

REPORT ON EXAMINATION
OF
EVEREST NATIONAL INSURANCE COMPANY
AS OF
DECEMBER 31, 2020

TRINIDAD NAVARRO
COMMISSIONER



STATE OF DELAWARE
DEPARTMENT OF INSURANCE

REPORT ON EXAMINATION
OF
EVEREST NATIONAL INSURANCE COMPANY
AS OF
DECEMBER 31, 2020

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.

Trinidad Navarro
Insurance Commissioner

Dated this 23rd day of June, 2022

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May 25, 2022

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 Examination Certification No. 21.027, dated February 22, 2021, an examination has been made of the affairs, financial condition and management of

EVEREST NATIONAL INSURANCE COMPANY

hereinafter referred to as the Company or ENIC. The Company was incorporated under the laws of the State of Delaware as a stock company with its home office located at 251 Little Falls Drive, Wilmington, Delaware. The administrative office of the Company is located at 100 Everest Way, Warren Corporate Center, Warren, New Jersey. The report of examination thereon is respectfully submitted.

SCOPE OF EXAMINATION

We have performed our examination of the Company. The last examination was conducted as of December 31, 2015 by the Delaware Department of Insurance (Department). This examination covered the period of January 1, 2016 through December 31, 2020. Our examination

was performed as part of the multi-state coordinated examination of the Everest Group of regulated entities wherein Delaware is the lead state. The examination was conducted concurrently with that of the Company's Delaware domiciled affiliates, Everest Reinsurance Company (ERC), Everest Indemnity Insurance Company, Everest Premier Insurance Company (EPIC), Everest Denali Insurance Company (EDIC) and the Company's Georgia domiciled affiliate, Everest Security Insurance Company. To the fullest extent, the efforts, resources, project material and findings were coordinated and made available to all examination participants.

We conducted our examination in accordance with the *National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook* (Handbook) and generally accepted statutory insurance examination standards consistent with the Insurance Code and Regulations of the State of Delaware. The NAIC Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements.

This examination report includes significant findings of fact pursuant to the General Corporation Laws 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 2020 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

On November 12, 1985, under the laws of the state of Arizona, the Company was incorporated as Dryden Guaranty Insurance Company (Dryden), a wholly owned stock property and casualty insurance subsidiary of PRUCO, Inc., which was a wholly owned subsidiary of The Prudential Insurance Company of America (Prudential), the ultimate parent in the holding company system at that time. As Dryden, the Company received its first Certificate of Authority and commenced business on December 31, 1985. On June 13, 1991, the Company's name was changed to Prudential National Insurance Company.

Effective October 6, 1995, as a result of an initial public offering of Prudential Reinsurance Holdings, Inc., the Company ceased to be a member of the Prudential insurance holding company system. The Company was subsequently acquired by Everest Re Group, Ltd. (ERG), a Bermuda company, and effective June 17, 1996, the Company's current name was adopted. With the

approval of the Arizona and Delaware Departments of Insurance, the Company re-domesticated from Arizona to Delaware effective November 30, 2005.

Capitalization

The Company is authorized to issue 200,000 shares of common capital stock with a par value of \$50 per share. Currently, 100,000 common shares are issued and held by ERC, resulting in common capital stock of \$5,000,000. The Company's gross paid in and contributed surplus increased \$4,143,545 during the examination period from \$122,362,088 to \$126,505,634 as a result of paid in surplus each year of the examination period.

Dividends to Stockholder

On December 14, 2016, the Company's Board of Directors (Board) declared an extraordinary dividend in the amount of \$20 million to be paid to ERC, its sole stockholder, on or before January 31, 2017. The Company notified the Department of the dividend on December 15, 2016, which was approved. Subsequently, on January 17, 2017, the Company paid a \$20 million dividend to ERC, in compliance with 18 *Del. C.* § 5005(b).

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. The bylaws provide that the Company's Board shall consist of a minimum of seven directors. The number of directors shall not be subject to any maximum and shall be fixed from time to time either by the Board or the stockholders. As of December 31, 2020, the members of the Board together with their principal business affiliations were as follows:

<u>Name</u>	<u>Title</u>
Brian D. Drum	Senior Vice President
Mark Kociancic #	Executive Vice President
Dana Lodge	Chief Financial Officer
Sanjoy Mukherjee	Executive Vice President, Secretary and General Counsel
Michael G. Harnett	Senior Vice President
Michael T. Mulray	Chief Operating Officer and Chief Underwriting Officer

New in 2020

It was observed that the Company was not in compliance with its bylaws regarding the Board consisting of a minimum of seven directors. As of December 31, 2020, the Company reported five directors, instead of a minimum of seven, as stated in its bylaws.

Therefore,

It is recommended that the Company comply with its bylaws and have the Board consist of a minimum of seven directors or amend the bylaws.

Officers

The bylaws of the Company state the principal officers shall be a President, one or more Vice Presidents, a Treasurer, a Comptroller, a Corporate Secretary and such additional officers as it may from time to time be decided by a resolution adopted by a Board majority. The Board may also designate such number of Executive Senior Vice Presidents as may be deemed appropriate. As of December 31, 2020, the Company's principal officers and their respective titles were as follows:

<u>Name</u>	<u>Title</u>
Mike Karmilowicz #	President
Mark Kocianic #	Executive Vice President and Treasurer
Dana Lodge	Chief Financial Officer
Sanjoy Mukherjee	Executive Vice President, Secretary and General Counsel
Keith T. Shoemaker	Senior Vice President and Comptroller
Ellen J. Edmonds	Senior Vice President and Actuary
Brian D. Drum	Senior Vice President, Underwriting

New in 2020

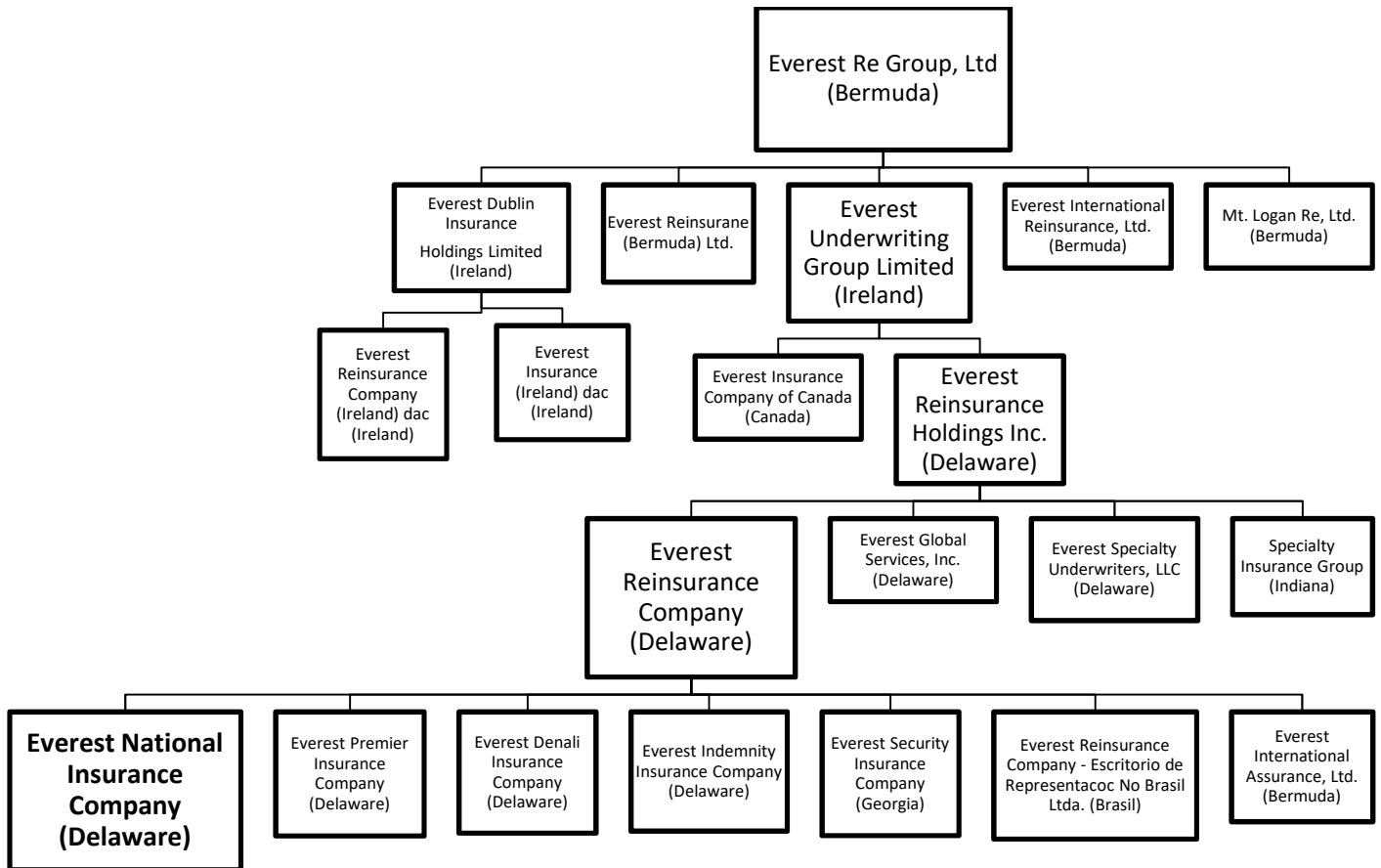
Corporate Records

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. In addition, review of the Company's Board meeting minutes over the examination period reflected accordance with the Company's bylaws. From review of such minutes, the attendance at Board meetings, the elections of directors and officers and the approvals of investment transactions were noted.

Insurance Holding Company System

The Company is a member of an insurance holding company system as defined under 18 *Del. C.* § 5001 of the Delaware Insurance Code. The ultimate controlling entity within the holding company system is ERG, a Bermuda company established in 1999, which wholly owns Everest Underwriting Group (Ireland) Limited (Everest Ireland). Everest Ireland wholly owns Everest Reinsurance Holdings, Inc. (Holdings), a Delaware corporation, which is the holding company for the U.S. based operations. Holdings wholly owns ERC, a Delaware domiciled property and casualty insurer and the Company's direct parent within the holding company system. ERG is a registered public company whose shares are traded under the ticker symbol "RE" on the New York Stock Exchange. The following abbreviated organization chart reflects the ownership chain of

subsidiaries and their domestic affiliation as of December 31, 2020 (ownership of subsidiaries is 100% unless otherwise noted):



Agreements with Affiliates

The following affiliated agreements within ERG’s organizational structure were identified and in effect as of December 31, 2020:

Tax Allocation Agreement

Effective January 1, 2017, Holdings, the statutory insurance companies under review, Specialty Insurance Group and Everest International Assurance, Ltd. (collectively, the Group), are party to an Intercompany Tax Allocation Agreement whereby each company shall contribute its fair and equitable share to the taxes payable by the Group or as compensation for the reduction in the net operating loss deduction, capital loss deduction or other tax benefit of the Group. The

Group files a consolidated tax return and each year, with each company calculating their respective amounts for payment of taxes, estimated tax or refund of tax which each company would be liable for or entitled to as if it had filed a separate return. All payments between and among each company of the Group are settled no later than 90 days in accordance with the terms of the agreement. Final settlement among the companies occurs annually.

Administrative Service Agreements

Effective September 18, 2014, the Company entered into a service agreement with Everest Insurance Company of Canada (Everest Canada). Under the terms of the agreement, the Company provides Everest Canada claims handling, reserving and claims payment authority as outlined in the ERG disbursement and expense manual. The Company also provides Everest Canada with claims management expertise and oversight, guidance and direction for the following lines of business: Entertainment, Specialty Commercial and Professional/Management liability.

Effective January 1, 2019, certain affiliate companies (Affiliates) became party to a Master Service Agreement. Under the terms of the agreement, services from an Affiliate may be provided to another Affiliate. Services provided include, but are not limited to, underwriting and claims services, agency services for admitted & excess lines, accounting, tax and auditing, legal services, information technology, etc. The receiving Affiliate shall pay the providing Affiliate the fair market value price for services.

Other Related Party Transactions

Effective March 1, 2000, ERC guarantees the Company's obligations reflected in all its insurance contracts, subject to an aggregate limit of \$75 million.

Effective April 26, 2003, ERC agrees to take immediate action to restore the Company's policyholders' surplus if it falls below \$15 million, to at least \$15 million.

TERRITORY AND PLAN OF OPERATION

The Company is licensed in all fifty (50) states, the District of Columbia and Puerto Rico and underwrites property and casualty business through agency relationships with program administrators, along with its direct underwriting segments. The Company is also authorized to write property and casualty insurance on an admitted basis in the jurisdictions where it is licensed. The majority of the Company's business is reinsured by its direct parent, ERC.

As of December 31, 2020, the Company had twelve (12) active programs and twenty-one (21) underwriting segments in place, offering coverages that include: general liability, professional liability, workers' compensation, medical malpractice, commercial property, motor vehicle and non-standard auto. In 2020, 81.7% of the Company's direct premiums written were in the following four lines of business: other liability occurrence (29.9%), other liability claims-made (23.0%), workers' compensation (20.0%) and commercial auto liability (8.8%).

REINSURANCE

The Company reported the following distribution of premiums written for the years ended December 31, 2020, and the prior examination date of December 31, 2015:

	2020	% GPW	2015	% GPW
Direct Business	\$ 1,087,847,987	83.5%	\$ 1,062,894,493	99.8%
Reinsurance assumed from affiliates	202,970,982	15.6%	-	
Reinsurance assumed from non-affiliates	11,390,165	0.9%	1,954,138	0.2%
Gross Premiums Written	<u>\$ 1,302,209,134</u>	<u>100.0%</u>	<u>\$ 1,064,848,631</u>	<u>100.0%</u>
Reinsurance ceded to affiliates	1,280,671,932	98.3%	1,060,000,825	99.5%
Reinsurance ceded to non-affiliates	21,537,202	1.7%	4,847,806	0.5%
Total Ceded Premium	<u>\$ 1,302,209,134</u>	<u>100.0%</u>	<u>\$ 1,064,848,631</u>	<u>100.0%</u>
Net Premiums Written	<u>\$ -</u>	<u>0.0%</u>	<u>\$ -</u>	<u>0.0%</u>

Assumed Reinsurance – Affiliates

The Company assumes business from ERC under a 75% whole account reinsurance agreement. The agreement covers all new and renewal business classified as Canadian Property

and Casualty Business with a limit of liability for any one occurrence not to exceed \$300 million and for all losses in the aggregate not to exceed \$468,750,000 during the agreement year. Premium assumed under this agreement in 2020 was \$202,970,982.

Assumed Reinsurance – Non-Affiliates

Business assumed from non-affiliates in 2020 totaled \$11,390,165, with approximately \$6 million assumed from external reinsurers and \$5 million assumed from pools and associations.

Ceded Reinsurance – Affiliates

Effective January 1, 2014, amended effective January 1, 2017 and amended effective May 30, 2018, an intercompany pooling arrangement was created between the Company and its U.S. statutory affiliates (Pool Companies), with the Company ceding 100% of its net retained liability (net liability after deductions of all inuring reinsurance on the business) under new and renewal policies to ERC, the lead company in the pooling arrangement, whereby the Company has 0% participation in the pooling transaction. The amendment effective January 1, 2017, added EDIC and EPIC to the pooling agreement as additional companies with the same terms and conditions. The amendment effective May 30, 2018, removed a 3.5% ceding commission on net written premiums subject to the pooling. For the year ended December 31, 2020, the Company's ceded premium to ERC under the pooling agreement was \$1,280,671,932.

Ceded Reinsurance – Unaffiliated

The Pool Companies purchase reinsurance to cover specific business written for the potential accumulation or aggregation of exposures across some or all of its operations. The amount of reinsurance purchased has varied over time, reflecting the view of its exposures and the cost of reinsurance, with significant exposure to property risk, including catastrophic losses relating to natural disasters. Catastrophe loss projections are segmented by risk zones, which are

updated quarterly and reviewed as part of a formal risk management review process. Excluding aggregate stop loss coverages, adverse development covers and catastrophe bond coverages, the significant catastrophic reinsurance in place with external reinsurers has the following coverages:

Primary coverage, excluding wind, is \$50 million excess of \$75 million. All perils excess coverage, including wind, is \$525 million excess of \$125 million and excess coverage, excluding wind, is \$100 million excess of \$500 million (cancelled April 2021 and not renewed). All coverages described are 80% placed with external reinsurers.

In addition, the Pool Companies have in place an insured market loss warranty excess of loss reinsurance contract with Hannover Ruck Se. The contract provides excess of loss coverage for \$20 million excess \$25,000, providing coverage for named windstorms (including Greek alphabet symbols) by the “World Meteorological Organization” and/or United States “National Weather Service” and/or tracked by the services of the “National Oceanic and Atmospheric Administration.” The contract only responds in the event there is an original insured market loss resulting from a named windstorm as reported by the index provider, which occurs in the State of Florida, and is greater than \$15 billion.

Effective October 1, 2020 to September 30, 2021, the Pool Companies also have in place a workers’ compensation catastrophe excess of loss reinsurance agreement for its significant exposure to workers’ compensation claims resulting from catastrophic events. Under terms of the agreement, the Company has \$75 million in coverage, excess of a \$25 million retention with one reinstatement (first layer) and coverage of \$100 million, excess of \$100 million retention with one reinstatement (second layer). This reinsurance agreement was 100% placed with external reinsurers.

FINANCIAL STATEMENTS

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

- Statement of Assets and Liabilities as of December 31, 2020
- Statement of Income for the year ended December 31, 2020
- Reconciliation of Capital and Surplus for the Period from the Prior Examination as of December 31, 2015 to December 31, 2020

Statement of Assets and Liabilities
As of December 31, 2020

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$ 402,057,347	\$ -	\$ 402,057,347
Cash	33,464,278		33,464,278
Cash equivalents	17,565,550		17,565,550
Short-term investments	785,185		785,185
Other invested assets	6,176,042		6,176,042
Receivables for securities	114,690		114,690
Subtotals, cash and invested assets	<u>\$ 460,163,092</u>	<u>\$ -</u>	<u>\$ 460,163,092</u>
Investment income due and accrued	2,251,480		2,251,480
Uncollected premiums and agents' balances in the course of collection	65,530,045	21,435,319	44,094,726
Deferred premiums; agents' balances and installments booked but deferred and not yet due	111,109,623	18,732	111,090,891
Amounts recoverable from reinsurers	224,163,120		224,163,120
Funds held by or deposited with reinsured companies	5,030,124		5,030,124
Net deferred tax asset	10,467,187	5,656,854	4,810,333
Electronic data processing equipment software	39,290,021		39,290,021
Furniture and equipment, including healthcare delivery assets	6,772,866	6,772,866	
Receivables from parent; subsidiaries and affiliates	64,953,443		64,953,443
Aggregate write-ins for other than invested assets:			
Advances under affiliated quota share agreement	52,486,929		52,486,929
Remittances and items not allocated	28,638,955		28,638,955
Prepaid expenses	16,624,741	16,624,741	
Accounts receivable and other	14,781,974		14,781,974
Guarantee fund surcharge	6,839,268		6,839,268
Recoverable deductibles	2,568,704	77,927	2,490,777
Equities and deposits in pools and associations	81,642		81,642
Total	<u><u>\$ 1,111,753,214</u></u>	<u><u>\$ 50,586,439</u></u>	<u><u>\$ 1,061,166,775</u></u>

Everest National Insurance Company

Losses	\$ -
Reinsurance payable on paid losses and loss adjustment expenses	12,062,558
Loss adjustment expenses	-
Commissions payable; contingent commissions and other similar charges	12,303,797
Other expenses (excluding taxes, licenses and fees)	22,621,617
Taxes, licenses, and fees (excluding federal and foreign income tax)	8,231,773
Current federal and foreign income taxes	2,301,111
Ceded reinsurance premiums payable (net of ceding commissions)	518,365,909
Funds held by company under reinsurance treaties	209,016,590
Amounts withheld or retained by company for account of others	1,797,917
Provision for reinsurance	102,400
Payable to parent, subsidiaries and affiliates	15,124,609
Aggregate write-ins for liabilities:	
Collateral held	61,170,835
Accounts payable other	1,935,163
Uncashed checks/drafts pending escheatment	353,021
Total liabilities	<u>\$ 865,387,300</u>
Common capital stock	\$ 5,000,000
Gross paid in and contributed surplus	126,505,634
Unassigned funds (surplus)	64,273,841
Surplus as regards policyholders	<u>\$ 195,779,475</u>
Totals	<u><u>\$ 1,061,166,775</u></u>

Statement of Income
For the Year Ended December 31, 2020

Premiums earned	\$ -
Losses incurred	<u>\$ -</u>
Loss adjustment expenses incurred	-
Other underwriting expenses incurred	(106,827)
Total underwriting deductions	<u>\$ (106,827)</u>
Net underwriting gain (loss)	<u>\$ 106,827</u>
Net investment income earned	6,735,192
Net realized capital gains (losses)	(128,212)
Net investment gain (loss)	<u>\$ 6,606,980</u>
Finance and service charges not included in premiums	149,961
Aggregate write-ins for miscellaneous income:	
Foreign exchange (loss)	(5,935,755)
Other (expense) income	(125,968)
Total other income	<u>\$ (5,911,762)</u>
Net income before dividends to policyholders; after capital gains tax and before all other federal and foreign income taxes	<u>\$ 802,045</u>
Dividends to policyholders	<u>-</u>
Net income; after dividends to policyholders; after capital gains tax and before all other federal and foreign income taxes	<u>\$ 802,045</u>
Federal and foreign income taxes incurred	579,521
Net Income	<u><u>\$ 222,524</u></u>

Reconciliation of Capital and Surplus
For the Period from the Prior Examination
As of December 31, 2015 to December 31, 2020

	Common Capital Stock	Gross Paid-in and Contributed Surplus	Unassigned Surplus	Total
12/31/2015	\$ 5,000,000	\$122,362,088	\$ 7,964,928	\$ 135,327,016
12/31/2016			30,125,091 (1)	30,125,091
12/31/2016			(15,859,925) (2)	(15,859,925)
12/31/2016			(20,000,000) (3)	(20,000,000)
12/31/2016		3,706,873 (4)		3,706,873
12/31/2017			24,767,396 (1)	24,767,396
12/31/2017			(2,196,981) (2)	(2,196,981)
12/31/2017		136,267 (4)		136,267
12/31/2018			34,240,511 (1)	34,240,511
12/31/2018			(6,562,408) (2)	(6,562,408)
12/31/2018		80,356 (4)		80,356
12/31/2019			5,276,220 (1)	5,276,220
12/31/2019			(11,917,273) (2)	(11,917,273)
12/31/2019			11,219,393 (5)	11,219,393
12/31/2019		97,257 (4)		97,257
12/31/2020			222,524 (1)	222,524
12/31/2020			6,994,365 (2)	6,994,365
12/31/2020		122,792 (4)		122,792
	<u>\$ 5,000,000</u>	<u>\$126,505,634</u>	<u>\$ 64,273,841</u>	<u>\$ 195,779,475</u>

(1) Represents net income

(2) Change in net unrealized foreign exchange capital gain (loss), Change in net deferred income tax, Change in nonadmitted assets and Change in provision for reinsurance

(3) Dividends to stockholder

(4) Surplus adjustment – Paid In

(5) Aggregate write-ins for gains and losses in surplus (Prior period adjustment)

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

There were no comments on Financial Statement items.

SUBSEQUENT EVENTS

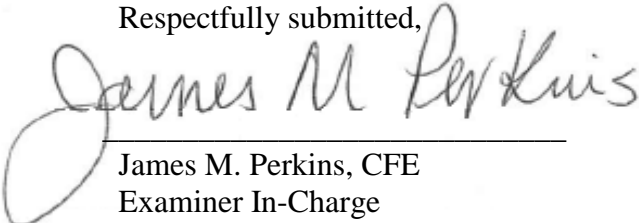
There were no significant subsequent events noted from the examination.

SUMMARY OF RECOMMENDATIONS

It is recommended that the Company comply with its bylaws and have the Board consist of a minimum of seven directors or amend the bylaws.

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

Respectfully submitted,



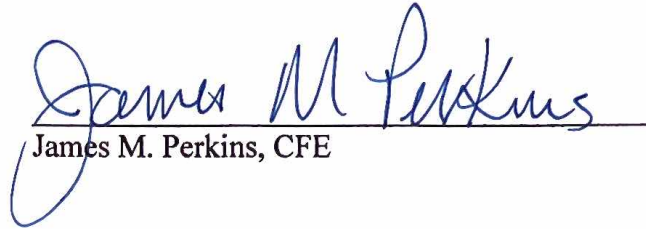
James M. Perkins, CFE
Examiner In-Charge
Delaware Department of Insurance



Anthony Cardone, CFE and CPA
Supervising Examiner
Delaware Department of Insurance

Everest National Insurance Company

I, James M. Perkins, 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 certification 21.027.


James M. Perkins, CFE