

REPORT ON EXAMINATION

OF

XL REINSURANCE AMERICA INC.

AS OF

DECEMBER 31, 2015

DATE OF REPORT

MARCH 29, 2017

EXAMINER

MARY MEANEY, A.F.E.

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NEW YORK STATE  
DEPARTMENT *of*  
FINANCIAL SERVICES

Andrew M. Cuomo  
Governor

Maria T. Vullo  
Superintendent

March 29, 2017

Honorable Maria T. Vullo  
Superintendent  
New York State Department of Financial Services  
New York, New York 10004

Madam:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment 31431 dated February 17, 2016, attached hereto, I have made an examination into the condition and affairs of XL Reinsurance America Inc. as of December 31, 2015, and submit the following report thereon.

Wherever the designations “the Company” or “XLRA” appear herein without qualification, they should be understood to indicate XL Reinsurance America Inc.

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 office located at 100 Washington Boulevard, Stamford, CT 06902.

## 1. SCOPE OF EXAMINATION

The Department has performed a coordinated group examination of the Company, a multi-state insurer. The previous examination was conducted as of December 31, 2010. This examination covered the five year period from January 1, 2011 through December 31, 2015. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

New York is the lead state of the XL America Group. This examination was performed concurrently with the examinations of the following insurers:

XL Insurance Company of New York, Inc. (“XLNY”) – New York  
Greenwich Insurance Company (“GIC”) - Delaware  
Indian Harbor Insurance Company (“IHIC”) - Delaware  
XL Specialty Insurance Company (“XL Specialty”) - Delaware  
XL Insurance America, Inc. (“XLIA”) - Delaware  
XL Select Insurance Company (“XL Select”) - Delaware

Delaware also participated in this examination.

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 current and 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 New York laws, statutory accounting principles, and annual statement instructions.

This examination report includes but is not limited to the following:

- Company history
- Management and control
- Territory and plan of operation
- Holding company review
- Reinsurance
- Loss review and analysis
- Financial statement presentation
- Significant subsequent events
- 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**

The Company was organized as a stock property and casualty company under the laws of New York on May 6, 1929, as the Service Fire Insurance Company of New York. It was licensed and began business in the same year. Effective April 1, 1974, its name was changed to North American Company for Property and Casualty Insurance. Effective February 10, 1989, its name was changed to NAC Reinsurance Corporation. The Company adopted its current title on January 9, 2001.

The Company was controlled by NAC Re Corporation until June 18, 1999, when XL Capital Ltd (“XL Capital”), now known as XLIT Ltd., a Cayman Islands holding company, acquired NAC Re in a pooling of interest stock transaction. On July 1, 2010, XL Group plc, a newly formed Irish public limited company (“XL Group”) and XL Capital completed a re-domestication transaction in which all of the ordinary shares of XL Capital were exchanged for all of the ordinary shares of XL Group. As a result, XL Capital became a wholly-owned subsidiary of XL Group, the ultimate parent of the Company. In addition, on July 1, 2010, XL Capital changed its name to XL Group Ltd., and in November 2011, changed its name to XLIT Ltd.

In the first quarter of 2011, the Company completed the organization of a property and casualty company in China called XL Insurance (China) Company Limited. (“XL China”). The Company has a 51% ownership interest in XL China with its affiliate XL Insurance Company Limited (“XLICL”), now known as XL Insurance SE, a United Kingdom domiciled company, owning the remaining 49%.

On March 19, 2012, the outstanding shares of the Company were contributed to its indirect parent, X.L. America, Inc. (“XLA”) from NAC Re Corporation, which was subsequently dissolved.

On March 28, 2012, XL Capital Investment Partners, Inc., a subsidiary of XLA, reorganized into XL Group Investments LLC. On March 30, 2012, XLA executed a downstream transaction to contribute XL Group Investments LLC to XLRA.

On February 4, 2014, the Company acquired a new subsidiary, Global Ag Insurance Services, LLC, to expand its business into multi-peril crop insurance and named peril policies on behalf of XLRA and its subsidiary insurance companies.

On May 1, 2015, XL Group acquired the Catlin Group Ltd (“Catlin”) for \$4.1 billion. Prior to the acquisition, Catlin was a publically traded company headquartered in Bermuda. The group wrote property, casualty and specialty insurance and reinsurance coverage on a worldwide basis. The acquisition has substantially increased XL Group’s global networks and business platforms, particularly at Lloyd’s where Catlin has the largest underwriting syndicate. The XL Group has been rebranded as “XL Catlin”. On September 28, 2015, XL Group effected an internal reorganization to align the newly acquired insurance operations of Catlin with XL Group's existing operations. As a result of the reorganization, Catlin, LLC (a Delaware Corporation) is now a wholly-owned subsidiary of X.L. America, Inc. Catlin, LLC includes three regulated insurance entities: Catlin Specialty Insurance Company, a Delaware company; Catlin Indemnity Company, also a Delaware company; and Catlin Insurance Company, Inc., a Texas company.

Subsequent to this examination, during 2016, the lead company of the XL Group re-domesticated from Ireland to Bermuda. The current lead company is named XL Group Ltd.

#### A. Corporate Governance

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. The board meets four times during each calendar year. 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>
Steven P. Agosta Rye, NY	Senior Vice President, General Counsel & Secretary, XL Reinsurance America Inc.
Christopher F. Buse Wilton, CT	Senior Vice President, XL Reinsurance America Inc.
Dawn M. Dinkins Congers, NY	Senior Vice President, XL Reinsurance America Inc.
Francis J. Lockwood Shelton, CT	Senior Vice President, XL Reinsurance America Inc.

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
James M. Norris Avon, CT	Vice President, XL Reinsurance America Inc.
Michael J. Tempesta Stamford, CT	Senior Vice President, XL Reinsurance America Inc.
John P. Welch Trumbull, CT	Chairman, President & Chief Executive Officer, XL Reinsurance America Inc.

A review of the minutes of the board of directors' meetings held during the examination period indicated that the meetings were generally well attended and each board member had an acceptable record of attendance.

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

<u>Name</u>	<u>Title</u>
John P. Welch	President, Chairman & Chief Executive Officer
Steven P. Agosta	Senior Vice President, General Counsel & Secretary
Willard E. Potter	Senior Vice President, Treasurer & Chief Financial Officer
Christopher F. Buse	Senior Vice President
Dawn M. Dinkins	Senior Vice President
Joseph S. Horan	Senior Vice President & Chief Operating Officer
Francis J. Lockwood	Senior Vice President
Michael J. Tempesta	Senior Vice President
Andrew R. Will	Vice President & Controller

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
26	Gap
27	Prize indemnification
28	Service contract reimbursement
29	Legal services
30	Involuntary unemployment
31	Salary protection

The Company was also licensed to write special risks pursuant to Article 63 of the New York Insurance Law and is authorized, pursuant to Section 4102(c)(i) and (ii) of the New York Insurance Law, to reinsure risks of every kind or description and insure property or risks of every kind or description located or resident outside of the United States, its territories and possessions. Based upon 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, 41 and 63 of the New York Insurance Law, the Company is required to maintain a minimum surplus to policyholders in the amount of \$35,000,000.

As a reinsurer, the Company is engaged in providing facultative and treaty reinsurance to primary insurers of casualty risks (principally general liability, automobile, aviation and workers' compensation) along with commercial property risks (including fidelity/surety and ocean marine). As a treaty reinsurer, business is produced through brokers, and as a facultative reinsurer, property and casualty business is underwritten directly within the U.S. The Company also writes a small amount of direct business representing less than one percent of the Company's total gross premiums. In addition, the Company is the



leader of the XL America pool under which and according to a pooling agreement (described more fully in section 2C), it assumes 100% of the business written by the other six pool members. About 90% of the Company's assumed business comes from the pool.

The following schedule shows the direct and assumed premiums written by the Company and premiums assumed through the pooling arrangement for the period under examination:

<u>Calendar Year</u>	<u>Direct Premiums</u>	<u>Assumed Premiums from Non-Affiliates</u>	<u>Assumed Premiums from Affiliates</u>	<u>Total Premiums</u>
2011	\$ 28,686,435	\$ 390,959,405	\$ 2,506,565,338	\$2,926,211,178
2012	\$ 23,185,969	\$ 521,969,516	\$ 2,524,967,448	\$3,070,122,933
2013	\$ 23,416,205	\$ 418,665,198	\$ 2,938,027,888	\$3,380,109,291
2014	\$ 20,481,491	\$ 367,758,379	\$ 3,215,349,975	\$3,603,589,845
2015	\$ 18,872,914	\$ 318,029,497	\$ 3,466,087,568	\$3,802,989,979

### C. Reinsurance

#### Inter-Company Pooling Agreement

The Company participates, as pool leader, in an inter-company pooling agreement with various affiliated companies. The original pooling agreement, dated July 1, 1999, has been amended and revised on numerous occasions. Effective December 1, 2013, the agreement was amended to state that the statutory assets and liabilities, excluding cash and invested assets, other investment related activities and certain unrelated items, are subject to gross pooling.

Under the terms of the agreement, 100% of all pool member's gross premium, losses, insurance expenses and other related underwriting activity of the pool members are ceded to XLRA, the pool leader, except for finite reinsurance and primary financial guaranty business. It is to be noted, however, that none of the pool companies wrote finite reinsurance or primary financial guaranty businesses during the period of the examination. The Company then purchases external reinsurance on behalf of itself and its pool members for business that was written by the pool members and XLRA. After placement of the external reinsurance, the Company then reinsures 50% of the pool members business (75% for business written prior to January 1, 2008) with XL Insurance (Bermuda) Ltd ("XLIB") (for further detail, refer to the QS Agreement and Novation Agreement discussed below). The remaining business is then redistributed among the pool members in accordance with their respective pool participation percentage, as shown in this chart:

<u>Company</u>	<u>Pooling % at December 31, 2015</u>
XL Reinsurance America Inc.	65%
Greenwich Insurance Company	12%
XL Insurance America, Inc.	10%
XL Specialty Insurance Company	6%
XL Insurance Company of New York, Inc.	3%
XL Select Insurance Company	2%
Indian Harbor Insurance Company	2%

All ceded reinsurance balances related to external ceded reinsurance contracts are recorded in the statutory financial statements of XLRA, and all reinsurers which are parties to the contracts are reported in XLRA's Schedule F of the Annual Statement. Only XLRA has a contractual right of direct recovery from non-affiliate reinsurers per the terms of the reinsurance agreements placed by XLRA on behalf of itself and its pool members. Any Schedule F penalty is shared by the pool members in accordance with their pool participation percentages.

#### Ceded Reinsurance Program

The Company has structured its ceded reinsurance program into two segments: Insurance and Reinsurance, as follows:

##### Insurance Segment

The Company's ceded reinsurance program for its property business consists of excess of loss and facultative coverage on both per risk and event basis. The property risk and catastrophe program includes coverage on a worldwide basis, some of which excludes the US, as well as coverage which includes the US.

##### General

##### Type of Treaty

##### Cession

Property Per Risk Excess of Loss, 5 Layers	\$970,000,000 excess of \$30,000,000. 1 <sup>st</sup> Layer (90% placed) 2 <sup>nd</sup> Layer (95% placed)
Property – US Catastrophe, 3 Layers	\$550,000,000 excess of \$100,000,000. 1 <sup>st</sup> Layer (90% placed) 2 <sup>nd</sup> Layer (95% placed)

General

<u>Type of Treaty</u>	<u>Cession</u>
Property International Catastrophe, 2 Layers	\$125,000,000 excess of \$75,000,000.
Quarterly Volatility Cover	\$100,000,000 excess of \$85,000,000 (42.5% placed)
Risk Clash Excess of Loss on Inland Marine, Specialty & Property – Loss Occurring Basis	\$70,000,000 excess of \$70,000,000. (71.4286% placed)
US Ocean Inland Marine Excess of Loss – Losses Occurring Basis, 3 layers	\$35,000,000 excess of \$5,000,000.
Engineering Excess of Loss – Losses Occurring Basis	\$20,000,000 excess of \$20,000,000.
Surety Excess of Loss – Losses Occurring Basis 2 Layers	\$50,000,000 excess of \$12,500,000. 1 <sup>st</sup> Layer (87.5% placed) 2 <sup>nd</sup> Layer (100% placed)

Programs

<u>Type of Treaty</u>	<u>Cession</u>
Americas Casualty Quota Share Programs	40% quota share up to \$75,000,000.
Non-Programs	40% quota share up to \$75,000,000.
Product Recall – Risks Attaching Basis	\$5,000,000 excess of \$10,000,000. Max net on \$15,000,000 policy is \$9,000,000 Retention (60%) 1 <sup>st</sup> layer (60% placed)
Select Professional Public Entity Quota Share	30% quota share up to \$10,000,000.
Programs Division Property Catastrophe XOL Coverage A	\$25,000,000 excess of \$25,000,000.
Coverage B	\$15,000,000 excess of \$10,000,000 excess of \$15,000,000; 2 <sup>nd</sup> Event \$10,000,000.
3 Layers	
Top Layer	\$5,000,000 excess of \$50,000,000.
Design, Select and Cyber & Technology Qualified Primary and Excess Quota Share – Risks Attaching Basis	55% quota share, limit \$10,000,000.

Professional

<u>Type of Treaty</u>	<u>Cession</u>
Construction Professional Liability Quota Share – Risks Attaching Basis	50% quota share, limit \$25,000,000.
North American Professional Quota Share – Risks Attaching Basis	50% quota share, limit \$25,000,000.
Professional Select Lawyers Quota Share – Risks Attaching Basis	50% quota share, limit \$5,000,000.

Specialty Lines:*Global Marine and Energy*

<u>Type of Treaty</u>	<u>Cession</u>
Global Marine – Ongoing. 7 Layers, Excluding Gulf of Mexico Wind Energy Paid Losses from 2 <sup>nd</sup> to 6 <sup>th</sup> Layer	\$205,000,000 excess of \$7,500,000.

Aerospace

<u>Type of Treaty</u>	<u>Cession</u>
Aviation Quota Share (Legacy XL business)	100% of 5% quota share. Hull – Limit \$200,000,000 Liability – Limit \$2,000,000,000
Aviation War Excess of Loss (Legacy XL business)	Hull - \$15,000,000 excess of \$10,000,000 Other – Layer 1, \$15,000,000 excess of \$75,000,000. Layer 2, \$25,000,000 excess of \$100,000,000.
General Aviation Risk Excess of Loss (XL Catlin combined)	Hull – \$65,000,000 excess of \$10,000,000 Liability – \$490,000,000 excess of \$10,000,000
Aviation Core Excess of Loss (XL Catlin combined)	\$395,000,000 excess of \$40,000,000.
Aviation Quota Share (XL Catlin combined)	20% quota share on core and general aviation business. Hull – Limit \$75,000,000 Liability – Limit \$750,000,000
Hull War Quota Share (XL Catlin combined)	60% quota share of \$40,000,000.

Space Quota Share (Satellite Launch)	66.5% quota share of any one satellite, any one launch, limit \$40,000,000.
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### Workers Compensation

<u>Type of Treaty</u>	<u>Cession</u>
Workers Compensation Underlying Construction Excess of Loss – Losses Occurring Basis, 2 Layers	\$15,000,000 excess of \$5,000,000. 1 <sup>st</sup> and 2 <sup>nd</sup> layers (75% placed)
Workers Compensation Catastrophe Losses Occurring Basis, 3 Layers (Single Insured Event)	\$260,000,000 excess of \$25,000,000.
Workers Compensation Catastrophe Losses Occurring Basis, 3 Layers (Multiple Insured Event)	\$260,000,000 excess of \$40,000,000.

### Political Risks

<u>Type of Treaty</u>	<u>Cession</u>
Political Risks Trade Receivables QS and XOL – Risks Attaching Basis	QS - 40% quota share, limit \$75,000,000. XOL - 3 layers, \$40,000,000 excess of \$5,000,000.
Political Risks and Credit QS and XOL – Risks Attaching Basis	QS – 25% quota share, limit \$100,000,000. XOL - 5 layers, \$70,000,000 excess of \$5,000,000.
Crisis Management War Terrorism & Political Violence (WTPV) Quota Share - Risks Attaching Basis	25% quota share, limit \$200,000,000.

### Reinsurance Segment

The XL Group has a “Core” Catastrophe program under which XLRA and its Toronto Branch are covered. A description of this coverage is as follows:

<u>Type of Treaty</u>	<u>Cession</u>
Property Catastrophe Excess of Loss	
Layer 1:	
US Wind	50% of \$50,000,000 excess of \$325,000,000.
US EQ	50% of \$50,000,000 excess of \$225,000,000.
	Aggregate recoverable maximum: \$100,000,000.
Layer 2:	
US Wind	50% of Aggregate \$100,000,000 excess of \$200,000,000.
Property Catastrophe Industry Loss Warranty on Natural Perils	Industry loss greater than \$50bn: \$10,000,000 excess of \$10,000. Industry loss greater than \$40bn: \$5,000,000 excess of \$10,000. Industry loss greater than \$30bn: \$7,500,000 excess of \$10,000.
Risk Clash Excess of Loss on Non Marine Risks	\$70,000,000 excess of \$70,000,000.
Property Facultative Per Risk Excess of Loss, 3 Layers	\$65,000,000 excess of \$10,000,000.

The following coverages protect specific primary programs written, assumed or managed by the Company and two of its pool member companies, Greenwich Insurance Company and Indian Harbor Insurance Company:

Type of TreatyCessionAXIS A&H Reinsurance Program:

Insured: XLRA  
5 Layers

First 4 layers - \$8,000,000 excess of  
\$2,000,000.  
Top layer - Unlimited excess of \$10,000,000.

Global Agricultural Program:

Multi-peril Crop Insurance Quota Share  
Insured: XLRA / Greenwich Insurance  
(Covering business as defined and reinsured by  
the Federal Crop Insurance Corporation (FCIC))

13.2% quota share, limit \$25,000,000.

Named Peril Crop Insurance Quota Share  
Insured: XLRA / Greenwich Insurance

60% quota share, limit \$10,000,000.

Multi-peril Crop Insurance Stop Loss  
Insured: XLRA / Greenwich Insurance  
(Covering business as defined and reinsured by  
the Federal Crop Insurance Corporation (FCIC))

Limit \$1,767,788.  
Attachment Point: \$2,946,314.

Named Peril Crop Insurance Stop Loss  
Insured: XLRA / Greenwich Insurance

Limit \$1,767,788 (lesser of \$2,209,735 or 75%  
of net written premium).  
Attachment Point: \$2,357,051 (125% net  
written premium).

Prime Specialty NY Contractors Follow Form  
Excess Casualty Reinsurance  
Insured: XLRA / Indian Harbor

30% quota share, limit \$5,000,000 per  
occurrence.

Third Amended and Restated Quota Share Reinsurance Agreement (“QS Agreement”)

Effective July 1, 2000, the Company entered into a 75% Quota Share Reinsurance Agreement with XL Re Ltd. (“XLRE”), a Bermuda property and casualty insurance company. According to the terms of the quota share agreement, the Company, as pool leader, ceded on a quota share basis 75% of the pool members business to XLRE. Effective September 1, 2006, the Company entered into the Second Amended and Restated Quota Share Reinsurance Agreement, which refined the definition of “Loss Expenses Incurred”, decreased the ceding commission rate, and refined the terms of loss adjustment and claims management expenses. On January 1, 2008, the Company entered into the Third Amended and Restated

Quota Share Reinsurance Agreement, which decreased the quota share percentage to 50%. Effective October 1, 2009, XLIB replaced XLRE on the QS Agreement (see Novation Agreement below).

At December 31, 2015, the Company reported approximately \$4,584 million in reinsurance recoverables from XLIB. The unauthorized portion of this recoverable is fully collateralized by a trust fund. The certified portion is collateralized in the amount required by a trust agreement.

Subsequent to this examination, effective January 1, 2016, the Company entered into a new quota share agreement with Catlin Re Switzerland, Ltd., Bermuda Branch (“CRBB”), a Switzerland domiciled company. The agreement essentially mirrors the terms of the agreement between XLRA and XLIB. The agreement was non-objected to by the Department on January 11, 2016. Effective January 1, 2017, the agreement was amended to increase the amount ceded to CRBB from 50% to 60%. The amendment was non-objected to by the Department on December 28, 2016.

#### Adverse Development Reinsurance Agreement (“ADC Agreement”)

Effective January 1, 2004, the Company entered into an adverse development cover with XLRE, which provided protection on an aggregate excess of loss basis for aggregate adverse development up to \$500 million, net of all other available reinsurance, which occurred during the calendar period January 1, 2004 to December 31, 2005 on XLRA’s pre-pooled net retained reserves held at December 31, 2003 related to losses on policies written or assumed during underwriting years 1985 through 2000. The Company received approval from the Department to treat the ADC Agreement as prospective reinsurance.

#### Substitution and Novation Agreement (“Novation Agreement”)

Effective October 1, 2009, the Company entered into an agreement to transfer by substitution and novation of all past, present and future reinsurance obligations between the Company and XLRE to XLIB. Under this agreement, XLIB assumes all of the obligations of XLRE under both the Third and Amended Restated Quota Share Reinsurance Agreement and the ADC Agreement. This agreement was non-disapproved by the Department per letter dated October 27, 2009.

Exclusive of the businesses ceded under the terms of the QS Agreement, the majority of the business is ceded to authorized and certified reinsurers. 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. As of December 31, 2015, the Company reported



approximately \$571 million in reinsurance recoverables from Munich Reinsurance Company, an unauthorized reinsurer. While this is a substantial recoverable for XLRA, it is fully collateralized by a letter of credit.

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.

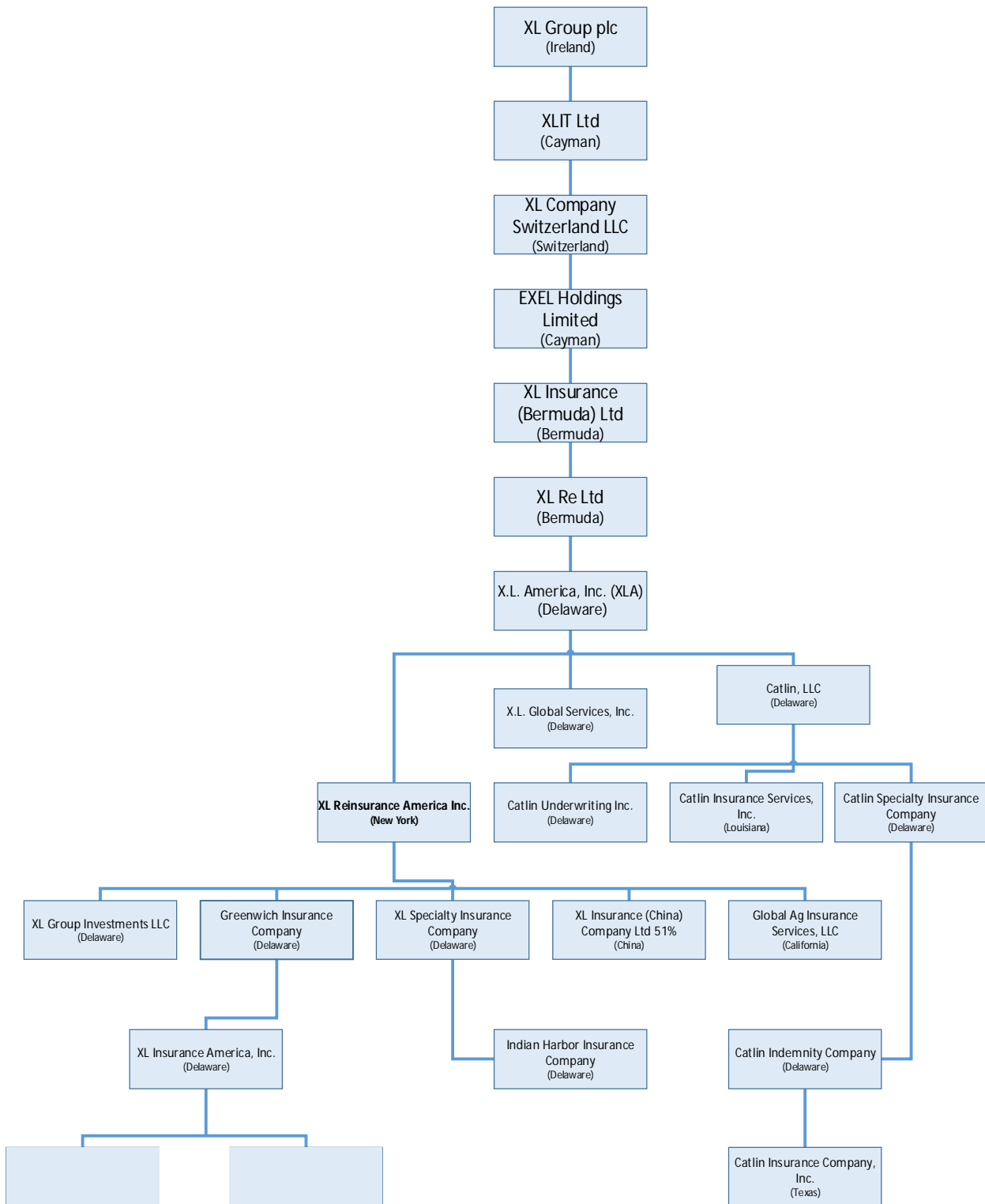
The examination review of Schedule F data reported by the Company in its filed annual statement was found to accurately reflect its reinsurance transactions. Additionally, management has represented that all material ceded reinsurance agreements transfer both underwriting and timing risk as set forth in SSAP No. 62R. 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. The examination review indicated that the Company was not 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. 62R.

D. Holding Company System

As of December 31, 2015, the Company was a member of the XL Group of companies. The Company is a wholly-owned subsidiary of X.L. America, Inc., a Delaware corporation, which is ultimately controlled by XL Group plc.

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:



Note: XL Group, plc re-domesticated to Bermuda in 2016 and changed its name to XL Group Ltd.

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

Expense Allocation Agreements

The Company is a party to various expense allocation agreements with affiliates. The main agreement is the Sixth Amended and Restated General Services Agreement and is effective May 1, 2015. It is between X.L. Global Services, Inc. (“XLGS”) as service provider, and XLA, with various insurance and non-insurance affiliates, including XLRA, and its pool companies. Per the agreement, XLGS is to provide various information technology services, human resource services and miscellaneous services. The Company paid \$173,639,526 to XLGS under this agreement in 2015. The agreement was filed with the Department pursuant to Section 1505 of the New York Insurance Law and was non-disapproved on July 10, 2015.

The Company has two other expense sharing agreements with affiliates in place at the exam date as follows:

<u>Agreement Name</u>	<u>Participants</u>
Seventh Amended and Restated General Services Agreement, effective May 1, 2015.	XLA, the provider and XLRA & various affiliates
Services Agreement, effective July 1, 2004.	XL Financial Solutions LLC, (“XLFS”) the provider, and XLRA.

The above agreements were submitted to the Department as required by Section 1505 of the New York Insurance Law.

Investment Management Agreement

This Agreement is between XL Group Investments Ltd. (“XLGIL”) and XLRA. Under the terms of the Agreement, XLGIL provides investment management, financial advisory and related administrative services to XLRA. XLGIL has the authority, subject to the terms of the Agreement, to act on behalf of XLRA in all such matters, including the power to retain and terminate investment managers, agents and subcontractors pursuant to an agreement substantially in the form of the master investment management agreement appended to this Agreement. This agreement was filed with the Department pursuant to Section 1505 of the New York Insurance Law and was amended four times with the most recent amendment effective as of January 1, 2013, and was non-disapproved on March 12, 2013.

Investment Advisory Agreement

XL Capital Investment Partners Inc. provides on-going due diligence, investment advice and analysis to XLRA. The agreement was effective as of May 1, 2005 and was amended effective January 1, 2007. The Agreement and amendment were filed with the Department pursuant to Section 1505 of the New York Insurance Law, and was non-disapproved on March 28, 2007.

Ninth Amended Tax Sharing and Payment Agreement

This Agreement, with an effective date of May 1, 2015, is between XLA and XLRA and its pool participants, and various insurance and non-insurance affiliates. The agreement was filed with the Department pursuant to Section 1505 of the New York Insurance Law and non-disapproved on July 10, 2015.

E. Significant Ratios

The Company's operating ratios, computed as of December 31, 2015, fall within the benchmark ranges set forth in the Insurance Regulatory Information System of the National Association of Insurance Commissioners as follows:

Net premiums written to surplus as regards policyholders	43%
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	89%
Two-year overall operating ratio	80%

Underwriting Ratios

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

	<u>Amounts</u>	<u>Ratios</u>
Losses and loss adjustment expenses	\$2,880,916,734	70.56%
Other underwriting expenses incurred	1,450,755,285	35.53
Net underwriting loss	<u>(248,916,814)</u>	<u>(6.09)</u>
Premiums earned	<u>\$4,082,755,205</u>	<u>100.00%</u>

The Company's risk based capital score (RBC) was 300% as of December 31, 2015. The RBC is a measure of the minimum amount of capital appropriate for a reporting entity to support its overall business operations in consideration of its size and risk profile. An RBC of 200 or below can result in regulatory action.

### 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	\$3,116,690,275	\$ 0	\$3,116,690,275
Common stocks (stocks)	631,341,338	0	631,341,338
Cash, cash equivalents and short-term investments	266,454,735	0	266,454,735
Other invested assets	257,760,465	17,798,362	239,962,103
Receivables for securities	51,784,388	0	51,784,388
Investment income due and accrued	31,559,343	0	31,559,343
Uncollected premiums and agents' balances in the course of collection	248,815,818	40,769,173	208,046,645
Deferred premiums, agents' balances and installments booked but deferred and not yet due	86,163,719	0	86,163,719
Accrued retrospective premiums	21,439,284	64,660	21,374,624
Amounts recoverable from reinsurers	257,878,246	0	257,878,246
Funds held by or deposited with reinsured companies	142,522,357	0	142,522,357
Other amounts receivable under reinsurance contracts	2,829,935	0	2,829,935
Current federal and foreign income tax recoverable and interest thereon	2,456,496	0	2,456,496
Net deferred tax asset	156,061,395	64,793,842	91,267,553
Guaranty funds receivable or on deposit	449,487	0	449,487
Receivables from parent, subsidiaries and affiliates	112,601,027	2,213,262	110,387,765
Receivable from Federal Crop Insurance Corporation	42,375,731	0	42,375,731
Miscellaneous recoverable	<u>8,928,188</u>	<u>4,776,054</u>	<u>4,152,134</u>
Totals	<u>\$5,438,112,227</u>	<u>\$130,415,353</u>	<u>\$5,307,696,874</u>

Liabilities, Surplus and Other FundsLiabilities

Losses and loss adjustment expenses	\$2,099,471,229
Reinsurance payable on paid losses and loss adjustment expenses	(5,398,900)
Commissions payable, contingent commissions and other similar charges	4,209,851
Other expenses (excluding taxes, licenses and fees)	49,070,005
Taxes, licenses and fees (excluding federal and foreign income taxes)	20,683,225
Unearned premiums	425,793,863
Advance premium	40,273,895
Ceded reinsurance premiums payable (net of ceding commissions)	397,476,068
Funds held by company under reinsurance treaties	134,348,009
Amounts withheld or retained by company for account of others	406,815
Remittances and items not allocated	(191,492,797)
Provision for reinsurance	42,540,018
Payable to parent, subsidiaries and affiliates	212,473,047
Payable for securities	12,428,064
Deferred commission revenue	43,038,581
Deposit liability	<u>748,075</u>
Total liabilities	<u>\$3,286,069,048</u>

Surplus and Other Funds

Common capital stock	\$5,000,000
Gross paid in and contributed surplus	1,869,759,576
Unassigned funds (surplus)	<u>146,868,250</u>
Surplus as regards policyholders	<u>2,021,627,826</u>
Totals	<u>\$5,307,696,874</u>

Note: The Internal Revenue Service is currently conducting audits of the Company's consolidated Federal Income Tax returns for tax years 2013 and 2014. The Internal Revenue Service has not yet begun to audit tax returns covering tax year 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

The net income for the examination period as reported by the Company was \$603,063,277 as detailed below:

### Underwriting Income

Premiums earned		\$4,082,755,205
Deductions:		
Losses and loss adjustment expenses incurred	\$2,880,916,734	
Other underwriting expenses incurred	1,451,124,629	
Aggregate write-ins for underwriting deductions	<u>(369,344)</u>	
Total underwriting deductions		<u>4,331,672,019</u>
Net underwriting gain or (loss)		(248,916,814)

### Investment Income

Net investment income earned	\$ 820,419,584	
Net realized capital gain	<u>54,918,580</u>	
Net investment gain		875,338,164

### Other Income

Net gain or (loss) from agents' or premium balances charged off	\$(6,149,588)	
Aggregate write-ins for miscellaneous income	<u>3,300,353</u>	
Total other income (loss)		<u>(2,849,235)</u>
Net income before federal and foreign income taxes		623,572,115
Federal and foreign income taxes incurred		<u>20,508,838</u>
Net Income		<u>\$603,063,277</u>

C. Capital and Surplus

Surplus as regards policyholders decreased \$252,082,677 during the five year examination period January 1, 2011 through December 31, 2015, detailed as follows:

Surplus as regards policyholders per company as of December 31, 2010			\$2,273,710,503
	<u>Gains in</u>	<u>Losses in</u>	
	<u>Surplus</u>	<u>Surplus</u>	
Net income	\$603,063,277	\$ 0	
Net unrealized capital gains / losses		152,256,940	
Change in net unrealized foreign exchange capital gain / loss		37,462,082	
Change in net deferred income tax	24,154,506		
Change in nonadmitted assets	479,736		
Change in provision for reinsurance	18,434,313		
Cumulative effect of changes in accounting principles		23,729,272	
Surplus adjustments paid in	15,017,014		
Dividends to stockholders		713,408,796	
Miscellaneous gains in surplus	<u>13,625,567</u>	<u>0</u>	
Total gains / losses	\$674,774,413	\$926,857,090	
Net increase (decrease) in surplus			<u>(252,082,677)</u>
Surplus as regards policyholders per company as of December 31, 2015			<u>\$2,021,627,826</u>

No adjustments were made to surplus as a result of this examination.

As of December 31, 2015, capital paid in was \$5,000,000 consisting of 40,000 shares of \$125 par value per share common stock. Gross paid in and contributed surplus was \$1,869,759,576. Gross paid in and contributed surplus increased by \$15,017,014 during the examination period, as follows:



<u>Year</u>	<u>Description</u>	<u>Amount</u>
2010	Beginning gross paid in and contributed surplus	\$1,854,742,562
2011	Surplus paid in	\$2,774,003
2012	Surplus paid in	8,589,458
2013	Surplus paid in	820,299
2014	Surplus paid in	718,478
2015	Surplus paid in	<u>2,114,776</u>
	Total surplus contributions	<u>15,017,014</u>
2015	Ending gross paid in and contributed surplus	<u>\$1,869,759,576</u>

#### **4. LOSSES AND LOSS ADJUSTMENT EXPENSES**

The examination liability for the captioned items of \$2,099,471,229 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**

On February 1, 2016, the Company completed the acquisition of Allied International Holdings, Inc. (“Allied”), pursuant to an agreement reached on August 11, 2015, for a total consideration of \$90.6 million. Allied is the holding company of Allied Specialty Insurance, Inc. and T.H.E. Insurance Company (“THE”), an insurer of the outdoor entertainment industry in the U.S. THE is a property and casualty insurer domiciled in the State of Louisiana.

During 2016, XLRA made three capital contributions to its wholly-owned subsidiary, XL Specialty, totaling \$143,000,000. These contributions were made without the prior approval of the New York

Department of Financial Services. Section 1505(d) and Section 1408(b) of the New York Insurance Law require the prior approval and/or non-objection to the above transaction. It is recommended that the Company comply with these sections of the law in the future and submit all required transactions to the Department for prior approval.

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

The prior report on examination contained no recommendations.

**7. SUMMARY OF COMMENTS AND RECOMMENDATIONS**

<u>ITEM</u>		<u>PAGE NO.</u>
A	<u>Holding Company</u>	
	It is recommended that the Company comply with Section 1505(d) and Section 1408(b) of the New York Insurance Law in the future and submit all required transactions to the Department for prior approval.	24

Respectfully submitted,

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Mary Meaney, AFE  
Principal Insurance Examiner

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

Mary Meaney, being duly sworn, deposes and says that the foregoing report, subscribed by her, is true to the best of her knowledge and belief.

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Mary Meaney

Subscribed and sworn to before me

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

**APPOINTMENT NO. 31431**

**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:

**Mary Meaney**

as a proper person to examine the affairs of the

**XL Reinsurance America, Inc.**

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

**COMPANY**

with such other information as she 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 17th day of February, 2016

Shirin Emami  
Acting Superintendent of Financial Services

By:



Rolf Kaumann  
Deputy Chief Examiner

