

**REPORT ON EXAMINATION**  
**OF**  
**HUDSON EXCESS INSURANCE COMPANY**  
**AS OF**  
**DECEMBER 31, 2019**

Office of the  
Commissioner




Delaware  
Department of Insurance

REPORT ON EXAMINATION  
OF  
HUDSON EXCESS INSURANCE COMPANY  
AS OF  
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The above-captioned report was completed by examiners of the Delaware Department of Insurance.

Consideration has been duly given to the comments, conclusions and recommendations of the examiners regarding the status of the company as reflected in the report.

This report is hereby accepted, adopted and filed as an official record of this Department.

  
Trinidad Navarro  
Insurance Commissioner

Dated this 5<sup>th</sup> day of April, 2021

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February 11, 2021

Honorable Trinidad Navarro  
Commissioner of Insurance  
Delaware Department of Insurance  
1351 W North Street  
Suite 101  
Dover, Delaware 19904

Dear Commissioner:

In compliance with instructions and pursuant to statutory provisions contained in Exam Authority No. 20.007, dated November 20, 2019, an examination has been made of the affairs, financial condition and management of

**HUDSON EXCESS INSURANCE COMPANY**

hereinafter referred to as the Company or HEIC and incorporated under the laws of the State of Delaware as a stock company with its registered office located at 1209 Orange Street, Wilmington, Delaware. Due to the COVID-19 Pandemic, the examination was conducted offsite. The administrative office of the Company located at 100 William Street, 5th Floor, New York, New York 10038. The report of examination thereon is respectfully submitted.

**SCOPE OF EXAMINATION**

The Delaware Department of Insurance (Department) performed a risk-focused financial examination of the Company. The previous regulatory examination of the Company covered the three-year period from January 1, 2011 through December 31, 2014. This examination will cover the five-year period from January 1, 2015 through December 31, 2019, and encompasses a general review of transactions during the period, the Company's

business policies and practices, as well as management and relevant corporate matters, with a determination of the financial condition of the Company as of December 31, 2018. Transactions subsequent to the examination date were reviewed where deemed necessary.

The examination of the Company was performed as part of the multi-state coordinated examination of the Fairfax Group of regulated United States (U.S.) property and casualty insurance companies (Fairfax U.S. Group) as of December 31, 2019. Delaware is the lead state for the Fairfax U.S. Group examination. The examination was conducted concurrently with that of the Company's U.S. affiliates. The Companies in the Fairfax U.S. Group and their state of domicile are summarized as follows by subgroups:

**Hudson Subgroup – 100% owned by Odyssey Re Subgroup below:**

<b><u>Company Name</u></b>	<b><u>NAIC Number</u></b>	<b><u>State of Domicile</u></b>
Hudson Insurance Co	25054	DE
Hudson Excess Insurance Co	14484	DE
Hudson Specialty Insurance Co	37079	NY

**Odyssey Re Subgroup:**

<b><u>Company Name</u></b>	<b><u>NAIC Number</u></b>	<b><u>State of Domicile</u></b>
Greystone Insurance Co	10019	CT
Odyssey Reinsurance Co	23680	CT

**Crum & Forster Subgroup:**

<b><u>Company Name</u></b>	<b><u>NAIC Number</u></b>	<b><u>State of Domicile</u></b>
United States Fire Ins Co	21113	DE
Crum & Forster Specialty Ins Co	44520	DE
North River Insurance Co	21105	NJ
First Mercury Ins Co	10657	DE
Crum & Foster Ind. Co	31348	DE
Seneca Ins Co Inc.	10936	NY
Seneca Specialty Ins Co.	10729	DE
Crum & Forster Ins Co	42471	NJ
American Underwriters Ins Co	10251	AK
MTWA Insurance Co	16498	DE

**Zenith Subgroup:**

<b><u>Company Name</u></b>	<b><u>NAIC Number</u></b>	<b><u>State of Domicile</u></b>
Zenith Insurance Co	13269	CA
ZNat Insurance Co	30120	CA

**Allied World Subgroup: <sup>1</sup>**

<b><u>Company Name</u></b>	<b><u>NAIC Number</u></b>	<b><u>State of Domicile</u></b>
Allied World Natl Assur Co	10690	NH
Allied World Assur Co US Inc.	19489	DE
Allied World Surplus Lines Ins Co	24319	AK
Allied World Specialty Ins Co	16624	DE
Allied World Ins Co	22730	NH
Vantapro Specialty Ins Co	44768	AK
Vault Recip. Exch. FL NY	16186	FL
Vault E&S Ins Co	16237	AK

**Riverstone Subgroup: <sup>2</sup>**

<b><u>Company Name</u></b>	<b><u>NAIC Number</u></b>	<b><u>State of Domicile</u></b>
Commonwealth Insurance Co of America	10220	DE
TIG Insurance Co	25534	CA

We conducted our examination in accordance with the *National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook (Handbook)* and generally accepted statutory insurance examination standards consistent with the Insurance Code and Regulations of the State of Delaware. The NAIC 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

<sup>1</sup> Fairfax Financial Holdings Limited and Allied World Assurance Company Holdings, Ltd recently announced, in a November 12, 2020 press release, that they have, through their subsidiaries, entered into an agreement to sell their majority interest in Vault Insurance. The transaction is expected to close during the first quarter of 2021.

<sup>2</sup> TIG Insurance Company sold Commonwealth Insurance Company of America to Brit Insurance USA Holdings Inc., effective April 30, 2018.

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, pursuant to the General Corporation Law of the State of Delaware as required by 18 *Del. C.* § 321, along with general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature, are not included within the examination report but separately communicated to other regulators and/or the Company.

During the course of this examination, consideration was given to work performed by the Company's external accounting firm PricewaterhouseCoopers LLC (PwC). Certain auditor work papers of the 2019 PwC audit of the Company have been incorporated into the work papers of the examiners and have been utilized in determining the scope, areas of emphasis in conducting the examination, and in the area of risk mitigation and substantive testing.

#### **SUMMARY OF SIGNIFICANT FINDINGS**

There were no significant findings or material changes in financial statements as a result of this examination.

## **COMPANY HISTORY**

The Company was incorporated on May 11, 2012, in the State of Delaware as a wholly owned subsidiary of Hudson Specialty Insurance Company (HSIC) and commenced operations on October 2, 2012.

### **Capitalization**

The Company is authorized to issue 100,000 shares of common stock with a par value of \$300 per share. As of December 31, 2019, there are only 25,948 shares of the common stock are issued and held by HSIC.

### **Dividends**

The Company made one dividend payment over the period covered by this exam period to its sole shareholder, HSIC.

<u>Stock</u>	<u>Type</u>	<u>Amount</u>	<u>Paid Date</u>
Common Stock	Ordinary	\$5,880,000	December 7, 2015

## **MANAGEMENT AND CONTROL**

### **Directors**

Pursuant to the general Corporation Laws of the State of Delaware, as implemented by the Company's Certificate of Incorporation and bylaws, all corporate powers and its business property and affairs are managed by, or under the direction, of its Board of Directors (Board).

Directors shall be elected annually by the sole shareholder and the number of directors who will constitute the entire Board, shall consist of no less than three (3) and no more than nine (9) members. The directors shall hold office until the next Annual Shareholders Meeting



or until their successors are elected or appointed. The Board, duly elected in accordance with its bylaws and serving at December 31, 2019, is as follows:

<u>Name</u>	<u>Title</u>
Christopher L. Gallagher	President and CEO Hudson Insurance Group
Michael G. Wacek	Executive Vice President & Chief Risk Officer - ORH
Jan Christiansen	Executive Vice President & Chief Financial Officer - ORH

Officers

In accordance with its bylaws, officers serving the Company shall be a Chairman of the Board, a President, one or more Vice Presidents (as determined by the Board), a Controller, a Corporate Secretary, and other officers as may from time to time be appointed by the Board. The Vice Presidents may include Executive Vice Presidents and Senior Vice Presidents. Any two or more offices may be held by the same person, except that the President and the General Counsel cannot be the same person. The most senior officers, duly appointed in accordance with the bylaws and serving at December 31, 2019, are as follows:

<u>Name</u>	<u>Title</u>
Christopher L. Gallagher	President & Chief Executive Officer
Dina G. Daskalakis	Senior Vice President & General Counsel
Keith Michael Brennan	Controller
Jan Christiansen	Executive Vice President
Elizabeth Ann Sander	Executive Vice President & Chief Actuary
Francis Dennis Cerasoli	Senior Vice President
Michael Paul Cifone	Senior Vice President
Peter Hamilton Lovell	Senior Vice President
Joseph Silverio Perez	Senior Vice President
Leslie Shore	Senior Vice President

### Committees of the Board

The Company has not elected any committees, with the exception of the designation of the audit committee of Odyssey Group Holdings, Inc. (OGH). During 2010, the Company designated the Audit Committee of OGH as its Audit Committee and sent notification to the Department of this event on January 28, 2013.

### Corporate Records

The recorded minutes of the shareholder and Board were reviewed for the period under examination. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions and events including approval of investment transactions in accordance with 18 *Del. C.* §1304. In addition, the review of Company files indicated that written correspondence was submitted to the Department with regards to the changes in officers and directors during the period under examination in compliance with 18 *Del. C.* §4919.

### Insurance Holding Company System

The Company is a member of an insurance holding company system known as Fairfax Holdings Financial Holdings Limited (Fairfax Holdings) as defined under 18 *Del. C.* §5001 of the Delaware Insurance Code. The Company maintains that V. Prem Watsa, a Canadian citizen, is the ultimate controlling entity of Fairfax Holdings. As of December 31, 2019, Fairfax Holdings had consolidated assets of \$70,508.5 billion and shareholders' equity of \$17,907.2 billion. 18 *Del. C.* §5001(3) states that “. . .Control shall be presumed to exist if any person, directly or indirectly, owns, controls, holds with the power to vote, or holds proxies representing 10 percent or more of the voting securities of any other person.” V. Prem Watsa and The Watsa Family Trust, which collectively owned or controlled 10% or more of

Hudson Excess Insurance Company

the voting shares of the Company as of the examination date, are considered ultimate controlling entities of the Company.

A partial organizational chart of Fairfax Holdings as of December 31, 2019, with domicile in brackets, along with the control percentages of the upstream affiliates' control of the downstream affiliate is presented below:

		Equity Ownership Percentage	Voting Control Percentage	
V. Prem Watsa and the Watsa Family Trust {1}{8}	{2}	6.73 %	42.49%	{3}
All Other Publicly Traded Shares Held {4}	{5}	93.27%	57.51%	{6}
Fairfax Financial Holdings Limited [Canada] (FFH) {7}		100.0%	100.0%	
FFHL Group Ltd. [Canada]		100.0%	100.0%	
Fairfax (US) Inc. [DE]*		93.98%	93.98%	
Odyssey US Holdings, Inc. [DE]		100.0%	100.0%	
Odyssey Group Holdings, Inc. [DE]		100.0%	100.0%	
Odyssey Reinsurance Company [CT]		100.0%	100.0%	
Hudson Insurance Company [DE]		100.0%	100.0%	
Hudson Crop Insurance Services, Inc.		100.0%	100.0%	
Napa River Insurance Services, Inc.		100.0%	100.0%	
Pacific Surety Insurance Agency,		100.0%	100.0%	
Hudson Insurance Services Inc [British Columbia -		100.0%	100.0%	
Hudson Specialty Insurance Company		100.0%	100.0%	
<b>Hudson Excess Insurance Company [DE]</b>		100.0%	100.0%	

As of December 31, 2019, unless otherwise indicated

\* *Fairfax Financial Holdings Limited directly owns 6.02% of Fairfax (US) Inc. and indirectly owns the remaining 93.98% through FFHL Group Ltd.*

Notes 1 through 8 more fully describe the ownership and voting percentages throughout the holding company.

{1} Through voting and economic ownership control, both directly and indirectly, of the following individual and entities: Mr. V. Prem Watsa, 2771489 Canada Limited, The One Zero Nine Holdco Limited and The Sixty Two Investment Company Limited

{2} Calculated as follows:

<b>Description</b>	<b>Shares Outstanding</b>	<b>Shares Owned/Controlled</b>	<b>Percentage of total shares outstanding</b>
Total SVS Shares outstanding	26,082,299		
SVS Shares owned personally and through 1109 HoldCo		258,790	0.9922%
Additional SVS shares under control and direction		2,100	0.0081%
SVS Shares held through Sixty Two HoldCo		50,620	0.1941%
<b>Total SVS shares owned/controlled</b>		311,510	1.1943%
Total MVS Shares Outstanding	<u>1,548,000</u>		
Total MVS + SVS Shares Outstanding	<u><u>27,630,299</u></u>		
MVS Shares owned and controlled through Sixty Two Holdco		1,548,000	100%
<b>Total MVS + SVS Shares owned and controlled by Mr. Watsa</b>		<u>1,859,510</u>	<u>6.73%</u>

{3} Calculated as 0.58% through V. Prem Watsa and 41.91% through ownership in the three entities as described above. It should be noted that pursuant to Canadian securities filing requirements, 2100 subordinate voting shares owned by immediate family members of Mr. Watsa are also considered to be under the control and/or direction of Mr. Watsa and are therefore included in the voting control percentages reported herein.

{4} No other individual or entity owns or controls greater than 10% of the voting common shares of FFH as of December 31, 2019

{5} Calculated as 100.00% - 6.73% {2}

{6} Calculated as 100.00% - 42.49% {3}

{7} FFH common shares are publicly-traded on the Toronto Stock Exchange in Canadian dollars under the symbol FFH and in US dollars under the symbol FFH.U. At

December 31, 2019, FFH has issued 1,548,000 multiple voting common shares, 26,082,299 subordinate voting common shares, 58,239,178 non-voting preferred Series C thru M. FFH's equity attributable to Shareholders at December 31, 2019, totals \$14,378.1 million (\$ U.S.) which consists of \$13,042.6 million (includes \$3.8 million of multiple voting shares) related to voting common shares (90.71% of the total) and \$1,335.5 million related to non-voting preferred shares (9.29% of the total).

{8} During the second quarter of 2020, Mr. V. Prem Watsa purchased an additional 482,600 subordinate voting common shares through 12002574 Canada Inc., which is wholly owned by him, with the result that the total aggregate voting control increased from 42.49% to 43.61% as at June 30, 2020.

### Agreements with Affiliates

#### *Expense Sharing Agreement*

Effective January 1, 2013, the Company entered into an Expense Sharing Agreement with Odyssey Reinsurance Company (ORC). Each party to the agreement is to make the following services available to the other parties: management, consulting, underwriting, claims, accounting, financial, legal, personnel, and data processing services, to be used at times and in amounts determined necessary and appropriate by the managing officers of each company. Each party provides quarterly detailed statements to each company to which it provided services during the quarter. This agreement was approved by the Department on January 2, 2013.

#### *Tax Allocation Agreement*

Effective January 1, 2000, the Company became a party to the 2000 Tax Allocation Agreement with Fairfax (US) Inc. (Fairfax), ORH, ORC, Clearwater Select Insurance Company, and HSIC by amendment No. 4 effective May 11, 2012. The Company and its U.S. affiliates file a consolidated U.S. federal income tax return in accordance with Section 1501 of the U.S. Internal Revenue Code of 1986 (as amended). Each company's tax liability is calculated based upon its respective share of consolidated income. The agreement further provides that each member receive reimbursement to the extent that its losses and other

credits resulted in a reduction of the current year's consolidated tax liability, not to exceed its liability as if filed on an individual basis. This agreement was approved by the Department on January 2, 2001, and this amendment was approved by the Department on December 28, 2012.

*Tax and Compliance Services Agreement*

Effective May 11, 2013, the Company entered into a Tax and Compliance Services Agreement with Fairfax. Fairfax provides tax compliance and consulting services to ORH and its five operating subsidiaries. The fees paid by each company are payable quarterly and include a total fixed base fee and a variable fee component that includes third party outside fees incurred on behalf of ORH and its subsidiaries.

*Investment Manager Agreement*

Effective May 11, 2012, the Company entered into an Investment Manager Agreement with Hamblin Watsa Investment Counsel, Ltd. (Hamblin Watsa) and Fairfax Holdings. Hamblin Watsa manages the Company's investment portfolio in accordance with investment objectives communicated in writing by Company management, subject to investment guidelines in compliance with the investment limitation statutes of the State of Delaware. In addition, Fairfax Holdings provides investment administrative services to the Company under guidelines established by the Board or authorized committee of the Board. This agreement was approved by the Department on December 21, 2012.

*Master Administrative Services Agreement*

Effective November 1, 2014, the Company entered into a Master Administrative Services Agreement among various U.S. operating subsidiaries of Fairfax Holdings. Each party to the agreement may provide certain administrative services to any other party. Each

party provides quarterly detailed statements to each company to which it provided services during the quarter. This agreement was approved by the Department on August 19, 2014.

### **TERRITORY AND PLAN OF OPERATION**

#### **Territory**

At December 31, 2019, the Company has a certificate of authority to write business in Delaware and is eligible to write surplus lines in the remaining 49 U.S. states, the District of Columbia, Puerto Rico, and the U.S. Virgin Islands.

For 2019, the Company wrote 70% of its direct business in the following jurisdictions states: New York (52%), Texas (8%), Florida (5%), and California (5%). The remaining 30% of direct business was written in the 46 other states.

#### **Plan of Operation**

The Company writes property and casualty products on a direct and program basis.

In 2019, the Company had direct written premiums through two of their largest programs in the amount of \$65,438,380 which represents 48.29% of the \$135,515,970 total direct written premiums. NY Contractors program had direct written premiums of \$44,104,803 and the company's sub-contractor default insurance program had direct written premiums of \$21,333,577 respectively in 2019.

Direct written premiums in 2019 by line of business (top 6) were as follows:

<b>Lines of Business</b>	<b>Premiums</b>	<b>Percentage of Total</b>
Other liability - Occurrence	\$ 106,000,945	78%
Other Liability - Claims Made	\$ 16,664,928	12%
Medical Professional liability - claims-made	5,220,181	4%
Commercial auto liability	3,203,509	2%
Commercial multiple peril	2,399,948	2%
Other	<u>2,026,459</u>	<u>1%</u>
<b>Total</b>	<b><u>\$ 135,515,970</u></b>	<b><u>100%</u></b>

### REINSURANCE

HEIC reported the following distribution of net premiums written for 2019:

Direct	\$135,515,970
Reinsurance assumed from affiliates	0
Reinsurance assumed from non-affiliates	1,257,293
Total gross (direct and assumed)	<u>\$136,773,263</u>
Reinsurance ceded to affiliates	82,707,959
Reinsurance ceded to non-affiliates	22,879,963
Total ceded	<u>\$105,587,922</u>
Net premiums written	<u>\$ 31,185,341</u>

HEIC retained 23% of its gross business in 2019.

#### Assumed

HEIC assumed \$1,257,293 of business from two non-affiliated captives during 2019. HEIC assumed \$1,004,000 from the Port Authority Insurance Captive Entity, LLC, which is a captive set-up by The Port Authority of New York & New Jersey. HEIC also assumed \$253,000 from the First Mutual Transportation Assurance Company, which is approved to write insurance and reinsure risk of the Metropolitan Transportation Authority and its family of agencies.



Ceded

External Ceded

The Company purchases treaty reinsurance on the majority of its business from external non-affiliated reinsurers. The average retention for the Company is \$2 million. The panel of reinsurers is approved by ORC's security committee. The Company has also purchased a contingency excess of loss cover that the underlying reinsurance inures to the benefit of. Classes of business covered include Commercial Auto, Subcontractor Default, Liability, Healthcare, Non-medical Professional Liability, Tribal, and Directors and Officers Liability Insurance business. This treaty also responds for some classes of business where no other reinsurance is bought.

Internal Ceded

From the years 2013 through 2017, HEIC only had one significant affiliated reinsurance agreement (100% Quota Share Reinsurance Agreement effective April 9, 2013) covering the general book of business with ORC. Effective January 1, 2018, HEIC amended the agreement to a 70% quota share reinsurance agreement with ORC, thereby increasing its Net Premium Written.

Effective January 1, 2014, ORC agreed to reinsure, on a 10% quota share basis, certain of the external reinsurance placements of HEIC, HIC and HSIC, which ORC then retrocedes to CRC Reinsurance Limited, a Barbados affiliated reinsurer which is 100% owned by Fairfax. This retrocession arrangement is referred to as the FIRV.

**FINANCIAL STATEMENTS**

The following financial statements, as reported and filed by the Company with the Department, are reflected in the following:

- Statement of Assets as of December 31, 2019
- Statement of Liabilities and Surplus as of December 31, 2019
- Statement of Income for the year ended December 31, 2019
- Statement of Capital and Surplus Account for the year ended December 31, 2019
- Reconciliation of Capital and Surplus for the Period December 31, 2015 to December 31, 2019

**HUDSON EXCESS INSURANCE COMPANY**  
**STATEMENT OF ASSETS**  
**AS OF DECEMBER 31, 2019**

	Ledger Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$ 12,701,220	\$ -	\$ 12,701,220
Cash, Cash equivalents, Short Term Investments	<u>115,972,626</u>	<u>4,285,652</u>	<u>111,686,974</u>
Subtotals, Cash and Invested Assets	<u>\$ 128,673,846</u>	<u>\$ 4,285,652</u>	<u>\$ 124,388,194</u>
Investment income due and accrued	288,406	-	288,406
Uncollected premiums	14,111,759	677,309	13,434,450
Deferred premiums	3,515,556	-	3,515,556
Amounts recoverable from reinsurers	2,765,421	-	2,765,421
Net deferred tax asset	2,076,057	87,495	1,988,562
Electronic data processing equipment and software	127,898	127,898	-
Receivables from parent; subsidiaries and affiliates	2,905,489	-	2,905,489
Aggregate write-ins for other than invested assets	<u>5,824,146</u>	<u>-</u>	<u>5,824,146</u>
Total Assets	<u>\$ 160,288,578</u>	<u>\$ 5,178,354</u>	<u>\$ 155,110,224</u>

**HUDSON EXCESS INSURANCE COMPANY  
STATEMENT OF LIABILITIES AND SURPLUS  
AS OF DECEMBER 31, 2019**

	<u>2019</u>
Losses	\$ 19,305,332
Loss adjustment expenses	4,628,629
Other expenses (excluding taxes; licenses and fees)	80,706
Current federal and foreign income taxes	412,900
Unearned premiums (after deducting unearned premiums for ceded reinsurance of \$44,440,082 and including warranty reserves of \$0)	12,304,539
Advance Premium	783,395
Ceded reinsurance premiums payable (net of ceding commissions)	25,560,320
Funds held by company under reinsurance treaties	4,291
Amounts withheld or retained by company for account of others	19,401,615
Provision for reinsurance	750,000
Payable to parent; subsidiaries and affiliates	5,318
Aggregate write-ins for liabilities	4,562,778
Total liabilities excluding protected cell liabilities	<u>\$ 87,799,823</u>
Total liabilities	<u>\$ 87,799,823</u>
Aggregate write-ins for special surplus funds	\$ -
Common capital stock	7,784,400
Preferred capital stock	-
Gross paid in and contributed surplus	38,922,000
Unassigned funds (surplus)	<u>20,604,001</u>
Surplus as regards policyholders	<u>\$ 67,310,401</u>
Totals of liabilities & surplus	<u><u>\$ 155,110,224</u></u>

**HUDSON EXCESS INSURANCE COMPANY**  
**STATEMENT OF INCOME**  
**AS OF December 31, 2019**

<b>Underwriting Income</b>	<u>2019</u>
Premiums earned	\$ 26,245,819
<b>Deductions</b>	
Losses incurred	\$ 14,752,354
Loss adjustment expenses incurred	2,068,599
Other underwriting expenses incurred	931,971
<b>Total underwriting deductions</b>	<u>\$ 17,752,924</u>
Net underwriting gain (loss)	<u>\$ 8,492,895</u>
 <b>Investment Income</b>	
Net investment income earned	\$ 1,893,698
Net realized capital gains (losses) less capital gains tax of \$34,211	128,700
Net investment gain (loss)	<u>\$ 2,022,398</u>
 <b>Other Income</b>	
Net gain (loss) from agents' or premium balances charged off	\$ -
Finance and service charges not included in premium	-
Aggregate write-ins for miscellaneous income	-
Total other income	<u>\$ -</u>
Net income before dividends to policyholders; after capital gains tax and before all other federal and foreign income taxes	<u>\$ 10,515,293</u>
Dividends to policyholders	-
Net income; after dividends to policyholders; after capital gains tax and before all other federal and foreign income taxes	\$ 10,515,293
Federal and foreign income taxes incurred	2,716,598
Net Income	<u><u>\$ 7,798,695</u></u>

**HUDSON EXCESS INSURANCE COMPANY  
CAPITAL & SURPLUS ACCOUNT  
AS OF DECEMBER 31, 2019**

	<u>2019</u>
Surplus as regards to policyholders; December 31, 2018	\$ 63,007,216
Net income	7,798,694
Change in net unrealized capital gains (losses) less capital gains tax of \$0	-
Change in net unrealized foreign exchange capital gain (loss)	-
Change in net deferred income tax	1,462,665
Change in nonadmitted assets	(4,529,174)
Change in provision for reinsurance	(429,000)
Surplus adjustment: Paid in	-
Transferred to Capital (Stock Dividend)	-
Dividends to stockholders	-
Aggregate write-ins for gains and losses in surplus	-
Net change in capital and surplus for the year	<u>\$ 4,303,185</u>
Capital and surplus; December 31, 2019	<u><u>\$ 67,310,401</u></u>

**HUDSON EXCESS INSURANCE COMPANY  
RECONCILIATION OF CAPITAL AND SURPLUS  
As of December 31, 2015 to December 31, 2019**

	<u>Common Capital Stock</u>	<u>Gross Paid-in and Contributed Surplus</u>	<u>Unassigned Surplus</u>		<u>Total</u>
12/31/2015	7,784,400	38,922,000	14,872,423	(1)	61,578,823
12/31/2015	-	-	(5,880,000)	(2)	(5,880,000)
12/31/2016	-	-	411,405	(1)	411,405
12/31/2017	-	-	2,969,348	(1)	2,969,348
12/31/2018	-	-	3,927,640	(1)	3,927,640
12/31/2019	-	-	4,303,185	(1)	4,303,185
	<u>\$ 7,784,400</u>	<u>\$ 38,922,000</u>	<u>\$ 20,604,001</u>		<u>\$ 67,310,401</u>

(1) Represents net income, change in unrealized capital gains/(losses), change in net unrealized foreign exchange capital gain, change in net deferred income tax, Change in nonadmitted assets, change in provision for reinsurance, aggregate write-ins for gains and losses in surplus.

(2) Dividends to stockholders

**ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS RESULTING FROM  
THE EXAMINATION**

There were no changes made to the Financial Statements as a result of this Examination.

**COMMENTS ON FINANCIAL STATEMENT ITEMS**

Note 1:

<u>Losses</u>	<u>\$19,305,332</u>
<u>Loss Adjustment Expenses</u>	<u>\$4,628,629</u>

The examination liabilities for the aforementioned captioned items are the same as those balances reported by the Company as of December 31, 2019. The examination analysis of Loss and Loss Adjustment Expense reserves was conducted in accordance with Statutory Accounting Principles, including NAIC *Accounting Practices and Procedures Manual*, SSAP No. 55.

**SUBSEQUENT EVENTS**

On March 11, 2020, the World Health Organization declared COVID-19 a pandemic, and national, state, and local governments have implemented a range of policies and actions to combat it. The extent of the impact of COVID-19 on world economies and the Company will depend on future developments, which are highly uncertain and difficult to predict, including the severity and duration of the pandemic, and the actions taken by government authorities and other third parties to contain or address its impact. Various government officials, including U.S. state insurance commissioners, have taken actions to protect consumers from hardship caused by COVID-19 that, in the aggregate, may adversely impact the Company's results of operations in the near term. While it is likely that certain lines of business may experience increased loss activity due to COVID-19, there are also segments in which the Company operates that may benefit from improved loss experience due to

reduced exposures. Company Management will continue to monitor developments, and their impacts on the Company including its operations, capital position (including the risk-based capital ratio), the fair value of investments, and estimates reported in the financial statements and accompanying notes.

The Company and FFHL do not directly consider a pandemic event in their regular stress testing, the potential credit and market price fluctuation risks arising from COVID-19 crisis are captured in regular stress testing conducted, both at the Fairfax level and subsidiary group level (including the Odyssey Group and the Hudson companies) and the performance of Fairfax's subsidiaries investment portfolios since the start of the crisis falls within expectations. With nearly \$10 billion of cash and short-term investments held across its insurance portfolios at year end 2019, FFHL believes it has ample liquidity to withstand a prolonged economic slowdown.

At the date of this report, the extent and severity of the COVID-19 pandemic is not yet fully clarified by the Odyssey and Hudson subgroups, but they do not expect a material adverse effect on any specific lines of business or products and the Company was fully operational and was providing services to its policyholders.

The Department has been in communication with the Company regarding the impact of COVID-19 on its business operations and financial position and continues to closely monitor any impact on the Company and will take necessary action if a solvency concern arises.

There were no other material subsequent events noted.



**COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS**

There were no recommendations contained in the prior examination report issued by the Department as of December 31, 2014.

**SUMMARY OF RECOMMENDATIONS**

There were no recommendations as a result of this examination.

**CONCLUSION**

The assistance and cooperation of the consulting actuarial firm, INS Consultants, Inc., the consulting information systems specialist firm, INS Services, Inc., the consulting investment specialist, Rutter Associates LLC, the Company's outside audit firm, PwC, and the Company's management and staff was appreciated and is acknowledged.

Respectfully submitted,



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Greg Taylor, CFE  
Examiner In-Charge  
State of Delaware

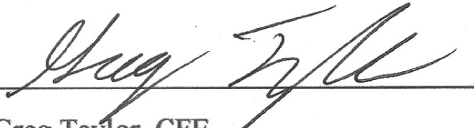


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Anthony Cardone, CPA, CFE  
Supervising Examiner  
State of Delaware

Hudson Excess Insurance Company

I, Greg Taylor, hereby verify and attest, under penalty of perjury, that the above is a true and correct copy of the examination report and findings submitted to the Delaware Department of Insurance pursuant to examination authority 20.007.

  
Greg Taylor, CFE