

**EXAMINATION REPORT**  
**OF**  
**ENDURANCE AMERICAN SPECIALTY INSURANCE COMPANY**  
**AS OF**  
**DECEMBER 31, 2016**

Trinidad Navarro  
Commissioner



Delaware Department of Insurance

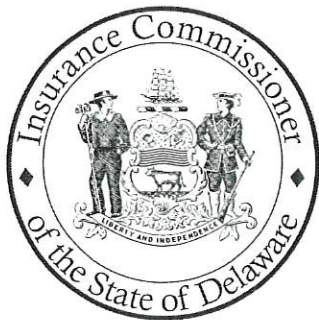
I, Trinidad Navarro, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of December 31, 2016 of the

**ENDURANCE AMERICAN SPECIALTY INSURANCE COMPANY**

is a true and correct copy of the document filed with this Department.

Attest By: *Rafael Brown*

Date: June 18, 2018



In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 28 day of June, 2018.

*Trinidad Navarro*  
Trinidad Navarro  
Insurance Commissioner

Trinidad Navarro  
Commissioner



Delaware Department of Insurance

REPORT ON EXAMINATION  
OF THE  
ENDURANCE AMERICAN SPECIALTY INSURANCE COMPANY  
AS OF  
DECEMBER 31, 2016

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.

  
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Trinidad Navarro  
Insurance Commissioner

Dated this 28 day of June, 2018

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## **SALUTATION**

May 22, 2018

Honorable Trinidad Navarro  
Commissioner of Insurance  
Delaware Department of Insurance  
Rodney Building  
841 Silver Lake Boulevard  
Dover, Delaware 19904

Dear Commissioner:

In compliance with instructions and pursuant to statutory provisions contained in Exam Authority No. 17.031, dated May 3, 2017, an examination has been made of the affairs, financial condition and management of

### **ENDURANCE AMERICAN SPECIALTY INSURANCE COMPANY**

hereinafter referred to as the Company or EASIC 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. The examination was conducted at the administrative office of the Company 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 Company. The last examination was conducted as of December 31, 2012, by the Department. This examination covered the period of January 1, 2013 through December 31, 2016, 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, 2016. 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 Endurance group of regulated United States insurance companies as of December 31, 2016. The Department is the lead state. The examination was conducted concurrently with that of the Company's Delaware domiciled affiliates, Endurance American Insurance Company (EAIC), Endurance Assurance Corporation (EAC), Endurance Risk Solutions Assurance Co. (ERSAC) and the Company's Texas domiciled affiliate, American Agri-Business Insurance Company (American Agri). Examinations of two Delaware domiciled reinsurance collateral trusts, the U.S. Reinsurance Trust and the U.S. Reduced Collateral Reinsurance Trust, formed by the Company's affiliate, Endurance Specialty Insurance Ltd. (ESIL), a Bermuda insurance and reinsurance company, were conducted concurrently. The Department serves as the domiciliary regulator for the trusts. 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 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, Ernst & Young, LLP (E&Y). Certain auditor work papers of the 2016 E&Y 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, formerly named Traders and Pacific Insurance Company (TPIC), was incorporated in Delaware on September 9, 1982, as a property and casualty insurance company. Its original Certificate of Authority was issued on September 20, 1983, and authorized the Company to transact the business of property, marine and transportation and casualty insurance. TPIC was a member of the Houston General Insurance Group (Houston General) and a wholly owned subsidiary of Houston General Insurance Company. Houston General and its subsidiaries were in turn owned by Tokyo Marine and Fire Insurance Company, Limited, of Tokyo, Japan.

Effective January 1, 1998, Houston General and its subsidiaries, including TPIC, were acquired by Commercial Union plc, a United Kingdom corporation. Immediately after closing, Commercial Union contributed the stock of Houston General to Commercial Union Assurance Company plc, which in turn contributed the Houston General stock to Commercial Union Corporation, a U.S. holding company. On June 1, 2001, Commercial Union, including Houston General and its subsidiaries, were acquired by White Mountains Insurance Group, Ltd. In January of 2002, the stock of Houston General was sold to OneBeacon Insurance Company (OneBeacon), a White Mountains subsidiary, to facilitate reactivating the Company, which had been in run off since its acquisition of Commercial Union in 1998.

Effective August 1, 2005, the stock of the Company was acquired by Endurance Reinsurance Corporation of America (now known as EAC). The Company was acquired as a clean shell with all outstanding liabilities being assumed by the seller. Subsequent to its acquisition, EAC contributed \$60 million to the Company's paid in surplus under two



separate contributions: \$50 million on September 30, 2005 and \$10 million on December 20, 2005. These contributions allowed the Company to immediately resume writing direct business.

Effective June 8, 2006, the name of the Company was changed to Endurance American Specialty Insurance Company. As of September 30, 2006, EAC contributed all of the issued and outstanding shares of the Company to EAIC, a wholly owned subsidiary of EAC.

#### Capitalization

The Company's Certificate of Incorporation authorizes the issue of 5,000,000 shares of common stock with a \$1.00 par value. As of December 31, 2016, the Company had 4,000,000 common shares issued and outstanding totaling \$4,000,000. As noted above, all outstanding common shares of the Company are owned by EAIC. As of December 31, 2016, the Company reported gross paid in and contributed surplus of \$221,550,000.

#### Dividends

The Company's Board of Directors (Board) did not approve or authorize any dividends during the exam period.

### **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, the property and affairs of the Company must be managed by or under the direction of its Board. The Board shall not have less than one member and the total number of directors shall be determined by the Board.

Each Director is elected annually by the stockholder and holds office until the next annual election and until their successors are elected and qualified except as removed for cause

and the successor elected by a special meeting of the stockholder. Directors duly elected and serving as of December 31, 2016, are as follows:

<u>Name</u>	<u>Title</u>
John A. Kuhn	CEO of Global Insurance
John V. Del Col	General Counsel & Secretary
Michael J. McGuire	CFO

### Officers

Officers were elected in accordance with the bylaws during the period under examination. The bylaws require election of a President, Secretary and Treasurer. Any number of offices may be held by the same person. The primary officers serving as of December 31, 2016, were as follows:

<u>Name</u>	<u>Title</u>
Christopher L. Sparro	President
Daniel S. Lurie	Secretary
Marc Karnell	EVP
Stan Osofsky	Treasurer
Richard M. Appel	SVP
John Minett	SVP

### 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, 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 Endurance Specialty Holdings Ltd. (ESHL) as defined under 18 *Del. C.* § 5001. The Company is a wholly-owned subsidiary of Endurance U. S. Holdings Corp. (EUSH) which is a wholly-owned subsidiary of ESIL, whose ultimate parent is ESHL.

ESHL, through its subsidiaries, is a global insurance and reinsurance company providing property, casualty and specialty insurance and reinsurance products to industrial, commercial and professional firms, insurance companies and other enterprises on a worldwide basis. It traded on the New York Stock Exchange under the ticker symbol “ENH”.

An abbreviated organizational chart of the ESHL as of December 31, 2016, is as follows (ownership of subsidiaries is 100% unless otherwise noted):

Endurance Specialty Holdings Ltd. (Bermuda)\*  
    Endurance Specialty Insurance Ltd. (Bermuda)  
        Endurance Specialty Insurance Ltd. (U.S. Reinsurance Trust) \*\*  
        Endurance Specialty Insurance Ltd. (U.S. Reduced Collateral Reins Trust) \*\*  
        Endurance U.S. Holdings Corp. (DE)  
            ARMtech Inc. (TX)  
                ARMtech Holdings, Inc. (DE)  
                    American Agri-Business Insurance Company (TX)  
            Endurance Assurance Corporation (DE)  
                Endurance Risk Solutions Assurance Co (DE)  
                Endurance American Insurance Company (DE)  
                    **Endurance American Specialty Insurance Company (DE)**

\* Effective March 28, 2017, control of ESHL was acquired through the acquisition of 100% of the outstanding ordinary shares of ESHL by Sampo Holdings, Inc. (Sampo Holdings) a Japanese domestic company. Effective September, 27, 2017, ESHL transferred substantially all of its assets (including the Company) and liabilities to its affiliate, Sampo International Holdings Ltd., a Bermuda corporation. Subsequently, ESHL was liquidated.

\*\*Trusts are not entities but will have an exam report issued on financial statements results.

## **AGREEMENTS WITH AFFILIATES**

The Company is party to several intercompany agreements and transactions, which were disclosed in the Form B filings with the Department.

### **Administrative Services Agreement**

Effective August 1, 2015, the Company entered into an Amended and Restated Administrative Services Agreement among all parties in the Endurance Group which allows for the sharing of management and administrative services among the participating entities. This agreement replaces all prior administrative services agreements. This agreement was properly filed and approved by the Department on October 12, 2016.

### **Tax Allocation Agreement**

Effective June 5, 2006, the Company became a party to a Consolidated Tax Allocation Agreement with EASIC, EAIC and other members of the Endurance Group of Companies. The agreement sets forth the manner in which the total consolidated federal income tax liability or benefit is allocated.

## **TERRITORY AND PLAN OF OPERATION**

### **Territory**

As of December 31, 2016, the Company is licensed in Delaware as a domestic surplus lines insurer and is eligible to write surplus lines in all states, the District of Columbia, Puerto Rico and the U.S. Virgin Island.

For the year ended December 31, 2016, the Company wrote approximately 50% of its business in the states of Florida (17%), California (14%), New York (10%) and Texas (9%).

### **Plan of Operation**

EASIC's products are only available through licensed excess and surplus lines brokers.

**REINSURANCE**

The Company reported the following distribution of premiums written for the years ended December 31, 2016, and the prior examination date of December 31, 2012:

	<b><u>2016</u></b>	<b><u>% GPW</u></b>	<b><u>2012</u></b>	<b><u>% GPW</u></b>
Direct business	\$ 488,622,054	79.1%	\$ 243,483,876	57.1%
Reinsurance assumed from affiliates	129,299,814	20.9%	182,364,495	42.8%
Reinsurance assumed from non-affiliates	34,982	0.0%	634,709	0.1%
Gross premiums written	<u>\$ 617,956,850</u>	<u>100%</u>	<u>\$ 426,483,080</u>	<u>100%</u>
Reinsurance ceded to affiliates	\$ 488,657,036	79.1%	\$ 244,118,585	57.2%
Reinsurance ceded to non-affiliates	0	0.0%	0	0.0%
Total ceded	<u>\$ 488,657,036</u>	<u>79.1%</u>	<u>\$ 244,118,585</u>	<u>57.2%</u>
Net premiums written	<u><u>\$ 129,299,814</u></u>	<u><u>20.9%</u></u>	<u><u>\$ 182,364,495</u></u>	<u><u>42.8%</u></u>

**Intercompany Pooling Agreement**

The Company is a participant in an intercompany Pooling Agreement. Under the terms of the Agreement which was last amended on February 2, 2012, the Company cedes 100% of its gross premiums, losses, insurance expenses and other underwriting activity to EAIC (Pool Lead). After placing external and other intercompany reinsurance the Pool Lead retro-cedes to the Company their participation percentage of 27% of the net business.

**FINANCIAL STATEMENTS**

It should be noted that the examiners do not attest to the fair presentation of the financial statement included herein and presented below as reported by the Company.

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, 2016
- Statement of Income for the year ended December 31, 2016
- Reconciliation of Capital and Surplus for the Period from the Prior Examination as of December 31, 2012 to December 31, 2016

**Statement of Assets and Liabilities**  
**As of December 31, 2016**

	<u>Assets</u>	<u>Non admitted Assets</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 134,428,050	\$ 0	\$ 134,428,050	1
Common stocks	-		-	
Cash	78,274,537		78,274,537	
Subtotals, cash and invested assets	<u>\$ 212,702,587</u>	<u>\$ 0</u>	<u>\$ 212,702,587</u>	
Investment income due and accrued	598,015		598,015	
Uncollected premiums and agents' balances in the course of collection	74,823,310	2,646,580	72,176,730	
Deferred Premiums, Agents' Balance booked but not due	70,567,985		70,567,985	
Amounts recoverable from reinsurers	11,830,379		11,830,379	
Funds held by or deposited with reinsured companies	2,826,803		2,826,803	
Receivable from parent, subsidiaries and affiliates	3,837,945	1,380,795	2,457,150	
Other assets	707	707	-	
Totals	<u>\$ 377,187,731</u>	<u>\$ 4,028,082</u>	<u>\$ 373,159,649</u>	

Endurance American Specialty Insurance Company

		<u>Notes</u>
Losses	\$ 110,219,071	2
Loss adjustment expenses	24,913,437	2
Commissions payable, contingent commissions	(53,757)	
Other expenses	165,371	
Taxes, licenses and fees	1,920,383	
Current federal and foreign income taxes	159,321	
Unearned premiums	45,888,230	
Advanced premiums	810,000	
Ceded reinsurance premiums payable	71,513,198	
Remittances and items not allocated	452,902	
Payable to parent, subsidiaries, and affiliates	4,763,662	
Other liability	1,071	
Deferred ceding commission	7,124,394	
Pending escheatment	1,436	
Total liabilities	<u>\$ 267,878,719</u>	
Common capital stock	\$ 4,000,000	
Gross paid in and contributed surplus	221,550,000	
Unassigned funds (surplus)	<u>(120,269,070)</u>	
Surplus as regards policyholders	<u>\$ 105,280,930</u>	
Totals	<u><u>\$ 373,159,649</u></u>	

**Statement of Income**  
**For the Year Ended December 31, 2016**

		Notes
Premiums earned	\$ 124,593,739	
Losses incurred	\$ 84,605,839	
Loss adjustment expenses incurred	14,160,001	
Other underwriting expenses incurred	19,147,026	
Total underwriting deductions	<u>\$ 117,912,866</u>	
Net underwriting gain (loss)	<u>\$ 6,680,873</u>	
Net investment income earned	3,378,382	
Net realized capital gains or (losses)	<u>(103,681)</u>	
Net investment gain (loss)	<u>\$ 3,274,701</u>	
Net gain (loss) from agents' or premiums balances charged off	\$ (81,057)	
Other income	<u>75</u>	
Total other income	<u>\$ (80,982)</u>	
Net income after dividends to policyholders	9,874,592	
Dividends to policyholders	<u>0</u>	
Net income, after dividends to policyholders	\$ 9,874,592	
Federal and foreign income taxes incurred	404,883	
Net income	<u>\$ 9,469,709</u>	
Surplus as regards policyholders, December 31, 2015	<u>\$ 97,901,694</u>	
Net income (losses)	9,469,709	
Change in net unrealized capital gains (losses)	0	
Change in net unrealized foreign exchange gains (losses)	0	
Change in net deferred income tax	0	
Change in non-admitted assets	(2,090,473)	
Change in provision for reinsurance	0	
Surplus adjustment: Paid in	0	
Dividends to stockholders	0	
Prior period correction on an error	<u>0</u>	
Net change in capital and surplus for the year	<u>\$ 7,379,236</u>	
Surplus as regards policyholders, December 31, 2016	<u><u>\$ 105,280,930</u></u>	



**Reconciliation of Capital and Surplus**  
 For the Period from the Prior Examination  
 As of December 31, 2012 to December 31, 2016

	Common Capital Stock	Gross Paid-in and Contributed Surplus	Unassigned Surplus	Total
12/31/2012	\$ 4,000,000	\$ 194,550,000	\$ (111,785,094)	\$ 86,764,906
12/31/2013 1			(20,943,667)	(20,943,667)
12/31/2013 2		27,000,000		27,000,000
12/31/2014 1			(2,562,187)	(2,562,187)
12/31/2015 1			7,642,642	7,642,642
12/31/2016 1			7,379,236	7,379,236
	<u>\$ 4,000,000</u>	<u>\$ 221,550,000</u>	<u>\$ (120,269,070)</u>	<u>\$ 105,280,930</u>

- (1) Represents net income, change in unrealized capital gains (losses), change in non-admitted assets, change in provision for reinsurance.  
 (2) Surplus adjustment – Paid In

**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 \$ 134,428,050

As of December 31, 2016, the Company reported total bond investments on Schedule D – Part 1 with book adjusted carrying values in the amount of approximately \$134.4 million and fair market values of approximately \$133.4 million. Bonds were comprised of the following classes:

	<u>Statement Value</u>	<u>% of Total</u>
U.S. Government Bonds	\$ 12,748,263	9.5%
U.S. Special Revenue Bonds	36,499,569	27.2%
Industrial and Miscellaneous Bonds	85,180,218	63.4%
Total Bonds	<u>\$ 134,428,050</u>	<u>100.0%</u>

Of the Company's total bond holdings, 88.9% were categorized as Class 1 with respect to NAIC credit quality standards and most were publicly traded securities. Bond maturities were heavily weighted to the short-term relative to maturity 14.4%, 57.6%, 22.3% and 3.9% maturing in less than one year, one to five years, five to ten years and ten to twenty years, respectively.

Note 2:

Losses	\$ 110,219,071
Loss Adjustment Expenses	\$ 24,913,437

INS Consultants, Inc. (INS) was retained by the Department to conduct a review of the Company's reserve methodologies and adequacy. INS evaluated the Company's book of business by line of business for losses and LAE. The conclusions reached by INS are largely based upon information supplied by the Company's staff, which included an in-depth actuarial analysis. The INS reserve analysis was performed on both a gross and net of reinsurance basis and did not address the collectability of reinsurance recoverables. The INS reserve review found the Company's combined net loss and LAE reserves were adequate to support the business underwritten.

Loss and LAE reserves are subject to errors of estimation arising from the fact that the ultimate liability for claims evaluated as of the valuation date are dependent on future contingent events which cannot always be anticipated. The possible occurrence of such events, as well as the inherent uncertainty associated with statistical estimates, allows no guarantee that the actual ultimate liabilities will be the same as the reserve levels described in this examination report.

INS accepted the methodology and factor selections utilized by the Company's actuaries and ultimately found the Company's reserves to be reasonably stated.

### **SUBSEQUENT EVENTS**

Effective March 28, 2017, the Company's ultimate parent, ESHL, merged with and into a wholly-owned subsidiary of Sompo Holdings, a holding company headquartered in Japan and publicly traded on the Tokyo Stock Exchange (Merger). As a result of the Merger, ESHL ordinary shares ceased trading on the New York Stock Exchange and each ESHL issued and outstanding ordinary share was cancelled and converted into the right to receive the merger consideration of \$93.00 per share. The Merger was approved by the Department on March 16, 2017. Effective September 27, 2017, ESHL transferred substantially all of its assets and liabilities to its affiliate, Sompo International Holdings Ltd., a Bermuda corporation. Subsequently, ESHL was liquidated.

### **COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS**

There were no recommendations contained in the prior examination report issued by the Department as of December 31, 2012.

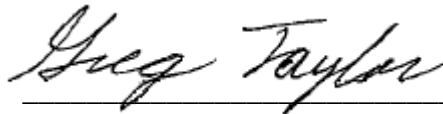
### **SUMMARY OF RECOMMENDATIONS**

There were no recommendations as a result of this examination.

### **CONCLUSION**

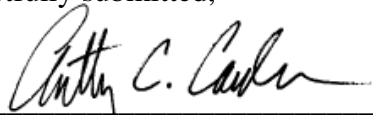
The assistance and cooperation of examiners representing the states on the coordinated examination is acknowledged. In addition, the assistance of the consulting actuarial firm, INS Consultants, Inc., the consulting information systems specialist firm, INS Services, Inc., the Company's outside audit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

Respectfully submitted,

A handwritten signature in cursive script that reads "Greg Taylor". The signature is written in black ink and is positioned above a horizontal line.

Greg Taylor, CFE  
Examiner In-Charge  
State of Delaware

Respectfully submitted,

A handwritten signature in cursive script that reads "Anthony C. Cardone". The signature is written in black ink and is positioned above a horizontal line.

Anthony Cardone, CFE  
Supervising Examiner  
State of Delaware