

**REPORT ON EXAMINATION**  
**OF**  
**EVEREST INDEMNITY INSURANCE COMPANY**  
**AS OF**  
**DECEMBER 31, 2020**

TRINIDAD NAVARRO  
COMMISSIONER



STATE OF DELAWARE  
DEPARTMENT OF INSURANCE

REPORT ON EXAMINATION  
OF  
EVEREST INDEMNITY INSURANCE COMPANY  
AS OF  
DECEMBER 31, 2020

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.

A handwritten signature in blue ink, which appears to read "Trinidad Navarro", is written above a horizontal line.

Trinidad Navarro  
Insurance Commissioner

Dated this 23rd day of June, 2022

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May 25, 2022

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

Dear Commissioner:

In compliance with instructions and pursuant to statutory provisions contained in Examination Certification No. 21.026, dated February 22, 2021, an examination has been made of the affairs, financial condition and management of

**EVEREST INDEMNITY INSURANCE COMPANY**

hereinafter referred to as the Company or EIIC. The Company was incorporated under the laws of the State of Delaware as a stock company with its home office located at 251 Little Falls Drive, Wilmington, Delaware. The administrative office of the Company is located at 100 Everest Way, Warren Corporate Center, Warren, New Jersey. The report of examination thereon is respectfully submitted.

**SCOPE OF EXAMINATION**

We have performed our examination of the Company. The last examination was conducted as of December 31, 2015, by the Delaware Department of Insurance (Department). This examination covered the period of January 1, 2016 through December 31, 2020. Our examination was performed as part of the multi-state coordinated examination of the Everest Group of regulated

entities wherein Delaware is the lead state. The examination was conducted concurrently with that of the Company's Delaware domiciled affiliates, Everest Reinsurance Company (ERC), Everest National Insurance Company, Everest Premier Insurance Company (EPIC), Everest Denali Insurance Company (EDIC) and the Company's Georgia domiciled affiliate, Everest Security Insurance Company. To the fullest extent, the efforts, resources, project material and findings were coordinated and made available to all examination participants.

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 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 Laws 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 2020 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 June 17, 1997, under the laws of the State of Delaware and commenced business on October 30, 1997. At the time of incorporation, the Company was, and still is, a wholly owned subsidiary of ERC. The Company converted to a domestic surplus lines insurer in the State of Delaware on December 10, 2018.

#### **Capitalization**

The Company is authorized to issue 10,000 shares of common capital stock with a par value of \$750 per share. As of December 31, 2020, all 10,000 shares are issued and held by ERC, resulting in common capital stock of \$7,500,000. The Company's gross paid in and contributed surplus was \$32,500,000 as of December 31, 2020. The Company did not have paid in surplus during the examination period.

Dividends to Stockholder

On December 14, 2016, the Company's Board of Directors (Board) declared an ordinary dividend in the amount of \$5,000,000 to be paid to ERC, its sole stockholder, on or before January 31, 2017. The Company notified the Department of the dividend on December 15, 2016, which was approved. Subsequently, on January 17, 2017, the Company paid a \$5,000,000 dividend to ERC, in compliance with 18 *Del. C.* § 5005(b).

**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. The bylaws provide that the Company's Board shall consist of a minimum of seven directors. The number of directors shall not be subject to any maximum and shall be fixed from time to time either by the Board or the stockholders. As of December 31, 2020, the members of the Board, together with their principal business affiliations were as follows:

<u>Name</u>	<u>Title</u>
Brian D. Drum	Senior Vice President
Mark Kociancic #	Executive Vice President
Sanjoy Mukherjee	Executive Vice President, Secretary and General Counsel
Michael G. Harnett	Senior Vice President
Michael T. Mulray	Chief Operating Officer and Chief Underwriting Officer

# New in 2020

It was observed that the Company was not in compliance with its bylaws regarding the Board consisting of a minimum of seven directors. As of December 31, 2020, the Company reported five directors, instead of a minimum of seven, as stated in its bylaws.

Therefore,

**It is recommended that the Company comply with its bylaws and have the Board consist of a minimum of seven directors or amend the bylaws.**

Officers

The bylaws of the Company state the principal officers shall be a President, one or more Vice Presidents, a Treasurer, a Comptroller, a Corporate Secretary and such additional officers as it may from time to time be decided by a resolution adopted by a Board majority. The Board may also designate such number of Executive Senior Vice Presidents as may be deemed appropriate. As of December 31, 2020, the Company's principal officers and their respective titles were as follows:

<u>Name</u>	<u>Title</u>
Mike Karmilowicz #	President
Mark Kociancic #	Executive Vice President and Treasurer
Dana Lodge	Chief Financial Officer
Sanjoy Mukherjee	Executive Vice President, Secretary and General Counsel
Keith T. Shoemaker	Senior Vice President and Comptroller
Ellen J. Edmonds	Senior Vice President and Actuary
Brian D. Drum	Senior Vice President, Underwriting

# New in 2020

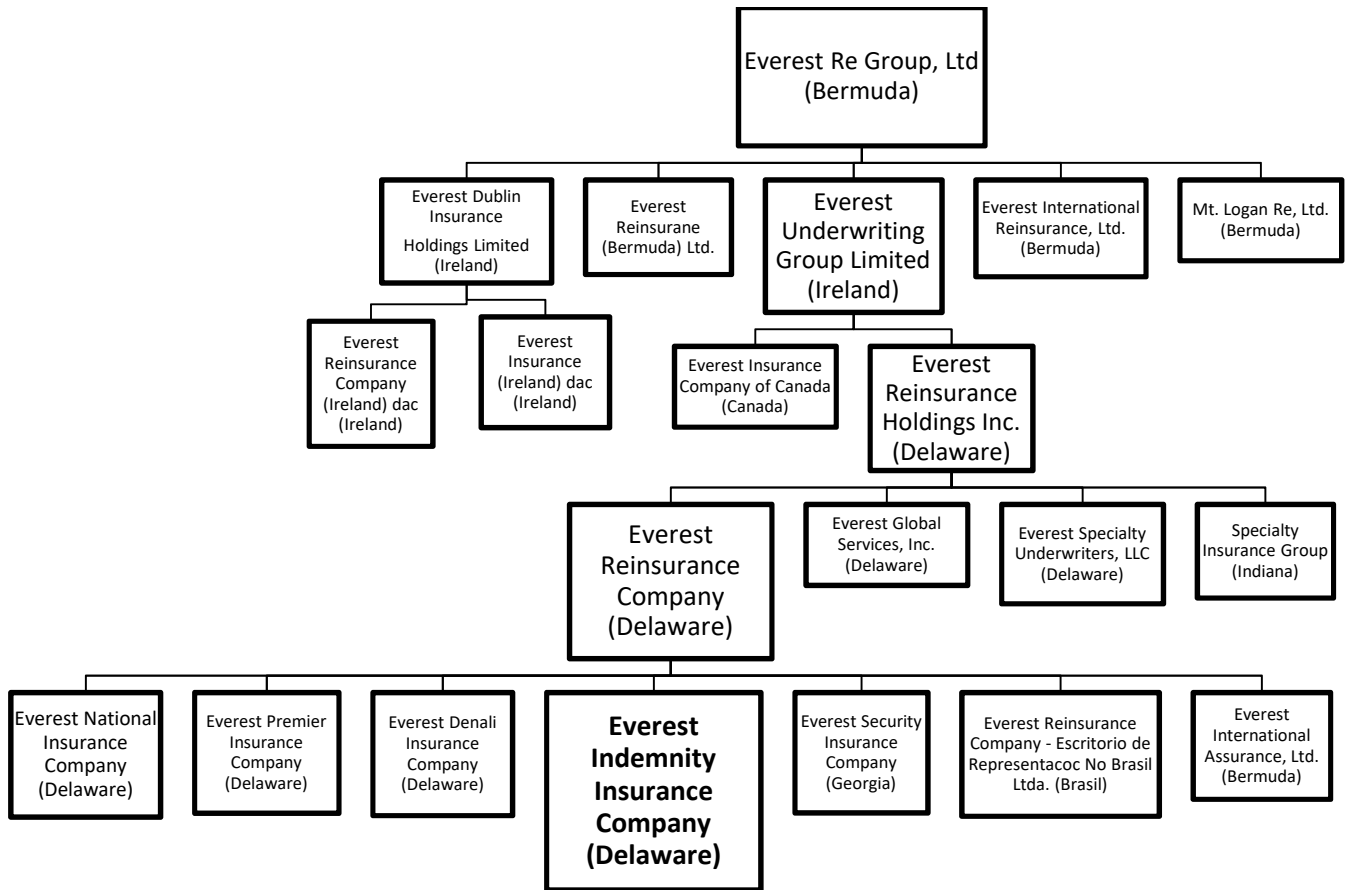
Corporate Records

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. In addition, review of the Company's Board meeting minutes over the examination period reflected accordance with the Company's bylaws. From review of such minutes, the attendance at Board meetings, the elections of directors and officers and the approvals of investment transactions were noted.



Insurance Holding Company System

The Company is a member of an insurance holding company system as defined under 18 *Del. C.* § 5001 of the Delaware Insurance Code. The ultimate controlling entity within the holding company system is ERG, a Bermuda company established in 1999, which wholly owns Everest Underwriting Group (Ireland) Limited (Everest Ireland). Everest Ireland wholly owns Everest Reinsurance Holdings, Inc. (Holdings), a Delaware corporation, which is the holding company for the U.S. based operations. Holdings wholly owns ERC, a Delaware domiciled property and casualty insurer and the Company's direct parent within the holding company system. ERG is a registered public company whose shares are traded under the ticker symbol "RE" on the New York Stock Exchange. The following abbreviated organization chart reflects the ownership chain of subsidiaries and their domestic affiliation as of December 31, 2020 (ownership of subsidiaries is 100% unless otherwise noted):



Agreements with Affiliates

The following affiliated agreements within ERG’s organizational structure were identified and in effect as of December 31, 2020:

*Tax Allocation Agreement*

Effective January 1, 2017, Holdings, the statutory insurance companies under review, Specialty Insurance Group and Everest International Assurance, Ltd.(collectively, the Group), are party to an Intercompany Tax Allocation Agreement whereby each company shall contribute its fair and equitable share to the taxes payable by the Group or as compensation for the reduction in the net operating loss deduction, capital loss deduction or other tax benefit of the Group. The Group files a consolidated tax return and each year, with each company calculating their respective amounts for payment of taxes, estimated tax or refund of tax which each company would be liable

for or entitled to as if it had filed a separate return. All payments between and among each company of the Group are settled no later than 90 days in accordance with the terms of the agreement. Final settlement among the companies occurs annually.

*Administrative Service Agreement*

Effective January 1, 2019, certain affiliate companies (Affiliates) became party to a Master Service Agreement. Under the terms of the agreement, services from an Affiliate may be provided to another Affiliate. Services provided include, but are not limited to, underwriting and claims services, agency services for admitted & excess lines, accounting, tax and auditing, legal services, information technology, etc. The receiving Affiliate shall pay the providing Affiliate the fair market value price for services.

**TERRITORY AND PLAN OF OPERATION**

The Company is an approved excess and surplus lines carrier in all fifty (50) states, the District of Columbia and Puerto Rico. The majority of the Company's business is reinsured by ERC. As of December 31, 2020, the Company had three active programs and eighteen (18) underwriting segments in place. In 2020, 88.7% of the Company's direct premiums written were in the following five lines of business: allied lines (34.6%), commercial multiple peril (16.6%), other liability occurrence (13.9%), other liability claims-made (13.8%) and earthquake (9.8%).

**REINSURANCE**

The Company reported the following distribution of premiums written for the years ended December 31, 2020, and the prior examination date of December 31, 2015:

Everest Indemnity Insurance Company

	2020	% GPW	2015	% GPW
Direct Business	\$ 716,863,227	99.4%	\$ 268,103,163	100.0%
Reinsurance assumed from affiliates	-	0.0%	-	
Reinsurance assumed from non-affiliates	4,148,316	0.6%	-	0.0%
Gross Premiums Written	\$ 721,011,543	100.0%	\$ 268,103,163	100.0%
Reinsurance ceded to affiliates	715,372,573	99.2%	266,266,326	99.3%
Reinsurance ceded to non-affiliates	5,638,970	0.8%	1,836,837	0.7%
Total Ceded Premium	\$ 721,011,543	100.0%	\$ 268,103,163	100.0%
Net Premiums Written	\$ -	0.0%	\$ -	0.0%

Assumed Reinsurance – Affiliates

The Company had no assumed business with affiliates.

Assumed Reinsurance – Non-Affiliates

The Company's assumed business from unaffiliated reinsurers in 2020 totaled \$4,148,316.

Ceded Reinsurance – Affiliates

Effective January 1, 2014, amended effective January 1, 2017 and amended effective May 30, 2018, an intercompany pooling arrangement was created between the Company and its U.S. statutory affiliates (Pool Companies), with the Company ceding 100% of its net retained liability (net liability after deductions of all inuring reinsurance on the business) under new and renewal policies to ERC, the lead company in the pooling arrangement, whereby the Company has 0% participation in the pooling transaction. The amendment effective January 1, 2017, added EDIC and EPIC to the pooling agreement as additional companies with the same terms and conditions. The amendment effective May 30, 2018, removed a 3.5% ceding commission on net written premiums subject to the pooling. For the year ended December 31, 2020, the Company's ceded premium to ERC under the pooling agreement was approximately \$715,271,000.

Ceded Reinsurance – Unaffiliated

The Pool Companies purchase reinsurance to cover specific business written for the potential accumulation or aggregation of exposures across some or all of its operations. The

amount of reinsurance purchased has varied over time, reflecting the view of its exposures and the cost of reinsurance, with significant exposure to property risk, including catastrophic losses relating to natural disasters. Catastrophe loss projections are segmented by risk zones, which are updated quarterly and reviewed as part of a formal risk management review process. Excluding aggregate stop loss coverages, adverse development covers and catastrophe bond coverages, the significant catastrophic reinsurance in place with external reinsurers has the following coverages:

Primary coverage, excluding wind, is \$50 million excess of \$75 million, All Perils excess coverage, including wind, is \$525 million excess of \$125 million and Excess coverage, excluding wind, is \$100 million excess of \$500 million (cancelled April 2021 and not renewed). All coverages described are 80% placed with external reinsurers.

In addition, the Pool Companies have in place an insured market loss warranty excess of loss reinsurance contract with Hannover Ruck Se. The contract provides excess of loss coverage for \$20 million excess \$25,000, providing coverage for named windstorms (including Greek alphabet symbols) by the “World Meteorological Organization” and/or United States “National Weather Service” and/or tracked by the services of the “National Oceanic and Atmospheric Administration.” The contract only responds in the event there is an original insured market loss resulting from a named windstorm as reported by the index provider, which occurs in the State of Florida and is greater than \$15 billion.

Effective October 1, 2020 to September 30, 2021, the Pool Companies also have in place a workers’ compensation catastrophe excess of loss reinsurance agreement for its significant exposure to workers’ compensation claims resulting from catastrophic events. Under terms of the agreement, the Company has \$75 million in coverage, excess of a \$25 million retention with one reinstatement (first layer) and coverage of \$100 million, excess of \$100 million retention with one

reinstatement (second layer). This reinsurance agreement was 100% placed with external reinsurers.

### **FINANCIAL STATEMENTS**

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

- Statement of Assets and Liabilities as of December 31, 2020
- Statement of Income for the year ended December 31, 2020
- Reconciliation of Capital and Surplus for the Period from the Prior Examination as of December 31, 2015 to December 31, 2020

Statement of Assets and Liabilities  
As of December 31, 2020

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$ 83,768,698	\$ -	\$ 83,768,698
Cash	18,222,537		18,222,537
Cash equivalents	53,217,221		53,217,221
Other invested assets	3,428,253		3,428,253
Subtotals, cash and invested assets	<u>\$ 158,636,709</u>	<u>\$ -</u>	<u>\$ 158,636,709</u>
Investment income due and accrued	444,422		444,422
Uncollected premiums and agents' balances in the course of collection	42,638,610	1,726,143	40,912,467
Deferred premiums; agents' balances and installments booked but deferred and not yet due	22,583,014		22,583,014
Amounts recoverable from reinsurers	58,502,886		58,502,886
Net deferred tax asset	421,255		421,255
Receivables from parent; subsidiaries and affiliates	9,589,673		9,589,673
Aggregate write-ins for other than invested assets:			
Advances under affiliated quota share agreement	9,427,496		9,427,496
Remittances and items not allocated	7,545,291		7,545,291
Recoverable deductibles	1,398,289		1,398,289
Total	<u>\$ 311,187,645</u>	<u>\$ 1,726,143</u>	<u>\$ 309,461,502</u>

Everest Indemnity Insurance Company

Losses	\$ -
Reinsurance payable on paid losses and loss adjustment expenses	-
Loss adjustment expenses	-
Commissions payable; contingent commissions and other similar charges	2,808,423
Other expenses (excluding taxes, licenses and fees)	684,799
Taxes, licenses, and fees (excluding federal and foreign income tax)	
Current federal and foreign income taxes	1,094,952
Ceded reinsurance premiums payable (net of ceding commissions)	176,461,841
Amounts withheld or retained by company for account of others	198,667
Provision for reinsurance	293,000
Payable to parent, subsidiaries and affiliates	42,157,034
Aggregate write-ins for liabilities:	
Accounts payable other	4,019,948
Uncashed checks/drafts pending escheatment	1,867
Total liabilities	<u>\$ 227,720,531</u>
Common capital stock	\$ 7,500,000
Gross paid in and contributed surplus	32,500,000
Unassigned funds (surplus)	41,740,971
Surplus as regards policyholders	<u>\$ 81,740,971</u>
Totals	<u><u>\$ 309,461,502</u></u>



Statement of Income  
For the Year Ended December 31, 2020

Premiums earned	\$ -
Losses incurred	\$ -
Loss adjustment expenses incurred	-
Other underwriting expenses incurred	(15)
Total underwriting deductions	<u>\$ (15)</u>
Net underwriting gain (loss)	<u>\$ 15</u>
Net investment income earned	1,829,755
Net realized capital gains (losses)	<u>102,747</u>
Net investment gain (loss)	<u>\$ 1,932,502</u>
Finance and service charges not included in premiums	79,100
Aggregate write-ins for miscellaneous income:	
Foreign exchange gain	967,563
Interest expense on amounts retained for account of others	(5,399)
Other expense	<u>(23,223)</u>
Total other income	<u>\$ 1,018,041</u>
Net income before dividends to policyholders; after capital gains tax and before all other federal and foreign income taxes	<u>\$ 2,950,558</u>
Dividends to policyholders	<u>-</u>
Net income; after dividends to policyholders; after capital gains tax and before all other federal and foreign income taxes	\$ 2,950,558
Federal and foreign income taxes incurred	<u>605,313</u>
Net Income	<u><u>\$ 2,345,245</u></u>

Reconciliation of Capital and Surplus  
For the Period from the Prior Examination  
As of December 31, 2015 to December 31, 2020

	Common Capital Stock	Gross Paid-in and Contributed Surplus	Unassigned Surplus		Total
12/31/2015	\$ 7,500,000	\$ 32,500,000	\$ 17,777,875		\$ 57,777,875
12/31/2016			6,403,868	(1)	6,403,868
12/31/2016			(222,104)	(2)	(222,104)
12/31/2016			(5,000,000)	(3)	(5,000,000)
12/31/2017			7,716,210	(1)	7,716,210
12/31/2017			(728,867)	(2)	(728,867)
12/31/2018			8,916,775	(1)	8,916,775
12/31/2018			(86,783)	(2)	(86,783)
12/31/2019			1,971,701	(1)	1,971,701
12/31/2019			508,316	(2)	508,316
12/31/2019			2,747,876	(4)	2,747,876
12/31/2020			2,345,245	(1)	2,345,245
12/31/2020			(609,141)	(2)	(609,141)
	<u>\$ 7,500,000</u>	<u>\$ 32,500,000</u>	<u>\$ 41,740,971</u>		<u>\$ 81,740,971</u>

(1) Represents net income

(2) Change in net deferred income tax, Change in nonadmitted assets and Change in provision for reinsurance

(3) Dividends to stockholder

(4) Aggregate write-ins for gains and losses in surplus - Prior year adjustment

**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**

There were no comments on Financial Statement items.

**SUBSEQUENT EVENTS**

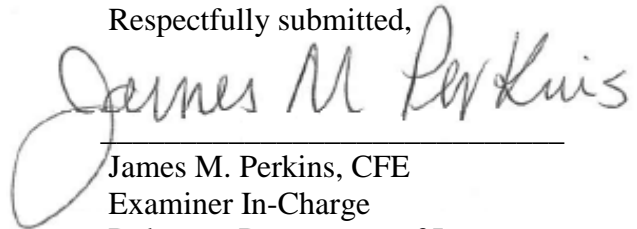
There were no significant subsequent events noted from the examination.

**SUMMARY OF RECOMMENDATIONS**

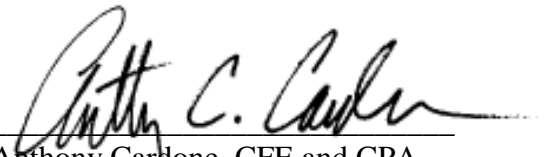
**It is recommended that the Company comply with its bylaws and have the Board consist of a minimum of seven directors or amend the bylaws.**

The assistance and cooperation of examiners representing the states on the coordinated examination is acknowledged. In addition, the assistance of the consulting actuarial firm, INS Consultants, Inc., the consulting information systems specialist firm, INS Services, Inc., the Company's outside audit firm, PwC, and the Company's management and staff was appreciated and is acknowledged.

Respectfully submitted,



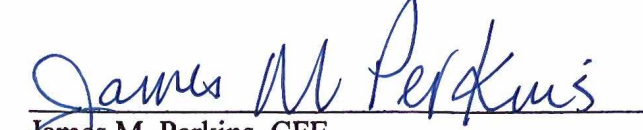
James M. Perkins, CFE  
Examiner In-Charge  
Delaware Department of Insurance



Anthony Cardone, CFE and CPA  
Supervising Examiner  
Delaware Department of Insurance

Everest Indemnity Insurance Company

I, James M. Perkins, 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 certification 21.026.

  
James M. Perkins, CFE