



**STATE OF CONNECTICUT**  
*INSURANCE DEPARTMENT*

**ORDER ADOPTING REPORT OF EXAMINATION**

I, Thomas B. Leonardi, Insurance Commissioner of the State of Connecticut, having fully considered and reviewed the Examination Report (the "Report") of SPARTA Specialty Insurance Company (the "Company") as of December 31, 2010, do hereby adopt the findings and recommendations contained therein based on the following findings and conclusions,

**TO WIT:**

1. I, Thomas B. Leonardi, as the 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 ("CGS").
2. The Company is a domestic insurer authorized to transact the business of insurance in the State of Connecticut.
3. On February 13, 2012, the verified Examination Report of the Company was filed with the Connecticut Insurance Department ("Insurance Department").
4. In accordance with Section 38a-14(e)(3) of the CGS, the Company was afforded a period of thirty (30) days within which to submit to the Insurance Department a written submission or rebuttal with respect to any matters contained in the Report.
5. On March 1, 2012, the Company filed a written submission indicating that they were in agreement with all of the recommendations contained in 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 hereby is adopted as filed with the Insurance Department.
2. That the Company shall comply with all of 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 CGS.

Dated at Hartford, Connecticut, this 9th day of March, 2012.

A handwritten signature in cursive script, appearing to read "Thomas B. Leonardi", written in black ink.

Thomas B. Leonardi  
Insurance Commissioner

Exhibit A

EXAMINATION REPORT

OF

SPARTA SPECIALTY INSURANCE COMPANY

AS OF

DECEMBER 31, 2010

BY THE

CONNECTICUT INSURANCE DEPARTMENT

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February 13, 2012

The Honorable Thomas B. Leonardi  
Insurance Commissioner  
State of Connecticut Insurance Department  
153 Market Street, 6<sup>th</sup> Floor  
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 an examination of the conditions and affairs of

**SPARTA 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 statutory home and main administrative office located at 185 Asylum Street, City Place II, Hartford, Connecticut. The report on such examination is submitted herewith.

SCOPE OF EXAMINATION

The current examination from August 2, 2010 to December 31, 2010, was conducted at the main administrative office of the Company.

Concurrent examinations were performed of SPARTA Insurance Company (SIC) and California domiciled SPARTA American Insurance Company (SAIC), by the Connecticut Insurance Department and California Insurance Department, respectively.

As part of the examination planning procedures, the Department reviewed the following materials submitted by the Company from 2007 through 2010:

- Board of Director (Board) minutes, through the latest 2011 meeting;
- Audit reports completed by the CPA firm retained by the Company;
- Management Discussion and Analysis;
- Statement of Actuarial Opinion; and
- Annual Statements filed with the Department.

A review of the 2010 independent audit report and a comprehensive analysis of the Company's financial statements and other filings submitted to the Financial Analysis Unit of the Department indicated no material concerns with respect to financial condition or regulatory compliance issues.

## SPARTA SPECIALTY INSURANCE COMPANY

Workpapers prepared by the Company's independent public accountants, KPMG, LLP (KPMG), in connection with its annual statutory audit were reviewed and relied upon to the extent deemed appropriate.

The examination was conducted on a full scope, comprehensive basis in accordance with the procedures outlined in the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook (Handbook). The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company, including corporate governance, identifying inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management compliance with Statutory Accounting Principles and Annual Statement Instructions (Instructions).

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

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

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

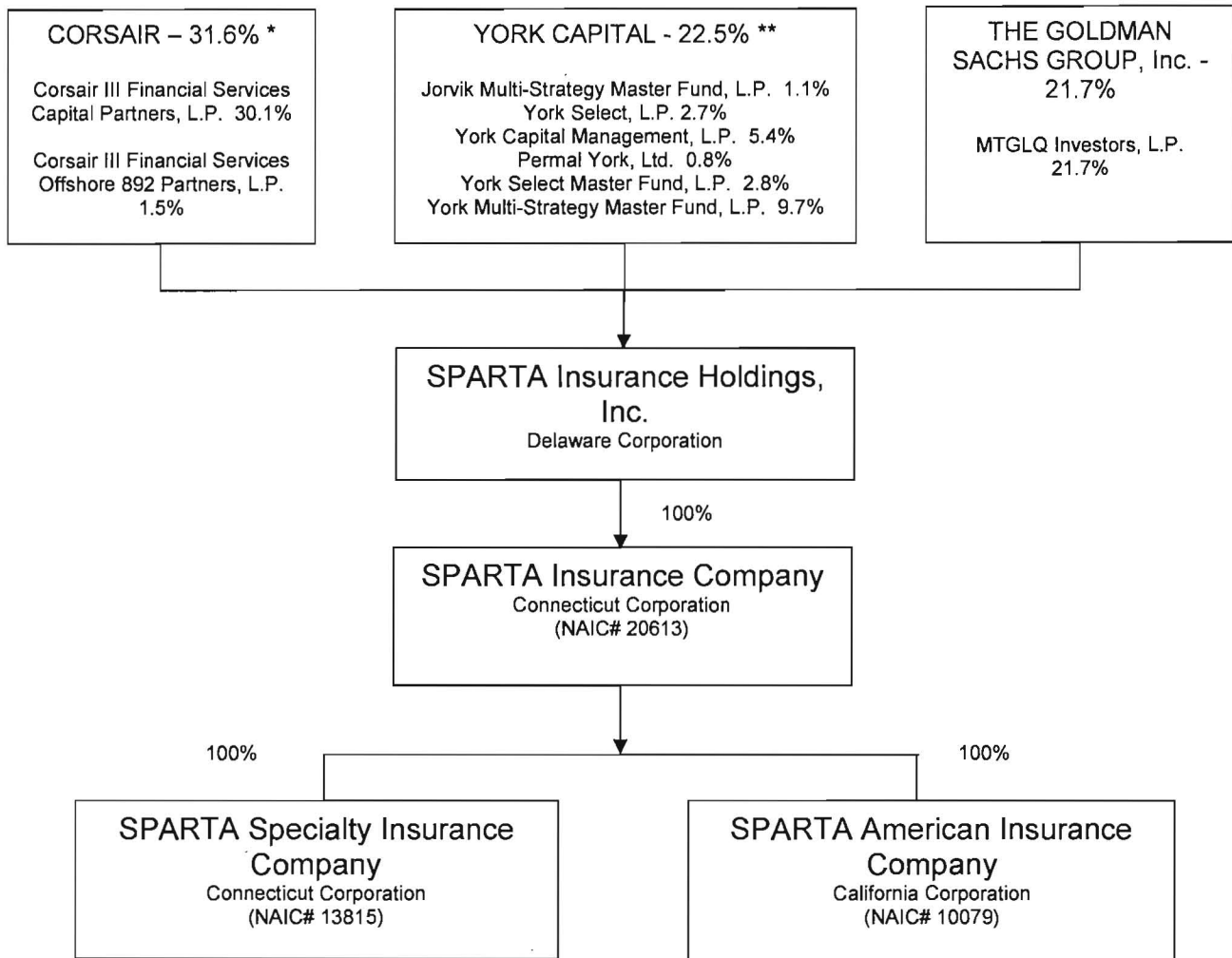
### HISTORY

The Company was incorporated in the state of Connecticut on March 15, 2010, and received its Certificate of Authority from the Connecticut Insurance Department on August 2, 2010. The Company is a wholly-owned subsidiary of SIC. On July 2, 2010, SIC contributed \$16 million in capital and surplus to the Company.

SPARTA SPECIALTY INSURANCE COMPANY

ORGANIZATIONAL CHART

The following is an organizational chart of the Company and its affiliates:



Institutional Investors depicted above own 10% or more of the voting securities of SPARTA Insurance Holdings, Inc. (approximate percentages).

\* The funds listed are advised by Corsair Investments LLC, a Delaware Limited Liability Company (DE LLC) Corsair, of which the membership interests are 100% owned by Maximilian Management LLC (DE LLC), Richard E. Thornburgh, and a Thornburgh family trust. The membership interests in Maximilian Management LLC are owned by Nicholas B. Paumgarten, certain of his relatives, and by D.T. Ignacio Jayanti.

\*\* The funds listed are indirectly advised by York Capital Management Global Advisors, LLC (NY LLC) York Capital. There are only two persons who hold membership interests equal to or greater than 10% of the membership interests of York Capital: James G. Dinan; and Daniel A. Schwartz.

(Limited Partnership = L.P.; Exempted Limited Partnership = E.L.P.)

SPARTA SPECIALTY INSURANCE COMPANY

MANAGEMENT AND CONTROL

**Board of Directors**

The property and affairs of the Company are managed by a board of not fewer than six nor more than fifteen persons who are elected at the annual meeting of the stockholders held on the fourth Thursday of every March of each year. If no annual meeting has been held on the date aforementioned, or the different date fixed by the Board or president, a special meeting in lieu thereof may be held with all the force and effect of an annual meeting.

The corporation may have a chairman of the board, and shall have a president, a secretary, a treasurer, and such other officers, including one or more executive vice presidents, senior vice presidents, assistant vice presidents, assistant secretaries, and assistant treasurers, and such other officers as may be necessary, each of whom shall be elected by the Board at the next regular meeting of the Board after each annual meeting of the stockholders.

The Board, by a vote of a majority of the directors then in office, may create and appoint members of the board of directors to an Executive Committee or other committees.

Regular meetings of the Board may be held without notice at such time, date, and place as the Board may from time to time determine.

Special meetings of the Board may be called orally or in writing by the president, treasurer, or two or more directors designating the time, date, and place thereof.

The members of the Board serving the Company at December 31, 2010, were as follows:

<u>Name</u>	<u>Title and Principal Business Affiliation</u>
George L. Estes III	Chairman and Chief Executive Officer SPARTA Insurance Company
Kevin G. Costello	President and Chief Operating Officer SPARTA Insurance Company
Dawne E. Ware	Treasurer and Chief Financial Officer SPARTA Insurance Company
Michael A. Visintainer	Secretary and Chief Actuary SPARTA Insurance Company
Brian D. First	Executive Vice President SPARTA Insurance Company





SPARTA SPECIALTY INSURANCE COMPANY

<u>Company</u>	<u>Coverage</u>
Hartford Casualty Insurance Company	Property Liability, Commercial General Liability, Auto, Crime, Umbrella
Ace American Insurance Company	International Commercial
Twin City Fire Insurance Company and Pacific Insurance Company, Limited	Workers' Compensation
Greenwich Insurance Company	Directors & Officers, Private Company Management Liability
Indian Harbor Insurance Company	Errors & Omissions
XL Specialty Insurance Company	Fiduciary Liability
Hartford Fire Insurance Company	ERISA Bond
Darwin Select Insurance Company	Privacy

AFFILIATED TRANSACTION

The Company's federal income tax return is consolidated with SPARTA, SIC and SAIC, subject to a written agreement approved by the Board.

TERRITORY AND PLAN OF OPERATION

The Company is a Connecticut domiciled property and casualty insurer licensed to write business in the state of Connecticut and eligible to write surplus lines insurance in 28 states and the District of Columbia.

The Company is in the process of filing to become an eligible surplus lines writer nationwide. During 2010, the Company had no premium writings but did commence writing premiums during 2011.

SPARTA is an acronym for Specialty Program and Risk Transfer Alternatives and reflects the business segments in which the Company operates. The Company will underwrite property and casualty insurance on a non-admitted basis for the unbundled program marketplace.

The Company will market its insurance products to producers knowledgeable in the program and ART business, national and regional retail brokers, insurance intermediaries, captive managers, and consultants. Further, the Company will utilize surplus lines brokers in those jurisdictions where it will underwrite commercial coverages on a surplus lines basis.

SPARTA SPECIALTY INSURANCE COMPANY

INFORMATION TECHNOLOGY (IT) AND CONTROLS

An evaluation of IT controls was conducted in accordance with the guidelines and procedures set forth in Exhibit C, Evaluation of Controls in Information Technology of the Handbook (Exhibit C). The objectives of the examination procedures were to determine if IT resources aligned with the Company's objectives and ensure that significant risks (strategic, operational, reporting, and compliance) arising out of the IT environment were appropriately mitigated by strategies or controls as outlined in Exhibit C - Part Two.

The key areas reviewed included logical and physical security, operations, program change controls, business continuity, and corporate governance.

Based upon the risk-focused assessment and review, no material findings were noted which would have had a significant effect on the Annual Statement.

ACCOUNTS AND RECORDS

The Company utilizes Sungard's Enterprise Accounting System for its general ledger.

The Company utilizes Sungard's Enterprise Financial System software for NAIC annual and quarterly financial statement preparation.

Investments are processed through its investment advisor, General Re-New England Asset Management who provides monthly accounting to the Company.

General ledger account balances were reconciled and traced to the amounts reported in the Annual Statement for 2010. Further detail analyses were performed on the individual accounts throughout the examination.

SPARTA SPECIALTY INSURANCE COMPANY

FINANCIAL STATEMENTS

The following statements reflect the assets, liabilities, surplus and other funds, and statement of income as of December 31, 2010, as reported by the Company and as determined by the examination:

ASSETS

	1	2	3
	Ledger Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$14,677,303		\$14,677,303
Cash, cash equivalents and short-term investments	1,297,770		1,297,770
Investment income due and accrued	123,672		123,672
Totals	<u>\$16,098,745</u>	<u>\$0</u>	<u>\$16,098,745</u>

SPARTA SPECIALTY INSURANCE COMPANY

**LIABILITIES, SURPLUS AND OTHER FUNDS**

Other expenses	\$5,563
Current federal and foreign income taxes	24,978
Net deferred tax liability	17
Payable to parent, subsidiaries and affiliates	6,733
Total liabilities	37,291
Common capital stock	3,500,000
Gross paid in and contributed surplus	12,500,000
Unassigned funds (surplus)	61,454
Surplus as regards policyholders	16,061,454
Totals	<u>\$16,098,745</u>

SPARTA SPECIALTY INSURANCE COMPANY

**STATEMENT OF INCOME**

<b>UNDERWRITING INCOME</b>		
Premiums earned		\$0
<b>DEDUCTIONS</b>		
Aggregate write-ins for underwriting deductions		4,098
Total underwriting deductions		4,098
Net underwriting gain or (loss)		(4,098)
<b>INVESTMENT INCOME</b>		
Net investment income earned		84,319
Net realized capital gains (losses)		4,111
Net investment gain or (loss)		88,430
Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes		84,332
Dividends to policyholders		0
Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes		84,332
Federal and foreign income taxes incurred		22,861
Net income		61,471
<b>CAPITAL AND SURPLUS ACCOUNT</b>		
Surplus as regards policyholders, December 31 prior year		0
Net income		61,471
Change in nonadmitted assets		(17)
Capital changes - Paid in		3,500,000
Surplus adjustments - Paid in		12,500,000
Change in surplus as regards policyholders for the year		16,061,454
Surplus as regards policyholders, December 31 current year		<u>\$16,061,454</u>

SPARTA SPECIALTY INSURANCE COMPANY

POLICYHOLDERS SURPLUS

\$16,061,454

The following is a reconciliation of policyholders surplus during the period under examination:

Surplus as regards policyholders, December 31, 2010	\$0
Net income/(Net loss)	61,471
Change in net deferred income tax	(17)
Capital changes paid in	3,500,000
Surplus adjustments transferred to capital	12,500,000
Net change in capital and policyholder surplus for the examination period	\$16,061,454
Surplus as regards policyholders, December 31, 2010	<u>\$16,061,454</u>

SUBSEQUENT EVENTS

1. Effective January 1, 2011, the Company entered into a reinsurance pooling agreement with its parent, SIC, and affiliate, SAIC, which requires the Company and SAIC to automatically and obligatorily cede to SIC as reinsurance, and the Company will be obligated to accept as assumed reinsurance, 100% of the gross liabilities with respect to policies issued or assumed by the Company and SAIC. SIC will automatically and obligatorily cede 19% to the Company, 8% to SAIC and retain 73% for its own account.
2. On February 17, 2011, the SIC contributed an additional \$31 million in cash and invested assets to the Company.
3. On May 16, 2011, SPARTA filed an Application for a Disclaimer of Affiliation under CGS 38a-135(j) which was approved by the State on May 24, 2011.

CONCLUSION

The results of this examination disclosed that as of December 31, 2010, the Company had admitted assets of \$16,098,745, liabilities of \$37,291, and capital and surplus of \$16,061,454, which reflects the results of the first year of operations.

It was determined that the Company's assets and liabilities were fairly stated in accordance with guidance outlined in the NAIC Accounting Practices and Procedures Manual. Assets were acceptable under Section 38a-102 of the CGS. The liabilities established were adequate to cover the Company's obligations to policyholders.

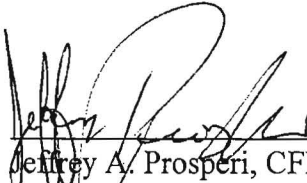
SPARTA SPECIALTY INSURANCE COMPANY

SIGNATURE

In addition to the undersigned, William Arfanis, CFE, Lisa Pagliaro, AFE, Daniel Levine, AFE, Alan Sundell, AFE, Michael Estabrook, AFE, and Kenneth Roulier, AFE, CISA, AES, of the State of Connecticut Insurance Department participated in this examination.

I, Jeffrey A. Prospero, 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, 2010, to the best of my information, knowledge and belief.

Respectfully submitted,

  
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Jeffrey A. Prospero, CFE  
Examiner-in-Charge  
State of Connecticut  
Insurance Department

State of Connecticut                      ss

County of Hartford

Subscribed and sworn before me, Patricia Butler, Notary  
Public/~~Commissioner of the Superior Court~~, on this 10<sup>th</sup> day of February, 2012.

  
\_\_\_\_\_  
Notary Public/Commissioner of the Superior Court

My Commission Expires September 30, 2013