



THE COMMONWEALTH OF MASSACHUSETTS
OFFICE OF CONSUMER AFFAIRS AND BUSINESS REGULATION
DIVISION OF INSURANCE

REPORT OF EXAMINATION OF THE
ENDEAVOUR INSURANCE COMPANY

Boston, Massachusetts

as of December 31, 2010

NAIC GROUP CODE 1178

NAIC COMPANY CODE 10664

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For Informational Purposes Only

ENDEAVOUR INSURANCE COMPANY

TABLE OF CONTENTS

	<u>Page</u>
Salutation	1
Scope of Examination	2
Status of Prior Examination Findings	2
History	3
General	3
Capital Stock	3
Dividends to Shareholders	3
Growth of Company	4
Management	4
Annual Meeting	4
Board of Directors	4
Committees of the Board of Directors	6
Officers	6
Conflict of Interest Procedures	6
Corporate Records	7
Articles of Organization and Bylaws	7
Disaster Recovery and Business Continuity	7
Minutes of the Meetings of the Board of Directors	7
Affiliated Companies	8
Organization Chart	8
Service Agreement	9
Inter-Affiliate Reinsurance Agreement	9
Tax Sharing Agreement	9
Fidelity Bonds and Other Insurance	9
Pensions and Other Insurance	9
Statutory Deposits	10
Insurance Products and Related Practices	10
Territory and Field of Operation	10
Treatment of Policyholders – Market Conduct	10
Reinsurance	11
Inter-Affiliate Reinsurance Agreement	11
Assumed Reinsurance	11
Subsequent Events	11
Accounts and Records	11
Financial Statements	12
Statement of Assets, Liabilities, Surplus and Other Funds	13
Underwriting and Investment Exhibit Statement of Income	14
Reconciliation of Capital and Surplus, 2006 - 2010	15
Notes to the Financial Statements	16
Acknowledgement	17



COMMONWEALTH OF MASSACHUSETTS
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March 30, 2012

The Honorable Joseph G. Murphy
Commissioner of Insurance
Commonwealth of Massachusetts
Division of Insurance
1000 Washington Street, Suite 810
Boston, MA 02118-6200

Honorable Commissioner:

Pursuant to your instructions and in accordance with Massachusetts General Laws, Chapter 175, Section 4, an examination has been made of the financial condition and affairs of

INDEAVOUR INSURANCE COMPANY

at its home office located at 25 New Chardon Street, Boston, MA, 02114-4721. The following report thereon is respectfully submitted.

Endeavour Insurance Company

SCOPE OF EXAMINATION

Endeavour Insurance Company (hereinafter referred to as "Company" or "Endeavour") was last examined as of December 31, 2005 by the Massachusetts Division of Insurance ("Division"). The current examination was also conducted by the Division and covers the period from January 1, 2006 through December 31, 2010, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

Concurrent with this examination, the following insurance affiliates in the Atlantic Charter insurance group were also examined and separate Reports of Examination have been issued:

Atlantic Charter Insurance Company
Independence Casualty Insurance Company

The examination was conducted in accordance with standards established by the Financial Condition (E) Committee of the NAIC as well as with the requirements of the NAIC Financial Condition Examiners' Handbook, the examination standards of the Division and consistent with Massachusetts General Laws ("M.G.L."). The principal focus of the examination was 2010 activity; however, transactions both prior and subsequent thereto were reviewed as deemed appropriate.

In addition to a review of the financial condition of the Company, the examination included a review of the Company's business policies and practices, corporate records, reinsurance treaties, conflict of interest disclosure statements, fidelity bonds and other insurance, disaster recovery plan, treatment of policyholders and other pertinent matters to provide reasonable assurance that the Company was in compliance with applicable laws, rules and regulations. In planning and conducting the examination, consideration was given to the concepts of materiality and risk and examination efforts were directed accordingly.

The Company is audited annually by Ernst & Young LLP, an independent certified public accounting firm. The firm expressed unqualified opinions on the Company's financial statements for the calendar years 2006 through 2010. A review and use of the certified public accountants' work papers was made to the extent deemed appropriate and effective. An independent actuarial firm, Milliman, Inc., was retained by the Division to evaluate the adequacy of the Company's loss and loss adjustment expense reserves as of December 31, 2010. An evaluation of the adequacy and effectiveness of the Information Technology Systems' controls was done to determine the level of reliance to be placed on summary information generated by the data processing systems.

Status of Prior Examination Findings

It appears that the previous examination comments have been addressed.

HISTORY

General

The Company was incorporated on July 2, 1996, under the laws of the Commonwealth of Massachusetts. It commenced business on August 19, 1996. Endeavour is licensed in Massachusetts and New Hampshire to write workers' compensation insurance. The Company writes workers compensation insurance through a network of independent agents and brokers.

The Company is a wholly owned subsidiary of Charter Management Company, Inc. ("CMC"), a Massachusetts corporation owned by Linda J. Sallop (68%) and Mitchel I. Weisman (32%). The Company's largest producer is the Nathan Sallop Insurance Agency ("NSIA").

The Company participates as a Voluntary Direct Assignment Carrier ("VDAC") in the Massachusetts Workers' Compensation Assigned Risk Pool ("MaWCAARP"), the residual market mechanism for workers' compensation insurance in the Commonwealth. Endeavour cedes 100% of its business to its affiliate, Atlantic Charter Insurance Company ("ACIC").

Capital Stock

The Articles of Organization for the Company authorized 200,000 shares of capital stock with no par value. In 1996, the Company initially was capitalized through the issuance of 50,000 shares of capital stock at a price of \$60.00 per share, as prescribed by Section 48 of MGL Chapter 175. All shares were purchased by CMC.

As of December 31, 2010, the Company had authorized 200,000 shares of no par value common capital stock, of which 50,000 have been issued and are outstanding. All outstanding shares continue to be held by CMC.

Dividends to Shareholders

The Company paid no dividends to shareholders during the examination period.

Endeavour Insurance Company

Growth of the Company

The growth of the Company for the years 2006 through 2010 is shown in the following schedule, which was prepared from the Company's Annual Statements, including any changes as a result of the examination:

<u>Year</u>	<u>Admitted Assets</u>	<u>Direct Premiums Written</u>	<u>Surplus</u>
2010	\$5,017,419	\$ 2,718,513	\$5,002,007
2009	4,860,826	3,543,821	4,836,234
2008	4,715,541	4,884,496	4,653,108
2007	4,572,199	8,960,258	4,547,854
2006	4,401,646	10,065,397	4,392,346

Management

Annual Meeting

In accordance with the Company's bylaws, the annual meeting of stockholders shall be held on the first Tuesday in March in each year. A majority in interest of all stock issued, outstanding, and entitled to vote at a meeting shall constitute a quorum of the stockholders. Stockholders entitled to vote shall have one vote for each share of stock owned by them and a proportionate vote for any fractional share of stock owned by them. Stockholders may vote in person or by proxy. If an annual meeting shall not have been held on the date fixed in the bylaws, a special meeting in lieu of an annual meeting may be held with all the force and effect of an annual meeting. The bylaws also specify that any action permitted to be taken at any meeting of the stockholders may be taken without a meeting if all stockholders entitled to vote on the matter consent to the action in writing. The corporate records document that for each year in the examination period, the requirement for an annual meeting was satisfied with an action by consent of the Company's sole stockholder.

Board of Directors

According to the bylaws, the business of the Company shall be managed by a board of directors which may exercise all of the powers of the Company except those exclusively conferred upon or reserved solely to the stockholders. The board of directors shall consist of not fewer than five directors and the stockholders shall fix the number of directors for the ensuing corporate year at the annual meeting of the stockholders or at any special meeting held for that purpose. The directors shall be elected at the annual meeting of stockholders or the special meeting in lieu of the annual meeting. Each director shall hold office until the next annual meeting of the stockholders and until a successor shall have been duly elected and qualified, but any director

Endeavour Insurance Company

may resign. The stockholders may remove any director from office with or without cause; the board of directors may remove any director from office for cause. If the office of a director becomes vacant for any reason, the stockholders or the board of directors may elect a successor to complete the unexpired term of the predecessor, but only the stockholders may fill a vacancy resulting from enlargement of the board. A director may, but need not, be a stockholder, an officer, or an employee of the Company. The bylaws permit that by majority vote of the board of directors, the board may be divided into two or more classes, such classes to be as nearly equal in number as possible.

At December 31, 2010, the Company's board of directors had the common governance of the same seven (7) people serving as directors on the boards of affiliates. The following table lists the members of the board and their business or professional affiliations.

<u>Name of Director</u>	<u>Business Affiliation</u>
Linda Jane Sallop, Esq.	President and Chairperson of the Company
Mitchel Ira Weisman, Esq.	Executive Vice President and Secretary of the Company
David Allan Bakst, Esq.	Senior Partner, Morrison Mahoney LLP
Julianne M. Bowler*	Former Massachusetts Commissioner of Insurance
Brian Albert Brooks, CPA	Senior Partner, Retired, PricewaterhouseCoopers, LLP
William Joseph Kearney	Underwriting Manager, Retired, The Hartford Companies
Eric Dean Schlager	Chief Executive Officer, The Bullfinch Companies, Inc.

* Newly elected to Directorship since the prior examination.

Directors Linda J. Sallop and Mitchel I. Weisman also serve on the Board of Directors for Charter Management Company, Inc.

The bylaws do not specify the number of meetings of the board of directors to be held during a year and they allow the board of directors to take action by consent and/or telephonic meetings. At any meeting of the board, a majority of the directors then in office shall constitute a quorum but in no event shall a quorum be less than four directors. The minutes indicated that a quorum was obtained for all meetings of the board of directors held during the examination period.

The bylaws allow that the directors may elect from their number an executive committee, an investment committee, and such other committees as they may determine. In accord therewith, the board of directors appointed an Investment Committee and an Audit Committee. The purpose and membership of each committee at December 31, 2010 are as follows:

Endeavour Insurance Company

Investment Committee

The Investment Committee monitors the performance of the Company's investments and authorizes the purchase and/or sale of securities. At the date of examination, the members of the Investment Committee were Director Linda J. Sallop, Director Brian A. Brooks, and Director Eric D. Schlager.

Audit Committee

The Audit Committee coordinates and oversees services of the Company's auditors and serves as a liaison between the Company and its auditors. At the date of examination, the Audit Committee consisted of Directors Brian A. Brooks and William J. Kearney.

Officers

According to the Company's bylaws, the officers of the Company shall be a president, a treasurer, a clerk and such other officers as the board of directors may determine. The board of directors shall elect the president, treasurer, clerk, and any other officers. The president may, but need not, be a director. The clerk shall be a resident of Massachusetts. To the extent permitted by law, any two or more offices may be held by the same person. No officer need be a stockholder in or an employee of the Company.

The elected officers and their respective titles as of December 31, 2010 follow:

<u>Name</u>	<u>Title</u>
Linda J. Sallop, Esq.	President
Mitchell J. Weisman, Esq.	Executive Vice President and Secretary
Joseph N. Russo, CPA	Treasurer
Raymond O. Shulman	Vice President
David A. Bakst, Esq.	Assistant Secretary

Conflict of Interest Procedures

The Company has adopted a policy statement pertaining to conflicts of interest in accordance with Question 17 of the General Interrogatories of the Annual Statement. The Company has an established procedure for the disclosure to the board of directors of any material interest or affiliation on the part of any officer or director, which conflicts or is likely to conflict with his or her official duties.

Endeavour Insurance Company

Annually, each officer and director completes a questionnaire disclosing any material conflicts of interest. The completed questionnaires were reviewed, and no discrepancies were noted in the responses to the General Interrogatories regarding conflicts of interest as reflected in the Company's 2010 Annual Statement.

Corporate Records

Articles of Organization and By-laws

The by-laws and Articles of Organization and amendments thereto were read. During the exam period, there were no changes to the by-laws or the Articles of Organization.

Disaster Recovery and Business Continuity

The Company does provide for the continuity of management and operations in the event of a catastrophe or national emergency in accordance with M.G.L. c. 755 s. 180M-180Q.

Board of Directors Minutes

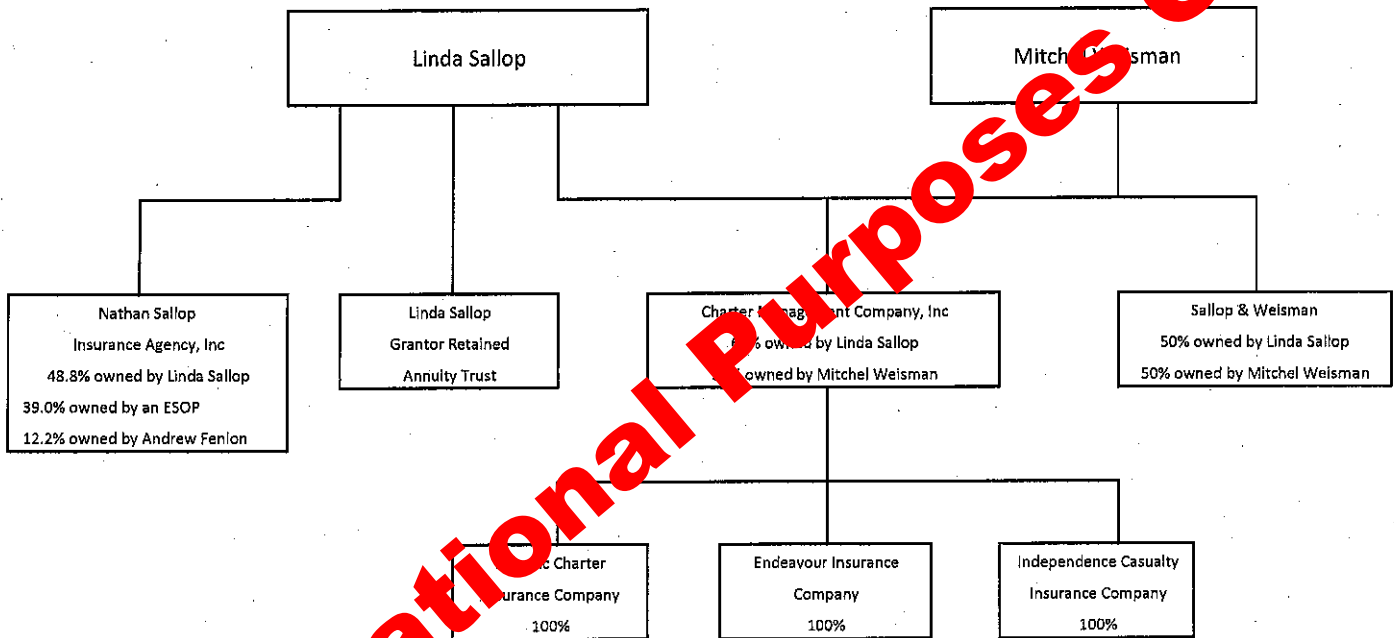
The minutes of the board of directors and committee meetings for the period under statutory examination were read. The minutes indicated that all meetings were held in accordance with the Company's by-laws and the laws of the Commonwealth of Massachusetts. Activities of the committees were ratified at each meeting of the board of directors.

The minutes of the board of directors do not indicate that the prior Report of Examination as of December 31, 2005 was reviewed by the board.

Endeavour Insurance Company

AFFILIATED COMPANIES

Per Form B, as filed with the Massachusetts Division of Insurance, the Company is a member of a holding company system and is subject to the registration requirements of M.G.L. c.175, s206C of the Massachusetts General Laws and Regulation 211 CMR 7.00. Charter Management Company, Inc. is the "ultimate controlling person".



Endeavour Insurance Company

Transactions and Agreements with Parent and Affiliates

Service Agreement

Per the terms of a written services agreement effective January 1, 2002, the Company receives management, general administrative, underwriting, claims, financial accounting and other services from its parent company, CMC. Under the terms of the agreement, the Company shall pay to CMC 100% of the actual costs and expenses incurred by CMC on behalf of the Company.

Inter-Affiliate Reinsurance Agreement

The Company has a quota share reinsurance agreement with ACIC whereby the Company cedes all of the business written by the Company to ACIC.

Tax Sharing Agreement

The Company participates in a written tax allocation agreement entered into as of May 4, 2004, with three affiliates, CMC, ACIC, and ICIC. Per such agreement, CMC collects from or refunds to its participating subsidiaries the amount of taxes or benefits by an allocation method based upon the respective tax liability of each member computed as if a separate return were filed in accordance with the Internal Revenue Code.

FIDELITY BOND AND OTHER INSURANCE

The Company maintains fidelity coverage with an authorized Massachusetts insurer, consistent with M.G.L. c.175 s.60. The aggregate limit of liability exceeds the NAIC suggested minimum.

The Company has further protected its interests and property by purchasing policies of insurance covering other insurable risks. Coverage is provided by insurers licensed in the Commonwealth of Massachusetts and was in force as of December 31, 2010.

PENSION AND OTHER INSURANCE PLANS

All company personnel are actually employees of CMC. As employees of CMC, they are offered various insurance plans including health, dental, life and disability.

CMC sponsors a defined contribution plan in which employees may elect to participate. CMC may match the employee contribution upon approval of the board of directors.

Endeavour Insurance Company

STATUTORY DEPOSITS

<u>Location</u>	<u>Description of Deposit</u>	<u>Par Value</u>	<u>Statement Value</u>	<u>Market Value</u>
New Hampshire	New York NY	\$100,000	\$101,128	\$101,343
	Tobacco Settlement Fing Corp NY	105,000	105,000	104,541
	Money Market Income Investment		59,985	59,985
	Money Market Savings Account		295,000	295,000
Total			\$566,113	\$560,869

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operation

The Company is licensed to write workers' compensation and employers' liability in Massachusetts and New Hampshire. The company writes business through brokers and independent agents.

Treatment of Policyholders – Market Conduct

During the financial examination, the Division's Market Conduct Department initiated a comprehensive market conduct examination of the Company for the period January 1, 2010 through December 31, 2010. The market conduct examination was called pursuant to authority in Massachusetts General Laws (M.G.L.) Chapter 175 Section 4.

The market conduct examination was conducted at the direction of and under the overall management and control of, the market conduct examination staff of the Division. Representatives of the firm of Rudmose & Noller Advisors, LLC were engaged to complete certain agreed upon procedures which were developed using the guidance and standards of the Division, and the Commonwealth of Massachusetts insurance laws, regulations and bulletins.

The basic business areas reviewed under the market conduct examination are Company Operations/Management, Complaint Handling, Marketing and Sales, Producer Licensing, Policyholder Services, Underwriting and Rating, Claims, in addition to an assessment of the Company's internal control environment. Once this market conduct examination was completed a report on the Comprehensive Market Conduct Examination of the Company for the period January 1, 2010 through December 31, 2010 was issued and became a public document.

REINSURANCE

The Company has a limited program of reinsurance. It assumes no reinsurance but it accepts its statutorily imposed residual market obligations from MaWCARP. The Company cedes all of its business to its affiliate, ACIC. The following briefly describes the major features of the Company's reinsurance activity.

Inter-Affiliate Reinsurance Agreement

Effective August 9, 1996, the Company began to participate in a 100% quota share reinsurance agreement with ACIC whereby the Company cedes to ACIC all of its premiums, losses, loss adjustment expenses, and underwriting expenses of insurance risks underwritten or assumed on or after such effective date. By such agreement, ACIC agreed to be solely responsible for the servicing and administration of such business and bears all costs associated with performing such servicing. The agreement is prospective in nature.

Assumed Reinsurance

Involuntary Pool

As a licensed insurer, the Company has statutorily mandated participation in MaWCARP, the residual market mechanism for workers' compensation insurance in the Commonwealth of Massachusetts. MaWCARP bases the distribution of its operating results on a policy year basis and allocates its financial results among insurers in the property and casualty industry in proportion to their respective voluntary writings. Effective January 1, 1999, the Company exercised its option to fulfill its statutory obligation to MaWCARP by becoming a voluntary direct assignment carrier which is assigned its estimated share of MaWCARP values in the form of specific risks in lieu of a percentage of MaWCARP's overall results. The Company retains the underwriting risk of such policies and is responsible for their claims, loss adjustment expenses, and underwriting expenses.

SUBSEQUENT EVENTS

In September 2002, John Gray, retired Senior Vice President of General Re became a member of the board of directors.

ACCOUNTS AND RECORDS

The internal control structure was discussed with management through questionnaires and through a review of the work performed by the Company's independent certified public accountants. No material differences were noted.

The NAIC provides a questionnaire covering the evaluation of the controls in the Information Technology environment. The questionnaire was completed by the Company and reviewed by the Division to evaluate the adequacy of the Information Technology controls. No material deficiencies were noted.

Endeavour Insurance Company

The Company uses an automated general ledger system. Trial balances were traced from the general ledger and supporting documents to the 2010 annual statement. No material exceptions were noted.

The books and records of the Company are audited annually by Ernst & Young LLP, independent Certified Public Accountants, in accordance with 211 CMR 23.00.

FINANCIAL STATEMENTS

The following financial statements are presented on the basis of accounting practices prescribed or permitted by the Division of Insurance of the Commonwealth of Massachusetts and by the *National Association of Insurance Commissioners* as of December 31, 2010:

Statement of Assets, Liabilities and Surplus and Other Funds as of December 31, 2010

Underwriting and Investment Exhibit Statement of Income for the Year Ended December 31, 2010

Reconciliation of Capital and Surplus For the Five Year Period Ended December 31, 2010

Endeavour Insurance Company

Statement of Assets, Liabilities, Surplus and Other Funds as of December 31, 2010

Assets	Per Company	Examination Changes	Per Statutory Examination	Note
Bonds	\$ 4,296,781	\$ 0	\$ 4,296,781	
Cash and short term investments	661,267		661,267	
Subtotal cash and invested assets	4,958,048	0	4,958,048	
Investment income due and accrued	59,371		59,371	
Total Assets	\$ 5,017,419	0	\$ 5,017,419	
Liabilities				
Losses	\$ 0	\$ 0	\$ 0	1
Loss adjustment expenses	0		0	1
Taxes, licenses and fees	1,859		1,859	
Current federal and foreign income tax	13,553		13,553	
Total liabilities	15,412	0	15,412	
Common capital stock	1,000,000	0	1,000,000	
Gross paid in and contributed surplus	2,000,000		2,000,000	
Unassigned funds	2,002,007		2,002,007	
Surplus as regards policyholders	5,002,007	0	5,002,007	
Total Liabilities and Capital and Surplus	\$ 5,017,419	\$ 0	\$ 5,017,419	

Endeavour Insurance Company

Underwriting and Investment Exhibit Statement of Income For the Year Ended December 31, 2010

	Per Company	Examination Changes	Per Statutory Examination	Note
Net investment income earned	\$ 183,899	\$ 0	\$ 183,899	
Net realized capital gains	(4,973)		(4,973)	
Net investment gain	<u>178,926</u>	<u>0</u>	<u>178,926</u>	
Net income before dividends to policyholders	178,926		178,926	
Dividends to policyholders				
Net income before federal taxes	178,926	0	178,926	
Federal and foreign taxes incurred	<u>13,553</u>		<u>13,553</u>	
Net Income	<u>\$ 165,373</u>	<u>\$ 0</u>	<u>\$ 165,373</u>	

Endeavour Insurance Company

Reconciliation of Capital and Surplus For the Five Year Period Ended December 31, 2010

	2010	2009	2008	2007	2006
Surplus as regards policyholders as of December 31, prior year	\$ 4,836,634	\$ 4,683,108	\$ 4,547,854	\$ 4,392,346	\$ 4,115,790
Net income	165,373	153,526	135,254	155,508	155,571
Change in net unrealized capital gains					38,976
Net change in capital and surplus for the year	165,373	153,526	135,254	155,508	194,547
Surplus as regards policyholders as of December 31, current year	\$ 5,002,007	\$ 4,836,634	\$ 4,683,108	\$ 4,547,854	\$ 4,392,346

NOTES TO THE FINANCIAL STATEMENTS

Note 1: Loss and Loss Adjustment Expense Reserves

The Division retained the consulting actuarial services of Milliman, Inc. to provide an independent actuarial review on the loss and loss adjustment expense reserves carried by the company. The consulting actuaries from Milliman noted that the Company cedes 100% of its loss and loss adjustment expense reserves to ACIC; thus, they concluded that the Company's carried net reserve of zero dollars is appropriate. On a gross basis, the following table summarizes Milliman's reserve ranges and selected point estimate reserve, and the Company's carried reserves as of December 31, 2010:

**Loss & Loss Adjustment Expense Reserves as of December 31, 2010
(000's omitted)**

Reserve Category	Milliman Inc. Carried			Carried
	Low	Selected	High	
<u>Gross of Reinsurance</u>				
Losses and Defense & Cost Containment	5,529	6,440	7,406	
Adjusting & Other	<u>1,516</u>	<u>1,516</u>	<u>1,806</u>	
Total Loss & Expense	7,119	7,956	9,212	8,973

Milliman's review, they believe that the carried gross Loss and LAE reserves as of December 31, 2010 fall within a range of reasonableness.

ACKNOWLEDGEMENT

Acknowledgement is made of the cooperation and courtesies extended by the officers and employees of the Company during the course of the examination.

The assistance rendered by the following Division examiners who participated in this examination is hereby acknowledged:

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