

REPORT ON EXAMINATION

OF

AXIS REINSURANCE COMPANY

AS OF

DECEMBER 31, 2015

DATE OF REPORT

JANUARY 26, 2017

EXAMINER

ADEBOLA AWOFESO

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NEW YORK STATE  
DEPARTMENT *of*  
FINANCIAL SERVICES

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Andrew M. Cuomo  
Governor

Maria T. Vullo  
Superintendent

January 26, 2017

Honorable Maria T. Vullo  
Superintendent  
New York State of the Department of Financial Services  
Albany, New York 12257

Madam:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 31398 dated December 29, 2015, attached hereto, I have made an examination into the condition and affairs of AXIS Reinsurance Company as of December 31, 2015, and submit the following report thereon.

Wherever the designation “the Company” or “AXIS Reinsurance” appears herein without qualification, it should be understood to indicate AXIS Reinsurance Company.

Whenever the term “AXIS U.S. Holdings” appear herein without qualification, it should be understood to mean AXIS Specialty U.S. Holdings, Inc., an insurance holding company domiciled in Delaware.

Wherever the term “Department” appears herein without qualification, it should be understood to mean the New York State Department of Financial Services.

The examination was conducted at the Company’s administrative office located at 11680 Great Oaks Way, Alpharetta, GA 30022.

## 1. SCOPE OF EXAMINATION

The Department has participated in a coordinated group examination of the Company, a multi-state insurer. The previous examination was conducted as of December 31, 2012. This examination covered the three year period from January 1, 2013 through December 31, 2015. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

Illinois was the coordinating state of the AXIS Capital Group. The systems and practices of conducting business are integrated and all companies operate under common management. The examination of the Company was performed concurrently with the examination of the following insurers:

<u>Company</u>	<u>State</u>
AXIS Insurance Company	Illinois
AXIS Surplus Insurance Company	Illinois
AXIS Reinsurance Company	New York
AXIS Specialty Insurance Company	Connecticut

This examination was conducted in accordance with the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners Handbook (“Handbook”), which requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company and evaluating system controls and procedures used to mitigate those risks. This examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management’s compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All financially significant accounts and activities of the Company were considered in accordance with the risk-focused examination process. This examination also included a review

and evaluation of the Company's own control environment assessment and an evaluation based upon the Company's Sarbanes Oxley documentation and testing. The examiners also relied upon audit work performed by the Company's independent public accountants when appropriate.

This examination report includes a summary of significant findings for the following items as called for in the Handbook:

- Company history
- Corporate records
- Management and control
- Territory and plan of operation
- Growth of Company
- Loss experience
- Reinsurance
- Accounts and records
- Financial statements
- Summary of recommendations

A review was also made to ascertain what action was taken by the Company with regard to comments and recommendations contained in the prior report on examination.

This report on examination is confined to financial statements and comments on those matters that involve departures from laws, regulations or rules, or that are deemed to require explanation or description.

## **2. DESCRIPTION OF COMPANY**

AXIS Reinsurance Company of New York was incorporated on July 25, 1991 and commenced business on January 1, 1992 under the name Sun Insurance Office of America, to be the domesticated successor to Sun Insurance Office Limited (United States Branch).

Effective January 1, 1994, ownership of the Company was transferred, via a stock exchange, to Sun Alliance USA Inc., a wholly-owned subsidiary of Sun Alliance Group PLC.

On July 19, 1996, Sun Alliance Group PLC merged with Royal Insurance Holdings PLC, forming a new holding company called Royal & Sun Alliance Insurance Group PLC. Effective January 1, 1999, the Company changed its name to Royal & Sun Alliance Personal Insurance Company. Effective December 8, 1999, ownership of the Company was transferred, via a stock exchange, to Royal Group Inc. Subsequently, on August 21, 2000, Royal Group Inc. transferred ownership of the Company, via a stock exchange, to Royal Insurance Company of America.

On November 27, 2002, AXIS Specialty U.S. Holdings, Inc., a Delaware holding company, acquired the Company from Royal Insurance Company of America and subsequently changed its name to AXIS Reinsurance Company.

On September 23, 2008, the Company established a Canadian branch, AXIS Reinsurance Company (“Canadian Branch”). As of December 31, 2015, the Company is wholly-owned by AXIS Specialty U.S. Holdings, Inc. and is ultimately owned by AXIS Capital Holdings Limited, a holding company organized under the laws of Bermuda.

At December 31, 2015, capital paid in is \$5,000,000, consisting of 100 shares of common stock at \$50,000 par value per share. Gross paid in and contributed surplus is \$570,349,476, Gross paid in and contributed surplus increased by \$20,000,000 during the examination period, as follows:

<u>Date</u>	<u>Description</u>	<u>Amount</u>
1/1/2012	Beginning paid in and contributed surplus	\$550,349,476
2014	Surplus Contributions	<u>20,000,000</u>
12/31/2015	Ending paid in and contributed surplus	<u>\$570,349,476</u>

A. Management

Pursuant to the Company’s charter and by-laws, management of the Company is vested in a board of directors consisting of not less than seven nor more than twenty-one members. At December 31, 2015, the board of directors was comprised of the following seven members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
William Andrew Fischer Mendham, NJ	Chief Underwriting Officer, AXIS Specialty U.S. Services, Inc.
Robert John Looney Jr. Summit, NJ	President and Chief Executive Officer, AXIS Reinsurance Company
Carlton Wendell Maner Atlanta, GA	Senior Vice President, AXIS Reinsurance Company.
Martin Joseph McCarty Johns Creek, GA	Senior Vice President and Treasurer, AXIS Reinsurance Company.
Linda Ventresca New York, NY	Executive Vice President-Corporate Development, AXIS Specialty U.S. Services, Inc.
Peter John Vogt Berwyn, PA	Senior Vice President, AXIS Reinsurance Company
Andrew Martin Weissert Marietta, GA	Executive Vice President and General Counsel AXIS Specialty U.S. Services, Inc.

A review of the minutes of the board of directors revealed that the board met once during the period covered by this examination. The Company's by-laws allow the board to take action by Unanimous Written Consents in lieu of formal board meetings.

As of December 31, 2015, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Robert John Looney Jr.	Chairman of the Board, President and Chief Executive Officer
Andrew Martin Weissert	Senior Vice President, General Counsel and Secretary
Martin Joseph McCarty	Senior Vice President and Treasurer

B. Territory and Plan of Operation

As of December 31, 2015 the Company was licensed to write business in all fifty states, the District of Columbia, Puerto Rico, and Canada.

As of the examination date, the Company was authorized to transact the kinds of insurance as defined in the following numbered paragraphs of Section 1113(a) of the New York Insurance Law:

<u>Paragraph</u>	<u>Line of Business</u>
3	Accident & health
4	Fire
5	Miscellaneous property
6	Water damage
7	Burglary and theft
8	Glass
9	Boiler and machinery
10	Elevator
11	Animal
12	Collision
13	Personal injury liability
14	Property damage liability
15	Workers' compensation and employers' liability
16	Fidelity and surety
17	Credit
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine
21	Marine protection and indemnity
22	Residual value
24	Credit unemployment
29	Legal services

In addition, the Company is licensed to transact such workers' compensation insurance as may be incidental to coverages contemplated under paragraphs 20 and 21 of Section 1113(a) including insurances described in the Longshoremen's and Harbor Workers' Compensation Act (Public Law No. 803, 69<sup>th</sup> Congress as amended), and the kinds of insurance and reinsurance as defined in Section 4102(c) of the New York Insurance Law.

Based on the lines of business for which the Company is licensed and the Company's current capital structure, and pursuant to the requirements of Articles 13 and 41 of the New York Insurance Law, the Company is required to maintain a minimum surplus to policyholders in the amount of \$35,000,000.

The following schedule shows the direct premiums written by the Company both in total

and in New York for the period under examination:

<u>Calendar Year</u>	<u>New York State</u>	<u>Total Premiums</u>	<u>Premiums Written in New York State as a Percentage of Total Premium</u>
2013	\$ 719,781	\$ 61,826,703	1.16%
2014	1,573,421	70,707,627	2.23%
2015	1,408,369	54,581,507	2.58%

The Company's direct business consists primarily of commercial property, liability, professional lines and other specialty program insurance. The Company's reinsurance writings covering U.S exposures consist primarily of treaty reinsurance business comprised of professional lines (medical malpractice, directors' and officers', employment practices liability, and miscellaneous errors and omissions); liability (auto liability, general liability, umbrella and workers' compensation); property (specialty companies); surety (North American and Canadian contract surety, commercial surety, and financial products indemnity bonds supporting surety companies); and marine, aviation, agriculture and accident and health. Business is transacted primarily through licensed reinsurance brokers and intermediaries.

Since 2008, the Company had been renewing direct business written in AXIS Insurance Company's paper, an affiliate domiciled in Illinois. Consequently, the Company is primarily writing assumed reinsurance in the US. In September 2008, the Company established a branch in Canada to transact insurance and reinsurance business.

C. Reinsurance

Assumed

During the period covered by this examination, the Company's assumed reinsurance business has increased and accounted for 96% of the Company's gross premium written at December 31, 2015. The Company's assumed reinsurance consists mainly of property and casualty, multi-line coverage assumed on a quota share and excess of loss basis, pursuant to the terms of facultative and treaty agreements with both authorized and unauthorized cedants. Additionally, the Company's participation in various mandated pools is reflected in its assumed reinsurance activity.

The Company utilizes reinsurance accounting as defined in Statement of Statutory Accounting Principle ("SSAP") No. 62 for all of its assumed reinsurance business. The following intercompany reinsurance treaties are in place:

Quota Share between AXIS Surplus and AXIS Reinsurance

Effective on January 1, 2013 AXIS Surplus Insurance Company entered into a quota share reinsurance agreement with the Company, whereby AXIS Surplus cedes to AXIS Reinsurance 100% of its net retained liability, (net of inuring facultative), on all insurance and reinsurance contracts classified as US excess and surplus umbrella and excess coverage written or renewed on or after the effective date hereof. This agreement inures to the benefit of the 70% quota share referenced below.

Effective on January 1, 2013 AXIS Surplus Insurance Company entered into a quota share reinsurance agreement with the Company, whereby AXIS Surplus cedes to AXIS Reinsurance 70% of its net retained liability on all insurance and reinsurance contracts.

Facultative Reinsurance between AXIS Insurance Company and the Company

Effective July 1, 2009, AXIS Insurance Company entered into a facultative reinsurance agreement with the Company, whereby AXIS Insurance Company cedes to the Company, on a facultative basis, certain policies. Under the agreement, AXIS Insurance will determine, on a policy-by policy basis, the premium, retention and limits of the facultative certificates to be issued.

Facultative Reinsurance between AXIS Insurance Company and the Company

Effective February 28, 2013, the Company entered into a facultative reinsurance agreement with AXIS Insurance Company, whereby the Company cedes to AXIS Insurance Company, on a facultative basis, certain policies. According to the agreement, the Company will determine, on a policy-by policy basis, the premium, retention and limits of the facultative certificates to be issued.

Quota Share with AXIS Specialty Limited

Effective January 1, 2013, the Company entered into a quota share reinsurance agreement

with AXIS Specialty Limited whereby it cedes to AXIS Specialty Limited 50% of the net retained liability on all insurance and reinsurance contracts. Effective September 23, 2008, the Company's Canadian Branch cedes 25% of its net retained liability on all insurance and reinsurance contracts written or assumed to AXIS Specialty Limited.

#### Stop Loss Reinsurance Agreement with AXIS Specialty Limited

Effective January 1, 2013, the Company is party to a stop loss reinsurance agreement with AXIS Specialty Limited. Pursuant to the stop loss reinsurance agreement and together with the above mentioned quota share reinsurance agreements, AXIS Specialty Limited will indemnify the Company 100% of the amount by which the Company's calendar year ultimate net loss ratio incurred exceeds 80%, subject to an aggregate annual limit of liability of an ultimate net loss ratio incurred of 120%.

#### Ceded

The Company has structured its ceded reinsurance program as of December 31, 2015 as follows:

<u>Type of Treaty</u>	Cession
<u>Property</u>	
<u>Property Risk Excess of Loss (US and Canada) Excess of Loss</u>	\$5,000,000 excess of \$5,000,000 (90.50% placed)
<u>Property Risk Excess of Loss (US) Risk Management/Global Property/Onshore Cargo/MGAs/Energy per Risk</u>	
First layer	\$10,000,000 excess of \$10,000,000 excess of \$20,000,000 AAD (57.625% placed)
Second and Third layers	\$80,000,000 excess of \$20,000,000 (100% placed)
<u>Property Aggregate Stop Loss</u>	10% excess of 50% loss ratio applying to losses below \$20,000,000, excluding critical CAT and terrorism, 3% excess of 6% frequency CAT corridor, placed at

50%

Property Catastrophe (North America) -  
Wind, Earthquake and Fire

Three layers

\$500,000,000 excess of \$50,000,000  
First layer (70% placed)  
Second layer (80% placed)  
Third (100% placed)

Property Catastrophe (International) Excess  
of Loss

Section A

\$25,000,000 excess of \$25,000,000  
including Caribbean, Bermuda and Hawaii  
(50% placed)

\$25,000,000 excess of \$25,000,000 excess of  
\$25,000,000 AAD including Caribbean,  
Bermuda and Hawaii (10% placed)

Section B

\$100,000,000 excess of \$50,000,000  
including Caribbean, Bermuda and Hawaii  
(100% placed)

Industry Loss Warranty (US Catastrophe)  
Excess of Loss

\$15,000,000 excess \$10,000 each and every  
loss occurrence. \$50,000,000,000 trigger  
amount  
(100% placed)

US Catastrophe Bond Excess of Loss

\$204,000,000 excess of \$1,160,000,000  
\$50,000,000 franchise deductible  
(98.4% placed)

Casualty

US Casualty Umbrella and Excess Liability  
Quota Share

48% up to \$25,000,000 each loss, each  
insured (ISO 1A & 2B business)

48% up to \$10,000,000 each loss, each  
insured (ISO 3C business)

Commercial General Liability  
AXIS Re - Canadian Branch

Section 1- Primary Casualty

75% up to \$5,000,000 each loss, each  
insured

Section 2- Umbrella/Excess of Loss	75% up to \$25,000,000 each loss, each insured
<u>Excess Auto Liability</u> (US) (Auto Carve out)	60% Quota Share up to \$3,000,000 CSL, each policy, each occurrence in excess of \$1,000,000
<u>Primary Casualty Quota Share</u>	51.50% up to \$2,000,000 each policy, each occurrence
<u>Professional Lines Quota Share</u> Directors and Officers and Employers' Liability (Global)	40% up to \$25,000,000 each loss, each insured
Directors and Officers-Miscellaneous Professional Liability (US)	75% up to \$5,000,000 each loss, each insured
Primary Commercial Public D&O Stop loss (US)	\$8,000,000 stop loss for loss ratio above 120% up to 200% (50% placed)
<u>Environmental &amp; Professional Liability Excess of Loss</u> Section A - Primary policies	\$24,000,000 excess of \$1,000,000 (51% placed)
<u>Environmental &amp; Professional Liability Quota Share</u> Section B - Excess policies	51% up to \$25,000,000 each policy, each occurrence
<u>Property and Liability Marine- Captive Quota Share</u> (Ski Safe)	24% premium quota share 45% losses quota share each loss, each insured losses above \$300,000 per occurrence are excluded but covered via facultative placements
Captive Quota Share (ARA)	60% Quota Share up to \$500,000 each loss
<u>ARA Multi-Line Quota Share</u> Section 1 Section 2 Section 3	100% quota share with various limits Employment practices liability up to \$250,000 Cyber risk up to \$100,000 Data compromise up to \$1,000,000

US Healthcare - Quota Share Section A – Medical Catastrophe	90% up \$50,000,000 each policy
US Healthcare – Excess of Loss Section B – Healthcare Liability	\$5,000,000 excess of \$5,000,000 (100% placed)
Accident and Health-Per Life – Excess of Loss	Excess of Loss
Three Layers	\$4,500,000 excess of \$500,000 All layers (100% placed)
Accident and Health Per Life Excess of Loss - Catastrophe	
Four Layers	\$49,000,000 excess of \$1,000,000 All layers (100% placed)

Reinsurance agreements with affiliates were reviewed for compliance with Article 15 of the New York Insurance Law. It was noted that all affiliated reinsurance agreements were filed with the Department pursuant to the provisions of Section 1505(d)(2) of the New York Insurance Law. All significant ceded reinsurance agreements in effect as of the examination date were reviewed and found to contain the required clauses, including an insolvency clause meeting the requirements of Section 1308 of the New York Insurance Law.

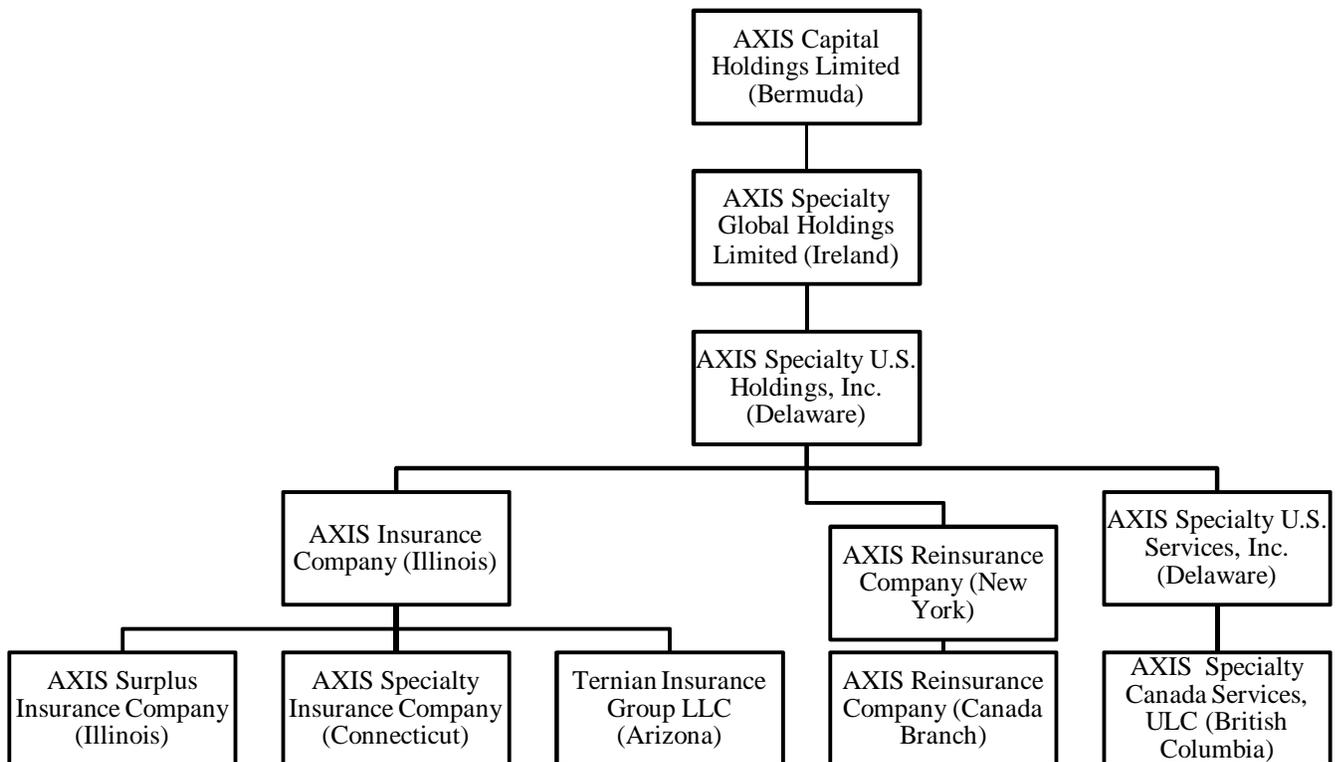
It is the Company's policy to obtain the appropriate collateral for its cessions to unauthorized reinsurers. Letters of credit obtained by the Company to take credit for cessions to unauthorized reinsurers were reviewed, on a sample basis, for compliance with Department Regulation No. 133. No exceptions were noted.

Additionally, management has represented that all material ceded reinsurance agreements transfer both underwriting and timing risk as set forth in SSAP No. 62. Representations were supported by appropriate risk transfer analyses and an attestation from the Company's chief executive officer pursuant to the NAIC Annual Statement Instructions. Additionally, examination review indicated that the Company was not a party to any finite reinsurance agreements. All ceded reinsurance agreements were accounted for utilizing reinsurance accounting as set forth in paragraphs 41 to 44 of SSAP No. 62.

D. Holding Company System

The Company is a member of the AXIS Capital Holdings Limited group. The Company is a wholly-owned subsidiary of AXIS Specialty U.S. Holdings, Inc., a Delaware corporation, which is ultimately controlled by AXIS Capital Holdings Limited, a holding company organized under the laws of Bermuda.

A review of the Holding Company Registration Statements filed with this Department indicated that such filings were complete and were filed in a timely manner pursuant to Article 15 of the New York Insurance Law and Department Regulation 52. The following is an abridged chart of the holding company system at December 31, 2015:



At December 31, 2015, the Company was party to the following agreements with other members of its holding company system:

Tax Allocation Agreement

Effective December 1, 2002, the Company and other members of the AXIS Group entered into an income tax sharing agreement, whereby the companies file a consolidated federal income tax return to provide for the payment of federal tax liabilities or refunds of members of the group. This agreement was filed with the Department pursuant to Section 1505(d) of New York Insurance Law.

Expense Allocation Agreement

Effective November 27, 2002, the Company entered into an expense allocation agreement with AXIS Specialty U.S. Services Inc. (“ServiceCo”), an affiliated Delaware corporation. Pursuant to the terms of the agreement, ServiceCo will provide the services of personnel, office space and use of office equipment. Costs and expenses will be determined and allocated pursuant to the provisions of Department Regulation 30. Effective January 10, 2012, an addendum was made for AXIS Specialty Canada Services, ULC to provide services to AXIS Reinsurance Company (Canadian Branch). The agreement and addendum were filed with the Department pursuant to Section 1505(d) of New York Insurance Law.

Fee Agreement

Effective August 24, 2010, the Company and other members of the holding company system participate in a fee agreement. The fee agreement is associated with a revolving senior credit facility entered into between Bank of America and a group of financial institutions and AXIS Capital Holdings Limited (“AXIS Capital”) and its insurer affiliates. Under the credit facility AXIS Capital is responsible for the payment of certain fees and the Company will pay its pro rata share of these fees. This agreement was filed with the Department pursuant to Section 1505(d) of New York Insurance Law.

The agreement was amended on December 1, 2011 to remove AXIS Specialty as party to the agreement.

### Collateral Fee Agreement

Effective May 14, 2010, the Company and other members of the holding company system entered into a Collateral Fee agreement. Under the agreement, AXIS Specialty Limited, an affiliated Bermuda insurer, has pledged assets to secure letters of credit issued under a letter of credit facility with Citibank Europe PLC. In consideration of the pledge, the Company and the affiliates will pay an annual fee. This agreement was filed with the Department pursuant to Section 1505(d) of New York Insurance Law. On August 4, 2011, the Department approved an amendment to the Collateral Fee Agreement. Effective January 27, 2012, AXIS Specialty was removed as a party to the agreement.

### Reinsurance Recoverable Transfer Agreement

Effective November 16, 2011, the Company and other members of the holding company entered into a reinsurance recoverable transfer agreement. Pursuant to the agreement, AXIS Surplus Insurance Company (“AXIS Surplus”), will act as the lock box company and will receive and transfer reinsurance recoverable payments to the Company and other affiliates. AXIS Surplus will receive the interest earned on investing the recoverable payments and will receive no other compensation. This agreement was filed with the Department pursuant to Section 1505(d) of New York Insurance Law.

### Revolving Promissory Note Agreement

Effective March 28, 2014, the Company entered into an Intercompany Revolving Promissory Note Agreement with AXIS Specialty U.S. Holdings Inc., and AXIS Specialty U.S. Services Inc. Under the terms of the agreement, the Company is allowed to borrow money to enhance its cash management flexibility.

This agreement was filed with the Department pursuant to Section 1505(d) of New York Insurance Law.

### E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2015, based upon the results of this examination:

Net premiums written to policyholders' surplus	60%
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	82%
Premiums in course of collection to surplus as regards policyholders	13%

All of the above ratios fall within the benchmark ranges set forth in the Insurance Regulatory Information System of the National Association of Insurance Commissioners.

The underwriting ratios presented below are on an earned/incurred basis and encompass the three-year period covered by this examination:

	<u>Amounts</u>	<u>Ratios</u>
Losses and loss adjustment expenses incurred	\$ 967,134,261	66.92%
Other underwriting expenses incurred	543,497,230	37.61
Net underwriting gain	<u>(65,480,012)</u>	<u>(4.53)</u>
Premiums earned	<u>\$1,445,151,479</u>	<u>100.00%</u>

### 3. FINANCIAL STATEMENTS

#### A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2015 as reported by the Company:

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$1,600,679,642	\$20,334,561	\$1,580,345,081
Common Stocks	105,211,114		105,211,114
Mortgage loans on real estate	206,277,214		206,277,214
Cash, cash equivalents and short-term investments	133,416,991		133,416,991
Receivable for securities	25,022,361		25,022,361
Investment income due and accrued	10,038,198	315,238	9,722,960
Uncollected premiums and agents' balances in the course of collection	110,571,192	1,728,508	108,842,684
Deferred premiums, agents' balances and installments booked but deferred and not yet due	490,777,356		490,777,356
Accrued retrospective premiums	16,387,231		16,387,231
Amounts recoverable from reinsurers	107,783,053		107,783,053
Funds held by or deposited with reinsured companies	17,182,940		17,182,940
Current federal and foreign income tax recoverable and interest thereon	2,472,603		2,472,603
Net deferred tax asset	70,055,032	15,584,621	54,470,411
Receivable from parent, subsidiaries and affiliates	2,324,135		2,324,135
Loss funds on deposit	2,070,980		2,070,980
Pools and associations	755,544		755,544
Premiums taxes receivable	282,459		282,459
Summary of remaining aggregate write-ins	<u>61,151</u>	<u>61,151</u>	<u>0</u>
Total assets	<u>\$2,901,369,196</u>	<u>\$38,024,079</u>	<u>\$2,863,345,117</u>

Liabilities, Surplus and Other FundsLiabilities

Losses and loss adjustment expenses	\$1,369,623,105
Reinsurance payable on paid losses and loss adjustment expenses	87,435,210
Commissions payable, contingent commissions and other similar charges	(6,085,467)
Other expenses (excluding taxes, licenses and fees)	1,479,372
Taxes, licenses and fees (excluding federal and foreign income taxes)	1,311,201
Unearned premiums	374,228,212
Advance premium	420
Ceded reinsurance premiums payable (net of ceding commissions)	89,529,286
Funds held by company under reinsurance treaties	35,386,177
Amounts withheld or retained by company for account of others	55,467
Remittances and items not allocated	5,978,024
Provision for reinsurance	11,323,000
Payable to parent, subsidiaries and affiliates	23,092,819
Payable for securities	2,453,899
Deferred ceding commissions	5,577,555
Other liabilities	593,998
Pools and associations	<u>504,229</u>
Total liabilities	<u>\$2,002,486,507</u>

Surplus and Other Funds

Common capital stock	\$ 5,000,000
Gross paid in and contributed surplus	570,349,476
Unassigned funds (surplus)	<u>285,509,134</u>
Surplus as regards policyholders	<u>860,858,610</u>
Total liabilities, surplus and other funds	<u><u>\$2,863,345,117</u></u>

Note: The Internal Revenue Service has not yet begun to audit tax returns covering tax years 2013 through 2015. The examiner is unaware of any potential exposure of the Company to any tax assessment and no liability has been established herein relative to such contingency.

B. Statement of Income

Net income for the three-year examination period, January 1, 2013 through December 31, 2015 was \$123,157,180 detailed as follows:

Underwriting Income

Premiums earned		\$1,445,151,479
Deductions:		
Losses and loss adjustment expenses incurred	\$967,134,261	
Other underwriting expenses incurred	<u>543,497,230</u>	
Total underwriting deductions		<u>1,510,631,491</u>
Net underwriting loss		\$ (65,480,012)

Investment Income

Net investment income earned	\$133,412,637	
Net realized capital gain	<u>58,202,709</u>	
Net investment gain		191,615,346

Other Income

Net loss from agents' or premium balances charged off	\$ (137,926)	
Aggregate write-ins for miscellaneous income	<u>1,898,998</u>	
Total other income		1,761,072
Net income before federal and foreign income taxes		\$ 127,896,406
Federal and foreign income taxes incurred		<u>4,739,226</u>
Net income		\$ <u>123,157,180</u>

C. Capital and Surplus

Surplus as regards policyholders increased by \$104,056,730 during the three-year examination period January 1, 2013 through December 31, 2015, detailed as follows:

Surplus as regards policyholders per report on examination as of December 31, 2012			\$756,801,880
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income	\$123,157,180		
Net unrealized capital losses		\$1,457,440	
Change in net unrealized foreign exchange capital loss		11,538,798	
Change in net deferred income tax		7,684,273	
Change in non-admitted assets		91,445	
Change in provision for reinsurance	8,687,000		
Cumulative effect of changes in account principles	1,984,506		
Surplus adjustments paid in	20,000,000		
Dividends to stockholder		29,000,000	
Total gains and losses	<u>\$153,828,686</u>	<u>\$49,771,956</u>	
Net increase in surplus			<u>104,056,730</u>
Surplus as regards policyholders per report on examination as of December 31, 2015			<u>\$860,858,610</u>

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of \$1,369,623,105 is the same as reported by the Company as of December 31, 2015. The examination analysis of the Loss and loss adjustment expense reserves was conducted in accordance with generally accepted actuarial principles and statutory accounting principles, including the NAIC Accounting Practices & Procedures Manual, Statement of Statutory Accounting Principle No. 55 (“SSAP No. 55”).

## **5. SUBSEQUENT EVENTS**

There were no significant subsequent events for this Company. The Company's December 31, 2016 reported surplus of \$896,247,313 was \$35,388,703 greater than the \$860,858,610 reported in this examination report. This increase was primarily driven by the \$17,223,246 in net income reported in 2016.

In addition, the Company recorded a \$20,334,561 nonadmitted asset in its 2015 annual statement, based on its interpretation of a New York statutory requirement related to investment amounts over certain investment limitations, as specified under Section 1404(b) of the New York Insurance Law. Subsequent to this filing, it was determined that such adjustment was not required since the Company had adequate reserve investments under Section 1404(a) of the said law. The amount was determined to be immaterial and was reported as an increase to Unassigned funds (surplus) in 2016 in the amount of \$13,217,465 (net of a deferred tax asset of \$7,117,096) in accordance with SSAP No.3 "*Accounting Changes and Correction of Errors*".

It is also noted that the Company reported, in its 2016 annual statement, a one year positive development on its loss and loss adjustment expense reserves of \$44,722,000.

## **6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION**

The prior report on examination contains no comments or recommendations.

## **7. SUMMARY OF COMMENTS AND RECOMMENDATIONS**

This report contains no comments or recommendations.

Respectfully submitted,

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Adebola Awofeso,  
Senior Insurance Examiner

STATE OF NEW YORK    )  
  )ss:  
COUNTY OF NEW YORK )

ADEBOLA AWOFESO, being duly sworn, deposes and says that the foregoing report, subscribed by him, is true to the best of his knowledge and belief.

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Adebola Awofeso

Subscribed and sworn to before me

this \_\_\_\_\_ day of \_\_\_\_\_, 2017.

*APPOINTMENT NO. 31398*

*NEW YORK STATE*  
**DEPARTMENT OF FINANCIAL SERVICES**

I, SHIRIN EMAMI, Acting Superintendent of Financial Services of the State of New York, pursuant to the provisions of the Financial Services Law and the Insurance Law, do hereby appoint:

*Adebola Awofeso*

*as a proper person to examine the affairs of the*

*Axis Reinsurance Company*

*and to make a report to me in writing of the condition of said*

**COMPANY**

*with such other information as he shall deem requisite.*

*In Witness Whereof, I have hereunto subscribed by name  
and affixed the official Seal of the Department  
at the City of New York*

*this 29th day of December, 2015*

*Shirin Emami  
Acting Superintendent of Financial Services*

By:



*Rolf Kaumann  
Deputy Chief Examiner*

