the pooling participants at the rates listed within the scope section of this report.

The pooling percentages are adjusted periodically by written agreement among the member companies. The Pool Companies cede and assume a portion of business to and from various affiliated and non-affiliated reinsurers on a quota share, excess of loss, and catastrophic coverage basis prior to the cession to and assumption from QBESIC under the Pooling Agreement.

### Other Reinsurance

The Company entered into a Quota Share Reinsurance Agreement with affiliate Blue Ocean, effective January 1, 2018. This Agreement created a 40 percent quota share with similar terms and conditions among the QBENA insurers.

The Company had several other pre-pool internal and external reinsurance agreements in place at December 31, 2022. The most significant contracts, on a ceded premium basis, are described below:

#### Financial Lines Quota Share Reinsurance Contract

Effective January 1, 2022, the Company (and other QBENA affiliates jointly) entered into an agreement, brokered by GuyCarpenter, with the following subscribing reinsurers:

<b>Subscribing Reinsurer</b>	<b>Participation</b>
Ascot Bermuda Limited	1.75%
Everest Reinsurance Company	2.50%
Munich Reinsurance America, Inc.	6.50%
Partner Reinsurance Company of the U.S.	4.25%
Validus Reinsurance (Switzerland) LTD.	10.0%

Under the terms of this contract, the Company shall cede and the participating reinsurers shall accept a 50 percent share of the net liability of the Company on all subject "Financial Lines" business, up to a limit of \$50 Million. The Contract specifies other, lower limits for each specific coverage type.

#### Financial Lines Quota Share Reinsurance Contract (Transatlantic)

Effective January 1, 2021, the Company (and other QBENA affiliates jointly) entered into a two-year agreement with Transatlantic Reinsurance Company.

Under the terms of this agreement, the Company shall cede and the reinsurer shall accept a 50 percent share of the net liability of the Company on all subject "Financial Lines" business, up to a

limit of \$15 Million, with additional limits by coverage type. The agreement was brokered by GuyCarpenter and Transatlantic accepted a 25 percent share in this contract.

## **ACCOUNTS AND RECORDS**

The Company's accounting procedures, internal controls, and transaction cycles were reviewed during the course of the examination.

The Company is audited annually by an outside firm of independent certified public accountants. The work papers of this firm were made available to the Examiners and were used to the extent deemed appropriate for this examination.

### **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.

### **Custodial Agreement**

At December 31, 2022, the Company had a custodial agreement with Citibank, N.A. (Citibank) under which Citibank provided safekeeping of the Company's invested assets.

The Agreement was reviewed for and found to be in compliance with N.D. Admin. Code § 45-03-23-02.

## **FINANCIAL STATEMENTS**

The following pages present a Statement of Assets, Liabilities, Surplus, and Other Funds as of December 31, 2022. This statement is followed by supporting statements and reconciliations presented in the following order:

Statement of Assets, December 31, 2022  
Statement of Liabilities, Surplus, and Other Funds, December 31, 2022  
Summary of Income, Year 2022  
Reconciliation of Capital and Surplus, January 1, 2019, through December 31, 2022

These financial statements are based on the statutory financial statements filed by the Company with the Department and present the financial condition of the Company for the period ending December 31, 2022. The accompanying comments on financial statements reflect any examination adjustments to the amounts reported in the annual statement and should be considered an integral part of the financial statements.

**QBE Specialty Insurance Company**  
**Statement of Assets**  
**December 31, 2022**

	<u>Assets</u>	<u>Nonadmitted Assets</u>	<u>Net Admitted Assets</u>
Bonds	\$327,437,657		\$327,437,657
Cash	1,126,261		1,126,261
Short-Term Investments	9,905,323		9,905,323
Schedule DA Assets	106,607,533		106,607,533
Receivable for Securities	26		26
Investment Income Due and Accrued	2,698,053		2,698,053
Premiums and Considerations: Uncollected Premiums and Agents' Balances in Course of Collection	56,175,511	\$ 2,610,955	53,564,556
Deferred Premiums, Agents' Balances and Installments Booked but Deferred and Not Yet Due	66,518,547		66,518,547
Accrued Retrospective Premiums	582,039		582,039
Amounts Recoverable from Reinsurers	108,350,122		108,350,122
Current federal and foreign income tax recoverable and interest thereon	2,277,238		2,277,238
Net Deferred Tax Asset	10,709,661	1,682,968	9,026,693
Receivables from Parent, Subsidiaries and Affiliates	10,195,478		10,195,478
Aggregate write-ins for other than invested assets:			
Net Receivable Federal MPCl	133,074,112		133,074,112
Equities and Deposits	4,653,795	750	4,653,045
Deductible Plans	26,440	12,677	13,763
Other Write-Ins	1,031,260	263,111	768,149
Totals	<u>\$841,369,057</u>	<u>\$4,570,461</u>	<u>\$836,798,596</u>

**QBE Specialty Insurance Company**  
**Statement of Liabilities, Surplus, and Other Funds**  
**as of December 31, 2022**

Losses		\$223,589,530
Reinsurance Payable on Paid Losses and Loss Adjustment Expenses		(173,157)
Loss Adjustment Expenses		40,588,500
Commissions Payable, Contingent Commissions and Other Similar Charges		27,296,733
Other Expenses		1,667,993
Taxes, Licenses and Fees		1,299,080
Unearned Premiums		129,747,189
Advance Premiums		42,307
Ceded Reinsurance Premiums Payable (Net of Ceding Commissions)		216,357,548
Remittances and Items not Allocated		14,697,255
Provision for Reinsurance		323,200
Payable to Parent, Subsidiaries and Affiliates		7,366,998
Payable for Securities		2,278
Aggregate Write-Ins:		
Claims clearing account		(8,132,184)
Other liabilities		14,455
		14,455
Total Liabilities		\$658,614,435
Common Capital Stock	\$3,500,000	
Gross Paid In and Contributed Surplus	175,750,000	
Unassigned Funds (Surplus)	(1,065,839)	
Surplus as Regards Policyholders		178,184,161
Total		\$836,798,596

**QBE Specialty Insurance Company  
Statement of Income  
for the Year Ended December 31, 2022**

**Underwriting Income**

Premiums Earned		\$323,192,895
Deductions:		
Losses Incurred	\$227,777,321	
Loss Expenses Incurred	17,743,788	
Other Underwriting Expenses Incurred	<u>74,302,070</u>	
Total Underwriting Deductions		<u>319,823,179</u>
Net Underwriting Gain or (Loss)		\$ 3,369,716

**Investment Income**

Net Investment Income Earned	\$ 8,597,234	
Net Realized Capital Gains or (Losses)	<u>(1,901,293)</u>	
Net Investment Gain or (Loss)		\$6,695,941

**Other Income**

Net Loss from Agents' or Premium Balances Charged Off	\$(630,885)	
Finance and Service Charges not Included in Premiums	4,383	
Aggregate Write-Ins for Miscellaneous Income	<u>374,834</u>	
Total Other Income		\$(251,668)
Net Income Before Dividends and Taxes		\$9,813,989
Dividends to Policyholders		507,809
Federal and Foreign Income Taxes Incurred		<u>1,341,510</u>
Net Income		<u>\$ 7,964,670</u>

**QBE Specialty Insurance Company**  
**Reconciliation of Capital and Surplus Account**  
**January 1, 2018, through December 31, 2022**

	<b>2022</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>
Surplus as regards policyholders, December 31 prior year	\$143,578,551	\$136,321,168	\$127,943,816	\$126,861,767	\$116,990,213
Net income	\$7,964,670	\$(1,374,693)	\$(20,093,921)	\$(7,135,117)	\$5,313,365
Change in net unrealized capital gains or (losses)	(1,681,069)	0	(1,075,545)	1,724,269	(1,039,974)
Change in net deferred income tax	(698,392)	186,550	3,993,984	1,599,453	(1,316,197)
Change in non-admitted assets	(777,672)	1,014,091	(850,449)	(215,275)	1,102,616
Change in provision for reinsurance	(207,200)	(25,000)	356,200	5,565,600	5,796,800
Surplus adjustments: Paid in	30,000,000	7,500,000	26,000,000	0	0
Aggregate write-ins for gains (losses) in surplus	5,273	(43,564)	47,083	(456,882)	14,943
Change in surplus as regards policyholders	\$34,605,610	\$7,257,383	\$8,377,352	\$1,082,049	\$9,871,554
Surplus as regards policyholders, December 31 current year	\$178,184,161	\$143,578,551	\$136,321,168	\$127,943,816	\$126,861,767



## CONCLUSION

The financial condition of the Company, as of December 31, 2022, as determined by this examination is summarized as follows:

Admitted Assets		<u>\$836,798,596</u>
Total Liabilities	\$ 658,614,435	
Surplus as Regards Policyholders	<u>178,184,161</u>	
Liabilities, Surplus and Other Funds		<u>\$836,798,596</u>

Since the last examination conducted as of December 31, 2017, the Company's admitted assets have increased \$473,360,653, its total liabilities have increased \$412,166,705 and its surplus as regards policyholders has increased \$61,193,948.

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, the coordinated examination was performed by representatives of INS Regulatory Insurance Services, Inc, INS Services, Inc., and by examiners from the States of Pennsylvania, Wisconsin, and Minnesota.

Respectfully submitted,



Colton Schulz, CFE, CISA, CRISC, CFE (Fraud)  
Supervising Examiner  
North Dakota Insurance Department