

REPORT ON EXAMINATION

OF THE

ENDURANCE REINSURANCE CORPORATION OF AMERICA

AS OF

DECEMBER 31, 2003

DATE OF REPORT

AUGUST 20, 2004

EXAMINER

JOSEPH REVERS

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STATE OF NEW YORK
INSURANCE DEPARTMENT
25 BEAVER STREET
NEW YORK, NEW YORK 10004

August 20, 2004

Honorable Gregory V. Serio
Superintendent of Insurance
Albany, New York 12257

Sir:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 22156 dated March 9, 2004 attached hereto, I have made an examination into the condition and affairs of Endurance Reinsurance Corporation of America as of December 31, 2003, and submit the following report thereon.

The examination was conducted at the Company's administrative offices located at 333 Westchester Avenue, White Plains, NY 10604.

Wherever the designations "the Company" or "Endurance" appear herein without qualification, they should be understood to indicate Endurance Reinsurance Corporation of America.

Wherever the term "Department" appears herein without qualification, it should be understood to mean the New York Insurance Department.

1. SCOPE OF EXAMINATION

This is the first financial examination of the Company after the examination on organization, which was conducted as of December 6, 2002. This examination covered the period from December 9, 2002 through December 31, 2003. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

The examination comprised a complete verification of assets and liabilities as of December 31, 2003. The examination included a review of income, disbursements and company records deemed necessary to accomplish such analysis or verification and utilized, to the extent considered appropriate, work performed by the Company's independent public accountants. A review or audit was also made of the following items as called for in the Examiners Handbook of the National Association of Insurance Commissioners:

- History of Company
- Management and control
- Corporate records
- Fidelity bond and other insurance
- Territory and plan of operation
- Growth of Company
- Business in force by states
- Loss experience
- Reinsurance
- Accounts and records
- Financial statements

2. DESCRIPTION OF COMPANY

Endurance was incorporated under the laws of the State of New York on September 5, 2002. The Company commenced writing business in 2003.

Capital paid in is \$5,000,000 consisting of 5,000,000 shares of \$1 par value per share common stock. Gross paid in and contributed surplus is \$466,000,000. Gross paid in and contributed surplus increased by \$135,000,000 during the examination period, as follows:

<u>Year</u>	<u>Description</u>	<u>Amount</u>
2002	Beginning gross paid in and contributed surplus	\$331,000,000
2003	Surplus contribution	<u>135,000,000</u>
2003	Ending gross paid in and contributed surplus	<u>\$466,000,000</u>

A. Management

Pursuant to the Endurance Reinsurance Corporation of America's charter and by-laws, management of the Company is vested in a board of directors consisting of not less than thirteen nor more than twenty-one directors. As of the examination date, the board of directors was comprised of the following seventeen members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
William Ronald Babcock Annandale, NJ	Chief Financial Officer & Treasurer, Endurance Reinsurance Corporation of America; Treasurer, Endurance U.S. Holdings Corp.
Thomas David Bell Washington Crossing, PA	President, Endurance Specialty Insurance Ltd.
David Vincent Cabral Paget, PG02 Bermuda	Executive Vice President, Casualty Insurance Underwriting Practice Leader
Emily A. Canelo Upper Montclair, NJ	Executive Vice President, Secretary, General Counsel, Endurance Reinsurance Corporation of America; Secretary, Endurance U.S. Holdings Corp.
Steven Walter Carlsen Chappaqua, NY	President, Endurance Services Limited & Endurance US Holdings Corp.; Chairman, Endurance Reinsurance Corporation of America.

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
David Somers Cash Southampton, SB 04 Bermuda	Chief Risk Officer and Chief Actuary, Endurance Specialty Insurance Ltd.
Joan deLemps Mt. Vernon, NY	Senior Vice President, Senior Casualty Underwriting Manager, Endurance Reinsurance Corporation of America
James Gerard D'Onofrio Armonk, NY	Senior Vice President, Territorial Underwriting Manager, Endurance Reinsurance Corporation of America
Steve Dresner Simsbury, CT	Executive Vice President, Territorial Underwriting Manager, Endurance Reinsurance Corporation of America
William Manning Jewett Rumson, NJ	President, Endurance Reinsurance Corporation of America
Edward T. Kenney, Jr. Simsbury, CT	Executive Vice President, Property Home Office Referral Underwriter, Endurance Reinsurance Corporation of America
Ronald Harry Koch Rockville Centre, NY	Executive Vice President, Northeast Branch Manager, Endurance Reinsurance Corporation of America
James Randy Kroner New York, NY	Chief Financial Officer, Endurance Specialty Insurance Ltd. & Endurance Specialty Holdings Ltd.; Executive Vice President, Endurance U.S. Holdings Corp.
Kenneth John LeStrange Short Hills, NJ	President, Chairman, and Chief Executive Officer, Endurance Specialty Insurance Ltd. & Endurance Specialty Holdings Ltd.; Chairman, Endurance U.S. Holdings Corp., Endurance Worldwide Holdings Ltd. & Endurance Worldwide Insurance Ltd.
Marcia Emily Munn Katonah, NY	Senior Vice President, Territorial Underwriting Manager, Endurance Reinsurance Corporation of America
Larry Roger Sorensen Forest, IL	Senior Vice President, Business Development Officer, Endurance Reinsurance Corporation of America
Anthony Mark Urban Chappaqua, NY	Executive Vice President, Chief Underwriting Officer, Endurance Reinsurance Corporation of America

A review of the minutes of the board of directors' meetings held during the examination period indicated that the meetings were generally well attended. However, it was noted that three of the directors, Thomas David Bell, David Vincent Cabral and David Somers Cash, did not attend any of the meetings that they were eligible to attend during 2003.

Members of the board have a fiduciary responsibility and must evince an ongoing interest in the affairs of the insurer. It is essential that board members attend meetings consistently and set forth their views on relevant matters so that the board may reach appropriate decisions. Individuals who fail to attend at least one-half of the regular meetings do not fulfill such criteria. It is recommended that the directors who are unable or unwilling to consistently attend the meetings resign or be replaced.

As of December 31, 2003, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
William Manning Jewett	President
Emily A Canelo	Secretary
William Ronald Babcock	Treasurer

B. Territory and Plan of Operation

As of December 31, 2003, the Company was licensed to write business in New York, accredited in forty-two states and the District of Columbia.

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 damage
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
26	Gap
27	Prize indemnification
28	Service contract reimbursement

In addition, the Company is licensed to transact such workers' compensation insurance as may be incident 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, 69th Congress, as amended; 33 USC Section 901 et. seq. as amended) and as authorized by Section 4102(c), insurance of every kind or description outside the United States and reinsurance of every kind or description.

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 Company's business is comprised of two major operating segments; property and casualty lines. The Company's underwriting focus is in broker produced short-tailed and long-tailed lines, including property per risk, property/catastrophe reinsurance, casualty treaty reinsurance, casualty individual risk and specialty lines. In addition, the Company assumed the majority of the in-force of and the renewal rights to the reinsurance business of Hartford Re.

C. Reinsurance

Assumed

As a professional reinsurer, all of the Company's business is assumed reinsurance. The quota share retrocession agreement with Hartford Re represented 57% of the total business assumed in 2003.

Ceded

The Schedule F data as contained in the Company's filed annual statements was found to accurately reflect its reinsurance transactions.

The examiner reviewed all ceded reinsurance contracts in effect at December 31, 2003. The contracts all contained the required standard clauses including insolvency clauses meeting the requirements of Section 1308 of the New York Insurance Law. However, the arbitration clause in the quota share agreement with Endurance Specialty Insurance Limited failed to state that the arbitration should take place in New York and be governed by New York Law. It is, therefore, recommended that any arbitration clause as part of a reinsurance agreement state that arbitration shall take place in New York under the New York Law.

The Company had the following ceded reinsurance program in effect at December 31, 2003:

<u>Type of treaty</u>	<u>Cession</u>
<u>Property / Casualty:</u>	
Quota share 100% Unauthorized	50% of each and every risk.
Quota share 100% Unauthorized	11.1112% ceded to Gulf States Insurance Co. of the Republic Underwriters business.
<u>Stop Loss</u>	
100% Unauthorized	100% of the amount by which the Company's net retained losses and loss adjustment expenses exceed 87.5% of its net earned premiums earned, subject to an aggregate of 40% of Company's net earned premiums.

All major retrocessions are done with Endurance Specialty Insurance Ltd., the ultimate parent of the Company. A review of the correspondence between the Company and the Department indicated that reinsurance agreements between the Company and its affiliates were submitted to the Department for review, and these agreements were approved.

Unauthorized Reinsurance

The trust agreements and letters of credit obtained by the Company in order to take credit for cessions made to unauthorized reinsurers were reviewed for compliance with Department Regulations 114 and 133, respectively. No exceptions were noted.

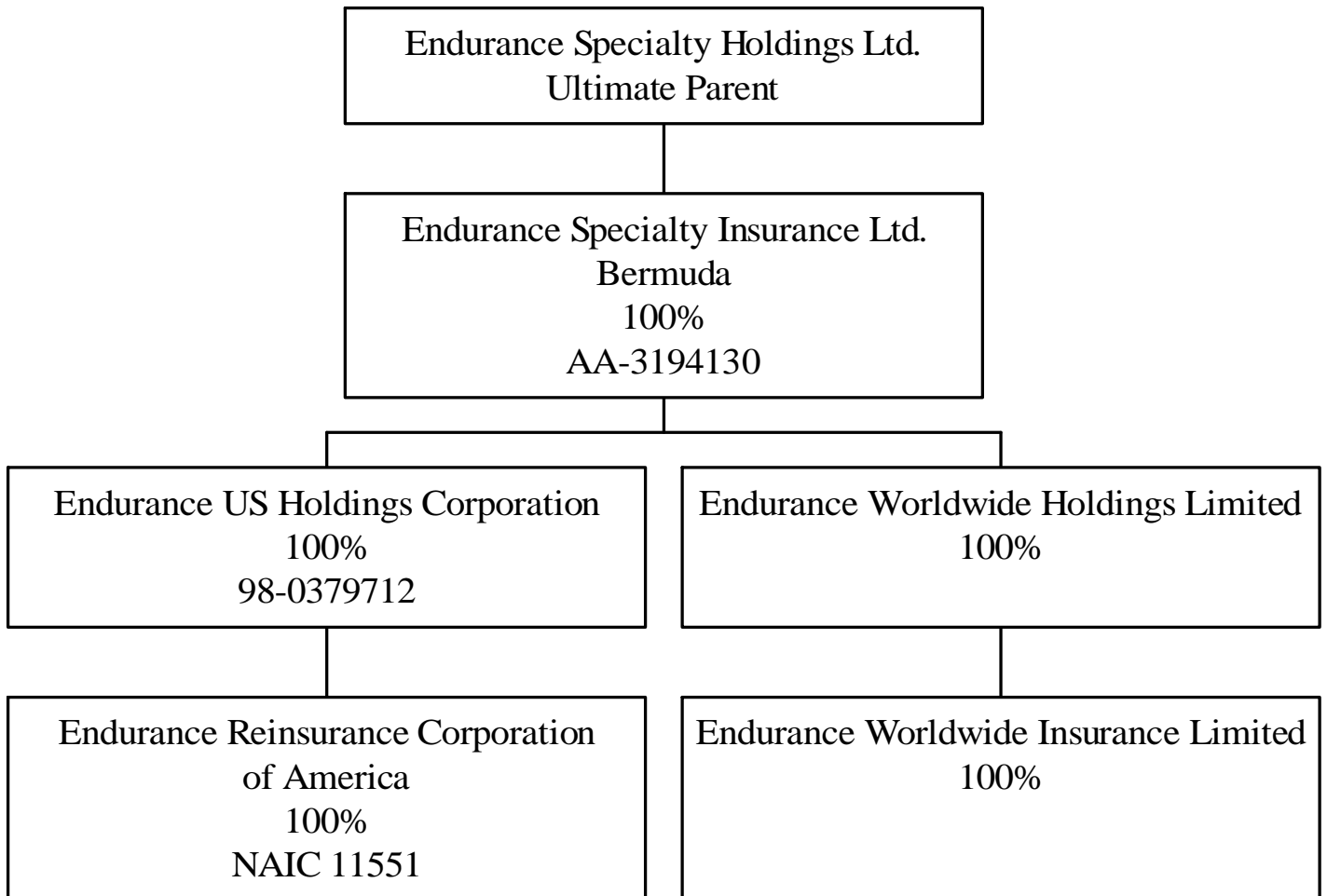
D. Holding Company System

The Company is a member of the Endurance Group. The Company is a wholly-owned subsidiary of Endurance U.S. Holdings Corporation, a Delaware corporation, which is wholly-owned by Endurance

Specialty Insurance Ltd., a Bermuda insurance company. Endurance Specialty Holdings Ltd., a Bermuda corporation, is the ultimate parent of the aforementioned companies.

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 a chart of the holding company system at December 31, 2003:



At December 31, 2003, the Company was party to the following agreements with other members of its holding company system:

Tax Allocation Agreement

The Company participates in a tax allocation agreement with its immediate parent, Endurance U.S. Holdings Corporation. The agreement was non-disapproved by the Department on November 13, 2002. In conjunction with the tax sharing agreement, an escrow agreement was also established as required under the Department's Circular Letter No. 33 (1979).

Upon review, it was determined that the agreement is in compliance with the minimum guidelines set forth in the New York Department's Circular Letter No. 33 (1979).

Technology Services Agreement

The Company participates in a technology services agreement with its intermediate parent, Endurance Specialty Insurance, Ltd. ("ESI"), a Bermuda corporation. The agreement's effective date was January 1, 2003. However, the agreement was submitted to the Department on November 18, 2003 and its implementation was not objected to on November 25, 2003. The agreement provides that ESI will comply with all business contingency and continuity plans, to ensure that the services are provided with a reasonable degree of continuity in the event of any circumstances causing material disruption to normal business.

The inter-company agreements were submitted to the Department for review and were approved.

Service Agreements

At December 31, 2003, the Company had several balances receivable or payable for shared services with affiliated parties for which the Company was unable to provide the service agreement in place. It is recommended that the Company have a service agreement in place with all affiliates that it transacts business with in order to disclose the nature of the inter-company transactions and to support the reasonableness of the charges between the parties in accordance with Section 1505(b) of the New York Insurance Law.

E. Abandoned Property Law

Section 1316 of the New York State Abandoned Property Law provides that amounts payable to a resident of this state from a policy of insurance, if unclaimed for three years, shall be deemed to be abandoned property. Such abandoned property shall be reported to the comptroller on or before the first day of April each year.

At the examiner's recommendation, the Company filed its first abandoned property report for the period of this examination on August 4, 2004. Such filing is required of all insurers regardless of whether or not they have any abandoned property to report.

F. Significant Operating Ratios

The following ratios have been computed as of December 31, 2003, based upon the results of this examination:

Net premiums written in 2003 to surplus as regards policyholders	107%
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	50%
Premiums in course of collection to surplus as regards policyholders	16%

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 part incurred basis and encompass the one year period covered by this examination:

	<u>Amounts</u>	<u>Ratios</u>
Losses and loss adjustment expenses incurred	\$152,773,755	68.76%
Other underwriting expenses incurred	164,182,728	73.89
Net underwriting gain (loss)	<u>(94,769,680)</u>	<u>(42.65)</u>
Premiums earned	<u>\$222,186,803</u>	<u>100.00%</u>

G. Accounts and Records

The “Annual Statement Instructions Property/Casualty” published by the “National Association of Insurance Commissioners” require that insurers segregate and report reinsurance payable on paid loss adjustment expenses amounts as a liability on the balance sheet of the annual statement. Endurance offsets its reinsurance payable on paid loss and loss adjustment expenses balances against its uncollected premiums. It is recommended that reinsurance payable on paid

losses and loss adjustment expenses be properly segregated and disclosed in the annual statement in accordance with the NAIC instructions.

3. FINANCIAL STATEMENTS

A Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as determined by this examination as of December 31, 2003 and as reported by the Company:

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$582,292,722	\$	\$582,292,722
Cash and short-term investments	19,907,717		19,907,717
Investment income due and accrued	4,690,947		4,690,947
Uncollected premiums and agents' balances in the course of collection	65,144,447		65,144,447
Deferred premiums, agents' balances and installments booked but deferred and not yet due	249,070,445		249,070,445
Reinsurance: Amounts recoverable from reinsurers	9,523,822		9,523,822
Current federal and foreign income taxes recoverable and interest thereon	19,688		19,688
Net deferred tax asset	31,006,997	17,290,184	13,716,813
Electronic data processing equipment and software	1,328,190	198,366	1,129,824
Furniture and equipment, including health care delivery assets	1,041,585	1,041,585	
Other assets non-admitted	2,134,367	2,134,367	
Aggregate write-ins for other than invested assets	<u>1,145,487</u>	<u>1,145,487</u>	<u>0</u>
Total Assets	<u>\$967,306,414</u>	<u>\$21,809,989</u>	<u>\$945,496,425</u>

Liabilities, Surplus and Other FundsLiabilities

Losses		\$118,369,772
Loss adjustment expenses		6,866,639
Commissions payable, contingent commissions and other similar charges		(111,388)
Other expenses (excluding taxes, licenses and fees)		17,614,256
Unearned premiums (after deducting unearned premiums for ceded reinsurance of \$202,770,349 and including warranty reserves of \$0)		201,501,497
Ceded reinsurance premiums payable (net of ceding commissions)		202,734,946
Payable to parent, subsidiaries and affiliates		2,545,131
Aggregate write-ins for liabilities		<u>9,524</u>
Total liabilities		\$549,530,377

Surplus and Other Funds

Common capital stock	\$ 5,000,000	
Gross paid in and contributed surplus	466,000,000	
Unassigned funds (surplus)	<u>(75,033,952)</u>	
Surplus as regards policyholders		<u>395,966,048</u>
Total liabilities, surplus and other funds		<u>\$945,496,425</u>

Note: The Internal Revenue Service has not yet audited the income tax returns covering tax years 2002 and 2003. 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. Underwriting and Investment Exhibit

Surplus as regards policyholders increased \$60,296,253 during the examination period December 6, 2002 through December 31, 2003, detailed as follows:

Underwriting Income

Premiums earned		\$222,186,803
Deductions:		
Losses incurred	\$142,724,858	
Loss adjustment expenses incurred	10,048,897	
Other underwriting expenses incurred	<u>164,182,728</u>	
Total underwriting deductions		<u>316,956,483</u>
Net underwriting gain or (loss)		\$(94,769,680)

Investment Income

Net investment income earned	\$10,967,918	
Net realized capital gains	<u>(434,779)</u>	
Net investment gain or (loss)		<u>\$10,533,139</u>
Net income after dividends to policyholders and before federal and foreign income taxes		\$(84,236,541)
Federal and foreign income taxes incurred		<u>(5,581)</u>
Net income		<u>\$(84,230,960)</u>

Capital and Surplus Account

Surplus as regards policyholders per report on examination as of December 6, 2002			\$335,669,795
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income		\$84,230,960	
Change in net deferred income tax	\$31,006,997		
Change in non-admitted assets		21,809,989	
Change in provision for reinsurance			
Change in surplus notes			
Surplus (contributed to) withdrawn from protected cells			
Unassigned funds at organization of Company	330,205		
Capital changes paid in			
Capital changes transferred from surplus (stock dividend)			
Capital changes transferred to surplus			
Surplus adjustments paid in	135,000,000		
Aggregate write-ins for gains and losses in surplus			
Total gains or losses	<u>\$166,337,202</u>	<u>\$106,040,949</u>	
Net increase (decrease) in surplus			<u>60,296,253</u>
Surplus as regards policyholders per report on examination as of December 31, 2003			<u>\$395,966,048</u>

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liabilities for the captioned items of \$118,369,772 and \$6,866,639 are the same amounts as reported by the Company as of December 31, 2003. The examination analysis was conducted in accordance with generally accepted actuarial principles and practices and was based on statistical information contained in the Company's internal records and in its filed annual statements.

5. MARKET CONDUCT ACTIVITIES

The Company is in the reinsurance business only, therefore, it does not have direct contact with policyholders or claimants.

6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report was a report on organization. It contained one recommendation as follows (page number refers to the prior report):

<u>ITEM</u>	<u>PAGE NO.</u>
A <u>Custodial Agreement</u>	
It was recommended that the Company amend the custodial agreement with Bank of New York to comply with the guidelines set forth in the NAIC Examiner's Handbook	7

The Company has complied with this recommendation.

7. **SUMMARY OF COMMENTS AND RECOMMENDATIONS**

<u>ITEM</u>		<u>PAGE NO.</u>
A	<u>Management</u>	
	It is recommended that board members who are unable or unwilling to attend meetings consistently should resign or be replaced.	5
B	<u>Reinsurance</u>	
	It is recommended that any arbitration clause as part of a reinsurance agreement state that arbitration shall take place in New York under New York Law.	7
C	<u>Holding Company System</u>	
	It is recommended that all inter-company agreements with a member of the holding company system be submitted to the Department for approval in accordance with Section 1505(b) of the New York Insurance Law.	11
D	<u>Accounts and Records</u>	
	It is recommended that the Company prepare its annual statement in accordance with the annual statement instructions prescribed or permitted by the NAIC with regard to Reinsurance payable on paid losses and loss adjustments expenses.	12

Appointment No. 22156

**STATE OF NEW YORK
INSURANCE DEPARTMENT**

*I, GREGORY V. SERIO, Superintendent of Insurance of the State of New York,
pursuant to the provisions of the Insurance Law, do hereby appoint:*

Joseph Revers

as proper person to examine into the affairs of the

ENDURANCE REINSURANCE CORPORATION OF AMERICA

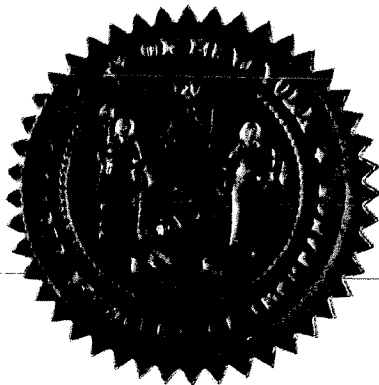
and to make a report to me in writing of the condition of the said

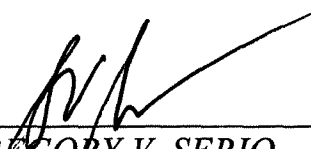
CORPORATION

with such other information as he shall deem requisite.

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

this 9th day of March, 2004





GREGORY V. SERIO
Superintendent of Insurance