



STATE OF CONNECTICUT

INSURANCE DEPARTMENT

ORDER ADOPTING REPORT OF EXAMINATION

I, Katharine L. Wade, Insurance Commissioner of the State of Connecticut, having fully considered and reviewed the Examination Report (the "Report") of AXIS SPECIALTY INSURANCE COMPANY (the "Company"), as of December 31, 2014, do hereby adopt the findings and recommendations contained therein based on the following findings and conclusions,

TO WIT:

1. I, Katharine L. Wade, 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 April 26, 2016, the verified 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 May 11, 2016, the Company filed a written submission indicating that they were in agreement with 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 23rd day of May, 2016

Katharine L. Wade
Insurance Commissioner

Exhibit A

EXAMINATION REPORT

OF THE

**AXIS SPECIALTY INSURANCE COMPANY
NAIC # 15610**

AS OF

DECEMBER 31, 2014

BY THE

CONNECTICUT INSURANCE DEPARTMENT



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April 26, 2016

The Honorable Katharine L. Wade
Insurance Commissioner
State of Connecticut Insurance Department
153 Market Street, 6th Floor
Hartford, Connecticut 06103

Dear Commissioner Wade:

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 condition and affairs of

AXIS SPECIALTY INSURANCE COMPANY

(hereafter referred to as the Company or AXIS) a corporation with capital stock, incorporated under the laws of the State of Connecticut and having its statutory home office located at One State Street, Hartford, Connecticut and its main administrative office located at 11680 Great Oaks Way, Alpharetta, Georgia. The report of such examination is submitted herewith.

SCOPE OF EXAMINATION

The previous examination of the Company was conducted as of December 31, 2009. The current examination which covers the subsequent five-year period was conducted at the statutory home office of the Company.

As part of the examination planning procedures, the Financial Regulation Division of the Connecticut Insurance Department (the Department) reviewed the following materials for the years 2009 through 2014, submitted by the Company:

- audit reports completed by the CPA firm retained by the Company;
- Board of Director (Board) minutes;
- Committee minutes;
- Management's Discussion and Analysis;
- Statements of Actuarial Opinion;
- reports of the Company's Internal Audit Department;
- documentation supporting Section 404 of the Sarbanes Oxley Act (SOX);
- documentation supporting Management's Report of Internal Controls;
- Form 10K reports filed with the Securities and Exchange Commission; and
- Annual statements filed with the Department.

AXIS SPECIALTY INSURANCE COMPANY

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 the independent audit reports which indicated no material concerns with respect to financial condition or regulatory compliance issues.

Work papers prepared by Deloitte & Touche, LLP (D&T) in connection with its annual statutory audit were reviewed and relied upon to the extent deemed appropriate.

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.

The Department retained the services of Merlinos & Associates, Inc. (Merlinos) to perform an actuarial review of AXIS.

The examination was conducted on a full scope, comprehensive basis in accordance with the procedures outlined in the NAIC Financial Condition Examiners Handbook (the 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 NAIC Annual Statement Instructions.

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

HISTORY

The Company is a wholly-owned subsidiary of AXIS Insurance Company (AXIS Insurance), an Illinois domiciled insurance company, which is an indirect wholly-owned subsidiary of AXIS Specialty U.S. Holdings, Inc. (AXIS Specialty U.S.), a Delaware domiciled holding company. AXIS Specialty U.S. is a wholly-owned subsidiary of AXIS Specialty Global Holdings Limited (AXIS Specialty Limited), a holding company organized under the laws of Ireland. AXIS Capital Holdings Limited (AXIS Capital), a Bermuda holding company is the Company's ultimate parent.

The Company was incorporated as Orion Excess Insurance Company on January 12, 1983 and commenced business on January 11, 1985. The original subscriber of the Company's stock was Security Insurance Company of Hartford (SICH). On March 30, 1990, the Company's name was changed to Connecticut Specialty Insurance Company.

AXIS SPECIALTY INSURANCE COMPANY

On May 31, 1995, Orion Capital Corporation (OCC) purchased all the outstanding shares of the Company from SICH. OCC was acquired by the Royal and SunAlliance Group on November 19, 1999.

An assumption reinsurance agreement, effective December 31, 2001, between the Company and Royal Surplus Lines Insurance Company (RSLIC) was approved by the Department on February 7, 2002. Pursuant to this agreement RSLIC assumed 100% of the Company's insurance liabilities.

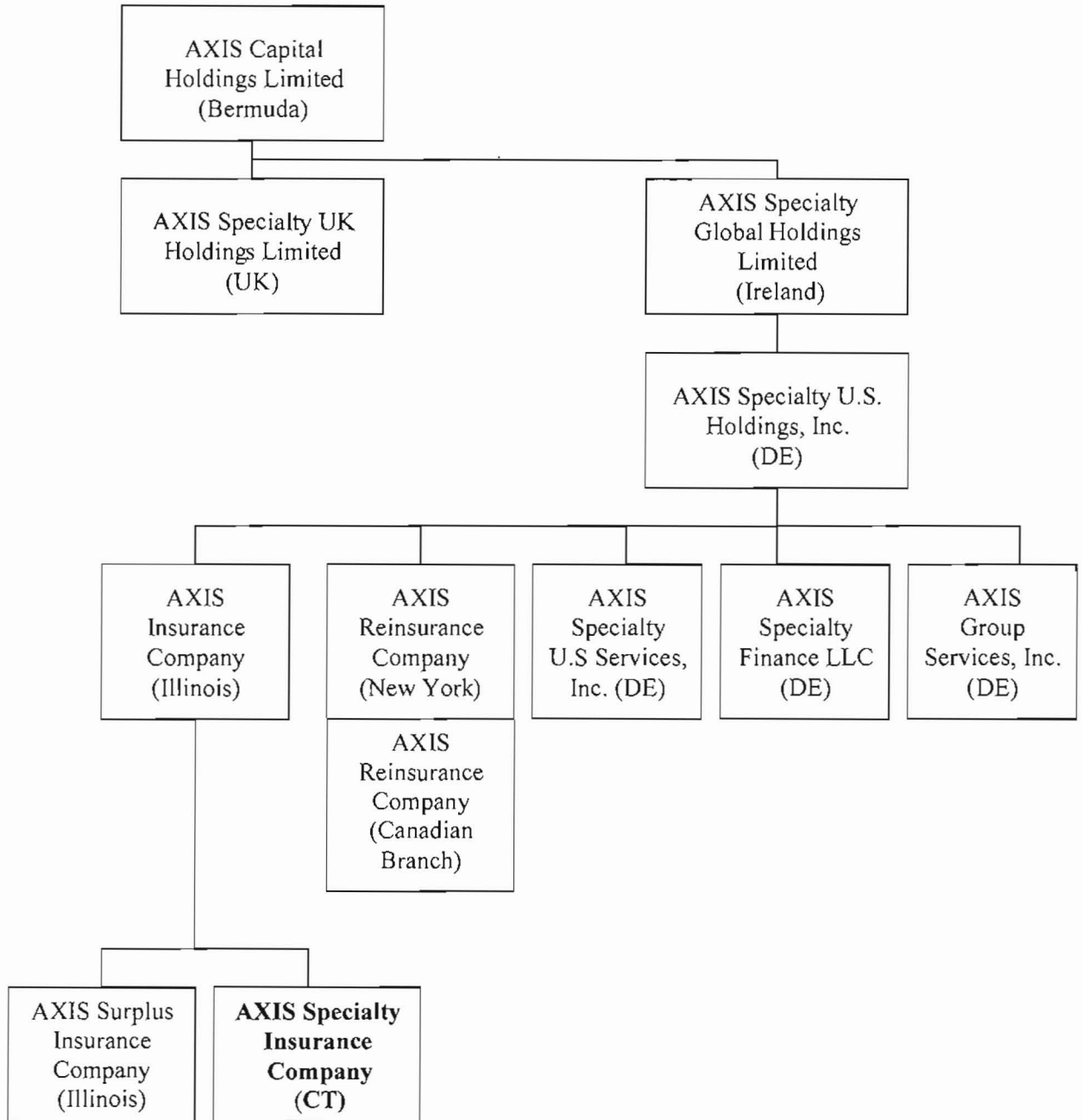
On October 1, 2002, AXIS Specialty U.S. purchased the Company. The ownership of the Company was moved to AXIS Reinsurance Company (AXIS Re) on December 31, 2002. The Company's name was changed to AXIS Specialty Insurance Company effective January 24, 2003.

As part of a restructuring strategy to realign its business, the Company was sold back to AXIS Specialty U.S. on December 1, 2006. On November 1, 2007, AXIS Specialty U.S. contributed all of the outstanding shares of the Company to AXIS Insurance. AXIS Capital was formed in late 2001 following the events of September 11, 2001. AXIS Capital held its initial public offering on July 1, 2003.

AXIS SPECIALTY INSURANCE COMPANY

ORGANIZATIONAL CHART

The following is a partial organizational chart of the Company and its major affiliates:



AXIS SPECIALTY INSURANCE COMPANY

MANAGEMENT AND CONTROL

The amended and restated bylaws provide that there shall be an annual meeting of shareholders for the election of directors and for the transaction of such other business that may come before such meeting. Special meetings of the shareholders may be called by the Board, the chairman of the board (Chairman), or president and must be called by the corporate secretary or upon written request of the holders of at least twenty-five percent of all the outstanding shares of the Company entitled to vote at the meeting. At any meeting of the shareholders, the holders of a majority of the issued and outstanding shares of stock and the holders of a majority of shares of each class of stock, then entitled to vote represented in person or by proxy shall constitute a quorum for all purposes.

The number of directors shall consist of at least one but not more than fifteen members as determined by the shareholders at each annual meeting, by vote of the shareholders at any special meeting or by vote of the whole Board at any regular or special meeting.

The Board shall meet each year as soon as practicable following the annual election of directors for the purpose of organization, election of officers and other business as the Board considers relevant.

Regular meetings of the Board shall be held as determined by the Board. Special meetings shall be held at the call of the Chairman, the president, corporate secretary or any two directors.

One-third of the directors then in office shall constitute a quorum for the transaction of business.

The elected officers shall be the president, one or more vice presidents, a corporate secretary, and a treasurer. There may also be one or more assistant secretaries and assistant treasurers as the Board may deem advisable. All officers shall be elected annually.

The Board may, by a vote of a majority of the directors, designate one or more committees in addition to the Executive Committee, each consisting of three or more directors, for such purposes as the Board may determine.

Members of the Board serving the Company at December 31, 2014, were as follows:

<u>Director</u>	<u>Title and Principal Business Affiliation</u>
Carlton W. Maner	Chairman of the Board, President and CEO AXIS Specialty Insurance Company
Andrew M. Weissert	Senior Vice President, General Counsel and Secretary AXIS Specialty Insurance Company
Gregory W. Springer	Executive Vice President AXIS Specialty U.S. Services Inc.

AXIS SPECIALTY INSURANCE COMPANY

Outside directors exist only at the AXIS Capital level.

The officers serving the Company at December 31, 2014, were as follows:

<u>Name</u>	<u>Title</u>
Carlton W. Maner	Chairman of the Board, President and CEO
Andrew M. Weissert	Senior Vice President, General Counsel and Secretary
N. James Tees	Senior Vice President and Treasurer
David L. Hart	Senior Vice President, Claims
Martin J. McCarty	Senior Vice President and Assistant Treasurer
Gregory W. Springer	Senior Vice President
Dave J. Clark	Vice President
Marc La Palme	Vice President
Robert T. Lupo	Vice President
Kenneth Mullins	Vice President, Claims
T. Howard Smith	Vice President and Assistant Treasurer
Andrew G. Zaepfel	Vice President
Denise C. Pagliarulo	Assistant Treasurer
Denise A. King	Assistant Secretary
Frances R. Mathis	Assistant Secretary

RELATED PARTIES

The Company has the following intercompany agreements in place:

Tax Allocation Agreement

The Company is party to a Tax Allocation Agreement with AXIS Specialty U.S and certain other affiliates. The consolidated tax liability is allocated among affiliates in the ratio that each affiliate's separate return tax liability bears to the sum of the separate tax return liabilities of all affiliates that are members of the consolidated group.

Reinsurance Recoverable Transfer Agreement

The Company is party to a Reinsurance Recoverable Transfer Agreement with its affiliates, AXIS Re, AXIS Insurance and AXIS Surplus Insurance Company (AXIS Surplus). Pursuant to this agreement, AXIS Surplus transfers reinsurance recoverable payments received by it but intended for the Company.

Premium Transfer Agreement

The Company is party to a Premium Transfer Agreement with AXIS Surplus pursuant to which AXIS Surplus transfers premium payments remitted to it but intended for the Company.

AXIS SPECIALTY INSURANCE COMPANY

Expense Allocation Agreement

The Company is party to an expense allocation agreement with AXIS U.S. Services, Inc. (AXIS U.S. Services), pursuant to which AXIS U.S. Services provides the services of its personnel, office equipment and office space to the Company on a cost reimbursement basis.

Representative Agreement

The Company is party to a representative agreement with an affiliate, AXIS Specialty Holding Ireland Limited for services provided by its branch, AXIS U.K. Services pursuant to which the Company appoints AXIS U.K. Services as its fiscal representative to the U.K. Tax Authority in connection with insurance premium taxes filings and other filings.

INSURANCE COVERAGES

The Company's parent, AXIS Capital maintains fidelity bond coverage through various insurers. AXIS Capital maintains a financial institution bond insurance policy through St. Paul Fire and Marine Insurance Company and Federal Insurance Company (co-sureties). The single loss limit of liability on the policy is \$50,000,000 which exceeds the suggested minimum limits of insurance pursuant to the Handbook.

In addition to fidelity bond insurance, AXIS Capital and its subsidiaries maintain insurance policies with various insurance carriers including the following:

Everest Indemnity Insurance Company	Excess professional liability
Westchester Fire Insurance Company	Excess professional liability
Federal Insurance Company	Package policy, umbrella and excess liability and financial institution bond
Great Northern Insurance Company	Business auto
Vigilant Insurance Company	Workers' compensation and employers' liability

The cost for these policies is allocated to the Company based upon weighted metrics (e.g. capital, premiums) relative to other covered subsidiaries of AXIS Capital.

TERRITORY AND PLAN OF OPERATION

The Company is a Connecticut domiciled property and casualty insurance company, licensed as an accident and health insurer in 44 states and the District of Columbia. Effective October 2009, the Company ceased writing commercial insurance products on an excess and surplus lines basis.

AXIS SPECIALTY INSURANCE COMPANY

REINSURANCE

The Company purchases significant amounts of reinsurance to reduce the risk of exposure to loss and to preserve its surplus.

The Company's reinsurance contracts provide coverage for both property and casualty and accident and health business underwritten by the Company. The Company purchases reinsurance on both a treaty and facultative basis. Under its treaty reinsurance agreements, the Company is provided coverage on either an excess of loss or quota share basis. These contracts can be purchased on a per-risk basis, which provides coverage for individual policies, or a catastrophe basis, which provides aggregate loss coverage for losses from one event.

Reinsurance with Affiliates

Effective December 31, 2007, the Company entered into a quota share reinsurance agreement with AXIS Specialty Limited whereby the Company cedes 50% of its net retained liability on a quota share basis on all inforce insurance and reinsurance written or renewed thereafter.

Effective October 2, 2002, the Company entered into a stop loss reinsurance agreement where pursuant to the stop loss and together with the above mentioned quota share reinsurance agreement, AXIS Specialty Limited will indemnify the Company for 100% of the amount by which the Company's ultimate net loss ratio incurred exceeds 80%, subject to an aggregate annual limit of liability of an ultimate net loss ratio incurred of 120%.

INFORMATION TECHNOLOGY CONTROLS

An evaluation of information technology (IT) controls was conducted in accordance with NAIC requirements as outlined in the Handbook. The guidance and direction used to perform the review of the Company's IT general controls was derived from Exhibit C Part 1 - Information Technology Planning Questionnaire (ITPQ) and Exhibit C Part 2 - Information Technology Work Program. 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.

The review of IT controls placed reliance upon the results of the work performed during the Company's SOX control testing, internal audit and CPA reviews. This review included an assessment of AXIS controls in place to prevent unauthorized access and use of the following financially significant systems: Underwriting Workstation (UWS); Claims Workstation (CWS); and International Reinsurance and Insurance System (IRIS), an AS/400 system, the Company's main underwriting policy administration system.

AXIS SPECIALTY INSURANCE COMPANY

The IT risks were outlined in the work programs which focused on the areas of logical and physical security over the IT infrastructure and key application systems. The scope also included:

- confirmation of compliance with AXIS policies, regulatory requirements and other governing bodies;
- determination that AXIS had adequate controls over contingency planning to ensure business continuity; and
- determination that AXIS had adequate controls in place to safeguard its computing assets.

There were no material findings which affected the Department's overall reliance on the Company's IT controls.

ACCOUNTS AND RECORDS

The Company utilized the Sun Systems General Ledger system for the examination period but switched to Oracle at the beginning of 2015. IRIS is the primary policy administrative system which interfaces with UWS and CWS for policy and claim processing. BlackRock Solutions performs the investment accounting function using the Princeton Asset Management system.

The Company utilized the services of two different outside firms to manage its invested assets and to maintain its investment financial records.

The Company utilized Booke Seminars "The Complete Package" for preparation of its 2014 Annual Statement.

General ledger account balances were reconciled and traced to the amounts reported in the annual statement for 2014. Further detail analyses were performed on the individual accounts throughout the year.

AXIS SPECIALTY INSURANCE COMPANY

FINANCIAL STATEMENTS

The following statements represent the Company's financial position, as filed by the Company as of December 31, 2014. No adjustments were made to surplus as a result of the examination.

ASSETS

Description	1 Assets	2 Nonadmitted Assets	3 Net Admitted Assets
Bonds	\$58,555,299		\$58,555,299
Cash, cash equivalents and short-term investments	15,310,690		15,310,690
Subtotals, cash and invested assets	73,865,989		73,865,989
Investment income due or accrued	144,895	\$4,966	139,929
Premiums and considerations: Uncollected premiums and agents' balances in the course of collection	90	90	0
Reinsurance: Amounts recoverable from reinsurers	651,481		651,481
Net deferred tax asset	1,253,539	527,916	725,623
Receivables from parent, subsidiaries and affiliates	15,198		15,198
Aggregate write-ins for other than invested assets	78,562	60,665	17,897
Totals	<u>\$76,009,754</u>	<u>\$593,637</u>	<u>\$75,416,117</u>

LIABILITIES, CAPITAL AND SURPLUS

Losses	\$12,129,540
Loss adjustment expenses	4,068,853
Commissions payable, contingent commissions and other similar charges	(112,764)
Other expenses	20,206
Current federal and foreign income taxes	589,324
Ceded reinsurance premiums payable (net of ceding commissions)	28,008
Provision for reinsurance	17,000
Payable to parent, subsidiaries and affiliates	379,382
Aggregate write-ins for other liabilities	3,702
Total liabilities	17,123,251
Common capital stock	4,000,200
Gross paid in and contributed surplus	46,508,964
Unassigned funds (surplus)	7,783,702
Surplus as regards policyholders	58,292,866
Totals	<u>\$75,416,117</u>

AXIS SPECIALTY INSURANCE COMPANY

STATEMENT OF INCOME

UNDERWRITING INCOME	
Premiums earned	\$15,100
Losses incurred	(4,525,896)
Loss expenses incurred	(1,031,882)
Other underwriting expenses incurred	497,402
Total underwriting deductions	(5,060,376)
Net underwriting gain (loss)	5,075,476
INVESTMENT INCOME	
Net investment income earned	1,369,855
Net realized capital gains (losses)	1,155,055
Net investment gain (loss)	2,524,910
OTHER INCOME	
Aggregate write-ins for miscellaneous income	818
Total other income	818
Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	7,601,204
Dividends to policyholders	0
Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	7,601,204
Federal and foreign income taxes incurred	1,353,093
Net income	6,248,111
CAPITAL AND SURPLUS ACCOUNT	
Surplus as regards policyholders, December 31 prior year	57,704,509
Net income	6,248,111
Change in net deferred income tax	(395,641)
Change in nonadmitted assets	77,887
Change in provision for reinsurance	358,000
Dividends to stockholders	(5,700,000)
Change in surplus as regards policyholders for the year	588,357
Surplus as regards policyholders, December 31 current year	<u>\$58,292,866</u>

AXIS SPECIALTY INSURANCE COMPANY

LOSSES AND LOSS ADJUSTMENT EXPENSES (LAE)

\$16,198,393

The following items were included in the captioned account:

Losses	\$12,129,540
LAE	<u>4,068,853</u>
	<u>\$16,198,393</u>

The Company reserves are estimated by the Insurance Segment actuaries of the AXIS group.

Merlinos conducted a comprehensive actuarial analysis of the loss and LAE reserves of the Company as of December 31, 2014, and reviewed the actuarial pricing processes related to the Company's management of exposure due to catastrophic loss or geographic risk locations.

The scope of Merlinos actuarial review included:

1. An assessment of reserve risk including but not limited to:
 - participation in the interviews with Company officers responsible for establishing the carried actuarial liabilities and direction on actuarial risk areas;
 - meetings with officers and reserve actuaries to understand the reserve level indication process;
 - a review of the processes and controls in place that are intended to mitigate the key areas of reserve risk and the process for reporting actuarial indications to management; and
 - a review of the Company's processes, methodologies, and assumptions used to estimate loss and LAE reserves for material lines of business.
2. An assessment of liquidity risk including but not limited to:
 - meetings with officers and management responsible for establishing the Company's catastrophe risk management strategy; and
 - a review of the Company's processes and for managing exposure due to catastrophic loss and geographic risk concentrations, including catastrophe and non-catastrophe reinsurance programs.

The actuarial review was conducted in accordance with generally accepted actuarial reserving standards and principles and in accordance with the risk focused approach as detailed in the Handbook. Merlinos based its review on the following information provided by the Company which included but was not limited to:

- the December 2013 and 2014 Statements of Actuarial Opinion and Actuarial Opinion Summaries;
- the 2014 Actuarial Report supporting the December 31, 2014 Statement of Actuarial Opinion;

AXIS SPECIALTY INSURANCE COMPANY

- discussions with the Appointed and other key actuaries;
- workpapers and communication provided by the Company presenting their methodologies and assumptions supporting the December 31, 2014 carried loss and LAE reserves (direct, ceded, and net) for material lines of business;
- minutes from Insurance Segment Reserve Committee meetings;
- various internal quarterly presentations involving Actuarial and other Departments such as Claims and Underwriting;
- the 2010 - 2014 Annual Statements;
- review of reinsurance purchasing procedures; and
- other information requested and obtained during the course of the review through emails, discussions and meetings with key personnel of the Company.

As a result of Merlino's review, it was concluded that:

Reserve Risk: The reserving processes and controls were found to be reasonable. The Company's overall approach, assumptions and methodologies were reasonable for estimating losses and LAE reserves.

Liquidity Risk: Based on the runoff nature of the Company, the very small remaining property exposures, and the reinsurance purchasing process, liquidity risk related to catastrophic loss and geographic risk concentrations appear to be mitigated.

Conclusion: Based upon the risk-based assessment and review, no material findings were noted which affected the Company's ability to manage its reserving or liquidity risk regarding catastrophic losses.

COMMON CAPITAL STOCK

\$4,000,200

As of December 31 2014, there were 100,000 shares of common capital stock authorized, with 13,334 issued and outstanding, having a par value of \$300 per share. All of the issued shares are owned by AXIS Insurance.

AXIS SPECIALTY INSURANCE COMPANY

CAPITAL AND SURPLUS \$58,292,866

The reconciliation of surplus for the period under examination, January 1, 2010, through December 31, 2014, was as follows:

Surplus, as of December 31, 2009	\$116,784,401
Net income	32,959,086
Change in net unrealized capital gains (losses)	255,690
Change in net deferred income tax	(4,621,912)
Change in non-admitted assets and related items	5,720,747
Change in provision for reinsurance	8,153
Cumulative effect of changes in accounting principles	(723,471)
Surplus adjustment – paid in	(55,306,196)
Dividends to stockholders	(35,393,804)
Aggregate write-ins for gains and losses in surplus	<u>(1,389,828)</u>
Surplus, December 31, 2014	<u>\$58,292,866</u>

On December 9, 2011, the Company paid an extraordinary dividend to AXIS Insurance in the amount of \$60 million, of which \$55,306,196 was deeded return of capital.

SUBSEQUENT EVENT

On July 16, 2015, the Company paid an extraordinary cash dividend in the amount of \$5,000,000 to its sole shareholder, AXIS Insurance.

CONCLUSION

As of December 31, 2014, the Company reported admitted assets of \$75,416,117, liabilities of \$17,123,251, and capital and surplus of \$58,292,866. During the period under examination, admitted assets decreased by \$121,663,716, liabilities decreased \$63,172,181, and surplus as regards policyholders decreased by \$58,491,535. These decreases are indicative of the Company's run-out strategy for its surplus lines business.

AXIS SPECIALTY INSURANCE COMPANY

SIGNATURE

In addition to the undersigned, Sharon Altieri, CPA; Grace Jiang, CFE; Chiffon King, AFE; Kenneth Roulier, AFE, CISA, AES; William Arfanis, CFE, and Susan Gozzo Andrews, FCAS, MAAA, RPLU+, of the Department, and the consulting firm of Merlino participated in this examination.

I, Kevin Beaudoin, CFE, 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, 2014, to the best of my information, knowledge and belief.

Respectfully submitted,

Kevin Beaudoin

Kevin Beaudoin, 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, on this
22nd day of April, 2016.

Patricia A Butler
Notary Public of the Superior Court

My Commission Expires September 30, 2018