

REPORT ON EXAMINATION
OF
ENDURANCE SPECIALTY INSURANCE LTD.
U.S. REINSURANCE TRUST
AS OF
DECEMBER 31, 2021

TRINIDAD NAVARRO
COMMISSIONER



STATE OF DELAWARE
DEPARTMENT OF INSURANCE

REPORT ON EXAMINATION
OF
ENDURANCE SPECIALTY INSURANCE LTD. U.S. REINSURANCE TRUST
AS OF
DECEMBER 31, 2021

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 that reads "Trinidad Navarro".

Trinidad Navarro
Insurance Commissioner

Dated this 21th day of June, 2023

TABLE OF CONTENTS

SCOPE OF EXAMINATION.....	1
SUMMARY OF SIGNIFICANT FINDINGS	4
TRUST HISTORY	4
ESIL-MBT MANAGEMENT AND CONTROL.....	4
DIRECTORS	4
OFFICERS	4
INSURANCE HOLDING COMPANY SYSTEM	5
TERRITORY AND PLAN OF OPERATION	6
TRUST AGREEMENT	7
FINANCIAL STATEMENTS	7
STATEMENT OF ASSETS AND LIABILITIES	8
STATEMENT OF INCOME.....	9
RECONCILIATION OF CAPITAL AND SURPLUS.....	10
ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS RESULTING FROM THE EXAMINATION	11
COMMENTS ON FINANCIAL STATEMENT ITEMS.....	11
SUBSEQUENT EVENTS	12
SUMMARY OF RECOMMENDATIONS	12

May 17, 2023

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 prescribed provisions contained in Examination Certification No. 22.021, dated October 20, 2022, an examination has been made of the affairs, financial condition and management of

ENDURANCE SPECIALTY INSURANCE LTD. U.S. REINSURANCE TRUST

hereinafter referred to as the Trust. The Trust was formed under the laws of Delaware by Endurance Specialty Insurance Ltd. (ESIL), an alien certified reinsurer in Delaware under 18 *Del. C.* §911 and 18 *Del. Admin. Code* §1003. ESIL-MBT has no National Association of Insurance Commissioners (NAIC) statutory statement filing requirements. The Trust files a financial statement regarding ESIL's Covered U.S. Liabilities (as defined in the Trust) and related Trust assets. Due to the COVID-19 Pandemic, the examination was conducted offsite. The administrative offices of the Trust are located at 4 Manhattanville Road, Purchase, New York. 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 Trust. This is the second examination of the Trust which was formed on

August 25, 2015, with the Department approval dated that same date. The previous regulatory examination of the Trust covered the period from August 25, 2015, through December 31, 2016. This examination covers the five-year period from January 1, 2017, through December 31, 2021, and encompasses a general review of transactions, policies and practices, as well as management and relevant corporate matters, with a determination of the Trust financial condition at December 31, 2021. Transactions subsequent to the examination date were reviewed where deemed necessary.

The examination of the Trust was performed as part of the multi-state coordinated examination of Sompo U.S. Group (Sompo Group) of companies as of December 31, 2021. The Department was the lead state for the Sompo Group examination. The examination was conducted concurrently with that of its affiliates:

<u>Name</u>	<u>Domicile</u>
Endurance American Insurance Company (EAIC)	DE
Endurance Risk Solutions Assurance Co. (ERSAC)	DE
Endurance American Specialty Insurance Company (EASIC)	DE
Endurance Specialty Insurance Ltd. U.S. Reduced Collateral Reinsurance Trust (ESIL-RCT)	DE
Sompo Fire & Marine Insurance Company (SAFM)	NY
Sompo America Insurance Company (SAIC)	NY
Bond Safeguard Insurance Company (BSIC)	SD
American Agri-Business Insurance Company (AA-BIC)	TX
Lexon Insurance Company (LIC)	TX

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)*, generally accepted statutory insurance examination standards and prescribed standards consistent with the Insurance Code and Regulations of the States 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 Trust 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 Trust 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 Prescribed and 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 Trust's financial statements. 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 Trust'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 Trust 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 Trustee.

During the course of this examination, consideration was given to work performed by the external accounting firm, Ernst and Young LLC., (E&Y). Certain auditor work papers of the 2021 E&Y audit of the Trust 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.

TRUST HISTORY

ESIL is a wholly owned subsidiary of Sampo International Holdings Ltd. (SIHL), the intermediate parent of the Sampo Group. ESIL became part of Sampo Holdings, Inc. (Sampo Holdings) an insurance holding company system on March 28, 2017. Control was acquired through the acquisition of 100% of the outstanding ordinary shares of Endurance Specialty Holdings Ltd. (ESHL) by Sampo Holdings.

Effective August 25, 2015, ESIL requested and received approval for the Department to serve as the domiciliary regulator on the U.S. Reinsurance Deed of Trust Agreement established pursuant to 18 *Del. C.*, §911(4), §911(5) and 18 *Del. Admin. Code* § 1003 (7). This agreement was amended on July 1, 2016.

ESIL-MBT MANAGEMENT AND CONTROL

Directors

Per the 2021 filed Annual Statement for the Trust, the listed Directors or Trustees as of December 31, 2021, were as follows:

<u>Name</u>	<u>Business Affiliation</u>
Christopher Brian Gallagher	CEO, Commercial P&C, SIHL
Michael James McGuire	CFO, SIHL
James Andrew Shea	CEO, SIHL

Officers

Per the 2021 filed Annual Statement for the Trust, the listed Officers and respective titles were as follows:

<u>Name</u>	<u>Title</u>
Christopher Brian Gallagher	CEO
Michael James McGuire	CFO
Yohei Namiki	Secretary

Insurance Holding Company System

ESIL is a member of an insurance holding company system as it is defined under 18 *Del. C. § 5001 (7)* of the Delaware Insurance Code.

The ultimate controlling person was ESHL, a Bermuda corporation, which is primarily engaged through its subsidiaries in the business of property and casualty insurance and reinsurance. Effective March 28, 2017, control was acquired through the acquisition of 100% of the outstanding ordinary shares of ESHL by Sompo Holdings a Japanese domestic company. An abbreviated organizational chart of the Sompo Holdings, as of December 31, 2021, is as follows (ownership of subsidiaries is 100% unless otherwise noted):

Sompo Holdings, Inc. (Japan)

 Sompo Japan Insurance Inc. (Japan)

 Sompo International Holdings Ltd. (Bermuda)*

 Endurance Specialty Insurance Ltd. (Bermuda)

(U.S. Reinsurance Trust)**

 (U.S. Reduced Collateral Reinsurance Trust)**

 Endurance U.S. Holdings Corp. (DE)

 AgriSompo North America, Inc. (TX)

 American Agri-Business Insurance Company (TX)

 Endurance Assurance Corporation (DE)

 Sompo America Insurance Company (NY)

 Sompo America Fire & Marine Insurance Company (NY)

 Endurance Risk Solutions Assurance Co. (DE)

 Endurance American Insurance Company (DE)

 Endurance American Specialty Insurance Company (DE)

 Lexon Insurance Company (TX)

 Bond Safeguard Insurance Company (SD)

* Effective September, 2017, ESHL transferred substantially all of its assets (including the U.S. Reinsurance Trust and the U.S. Reduced Collateral Reinsurance Trust) and liabilities to its affiliate, SIHL. Subsequently, ESHL was liquidated.

** The U.S. Reinsurance Trust and the U.S. Reduced Collateral Reinsurance Trust are wholly owned trust accounts of ESIL. They are not entities or “subsidiaries” as that term is commonly understood in the context of an insurance holding company system.

TERRITORY AND PLAN OF OPERATION

Pursuant to 18 *Del. C.* §911(4), the Department shall allow credit for reinsurance ceded by a domestic insurer to an assuming insurer which, as of any date on which statutory financial statement credit for reinsurance is claimed, and thereafter for so long as credit for reinsurance is claimed, maintains a trust fund in an amount prescribed by Code in a qualified U.S. financial institution (18 *Del. C.* §913(b)), for the payment of the valid claims of its U.S. domiciled ceding insurers, their assigns and successors in interest.

United States insurers collateralized by the Trust as of December 31, 2021 were domiciled in the following States:

States Accepting U.S. Reinsurance Trusts

1 Alabama	17 Kansas	33 North Dakota
2 Alaska	18 Kentucky	34 Ohio
3 Arizona	19 Louisiana	35 Oklahoma
4 Arkansas	20 Maine	36 Oregon
5 California	21 Maryland	37 Pennsylvania
6 Colorado	22 Massachusetts	38 Rhode Island
7 Connecticut	23 Michigan	39 South Carolina
8 Delaware	24 Minnesota	40 South Dakota
9 District of Columbia	25 Mississippi	41 Tennessee
10 Florida	26 Missouri	42 Texas
11 Georgia	27 Montana	43 Utah
12 Hawaii	28 Nebraska	44 Vermont
13 Idaho	29 Nevada	45 Virginia
14 Illinois	30 New Hampshire	46 West Virginia
15 Indiana	31 New Jersey	47 Wisconsin
16 Iowa	32 North Carolina	48 Wyoming
		49 Puerto Rico

TRUST AGREEMENT

Effective August 31, 2015, and last amended July 1, 2016, ESIL and Bank of New York Mellon (BNY) entered into a multi-beneficiary Deed of Trust Agreement (Trust Agreement) on funds held in the United States.

ESIL established the Trust in the U.S. to provide security for certain ceding insurers so that credit may be allowed for the reinsurance ceded to ESIL and to qualify ESIL as an approved, trustee, accredited, qualified, authorized or certified reinsurer, as applicable, where permitted under the laws of the various jurisdictions in the United States.

The Trust was established with a minimum amount of \$20 million with at least \$10 million in cash, certificates of deposit and certain Admitted Assets (as defined in the Trust Agreement). The Trust is required to maintain, by its terms, sufficient assets to support its Covered U.S. Liabilities (as defined in the Trust Agreement) and a minimum surplus of \$20 million. At the end of 2021, assets in the Trust equaled approximately \$189.5 million.

FINANCIAL STATEMENTS

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

- Statement of Assets and Liabilities as of December 31, 2021
- Statement of Income for the year ended December 31, 2021
- Reconciliation of Capital and Surplus for the Period from the inception of this Trust as of January 1, 2017 to December 31, 2021

Statement of Assets and Liabilities
as of December 31, 2021

	Assets	Non admitted Assets	Net Admitted Assets	Notes
Bonds	\$ 76,381,635	\$ -	\$ 76,381,635	1
Cash	7,341,612	-	7,341,612	
Subtotals, cash and invested assets	<u>\$ 83,723,247</u>	<u>\$ -</u>	<u>\$ 83,723,247</u>	
Investment income due and accrued	219,947	-	219,947	
Funds held by or deposited with reinsured companies	553,598	-	553,598	
Letters of Credit - Clean, Irrevacable and Unconditional	105,000,000	-	105,000,000	
Totals	<u>\$ 189,496,792</u>	<u>\$ -</u>	<u>\$ 189,496,792</u>	
			\$ 65,024,429	
Losses				
Reinsurance payable on paid losses and LAE				1,089,011
Unearned premiums				177,307
Premium receivable - claim UPR offset				(5,455,046)
Total liabilities				<u>\$ 60,835,701</u>
Special surplus funds				\$ 20,000,000
Unassigned funds (surplus)				108,661,091
Surplus as regards policyholders				<u>\$ 128,661,091</u>
Totals				<u>\$ 189,496,792</u>

Statement of Income
For the Year Ended December 31, 2021

Premiums earned	<u>\$ 2,677,295</u>
Losses incurred	\$ 511,904
Loss adjustment expenses incurred	-
Other underwriting expenses incurred	<u>(217,629)</u>
Total underwriting deductions	<u>\$ 294,275</u>
Net underwriting gain (loss)	<u>\$ 2,383,020</u>
Net investment income earned	\$ 1,270,689
Net realized capital gains or (losses)	<u>501,135</u>
Net investment gain (loss)	<u>\$ 1,771,824</u>
Net income after dividends to policyholders	\$ 4,154,844
Dividends to policyholders	<u>-</u>
Net income, after dividends to policyholders	\$ 4,154,844
Federal and foreign income taxes incurred	<u>-</u>
Net income	<u>\$ 4,154,844</u>
Surplus for U.S Reinsurance Trust , as of December 31, 2020	<u>\$ 103,500,989</u>
Net income (losses)	4,154,844
Change in net unrealized capital gains (losses)	(2,459,857)
Surplus adjustment: Paid in	<u>23,465,115</u>
Net change in capital and surplus for the year	<u>\$ 25,160,102</u>
Surplus for U.S. Reinsurance Trust , as of December 31, 2021	<u><u>\$ 128,661,091</u></u>

Reconciliation of Capital and Surplus
For the Period
January 1, 2017, to December 31, 2021

	Aggregate Write ins for speacial surplus	Gross Paid-in and Contributed Surplus	Unassigned Surplus		Total
12/31/2016	\$ 20,000,000	\$ 60,804,337			\$ 80,804,337
12/31/2017		-	(7,627,024)	(1)	(7,627,024)
12/31/2017		-	5,121,947	(2)	5,121,947
12/31/2017			(12,161,832)	(4)	(12,161,832)
12/31/2018		-	107,143,913	(1)	107,143,913
12/31/2018		-	(11,584,330)	(2)	(11,584,330)
12/31/2018		183,123,472			183,123,472
12/31/2019		-	47,410,999	(1)	47,410,999
12/31/2019		-	13,155,585	(2)	13,155,585
12/31/2019			(737,330,364)	(3)	(737,330,364)
12/31/2019			(41,108,307)	(4)	(41,108,307)
12/31/2019		-	437,330,364	(5)	437,330,364
12/31/2020		-	5,055,781	(1)	5,055,781
12/31/2020			1,924,076	(2)	1,924,076
12/31/2020		32,242,372			32,242,372
12/31/2021			4,154,844	(1)	4,154,844
12/31/2021			(2,459,857)	(2)	(2,459,857)
12/31/2021		23,465,115			23,465,115
Total	<u>\$ 20,000,000</u>	<u>\$ 299,635,296</u>	<u>\$ (190,974,205)</u>		<u>\$ 128,661,091</u>

(1) Represents net income

(2) 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

(3) Net Remittance from (to) home office

(4) Increase in liability Funded with existing surplus

(5) Portfolio Transfer - EAC Quota share

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:

Schedule D – Bonds	\$ 76,381,635
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Per the Trust Agreement, assets (including bonds) shall be valued according to their fair market value. Yearly, the BNY (as Trustee) confirms the investments to the Department. Per Article 2.13 of the Trust Agreement, “No later than February 28th of each year the Trustee shall furnish a written report to the Domiciliary Commissioner and Non-Domiciliary Commissioners including the balance, to include the fair market value, of the Trust and the assets held in the Trust Fund at the preceding year-end.” Per Article 2.2 of the Trust Agreement, the Trust was initially funded with Acceptable Assets with the fair market value of not less than an amount equal to the U.S. liabilities, plus \$20,000,000, at least \$10,000,000 of which shall, on an ongoing basis, be in cash, certificates of deposit issued by a qualified United States Financial Institution, and the types of investments set forth in Paragraph 1 of Appendix A of the Trust Agreement. The Trust acceptable cash assets include \$19.7 million in U.S. Treasury notes and \$7.3 million in cash, therefore the Trust met the Article 2.2 requirements.

Note 2:

Unearned Premiums	\$ 177,307
Premium Receivable – Claim URP offset	\$ (5,455,046)

The Trust reported unearned premium reserves on reinsurance assumed in the amount of \$0.2 million from non-affiliates. Under terms of the Trust Agreement, premium receivables are not recorded as assets of the Trust because the premium is due and collectable by ESIL, not by the

Trust. Unearned premium is recorded as a liability because pursuant to the terms of the Trust a ceding company could make a Claim against the Trust for a return of unearned premium.

SUBSEQUENT EVENTS

There were no subsequent events noted for the Trust.

SUMMARY OF RECOMMENDATIONS

There were no recommendations as a result of this examination.

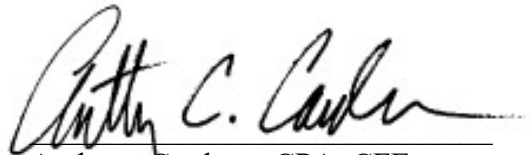
The assistance and cooperation of the Trust's outside audit firm, E&Y, and the Company's management and staff was appreciated and is acknowledged.

Respectfully submitted,



Greg Taylor, CFE
Examiner In-Charge
State of Delaware


Respectfully submitted,



Anthony Cardone, CPA, CFE
Supervising Examiner
State of Delaware

Endurance Specialty Insurance Ltd. (U.S. Reinsurance Trust)

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 Certification No. 22.021.



Greg Taylor, CFE