

## 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 the SPARTA Insurance Company (the "Company") as of December 31, 2020, 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 September 17, 2021, 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 October 13, 2021, 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 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 CGS 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 Mark Murphy, Supervising Examiner, of the Financial Regulation Division.

4. Section 38a-14(e)(4)(B) of the CGS 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 18<sup>th</sup> day of October, 2021.



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Andrew N. Mais  
Insurance Commissioner

EXHIBIT A

EXAMINATION REPORT

OF THE

SPARTA INSURANCE COMPANY  
(NAIC # 20613)

AS OF

DECEMBER 31, 2020

BY THE

CONNECTICUT INSURANCE DEPARTMENT



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September 17, 2021

The Honorable Andrew N. Mais  
Insurance Commissioner  
State of Connecticut Insurance Department  
153 Market Street, 6<sup>th</sup> Floor  
Hartford, CT 06103

Dear Commissioner:

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

**SPARTA INSURANCE COMPANY**

(hereinafter referred to as the Company or SPARTA), a capital stock corporation incorporated under the laws of the State of Connecticut and having its main administrative office located at 5 Batterson Park Road, Farmington, Connecticut. The report of such examination is submitted herewith.

**SCOPE OF EXAMINATION**

The examination was conducted virtually by the Financial Regulation Division of the Connecticut Insurance Department (the Department) and covers the period from January 1, 2016 through December 31, 2020.

As a part of the examination planning procedures, the Financial Regulation Division of the Connecticut Insurance Department (the Department) reviewed the following documentation submitted by the Company for the period under examination:

- Annual Statements filed with the Department from 2016 through 2020;
- Statements of Actuarial Opinion 2019 and 2020;
- Management's Discussion and Analysis from 2016 through 2020;
- minutes of the Board of Directors (Board) and Committees of the Board from 2016 through the most current; and
- statutory basis audit reports prepared by KPMG, LLP (KPMG), the Company's independent certified public accountants from 2016 through 2019 and Deloitte & Touche LLP (D&T) for year-end 2020.

A comprehensive review was also made of the financial analysis files and documents submitted to the Financial Analysis Unit of the Department, as well as reports obtained from the NAIC database.

## SPARTA INSURANCE COMPANY

Merlinos & Associates, Inc. (Merlinos), a financial and actuarial consulting firm was engaged by the Department to assist in the review of the Company's reserving, reinsurance, and liquidity risks.

Work papers prepared by KPMG as of December 31, 2019, and D&T as of December 31, 2020, in connection with their annual statutory audits were reviewed and relied upon to the extent deemed appropriate.

We conducted our examination in accordance with the NAIC Financial Condition Examiners Handbook (the 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.

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

### HISTORY

On August 9, 2007, SPARTA Insurance Holdings Inc. (SIH) purchased the Company from Pennsylvania General Insurance Company, a Pennsylvania domiciled insurance company and a wholly owned subsidiary of OneBeacon Insurance Group Ltd, an insurance holding company domiciled in Delaware. The Company re-domesticated from Massachusetts to Connecticut on April 30, 2009.

During 2010, the Company formed SPARTA Specialty Insurance Company (SSIC), a wholly owned insurance company, domiciled in the State of Connecticut. On July 2, 2010, the Company purchased shares of SSIC common stock for \$16 million in cash, and on August 2, 2010, SSIC received its Certificate of Authority.

On October 1, 2010, the Company purchased all of the outstanding common stock of Vintage Insurance Company, from Fireman's Fund Insurance Company, a subsidiary of Allianz Global Risks US Insurance Company. The change of control was approved by the California Department of Insurance, and the name was changed to SPARTA American Insurance Company (SAIC).

## SPARTA INSURANCE COMPANY

On September 5, 2014, the Department approved the acquisition of control of SPARTA by Catalina Holdings (Bermuda) Ltd. (Catalina or CHBL) and Alea Holdings U.S. Company (AHUSCO). The acquisition was finalized on September 15, 2014. Catalina is a long-term consolidator in the non-life insurance/reinsurance run-off sector.

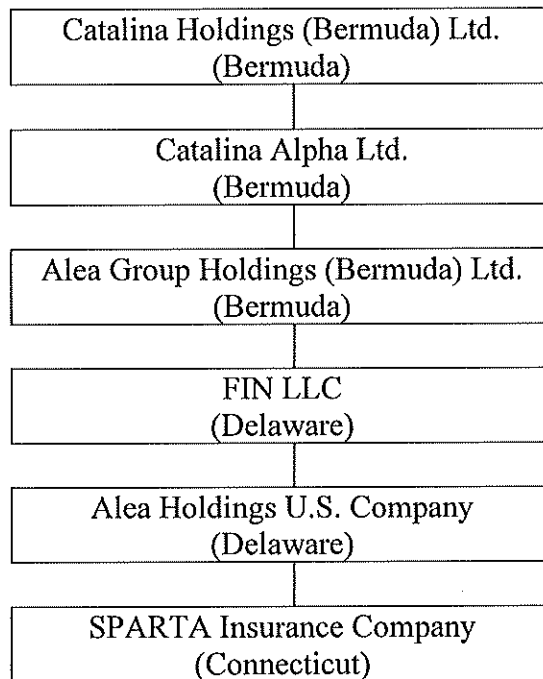
Effective September 10, 2015, SSIC re-domesticated to Missouri from Connecticut, and effective December 4, 2015, the sale of SSIC to Safety National Casualty Corporation was finalized.

All shares of SPARTA are owned by AHUSCO. AHUSCO purchased SPARTA's former parent, SIH on September 15, 2014, and effective October 9, 2015, SIH merged with and into SPARTA.

Effective November 20, 2015, PXRE was merged with and into the Company.

### ORGANIZATIONAL CHART

A partial organizational chart of the insurance holding company system at the end of the examination period was as follows:



# SPARTA INSURANCE COMPANY

## MANAGEMENT AND CONTROL

The annual meeting of stockholders shall be held on the fourth Thursday in March in each year (or if that be a legal holiday in the place where the meeting is to be held, on the next succeeding full business day), at the principal office of the corporation, unless a different hour, date, or place is fixed by the Board or the president. If no annual meeting has been held on the date referred to above, a special meeting in lieu thereof may be held with all the force and effect of an annual meeting.

Special meetings of stockholders may be called by the president, or the secretary, or the Board, or holders of at least ten percent of all the votes entitled to be cast on any issue proposed to be considered at the special meeting, if they sign, date, and deliver to the secretary, one or more written demands for the meeting, describing the purpose or purposes for which it is to be held.

The holders of a majority in interest of all stock issued, outstanding and entitled to vote at a meeting shall constitute a quorum.

The business of the corporation shall be managed by the Board, who may exercise all the powers of the corporation, except as otherwise provided by law, by the Amended and Restated Certificate of Incorporation, or by the By-laws. A Board of such number, not fewer than three nor more than fifteen, as shall be fixed by the stockholders, shall be elected by the stockholders at the annual meeting.

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. At any meeting of the Board, a majority of the directors, then in office, but in no event fewer than two directors, shall constitute a quorum.

Directors serving the Company at December 31, 2020, were as follows:

<u>Name</u>	<u>Title and Principal Business Affiliation Company</u>
Gary Haase	Group Chief Operating Officer
Stephen Eisenmann	Chief Executive Officer, President, and Chief Claims Officer
Tracey Price	Senior Vice President, Chief Financial Officer and Treasurer

### Committees to the Board:

The Board, by a vote of a majority of the directors then in office, may create and appoint members to an executive committee or other committees and may delegate thereto some or all of its powers except those which by law, by the Amended and Restated Certificate of Incorporation, or by the By-laws may not be delegated.

The Audit and Risk Committee of the Board is charged with assisting the Board in its oversight of the integrity of the Company's financial statements, the Company's compliance with legal and regulatory requirements, the qualifications, performance and independence of the Company's independent auditors, and the performance of the Company's internal audit function, and oversight



## SPARTA INSURANCE COMPANY

of the risk management function.

Audit and Risk Committee Members serving the Company at December 31, 2020 were:

Gary Haase (Chairman)  
Stephen Eisenmann  
Tracey Price

Directors serving the Company at December 31, 2020, were as follows:

<u>Name</u>	<u>Title and Principal Business Affiliation Company</u>
Gary Haase	Group Chief Operating Officer
Stephen Eisenmann	President, Chief Executive Officer and Chief Claims Officer
Tracey Price	Senior Vice President, Chief Financial Officer and Treasurer

### RELATED PARTY TRANSACTIONS

The Company is a party to several related party transaction agreements in force as of December 31, 2020. These agreements are as follows:

#### Administrative Services Agreement:

The Company entered into an Administrative Services Agreement (ASA) with various United States based Catalina affiliated companies, effective March 11, 2015. The ASA provides certain administrative, financial and other services to each recipient that desires to receive such services. Each recipient shall reimburse each provider for the actual and reasonable cost and expenses incurred by the provider, in connection with the provision of the services. The services include, but are not limited to, certain claims services, collections, policy services, accounting services (i.e. the preparation of accounting and financial reports), administration, data processing, software, network and other systems services, and actuarial services. This agreement, approved by the Board, provides a formula allocation for all costs to each company, with the Company providing no guarantees, written or otherwise, for the benefit of others.

#### Tax Allocation Agreement:

A Tax Allocation Agreement was entered into as of November 14, 2014. The Agreement was effective with respect to each taxable year ending on or after December 31, 2014, by and among AHUSCO, the Company, and various affiliates.

### INSURANCE COVERAGES

The Company maintains fidelity bond coverage for a single loss limit of \$5,000,000, with a single loss deductible amount of \$200,000. The aggregate loss limit during the bond period is \$10,000,000. This coverage exceeds the suggested minimum limits of insurance pursuant to the Handbook.

## SPARTA INSURANCE COMPANY

### TERRITORY AND PLAN OF OPERATION

The Company is a Connecticut domiciled property and casualty insurer licensed to write business in all states, the District of Columbia and the U.S. Virgin Islands. The Company is currently in run-off.

### REINSURANCE

On August 1, 2016, the Company, Swiss Re, and Quanta Indemnity Company (QIC), an affiliate, entered into a retrocession novation agreement. Upon execution of this agreement, QIC novated all outstanding liabilities associated with the Swiss Re book of business totaling \$11.1 million, along with assets of equal value thus resulting in no gain or loss by either party at the time of execution.

Except for the transaction above, the Company has not entered into any new reinsurance agreements but has entered into commutation agreements with certain reinsurers.

### INFORMATION TECHNOLOGY CONTROLS

An evaluation of information technology (IT) controls was conducted in accordance with NAIC requirements as outlined in the Handbook's Exhibit C Part One - Information Technology Planning Questionnaire (ITPQ), Part Two – Information Technology Work Program (work program) and the 6 step process contained in the Handbook (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 functioning properly.

Exhibit C Part Two was customized to develop a work program that allowed for a limited scope review to be conducted while focusing on the most significant risks associated with the IT environment, to verify the existence of controls, policies and procedures that are appropriate to mitigate those risks. The review was not conducted for the purposes of placing reliance on the overall IT environment but to obtain a high-level overview of the Company's IT environment, to gain an understanding of, and evaluate the effectiveness of the Company's general IT controls in mitigating IT risks. Although the review was limited in overall scope, consideration was given to procedures in effect during 2020 as well as any procedures implemented since the previous examination.

The objectives were to obtain reasonable assurance about whether:

- SPARTA had a process in place to effectively identify, mitigate and manage its IT risk;
- SPARTA's control structure policies and procedures were suitably designed to achieve the control objectives specified in Exhibit C; and
- SPARTA's policies and procedures were in place during the examination period.

Evaluation of IT controls focused on the following areas: management and organizational

## SPARTA INSURANCE COMPANY

governance; logical and physical security; business recovery and continuity plans; and a review program change and system development practices.

Based upon the risk-based assessment and review, the IT general control environment was determined to be effective.

### ACCOUNTS AND RECORDS

The Company utilizes Sun Systems, a purchased application for its general ledger and accounts payable reporting and processing. The transition to Sun occurred as part of a global group effort to gain efficiencies and ease consolidation efforts. Investment accounting is performed by Clearwater Analytics.

General ledger account balances were reconciled and traced to the amounts reported in the annual statements for 2020. Further detail analyses were performed on the individual accounts throughout the examination.

SPARTA INSURANCE COMPANY

FINANCIAL STATEMENTS

The following statements represent the Company's financial position, as filed by the Company as of December 31, 2020. No adjustments were made to surplus as a result of the examination.

ASSETS

Account Description	Assets	Non-admitted Assets	Net Admitted Assets
Bonds	\$55,782,376		\$55,782,376
Stocks:			
Preferred stocks	364,067		364,067
Common stocks	2,321,280		2,321,280
Cash, cash equivalents and short-term Investments	12,473,400		12,473,400
Other invested assets (Schedule BA)	19,010,075	\$1,903,041	17,107,034
Investment income due and accrued	519,536	10,335	509,201
Premiums and considerations:			
Uncollected premiums and agents' balances in the course of collection	199,797	199,797	
Deferred premiums, and agents' balances and installments booked but not yet due	116,107		116,107
Reinsurance:			
Amounts recoverable from reinsurers	962,768		962,768
Funds held by or deposited with reinsured companies	119,452	115,501	3,952
Furniture and equipment	24,989	24,989	
Receivables from parent, subsidiaries and affiliates	640		640
Aggregate write-ins for other than invested assets	8,284,119	823,480	7,460,639
Totals	<u>\$100,178,606</u>	<u>\$3,077,143</u>	<u>\$97,101,463</u>

SPARTA INSURANCE COMPANY

LIABILITIES, SURPLUS AND OTHER FUNDS

Account Description	
Losses	\$39,736,182
Reinsurance payable on paid losses and loss adjustment expenses	251,742
Loss adjustment expenses	6,468,610
Commissions payable, contingent commissions and other similar charges	(5,786,819)
Other expenses	686,832
Taxes, licenses and fees	769,529
Ceded reinsurance premiums payable	1,618,657
Funds held by company under reinsurance treaties	3,064,481
Provision for reinsurance	5,224,000
Payable to parent, subsidiaries and affiliates	60,343
Payable for securities	20,329
Total liabilities	52,113,886
Common capital stock	4,500,000
Gross paid in and contributed surplus	281,444,389
Unassigned funds (surplus)	(240,956,812)
Surplus as regards policyholders	44,987,577
Totals	<u>\$97,101,463</u>

SPARTA INSURANCE COMPANY

STATEMENT OF INCOME

Premiums earned	\$55,132
Losses incurred	(3,392,778)
Loss adjustment expenses incurred	468,942
Other underwriting expenses incurred	4,004,070
Total Underwriting Deductions	1,080,234
Net underwriting gain or (loss)	(1,025,102)
Net investment income earned	4,120,965
Net realized capital gains (losses)	(12,781,415)
Net investment gain or (loss)	(8,660,450)
Net gain or (loss) from agents' or premium balances charged off	(182,246)
Aggregate write-ins for miscellaneous income	152,980
Total other income	(29,266)
Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	(9,714,818)
Net income after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	(9,714,818)
Federal and foreign income taxes incurred	49,010
Net income	<u>\$(9,763,828)</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31 prior year	\$79,507,010
Net income	(9,763,828)
Change in net unrealized capital gains or (losses)	(2,617,282)
Change in nonadmitted assets	2,843,677
Change in provision for reinsurance	18,000
Surplus adjustments:	
Paid in	(25,000,000)
Change in surplus as regards policyholders for the year	(34,519,433)
Surplus as regards policyholders, December 31 current year	<u>\$44,987,577</u>

## SPARTA INSURANCE COMPANY

<u>LOSSES</u>	\$39,736,182
<u>LOSS ADJUSTMENT EXPENSES (LAE)</u>	\$ 6,468,610
	<u>\$46,204,792</u>

Merlinos conducted an assessment of the Company's reserving, reinsurance and liquidity risks as of December 31, 2020. Consistent with the risk focused surveillance approach to the examination, Merlinos relied upon analyses and tests documented by SPARTA and in the work papers of D&T.

- reviewed/analyzed statutory Annual Statements from the period 2019 through 2020, with emphasis on 2020;
- met with the SPARTA's management to understand the processes and procedures governing actuarial calculations, its approach to risk management and its likely areas of financial and business risk;
- reviewed tests performed and conclusions reached by the appointed actuary and the independent auditors;
- reviewed experience study information compiled and provided by the Company in support of major assumptions used in the asset/liability analysis;
- reviewed and analyzed the Statement of Actuarial Opinion and Actuarial Memorandum from the years covered under the examination, with emphasis on the later years; and
- met with SPARTA's management responsible for reserving and asset adequacy analysis.

### Assessment of Reserve Risk

Merlinos conducted a review to form a conclusion regarding the risk that actual losses or other contractual payments reflected in the corresponding reserves were greater than the carried liabilities.

### Assessment of Reinsurance Risk

Merlinos conducted testing to form a conclusion to determine if the insurer is overestimating the reinsurance credit on claim case and IBNR Loss and LAE reserves.

### Assessment of Liquidity Risk

Merlinos conducted testing to form a conclusion regarding the ability of SPARTA to meet contractual obligations as they become due.

### Conclusion

Based upon the risk-based assessment and review, no material findings were noted with respect to SPARTA's reserving, reinsurance and liquidity risks.

<u>COMMON CAPITAL STOCK</u>	<u>\$4,500,000</u>
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At December 31, 2020, the Company reported 60,000 shares of common stock authorized, with 45,000 shares issued and outstanding, having a par value of \$100 per share. All of the issued shares are owned by AHUSCO.

## SPARTA INSURANCE COMPANY

### POLICYHOLDERS' SURPLUS

\$40,487,577

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

Policyholders' Surplus, as of December 31, 2015	\$116,481,880
Net income	(46,694,316)
Change in net unrealized capital gains (losses)	3,123,804
Change in net unrealized foreign exchange gains (losses)	(5,068)
Change in nonadmitted assets	4,609,876
Change in provision for reinsurance	2,971,401
Surplus adjustment: paid in	<u>(40,000,000)</u>
Capital and Surplus, December 31, 2020	<u>\$40,487,577</u>

Changes in the Company's policyholders' surplus over the examination period were largely due to results from operations and the payment of extraordinary dividends.

### SUBSEQUENT EVENTS

- The COVID-19 pandemic has continued to develop throughout 2020 and 2021, with significant uncertainty remaining regarding the full effect of COVID-19 on the U.S. and global insurance and reinsurance industry. At the time of releasing this report, the examination team noted no significant financial impact to the Company as result of COVID – 19. The Department has been in communication with the Company regarding the impact of COVID-19 on its business operations and financial position including its Pandemic Influenza & Disease Outbreak Plan. The Department will continue to closely monitor the impact of the pandemic on the Company and will take necessary action if a solvency concern arises.
- On March 8, 2021, Apollo Global Management, Inc. (ultimate parent of CHBL) and Athene Holding Ltd. entered into a definitive agreement to merge in an all-stock transaction. The merger has not been completed as of the end of examination field work.
- On June 9, 2021, Hugh McCreery was appointed the new U.S. Chief Financial Officer and Treasurer.
- On June 30, 2021, Christopher Kirpalani, Chief Information Security Officer, resigned and Rhian Duff, Chair of Catalina's data protection committee assumed the role on an interim basis while a search for a successor is ongoing.
- On July 1, 2021, Amy Gallent was appointed President, Chief Executive Officer, and U.S. General Counsel replacing Stephen Eisenmann.
- On September 3, 2021, Gary Haase, Group Chief Operating Officer resigned.

### CONCLUSION

The results of this examination disclosed that, as of December 31, 2020, the Company reported admitted assets of \$97,101,463, liabilities of \$52,113,886, and surplus of \$44,987,577. During the period under examination, admitted assets decreased \$249,802,645, liabilities decreased \$173,808,341, and surplus as regards policyholders decreased \$75,994,304.



SPARTA INSURANCE COMPANY

SIGNATURE

In addition to the undersigned, the following members of the Department participated in the examination: Lisa Pagliaro, AFE; Grace Jiang, CFE; Kent Krajick, CFE; Joseph Marcantonio, AFE, AES, CISA; Mark Murphy, CFE; Wanchin Chou, FCAS, MAAA, CPCU, CSPA, CCRMP; Qing He, FCAS, MAAA; Amy Waldhauer, FCAS, MAAA and the actuarial consulting firm of Merlinos.

I, Wayne Shepherd, CFE, solemnly swear that the foregoing report on examination is hereby represented to be a full and true statement of the condition and affairs of the subject insurer as of December 31, 2020, to the best of my information, knowledge and belief.

Respectfully submitted,

*Wayne Shepherd*

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Wayne Shepherd, CFE  
Examiner-In-Charge  
State of Connecticut  
Insurance Department

State of Connecticut

ss. Hartford

County of Hartford

Subscribed and sworn to before me, *Yunshu Rubin*  
Notary Public on this 17 day of September, 2021.

*Yunshu Rubin*  
Notary Public

My Commission Expires June 30, 2026

