

**REPORT ON EXAMINATION
OF
HUDSON INSURANCE COMPANY
AS OF
DECEMBER 31, 2019**

Office of the
Commissioner



Delaware
Department of Insurance

REPORT ON EXAMINATION
OF
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The above-captioned report was completed by examiners of the Delaware Department of Insurance.

Consideration has been duly given to the comments, conclusions and recommendations of the examiners regarding the status of the company as reflected in the report.

This report is hereby accepted, adopted and filed as an official record of this Department.

Handwritten signature of Trinidad Navarro in blue ink.

Trinidad Navarro
Insurance Commissioner

Dated this 5th day of April, 2021

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February 11, 2021

Honorable Trinidad Navarro
Commissioner of Insurance
Delaware Department of Insurance
1351 West North Street
Suite 101
Dover, Delaware 19904

Dear Commissioner:

In compliance with instructions and pursuant to statutory provisions contained in Exam Authority No. 20.008, dated November 20, 2019, an examination has been made of the affairs, financial condition and management of

HUDSON INSURANCE COMPANY

hereinafter referred to as the Company or HIC and incorporated under the laws of the State of Delaware as a stock company with its registered office located at 1209 Orange Street, Wilmington, Delaware. Due to the COVID-19 Pandemic, the examination was conducted offsite. The administrative office of the Company is located at 100 William Street, 5th Floor, New York, New York, 10038. The report of examination thereon is respectfully submitted.

SCOPE OF EXAMINATION

The Delaware Department of Insurance (Department) performed a risk-focused financial examination of the Company. The previous regulatory examination of the Company covered the three-year period from January 1, 2011 through December 31, 2014. This examination will cover the five-year period from January 1, 2015 through December 31, 2019, and encompasses a general review of transactions during the period, the Company's

business policies and practices, as well as management and relevant corporate matters, with a determination of the financial condition of the Company as of December 31, 2019. Transactions subsequent to the examination date were reviewed where deemed necessary.

The examination of the Company was performed as part of the multi-state coordinated examination of the Fairfax Group of regulated United States (U.S.) property and casualty insurance companies (Fairfax U.S. Group) as of December 31, 2019. Delaware is the lead state for the Fairfax U.S. Group examination. The examination was conducted concurrently with that of the Company's U.S. affiliates. The Companies in the Fairfax U.S. Group and their state of domicile are summarized as follows by subgroups:

Hudson Subgroup – 100% owned by Odyssey Re Subgroup below:

<u>Company Name</u>	<u>NAIC Number</u>	<u>State of Domicile</u>
Hudson Insurance Co	25054	DE
Hudson Excess Insurance Co	14484	DE
Hudson Specialty Insurance Co	37079	NY

Odyssey Re Subgroup:

<u>Company Name</u>	<u>NAIC Number</u>	<u>State of Domicile</u>
Greystone Insurance Co	10019	CT
Odyssey Reinsurance Co	23680	CT

Crum & Forster Subgroup:

<u>Company Name</u>	<u>NAIC Number</u>	<u>State of Domicile</u>
United States Fire Ins Co	21113	DE
Crum & Forster Specialty Ins Co	44520	DE
North River Insurance Co	21105	NJ
First Mercury Ins Co	10657	DE
Crum & Foster Ind. Co	31348	DE
Seneca Ins Co Inc.	10936	NY
Seneca Specialty Ins Co.	10729	DE
Crum & Forster Ins Co	42471	NJ
American Underwriters Ins Co	10251	AK
MTAW Insurance Co	16498	DE

Zenith Subgroup:

<u>Company Name</u>	<u>NAIC Number</u>	<u>State of Domicile</u>
Zenith Insurance Co	13269	CA
ZNat Insurance Co	30120	CA

Allied World Subgroup ¹:

<u>Company Name</u>	<u>NAIC Number</u>	<u>State of Domicile</u>
Allied World Natl Assur Co	10690	NH
Allied World Assur Co US Inc.	19489	DE
Allied World Surplus Lines Ins Co	24319	AK
Allied World Specialty Ins Co	16624	DE
Allied World Ins Co	22730	NH
Vantapro Specialty Ins Co	44768	AK
Vault Recip. Exch. FL NY	16186	FL
Vault E&S Ins Co	16237	AK

Riverstone Subgroup ²:

<u>Company Name</u>	<u>NAIC Number</u>	<u>State of Domicile</u>
Commonwealth Insurance Co of America	10220	DE
TIG Insurance Co	25534	CA

We conducted our examination in accordance with the *National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook (Handbook)* and generally accepted statutory insurance examination standards consistent with the Insurance Code and Regulations of the State of Delaware. The NAIC Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the company, and evaluate system controls and procedures used to mitigate those risks. An examination also includes

¹ Fairfax Financial Holdings Limited and Allied World Assurance Company Holdings, Ltd recently announced, in a November 12, 2020 press release, that they have, through their subsidiaries, entered into an agreement to sell their majority interest in Vault Reciprocal Exchange and Vault E&S Insurance. The transaction is expected to close during the first quarter of 2021.

² TIG Insurance Company sold Commonwealth Insurance Company of America to Brit Insurance USA Holdings Inc. (affiliate), effective April 30, 2018.

identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles.

The examination does not attest to the fair presentation of the financial statements included herein. If during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements.

This examination report includes significant findings of fact, pursuant to the General Corporation Law of the State of Delaware as required by 18 *Del. C.* § 321, along with general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature, are not included within the examination report but separately communicated to other regulators and/or the Company.

During the course of this examination, consideration was given to work performed by the Company's external accounting firm PricewaterhouseCoopers LLC (PwC). Certain auditor work papers of the 2019 PwC audit of the Company have been incorporated into the work papers of the examiners and have been utilized in determining the scope, areas of emphasis in conducting the examination, and in the area of risk mitigation and substantive testing.

SUMMARY OF SIGNIFICANT FINDINGS

There were no significant findings or material changes in financial statements as a result of this examination.

COMPANY HISTORY

Fairfax (US) Inc. (Fairfax), a Delaware corporation, purchased the Company along with Clearwater Insurance Company (CIC), its immediate parent, on May 31, 1996. The ultimate parent of Fairfax is Fairfax Financial Holdings Limited (Fairfax Holdings), a Canadian financial services company.

As of December 31, 2010, Hudson was 100% owned by CIC, an insurance company domiciled in the State of Delaware. CIC was 100% owned by Odyssey America Reinsurance Corporation (OARC), a Connecticut domiciled corporation, which was 100% owned by Odyssey Re Holdings Corporation (ORH), which was owned ultimately 100% by Fairfax Holdings. On January 1, 2011, OARC changed its name to Odyssey Reinsurance Company (ORC). Also, on January 1, 2011, ORH transferred ownership of CIC to TIG Insurance Group, Inc. (TIG), which is a Fairfax subsidiary and shareholder of ORH, in exchange for 5,921 shares of ORH common stock held by TIG. As a result of this transaction the Company was directly owned by ORC.

In the fourth quarter of 2014, Fairfax Holdings re-organized and aligned ownership of ORH, ORC's 100% direct parent, under a newly-formed, single intermediate holding company named Odyssey US Holdings Inc. (OUSHI). OUSHI, a Delaware corporation, is 100% owned by Fairfax, which is ultimately 100% owned by Fairfax Holdings.

Capitalization

The Company is authorized to issue 25,000 shares of common stock with a par value of \$300 per share. At December 31, 2019, all 25,000 shares of the common stock are issued and held by ORC. The Company is also authorized to issue 25,000 shares of preferred stock with a par value of \$0.01 per share. At December 31, 2019, 23,807 shares of the preferred stock were issued and held by TIG.

Dividends

<u>Stock</u>	<u>Type</u>	<u>Amount</u>	<u>Paid Date</u>
Preferred	Ordinary	\$ 1,309,385	October 20, 2015
Common	Ordinary	<u>42,700,000</u>	December 7, 2015
Total Dividends Paid in 2015		<u>\$44,009,385</u>	
Preferred	Ordinary	\$ 1,309,385	October 20, 2016
Common	Ordinary	<u>40,000,000</u>	December 17, 2016
Total Dividends Paid in 2016		<u>\$41,309,385</u>	
Preferred	Ordinary	\$ 1,309,385	October 20, 2017
Common	Ordinary	<u>44,000,000</u>	December 21, 2017
Total Dividends Paid in 2017		<u>\$45,309,385</u>	
Preferred	Ordinary	\$ 1,309,385	December 21, 2018
Common	Ordinary	<u>30,000,000</u>	December 21, 2018
Total Dividends Paid in 2018		<u>\$31,309,385</u>	
Preferred	Ordinary	<u>\$1,309,385</u>	October 21, 2019
Total Dividends Paid in 2019		<u>\$1,309,385</u>	

MANAGEMENT AND CONTROL

Directors

Pursuant to the general Corporation Laws of the State of Delaware, as implemented by the Company's Certificate of Incorporation and bylaws, all corporate powers and its business property and affairs are managed by, or under the direction, of its Board of Directors (Board).

Directors shall be elected annually by the sole shareholder and the number of directors who will constitute the entire Board, shall consist of no less than three (3) and no more than

nine (9) members. The directors shall hold office until the next Annual Shareholders Meeting or until their successors are elected or appointed.

Directors

The Board duly elected in accordance with the Company's bylaws and serving as of December 31, 2019, were as follows:

<u>Name</u>	<u>Title</u>
Christopher Liam Gallagher	President and CEO, Chairman Hudson Insurance Group
Michael Gerard Wacek	Executive Vice President & Chief Risk Officer - ORH
Jan Christiansen	Executive Vice President & Chief Financial Officer - ORH.

Officers

In accordance with its bylaws, officers serving the Company shall be a Chairman of the Board, a President, one or more Vice Presidents (as determined by the Board), a Controller, a Corporate Secretary, and other officers as may from time to time be appointed by the Board. The Vice Presidents may include Executive Vice Presidents and Senior Vice Presidents. Any two or more offices may be held by the same person, except that the President and the General Counsel cannot be the same person. The most senior officers, duly appointed in accordance with the bylaws and serving at December 31, 2019, are as follows:

<u>Name</u>	<u>Title</u>
Christopher Liam Gallagher	President & Chief Executive Officer
Dina Georgia Daskalakis	Senior Vice President & General Counsel
Keith Michael Brennan	Controller
Alane Robinson Carey	Executive Vice President
Jan Christiansen	Executive Vice President

Elizabeth Ann Sander	Executive Vice President & Chief Actuary
Francis Dennis Cerasoli	Senior Vice President
Michael Paul Cifone	Senior Vice President
James Joseph Danbrowney	Senior Vice President
Matthew Joseph Deneen	Senior Vice President
James Timothy Donovan	Senior Vice President
Daniel James Gasser	Senior Vice President
Christopher Homewood	Senior Vice President
Ronald Oltman Honken	Senior Vice President
Trevor Alexander Howard	Senior Vice President
Margaret Mary Catherine Kileen	Senior Vice President
Peter Hamilton Lovell	Senior Vice President
Joseph Silverio Perez	Senior Vice President
Jeffrey Mark Rubin	Senior Vice President
William Frederick Schmidt	Senior Vice President
Leslie Weihrich Shore	Senior Vice President

Committees of the Board

Hudson has not elected any committees, with the exception of the designation of the audit committee of OGH. During 2010, the Company designated the Audit Committee of OGH as its Audit Committee and sent notification to the Department on December 22, 2010.

Corporate Records

The recorded minutes of the shareholder and Board were reviewed for the period under examination. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions and events including approval of investment transactions in accordance with 18 *Del. C.* §1304. In addition, the review of Company files indicated that written correspondence was submitted to the Department with regards to the changes in officers and directors during the period under examination in compliance with 18 *Del. C.* §4919.

Insurance Holding Company System

The Company is a member of an Insurance Holding Company system known as Fairfax Holdings as defined under *18 Del. C. §5001* of the Delaware Insurance Code. The ultimate controlling entity of the Fairfax Group is Fairfax Holdings, a publicly listed company whose subordinate voting shares trade on the Toronto Stock Exchange under the symbol FFH. As of December 31, 2019, Fairfax Holdings had consolidated assets of \$70.5 billion and shareholders' equity of \$17.907 billion. *18 Del. C. §5001(3)* states that “. . .Control shall be presumed to exist if any person, directly or indirectly, owns, controls, holds with the power to vote, or holds proxies representing 10 percent or more of the voting securities of any other person.” Pursuant to this presumption, Prem Watsa and The Watsa Family Trust, which collectively owned or controlled 10% or more of the voting shares of the Company as of the examination date, are also considered controlling entities of the Company.

A partial organizational chart of Fairfax Holdings as of December 31, 2019, with domicile in brackets, along with the control percentages of the upstream affiliates' control of the downstream affiliate is presented below:

		Equity Ownership Percentage	Voting Control Percentage	
V. Prem Watsa and the Watsa Family Trust {1}{8}	{2}	6.73 %	42.49%	{3}
All Other Publicly Traded Shares Held {4}	{5}	93.27%	57.51%	{6}
Fairfax Financial Holdings Limited [Canada] (FFH) {7}		100.0%	100.0%	
FFHL Group Ltd. [Canada]		100.0%	100.0%	
Fairfax (US) Inc. [DE]*		93.98%	93.98%	
Odyssey US Holdings, Inc. [DE]		100.0%	100.0%	
Odyssey Group Holdings, Inc. [DE]		100.0%	100.0%	
Odyssey Reinsurance Company [CT]		100.0%	100.0%	
Hudson Insurance Company [DE]		100.0%	100.0%	
Hudson Crop Insurance Services, Inc.		100.0%	100.0%	
Napa River Insurance Services, Inc.		100.0%	100.0%	

Hudson Insurance Company

Pacific Surety Insurance Agency,	100.0%	100.0%
Hudson Insurance Services Inc [British Columbia]	100.0%	100.0%
Hudson Specialty Insurance Company	100.0%	100.0%
Hudson Excess Insurance Company [DE]	100.0%	100.0%

As of December 31, 2019, unless otherwise indicated

* *Fairfax Financial Holdings Limited directly owns 6.02% of Fairfax (US) Inc. and indirectly owns the remaining 93.98% through FFHL Group Ltd.*

Notes 1 through 8 more fully describe the ownership and voting percentages throughout the holding company.

- {1} Through voting and economic ownership control, both directly and indirectly, of the following individual and entities: Mr. V. Prem Watsa, 2771489 Canada Limited, The One Zero Nine Holdco Limited and The Sixty Two Investment Company Limited
- {2} Calculated as follows:

Description	Shares Outstanding	Shares Owned/Controlled	Percentage of total shares outstanding
Total SVS Shares outstanding	26,082,299		
SVS Shares owned personally and through 1109 HoldCo		258,790	0.9922%
Additional SVS shares under control and direction		2,100	0.0081%
SVS Shares held through Sixty Two HoldCo		50,620	0.1941%
Total SVS shares owned/controlled		311,510	1.1943%
Total MVS Shares Outstanding	<u>1,548,000</u>		
Total MVS + SVS Shares Outstanding	<u>27,630,299</u>		
MVS Shares owned and controlled through Sixty Two Holdco		<u>1,548,000</u>	100%

**Total MVS + SVS Shares
owned and controlled by Mr.
Watsa**

1,859,510 6.73%

- {3} Calculated as 0.58% through V. Prem Watsa and 41.91% through ownership in the three entities as described above. It should be noted that pursuant to Canadian securities filing requirements, 2100 subordinate voting shares owned by immediate family members of Mr. Watsa are also considered to be under the control and/or direction of Mr. Watsa and are therefore included in the voting control percentages reported herein.
- {4} No other individual or entity owns or controls greater than 10% of the voting common shares of FFH as of December 31, 2019.
- {5} Calculated as 100.00% - 6.73% {2}
- {6} Calculated as 100.00% - 42.49% {3}
- {7} FFH common shares are publicly-traded on the Toronto Stock Exchange in Canadian dollars under the symbol FFH and in US dollars under the symbol FFH.U. At December 31, 2019, FFH has issued 1,548,000 multiple voting common shares, 26,082,299 subordinate voting common shares, 58,239,178 non-voting preferred Series C thru M. FFH's equity attributable to Shareholders at December 31, 2019, totals \$14,378.1 million (\$ U.S.) which consists of \$13,042.6 million (includes \$3.8 million of multiple voting shares) related to voting common shares (90.71% of the total) and \$1,335.5 million related to non-voting preferred shares (9.29% of the total).
- {8} During the second quarter of 2020, Mr. V. Prem Watsa purchased an additional 482,600 subordinate voting common shares through 12002574 Canada Inc., which is wholly owned by him, with the result that the total aggregate voting control increased from 42.49% to 43.61% as at June 30, 2020.

Agreements with Affiliates

Expense Sharing Agreement

Effective January 1, 2000, the Company entered into an Expense Sharing Agreement with Fairfax, ORC, CIC, and CSIC, with one amendment since inception. Each party to the agreement is to make the following services available to the other parties: management, consulting, underwriting, claims, accounting, financial, legal, personnel, data processing services, to be used at times and in amounts determined necessary and appropriate by the managing officers of each company. Each party provides quarterly detailed statements to each company to which it provided services during the quarter. This agreement was approved by the Department.

Tax Allocation Agreement

Effective January 1, 2000, the Company entered into a Tax Allocation Agreement with Fairfax, ORH, ORC, CSIC, and HSIC, with four amendments since inception. The Company and its U.S. affiliates file a consolidated U.S. federal income tax return in accordance with Section 1501 of the U.S. Internal Revenue Code of 1986 (as amended). Each company's tax liability is calculated based upon its respective share of consolidated income. The agreement further provides that each member receive reimbursement to the extent that its losses and other credits resulted in a reduction of the current year's consolidated tax liability, not to exceed its liability as if filed on an individual basis. This agreement was approved by the Department on January 2, 2001.

Tax and Compliance Services Agreement

Effective January 1, 2002, the Company entered into a Tax and Compliance Services Agreement with Fairfax. Fairfax provides tax compliance and consulting services to ORH and its five operating subsidiaries. The fees paid by each company are payable quarterly and include a total fixed base fee and a variable fee component that includes third party outside fees incurred on behalf of ORH and its subsidiaries. This agreement was approved by the Department on October 17, 2001.

Investment Manager Agreement

Effective January 1, 2003, the Company entered into an Investment Manager Agreement with Hamblin Watsa Investment Counsel, Ltd. (Hamblin Watsa) and Fairfax Holdings. Hamblin Watsa manages the Company's investment portfolio in accordance with investment objectives communicated in writing by Company management, subject to investment guidelines in compliance with the investment limitation statutes of the State of Delaware. In addition, Fairfax Holdings provides investment administrative services to the

Company under guidelines established by the Board or authorized committee of the Board.

This agreement was approved by the Department on March 23, 2005.

Service and Management Agreement

Effective October 3, 2003, the Company entered into a Service and Management Agreement with American Safety Casualty Insurance Company (ASCIS) and American Safety Indemnity Company (ASIC). The Company provides management services to ASCIS and ASIC with respect to the insurance policies renewed under the renewal rights agreement. This agreement was approved by the Department on October 30, 2013.

Revolving Line of Credit Agreement

Effective September 16, 2014, the Company entered into a Revolving Line of Credit Agreement (Line of Credit) with ORC. The purpose of this agreement is to principally fund the short-term needs under the crop insurance program each September and October. The Line of Credit may not exceed \$50 million at any time and shall bear interest at the mid-term applicable federal rate prescribed by the Internal Revenue Service for the month in which the agreement is executed. The line of credit will terminate when a demand for termination is made by ORC. This agreement was approved by the Department on September 22, 2014.

Master Administrative Services Agreement

Effective November 1, 2014, the Company entered into a Master Administrative Services Agreement among various U.S. operating subsidiaries of Fairfax Holdings. Each party to the agreement may provide certain administrative services to any other party. Each party provides quarterly detailed statements to each company to which it provided services during the quarter. This agreement was approved by the Department on August 19, 2014.

TERRITORY AND PLAN OF OPERATION

Territory

At December 31, 2019, the Company has certificates of authority to write business in all 50 U.S. States, the District of Columbia, Puerto Rico, and the U.S. Virgin Islands and qualifies as an acceptable surety and/or reinsurer on Federal bonds.

During 2019, the Company wrote 80% of its direct business in the following jurisdictions states and other alien territories: Native American business produced on their own land (51%), California (10.6%), Tennessee (5%), Florida (3%), Texas (8%), and Illinois (3%).

Plan of Operation

The Company writes property and casualty products on a direct and program basis. Its direct business is underwritten by employed underwriters with employees responsible for marketing, policy issuance, premium collection and billing. The Company's direct business was produced by brokers and appointed agents. The Company provides coverage to farmers in several states for multiple peril, crop hail, and other named peril exposures. The Company also provides directors' and officers' liability, personal liability, property, and medical malpractice insurance in limited states.

The Company's program business was written through specialized agents and managing general agents. These contracted agents write business that meets the underwriting guidelines on the Company's paper. Claims and claims management of the Company were managed through third party administrators, claims administrators and Company personnel who specialize in the business managed.

During 2019, the Company had direct written premiums (DWP) through three of their largest programs in the amount of \$762,488,767, which represents 60% of the \$1,306,047,531 total direct and assumed premiums, as follows:

<u>Program</u>	<u>Premiums</u>	<u>Percentage</u>
Crop MPC	\$518,674,772	41%
Alliant Insurance Services	\$157,563,461	12%
Commercial Automobile Excess SIR	\$ 86,250,534	7%
Total	\$762,488,767	60%

DWP in 2019 by line of business (top 5) were as follows:

<u>Lines of Business</u>	<u>Premiums</u>	<u>Percentage of Total</u>
Allied Lines	\$ 543,785,231	43%
Other Liability - Occurrence	303,071,697	24%
Other Liability - Claims Made	122,960,604	10%
Commercial Auto Liability	143,722,229	11%
Surety	65,016,013	5%
All Others	99,878,560	8%
Total	\$ 1,278,434,334	100%

REINSURANCE

General

HIC reported the following distribution of net premiums written for 2019:

Direct	\$ 1,278,434,334
Reinsurance assumed from affiliates	11,708,236
Reinsurance assumed from non-affiliated	15,904,961
Total Gross	\$ 1,306,047,531
Reinsurance ceded to affiliates	\$ 758,228,191
Reinsurance ceded to affiliates to non-affiliated	241,165,713
Total Ceded	\$ 999,393,904
Net Premiums Written	\$ 306,653,627

HIC retained 23.48% of its gross business in 2019.

Assumed

In 2019 HIC assumed business from affiliates as follows:

<u>HIC Assumed Premiums</u>	<u>From Affiliates</u>	<u>% of Total</u>
Crum & Forster Indemnity Co	\$ 875,000	7%
Crum & Forster Insurance Co	7,364,000	63%
Odyssey Reinsurance Company	2,805,000	24%
Lloyd's SYND# 2987 BRT	<u>664,000</u>	<u>6%</u>
Total Assumed	<u>\$ 11,708,000</u>	<u>100%</u>

Ceded

External Ceded

The Company purchases excess of loss reinsurance on the majority of its business from external non-affiliated reinsurers. The average retention for the Company is \$2 million. The panel of reinsurers is approved by ORC's security committee. The Company has also purchased a contingency excess of loss cover that inures to the benefit of any underlying reinsurance.

Internal Ceded

As of December 31, 2019, the Company had only one significant affiliated retrocessional agreement covering the general book of business. The Company ceded \$758.2 million to affiliates in 2019, of which \$747.8 million was ceded to its affiliate, ORC, pursuant to the 70% Net Line Quota Share Reinsurance Agreement which was effective January 1, 2008, and amended effective January 1, 2009. This agreement and amendment were approved by the Department on December 7, 2007, and December 8, 2008, respectively. Under this agreement, the Company cedes to ORC, a 70% quota share of any business written or renewed on or after the effective date, net of all reinsurance protections ceded to third

party reinsurers. ORC has agreed to participate on certain of HIC's HEIC's and HSIC's external reinsurance placements, ORC then retrocedes 100% to CRC Reinsurance Limited, an affiliated Barbados reinsurer that is 100% owned by Fairfax Holdings. This retrocession arrangement is referred to as the Fairfax Internal Reinsurance Vehicle (FIRV). HIC ceded \$8.4 million in written premiums to ORC in 2019 pursuant to this arrangement.

FINANCIAL STATEMENTS

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

- Statement of Assets as of December 31, 2019
- Statement of Liabilities and Surplus as of December 31, 2019
- Statement of Income for the year ended December 31, 2019
- Statement of Capital and Surplus Account for the year ended December 31, 2019
- Reconciliation of Capital and Surplus for the Period December 31, 2015 to December 31, 2019

HUDSON INSURANCE COMPANY
STATEMENT OF ASSETS
AS OF DECEMBER 31, 2019

	Ledger Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$ 345,619,567	\$ -	\$ 345,619,567
Preferred Stock	-	-	-
Common Stock	257,579,303	2,719,838	254,859,465
Cash	38,383,839	-	38,383,839
Cash equivalents	20,172,553	-	20,172,553
Short Term Investments	52,782,044	-	52,782,044
Derivatives	-	-	-
Other Invested Assets	23,310,322	-	23,310,322
Receivables for securities	-	-	-
Subtotals, cash and invested assets	<u>\$ 737,847,628</u>	<u>\$ 2,719,838</u>	<u>\$ 735,127,790</u>
Investment income due and accrued	2,334,922	-	2,334,922
Uncollected premiums and agents' balances	67,284,761	4,324,569	62,960,192
Deferred premiums	69,030,331	774,530	68,255,801
Amounts recoverable from reinsurers	356,648,283	-	356,648,283
Net deferred tax asset	19,641,267	3,288,853	16,352,414
Electronic data processing equipment	4,923,158	4,207,077	716,081
Furniture and equipment	541,052	541,052	-
Receivables from parent; subsidiaries and affiliates	447,633	-	447,633
Aggregate write-ins for other than invested assets	<u>388,513,729</u>	<u>14,492,496</u>	<u>374,021,233</u>
Total Assets	<u><u>\$ 1,647,212,764</u></u>	<u><u>\$ 30,348,415</u></u>	<u><u>\$ 1,616,864,349</u></u>

HUDSON INSURANCE COMPANY
STATEMENT OF LIABILITIES AND SURPLUS
AS OF DECEMBER 31, 2019

	<u>2019</u>	<u>Note</u>
Losses	\$ 232,135,659	1
Reinsurance payable on paid losses and loss adjustment expenses	-	
Loss adjustment expenses	27,181,246	1
Commissions payable	22,657,806	
Other expenses (excluding taxes; licenses and fees)	27,548,056	
Taxes, licenses, and fees (excluding federal and foreign income tax)	3,884,074	
Current federal and foreign income taxes	1,928,207	
Unearned premiums	113,141,748	
Advance Premium	1,679,491	
Dividends declared and unpaid: Policyholders	-	
Ceded reinsurance premiums payable (net of ceding commissions)	605,079,295	
Funds held by company under reinsurance treaties	1,260,534	
Amounts withheld or retained by company for account of others	71,629,387	
Remittances and items not allocated	-	
Provision for reinsurance (Including \$5,692 certified)	3,245,000	
Drafts outstanding	15,110,744	
Payable to parent; subsidiaries and affiliates	4,826,344	
Derivatives	-	
Payable for securities	-	
Aggregate write-ins for liabilities	8,403,383	
Total liabilities excluding protected cell liabilities	<u>1,139,710,974</u>	
Total liabilities	<u>\$ 1,139,710,974</u>	
Aggregate write-ins for special surplus funds	-	
Common capital stock	\$ 7,500,000	
Preferred capital stock	238	
Gross paid in and contributed surplus	293,480,097	
Unassigned funds (surplus)	<u>176,173,040</u>	
Surplus as regards policyholders	<u>\$ 477,153,375</u>	
Totals of liabilities & surplus	<u><u>\$ 1,616,864,349</u></u>	

HUDSON INSURANCE COMPANY
STATEMENT OF INCOME
AS OF 31, 2019

Underwriting Income	<u>2019</u>
Premiums earned	\$ 279,751,062
Deductions	
Losses incurred	180,060,609
Loss adjustment expenses incurred	37,997,376
Other underwriting expenses incurred	42,991,213
Total underwriting deductions	<u>\$ 261,049,198</u>
Net underwriting gain (loss)	<u>\$ 18,701,864</u>
Investment Income	
Net investment income earned	\$ 13,278,655
Net realized capital gains (losses)	3,794,978
Net investment gain (loss)	<u>\$ 17,073,633</u>
Other Income	
Net gain (loss) from agents' or premium balances charged off	\$ -
Finance and service charges not included in premium	-
Aggregate write-ins for miscellaneous income	(2,933,457)
Total other income	<u>\$ (2,933,457)</u>
Net income before dividends to policyholders; after capital gains tax and before all other federal and foreign income taxes	32,842,040
Dividends to policyholders	-
Net income; after dividends to policyholders; after capital gains tax and before all other federal and foreign income taxes	<u>\$ 32,842,040</u>
Federal and foreign income taxes incurred	7,916,992
Net Income	<u><u>\$ 24,925,048</u></u>

**HUDSON INSURANCE COMPANY
CAPITAL & SURPLUS ACCOUNT
AS OF DECEMBER 31, 2019**

	<u>2019</u>
Surplus as regards to policyholders; December 31, 2018	\$ 441,493,145
Net income	24,925,048
Change in net unrealized capital gains (losses)	13,251,142
Change in net unrealized foreign exchange capital gain (loss)	(298,160)
Change in net deferred income tax	1,076,623
Change in nonadmitted assets	(1,985,038)
Change in provision for reinsurance	-
Surplus adjustment: Paid in	-
Transferred to Capital (Stock Dividend)	-
Dividends to stockholders	(1,309,385)
Aggregate write-ins for gains and losses in surplus	-
Net change in capital and surplus for the year	<u>35,660,230</u>
Capital and surplus; December 31, 2019	<u>\$ 477,153,375</u>

HUDSON INSURANCE COMPANY
RECONCILIATION OF CAPITAL AND SURPLUS
As of December 31, 2015 to December 31, 2019

	Common Capital Stock	Preferred Stock	Gross Paid-in and Contributed Surplus	Unassigned Surplus		Total
12/31/2015	7,500,000	238	293,480,097	200,897,114	(1)	501,877,449
12/31/2015	-	-	-	(44,009,385)	(2)	(44,009,385)
12/31/2016	-	-	-	36,598,604	(1)	36,598,604
12/31/2016	-	-	-	(41,309,385)	(2)	(41,309,385)
12/31/2017	-	-	-	20,535,900	(1)	20,535,900
12/31/2017	-	-	-	(45,309,385)	(2)	(45,309,385)
12/31/2018	-	-	-	44,418,731	(1)	44,418,731
12/31/2018	-	-	-	(31,309,385)	(2)	(31,309,385)
12/31/2019	-	-	-	36,969,615	(1)	36,969,615
12/31/2019	-	-	-	(1,309,385)	(2)	(1,309,385)
	<u>\$ 7,500,000</u>	<u>\$ 238</u>	<u>\$ 293,480,097</u>	<u>\$ 176,173,040</u>		<u>\$ 477,153,375</u>

(1) Represents net income, change in unrealized capital gains/(losses), change in net unrealized foreign exchange capital gain, change in net deferred income tax, change in non-admitted assets, change in provision for reinsurance.

(2) Dividends to stockholders

**ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS RESULTING FROM
THE EXAMINATION**

There were no changes made to the Financial Statements as a result of this Examination.

COMMENTS ON FINANCIAL STATEMENT ITEMS

Note 1:

<u>Losses</u>	<u>\$232,135,659</u>
<u>Loss Adjustment Expenses</u>	<u>\$27,181,246</u>

The examination liabilities for the aforementioned captioned items are the same as those balances reported by the Company as of December 31, 2019. The examination analysis of Loss and Loss Adjustment Expense reserves was conducted in accordance with Statutory

Accounting Principles, including NAIC *Accounting Practices and Procedures Manual*, SSAP No. 55.

SUBSEQUENT EVENTS

On March 11, 2020, the World Health Organization declared COVID-19 a pandemic, and national, state and local governments have implemented a range of policies and actions to combat it. The extent of the impact of COVID-19 on world economies and the Company will depend on future developments, which are highly uncertain and difficult to predict, including the severity and duration of the pandemic, and the actions taken by government authorities and other third parties to contain or address its impact. Various government officials, including U.S. state insurance commissioners, have taken actions to protect consumers from hardship caused by COVID-19 that, in the aggregate, may adversely impact the Company's results of operations in the near term. While it is likely that certain lines of business may experience increased loss activity due to COVID-19, there are also segments in which the Company operates that may benefit from improved loss experience due to reduced exposures. Company Management will continue to monitor developments, and their impacts on the Company including its operations, capital position (including the risk-based capital ratio), the fair value of investments, and estimates reported in the financial statements and accompanying notes.

The Company and FFHL do not directly consider a pandemic event in their regular stress testing, the potential credit and market price fluctuation risks arising from COVID-19 crisis are captured in regular stress testing conducted, both at the Fairfax level and subsidiary group level (including the Odyssey Group and the Hudson companies) and the performance of Fairfax's subsidiaries investment portfolios since the start of the crisis falls within expectations. With nearly \$10 billion of cash and short-term investments held across its

insurance portfolios at year end 2019, FFHL believes it has ample liquidity to withstand a prolonged economic slowdown.

At the date of this report, the extent and severity of the COVID-19 pandemic is not yet fully clarified by the Odyssey and Hudson subgroups, but they do not expect a material adverse effect on any specific lines of business or products and the Company was fully operational and was providing services to its policyholders.

The Department has been in communication with the Company regarding the impact of COVID-19 on its business operations and financial position and continues to closely monitor any impact on the Company and will take necessary action if a solvency concern arises.

There were no other material subsequent events noted.

COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS

There were no recommendations contained in the prior examination report issued by the Department as of December 31, 2014.

SUMMARY OF RECOMMENDATIONS

There were no recommendations as a result of this examination.

CONCLUSION

The assistance and cooperation of the consulting actuarial firm, INS Consultants, Inc., the consulting information systems specialist firm, INS Services, Inc., the consulting investment specialist, Rutter Associates LLC, the Company's outside audit firm, PwC, and the Company's management and staff was appreciated and is acknowledged.

Respectfully submitted,



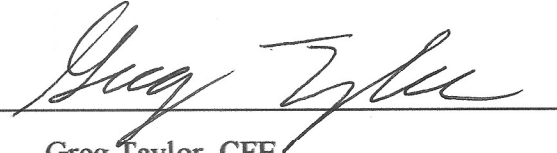
Greg Taylor, CFE
Examiner In-Charge
State of Delaware



Anthony Cardone, CPA, CFE
Supervising Examiner
State of Delaware

Hudson Insurance Company

I, Greg Taylor, hereby verify and attest, under penalty of perjury, that the above is a true and correct copy of the examination report and findings submitted to the Delaware Department of Insurance pursuant to examination authority 20.008.



Greg Taylor, CFE