REPORT ON EXAMINATION

OF THE

ESSEX INSURANCE COMPANY

AS OF

DECEMBER 31, 2010

Karen Weldin Stewart, CIR-ML
Commissioner

Delaware Department of Insurance

I, Karen Weldin Stewart, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of December 31, 2010 of the

ESSEX INSURANCE COMPANY

is a true and correct copy of the document filed with this Department.

Attest By: ______________________

Date: 4 Jun 2012

In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 4th day of June, 2012.

____

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

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Karen Weldin Stewart, CIR-ML
Commissioner

Delaware Department of Insurance

REPORT ON EXAMINATION

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ESSEX INSURANCE COMPANY

AS OF

DECEMBER 31, 2010

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.

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

Dated this 4th day of June, 2012

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May 11, 2012

SALUTATION

Honorable Karen Weldin Stewart, CIR-ML
Commissioner
Delaware Department of Insurance
Rodney Building
841 Silver Lake Blvd.
Dover, Delaware 19904

Dear Commissioner:

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority No.11-021, dated April 27, 2011, an Association examination has been made of the affairs, financial condition and management of the

ESSEX INSURANCE COMPANY

hereinafter referred to as "Company", incorporated under the laws of the State of Delaware. The examination was conducted at the administrative offices of the Company's parent, Markel Corporation, located at Ten Parkway North, Deerfield, Illinois. The statutory address of the Company is located at 1209 Orange Street, Wilmington, Delaware.

The report of this examination is submitted herewith.

SCOPE OF EXAMINATION

The last financial condition examination of the Company covered the period from January 1, 2005 through December 31, 2007. This examination covers the period from January 1, 2008 through December 31, 2010, and consisted of a general review of the Company's business policies and practices; management, any corporate matters incident thereto; and a verification and evaluation of assets and a determination of liabilities. Transactions subsequent to the latter date were reviewed to the extent deemed necessary.

The format of this report is designed to explain the procedures employed on the examination and the text will explain changes wherever made. If necessary, comments and recommendations have been made in those areas in need of correction or improvement. In such cases, these matters were thoroughly discussed with responsible personnel and/or officials during the course of the examination.

The examination followed rules established by the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook* (Handbook) and generally accepted statutory insurance examination standards. In planning and conducting the examination, consideration was given to the concepts of materiality and risk, and examination efforts were directed accordingly.

Audit work papers prepared by the Company's external accounting firm, KPMG LLP (KPMG), were extensively reviewed in order to ascertain its analysis, review of controls, audit procedures, and conclusions. We relied upon and utilized KPMG work papers to the fullest extent possible. The Company, as a part of the Markel Corporation, has established a strong internal control environment in compliance with the Sarbanes-Oxley Act (SOX). Accordingly, Corporate Internal Audit (Internal Audit) performs regular operational and IT audits including SOX and Model Audit Rule (MAR) compliance work across all Markel Corporation entities including the Company. Internal Audit documentation related to the identification of financial reporting and other key activities and the attendant processes and controls maintained therein were also reviewed and relied upon to the fullest extent possible where applicable. Based upon the review of KPMG and Internal Audit work papers and performance of other examination planning procedures including account analysis, the assessment of management for the Company and the Markel Group of insurance companies as a whole, the assessment of account specific and cycle controls, and the assessment of the Company's control environment, an overall assessment was made to determine: compliance risk, operational risk, financial reporting risk, and risk of material misstatement to the Company's statutory financial statements. In those areas in which a high reliance was placed on controls, and where we determined a low likelihood of material misstatement, limited examination procedures were performed. In other areas, we utilized professional judgment in an attempted to identify examination procedures to specifically address those concerns or unmitigated risks noted.

In addition to items noted in this report, the following topics were reviewed without material exception and are included in the work papers of this examination:

Custodial Agreements
Fidelity Bond and Other Insurance
NAIC Ratios
Legal Actions
Pension Benefits, Stock Ownership and Employee Benefit Plans
Regulatory Agency Correspondence
All Asset and Liability Items not mentioned

The examination of certain domestic insurance companies owned by Markel Corporation was coordinated and conducted in accordance with 'Lead State' and Association Plan of Examination guidelines established by the NAIC. The Illinois Department of Insurance acted as 'Lead State' in leading coordinated efforts of the group examination. The examination was performed concurrent with the Illinois, Virginia, and Nebraska Departments of Insurance examinations on other Markel insurance companies domiciled in those states. As the 'Lead

State,' the Illinois Department of Insurance coordinated the examination and led common examination efforts over risk identification, risk mitigation and control testing, other review processes, and substantive procedures of shared key activities. The Delaware Department of Insurance examination team assisted in the performance of these efforts over certain areas and relied exclusively on the results of these common efforts over all other areas. In addition, stand-alone risks and procedures were identified and performed by the Delaware Department of Insurance as specifically applicable to the Company.

SUMMARY OF SIGNIFICANT FINDINGS

There were no significant findings noted and no material adjustments were made to the financial statements in this report based on this examination.

SUBSEQUENT EVENTS

Subsequent to the examination period, and effective February 25, 2011, the Company entered into an "Assignment and Assumption Agreement" with its affiliate, Markel American Insurance Company (MAIC) and a third party primary insurer, Specialty Surplus Insurance Company (SSIC). SSIC was formerly known as Investors Insurance Company of America. Pursuant to the agreement, SSIC assigned to the Company all interest, rights and entitlements and the Company assumed the obligations of SSIC to MAIC under a certain Miscellaneous Property and Casualty Reinsurance Agreement effective January 1, 1998 between MAIC and SSIC.

No other significant subsequent events were noted after December 31, 2010, and through the completion of examination fieldwork.

COMPANY HISTORY

The Company was incorporated on February 29, 1980, under the laws of the State of Delaware. Effective March 31, 2001, Markel North America, Inc., a Virginia domiciled corporation and wholly-owned subsidiary of Markel Corporation (Markel) was merged into Markel. As a result of this merger transaction, Markel, the ultimate controlling parent of the Company, became the sole shareholder of the Company.

Common Capital Stock and Paid-in Surplus

The Company is authorized to issue thirty thousand (30,000) shares of common stock with a par value of three hundred dollars ($300) per share. As of December 31, 2010, fifteen thousand (15,000) shares, representing capital totaling $4,500,000 were issued and outstanding. Currently, all issued and outstanding shares of the Company's stock are owned by Markel.

Dividends

The Company paid three annual dividends to its parent, Markel, during the examination period. On March 3, 2008, the Board approved an ordinary dividend of $95,553,802; on November 30, 2009, the Board approved an ordinary dividend of $29,610,138; and, on October 8, 2010, the Board approved an extraordinary dividend of $57,474,690. This extraordinary dividend was approved by the Delaware Department of Insurance.

Capital Contribution

On December 11, 2008, the Company received a $52,702,322 capital contribution from Markel. The Company received no other capital contributions during the examination period.

CORPORATE RECORDS

The recorded minutes of the shareholders, Board of Directors, and certain committees of the Board of Directors were reviewed for the period under examination. The recorded minutes of these meetings adequately documented approval of the Company's investment transactions, other material transactions, events and changes in directors and officers.

MANAGEMENT AND CONTROL

In accordance with the Company's articles of incorporation and bylaws, the business of the Company is managed by or under the direction of its Board of Directors unless the duties are required by statute, the Company's articles of incorporation, or the Company's bylaws to be exercised or performed by the stockholder.

Stockholder

In accordance with Article II, Section 2 of the Company's bylaws, the annual shareholder's meeting is held each year on the 13th of May if not a legal holiday, and if a legal holiday, then on the next secular day following the holiday, or at such other date and time designated by the Board of Directors and stated in the notice of the meeting. The Board of Directors is elected at the annual stockholder meeting by a plurality vote.

Board of Directors

In accordance with Article III, Section 1 of the Company's bylaws, the Board of Directors must consist of no less than three (3) and no more than eleven (11) members. As of December 31, 2010, the Board was comprised of five (5) members. Board members are elected and hold office until his or her successor is elected and qualified. Individuals elected and serving on the Board of Directors at December 31, 2010 were:

Director	Principal Business Affiliation
Steven Andrew Markel	Vice Chairman Markel Corporation
Francis Michael Crowley	President and Co-Chief Operating Officer Markel Corporation
Richard Reeves Whitt, III	President and Co-Chief Operating Officer Markel Corporation
Gerard Albanese, Jr.	Executive Vice President and Chief Underwriting Officer Markel Corporation
Britton Lee Glisson	Chief Administrative Officer Markel Corporation

Committees of Directors

The Company's bylaws provide for the Board of Directors, by resolution, to designate one or more committees as deemed appropriate. Each committee must consist of one or more directors of the Company and the committee may exercise all powers and authority of the Board of Directors in the management of the business and affairs of the Company to the extent provided in the resolution and not explicitly prohibited by the bylaws. As of December 31, 2010, the Company participated in the following common committees with the Markel Group of insurance companies:

Investment Committee
Audit Committee
Risk Management Committee
Compensation Committee
Nominating Committee
Reinsurance Committee

Officers

The bylaws of the Company require the officers elected by the Board of Directors to consist of a Chairman of the Board, a President, a Secretary, and a Treasurer. The Board of Directors may also choose additional Vice Presidents and one or more Assistant Secretaries and Assistant Treasurers. Any number of offices may be held by the same individual unless specifically prohibited by the bylaws. Officers elected and serving at December 31, 2010 were:

Officer	Office
Steven Andrew Markel	Director
Gerard Albanese, Jr.	President
Linda Sickman Rotz	Secretary
Anne Galbraith Waleski	Treasurer, Vice President & Chief Financial Officer
Richard Reeves Whitt, III	Senior Vice President
Joanne Michelle Cichon-Feeney	Vice President
Nora Newton Crouch	Vice President
Bruce Alan Kay	Vice President
Dewey Michael Jones	Vice President & Assistant Secretary
Robert Glenn Whitt III	Controller

Conflict of Interest

The Company has an established procedure that requires disclosure of any material interest or affiliation on the part of any of its officers, directors, or responsible employees that conflicts or is likely to conflict with the official duties of such person. The disclosures are required annually. Disclosures for the period under examination were reviewed and no conflicts of interest were reported.

HOLDING COMPANY SYSTEM

The Company is a member of an Insurance Holding Company System pursuant to 18 Del. C. §5001(4) "Insurance Holding Company System". The Company is a wholly owned subsidiary of Markel.

Markel is a publicly traded insurance holding company, which writes specialty insurance products and programs for a variety of niche markets through its seven United States domestic insurance subsidiaries and one international insurance subsidiary. Markel's underwriting units are focused on three specialty market segments: the Excess and Surplus Lines Market, the Specialty Admitted Market and the London Insurance Market.

The organizational chart on the following page illustrates the identities and relationships between the Company, its parent, and affiliated companies as of December 31, 2010:

ORGANIZATIONAL CHART

	State of Domicile	Percentage Owned By Parent
Markel Corporation	Virginia	
Markel Service, Incorporated	Virginia	100%
Markel Ventures, Inc.	Virginia	100%
Essex Insurance Company	**Delaware**	**100%**
Markel West, Inc.	California	100%
Associated International Insurance Company	Illinois	100%
Markel Insurance Company	Illinois	100%
Deerfield Insurance Company	Illinois	100%
Markel American Insurance Company	Virginia	100%
Shand/Evanston Group, Inc.	Virginia	100%
Markel Midwest, Inc.	Illinois	100%
Evanston Insurance Company	Illinois	100%
American Underwriting Managers Agency, Inc.	Wisconsin	100%
Markel-Gayner Asset Management Corp.	Virginia	100%
Markel Southeast, Inc.	Virginia	100%
Markel Global Marine & Energy, Inc.	Virginia	100%
Black/White & Associates Insurance Brokers	California	100%
Markel Aspen, Inc.	Delaware	100%
FirstComp Insurance Company	Nebraska	100%
FirstComp Underwriters Group, Inc.	Nebraska	100%
FirstComp Insurance Agency, Inc.	Delaware	100%
Rex, Inc.	Nebraska	100%
Risk Exchange Insurance Services, Inc.	Nebraska	100%
Banyan Re, Ltd.	Bermuda	100%
Pinebrook Insurance Group, Inc.	Nebraska	100%
Employer Pipeline, Inc.	Nebraska	100%
Markel Capital Holdings Limited	England	100%
Terra Nova (Bermuda) Insurance Company, Ltd.	Bermuda	100%
Terra Nova (Bermuda) Holdings, Ltd.	Bermuda	100%
Markel Capital Limited	England	100%
Markel International Insurance Company Ltd.	England	19%
Markel International Limited	England	100%
Markel International Insurance Company Ltd.	England	81%
Markel Syndicate Management Ltd.	England	100%

AFFILIATED AGREEMENTS

The Company has entered into various agreements with its parent and other members of the affiliated group for strategic purposes and operating efficiency. The Company had the following intercompany agreements and arrangements in effect as of December 31, 2010:

Management Agreement

Effective January 1, 1992, the Company entered into a Management Agreement with its affiliate, Underwriting Management, Inc. (UMI), now known as Markel Southeast, Inc. The agreement was amended on September 24, 1993 (retroactive to inception date), in order to clarify UMI's responsibilities and to include a provision for business management services as may be necessary or appropriate to the operation of the business affairs of the Company. Pursuant to the agreement, the Company granted exclusive underwriting authority to UMI including the authority to: enter into producer agreements, receive and accept proposals for insurance, provide limits of liability and coverage terms to policyholders, and issue binders of coverage for a maximum of thirty (30) days. In addition, the contract allows UMI to negotiate, cede or purchase any reinsurance (either treaty or facultative) on behalf of the Company. Further, the agreement grants claims authority for UMI to adjust, settle, compromise, defend and litigate any and all claims arising out of the policies issued pursuant to the agreement. In accordance with the agreement, UMI provides all employees and maintains complete underwriting and claim files. In addition, UMI records and accounts for all transactions and performs all other necessary accounting functions. The contract stipulates that UMI perform authorized services only within the guidelines and ultimate authority of the Company. The Company pays UMI a monthly fee equal to 110% of UMI’s direct cost, which is subject to adjustment by mutual consent. Total fees paid to UMI under this agreement for 2010 were approximately $67.3 million.

Service Agreement

Effective August 1, 2003, the Company entered into a Service Agreement with its parent, Markel, and its affiliated exclusive underwriting manager, UMI, now known as Markel Southeast, Inc. The agreement allows Markel to issue checks on behalf of the Company and UMI as the Company's exclusive underwriter. No fee is charged pursuant to the agreement.

Tax Allocation Agreement

Effective December 30, 1994, the Company entered into a Tax Allocation Agreement with its parent and other subsidiaries of Markel, as allowed by Section 1504 of the Internal Revenue Code. Effective January 15, 1999, this agreement was amended to delete and/or add parties to the agreement due to the acquisitions and/or deletions of subsidiaries within Markel. Pursuant to the agreement, each company computes its tax liability (including alternative minimum tax and environmental tax) in the manner it would regularly use in filing a separate federal income tax return, with the exception that any intercompany transactions that are deferred on the consolidated federal income tax return will be deferred in computing the separate return tax liability, until the deferred intercompany transaction is no longer deferred and is recognized on the consolidated return. The amount of any separate liability is paid to Markel. Any tax refund due to a member is paid within thirty (30) days of filing the applicable consolidated return.

Investment Advisory Agreement

On May 21, 1998, the Company executed an Investment Advisory Agreement dated September 30, 1998, with its affiliate Markel-Gayner Asset Management Corp. (Markel-Gayner). The agreement allows Markel-Gayner to manage a discretionary investment portfolio on behalf of the Company with the expressed objective of capital appreciation. The agreement allows for an annual investment advisory fee equal to 1% of the portfolio's market value payable in quarterly installments. Pursuant to this agreement, the total amount paid to Markel-Gayner in 2010 was $2.3 million.

Binding Authority Agreement

Effective January 1, 2005, the Company entered into a Binding Authority Agreement with its affiliated exclusive underwriter UMI, now known as Markel Southeast, Inc., and the following other affiliates:

- American Underwriting Managers Agency, Inc.
- Markel Service, Incorporated (d/b/a Markel Underwriters & Brokers)
- Markel West, Inc.
- Shand Morahan & Company, Inc. (nka Markel Midwest, Inc.)

These other affiliated underwriters listed above are referred to collectively as “affiliated managers.” Pursuant to this agreement and the Management Agreement between the Company and UMI effective 1992 and amended in 1993 as described above, the Company and UMI grant authority to the affiliated managers to perform certain of UMI’s obligations. Authority includes certain underwriting and claims handling as specified in the contract. The affiliated underwriting managers are compensated based on their actual expenses incurred.

Allocation Agreements

Effective April 1, 2007, the Company entered an Allocation Agreement with its affiliate, Markel American Insurance Company (MAIC). Pursuant to the agreement, the Company and MAIC entered into two joint reinsurance agreements with third-party primary insurers for marine occurrence excess of loss and marine per risk excess of loss with respect to all losses under all marine policies underwritten and classified by the parties as specifically defined by the contract. Under the agreement, the Company and MAIC agree to provide for the apportionment of premium, retention and recovery under the specified reinsurance treaties. The purpose of the agreement is to comply with the requirement under *SSAP No. 62 – Property and Casualty Reinsurance* that allocation agreements for multiple cedent reinsurance agreements be in writing.

Effective May 1, 2007, the Company entered into an Allocation Agreement with its parent and affiliated United States insurance companies (collectively referred to as Markel NA) including: Evanston Insurance Company (Evanston), MAIC, Markel Insurance Company (MIC), Associated International Insurance Company (AIIC), and Deerfield Insurance Company (Deerfield). In addition, international insurance affiliates, Markel International Insurance Company Limited (MIICL) and Markel Syndicate Management Limited (Syndicate) are also parties to the contract. Pursuant to the agreement, the parties agree to enter into joint reinsurance programs to provide cover to Markel NA, MIICL and Syndicate. In accordance with the agreement, the parties agree to provide apportionment of premium, retention and recovery under the joint program unless otherwise specified on a per risk basis. The purpose of the agreement is to comply with the requirement under *SSAP No. 62 – Property and Casualty Reinsurance* that allocation agreements for multiple cedent reinsurance agreements be in writing.

Service Agreement

Effective September 1, 2010, the Company entered into a Service Agreement with its affiliate, Markel Service, Incorporated (MSI), and its affiliated exclusive underwriting manager, UMI, now known as Markel Southeast, Inc. The Company's affiliated United States insurance companies, collectively known as Markel NA, and each insurance company's respective affiliated underwriting managers are also parties to the agreement. Pursuant to the agreement, MSI agrees to establish and maintain cash bank accounts for collection of premium, claims administration, and reinsurance administration for their respective insurance business. The companies maintain ultimate and final authority to ensure each bank account is established in a manner consistent with the respective company's rules and regulations.

Promissory Note

Effective December 14, 2010, the Company entered a Promissory Note with its affiliate, Markel Ventures, Inc. (Ventures). Pursuant to the agreement, Ventures promises to pay the Company the principal sum of $31,000,000 on September 30, 2019, and to pay interest thereon (or on the balance thereof outstanding) semiannually at the rate of 5.833% per annum until the principal is paid. In conjunction with the Promissory Note, the Company's parent has entered into a Guaranty Agreement whereby Markel unconditionally guarantees the payment due the Company in accordance with the Promissory Note should Ventures fail to pay.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2010, the Company was licensed only in the state of Delaware. It writes in all other states and the District of Columbia on a non-admitted basis as an unauthorized excess and surplus lines carrier. States with the largest volume of direct premium written for the year ended December 31, 2010 were California, Florida, Illinois, Texas and New Jersey.

The excess and surplus (E&S) market focuses on hard to place risks and risks that admitted insurers specifically refuse to write. E&S eligibility allows the Company to underwrite nonstandard market risks with more flexible policy forms and unregulated premium rates. This typically results in coverage that is more restrictive and more expensive than the standard admitted market. As of December 31, 2010, the Company was licensed to write the following in Delaware:

> Health, Credit Health, Property, Surety, Marine and Transportation, Casualty including: Vehicle, Liability, Burglary and Theft, Personal Property Floater, Glass, Boiler and Machinery, Credit, Leakage and Fire Extinguisher Equipment, Malpractice, Elevator, Congenital Defects, Livestock, Entertainment and Miscellaneous

The Company's business is predominantly produced by affiliated underwriting manager, UMI, now known as Markel Southeast, Inc. under the terms of the related management agreement.

In terms of Markel's total excess and surplus lines business, the business has been produced primarily through 830 professional surplus lines general agents who have 1,364 offices nationwide. Approximately 275 have limited quoting and binding authority.

GROWTH OF THE COMPANY

The following information was taken from the Company's filed Annual Statements and covers the three year period since the last examination as of December 31, 2007, through and including December 31, 2010:

Year	Net Premium Written	Admitted Assets	Surplus as Regards Policyholders	Net Income
2010	$277,986,919	$1,054,143,483	$339,635,237	$37,537,207
2009	$236,546,412	$1,046,849,524	$343,609,090	$57,474,690
2008	$304,315,919	$1,074,454,759	$296,101,376	$20,762,115
2007	$349,868,382	$1,143,954,141	$342,961,128	$108,388,757

The percentage changes in the balances above from the prior examination date to the current examination date are as follows:

- Net written premium decreased 21% since 2007 with an overall declining trend.
- Total admitted assets decreased 8% since 2007, but have been relatively stable for the past three years.
- Surplus as Regards Policyholders remained stable since the last examination declining only 1% despite fluctuations from year to year.

Net income has varied significantly over the examination period. The variation is primarily related to changes in the Company's combined ratio and changes in total investment income. The Company's combined ratio was 78.1%, 94.7%, 88.6% and 97.4% for each year from 2007 to 2010, respectively, despite pure net loss ratios that have been relatively consistent for the years under examination. The combined ratio has been adversely affected by increases in the expense ratios, which have increased from 37.8% in 2007 to 52.7% for 2010. Although the increase in the expense ratio is partly due to lower net premium written, other underwriting expenses have increased 11% in dollar terms since the prior examination. Meanwhile, total investment income for the year ended December 31, 2010, was $44.8 million, which has improved versus its 2008 low of $17.1 million, but is below the 2007 high of $52 million.

Overall, the Company has remained profitable despite soft market conditions and a challenging investment environment.

LOSS EXPERIENCE

Net reserves for unpaid loss and loss adjustment expenses as of December 31, 2009 totaled $583.6 million. During 2010, $91 million was paid for incurred loss and loss adjustment expense attributable to insured events of prior years. As of December 31, 2010, net loss and loss adjustment expense reserves remaining for prior years were $141.4 million. The 2010 favorable development of prior years' loss reserves of $26.8 million was primarily due to $16.7 million of loss redundancies in the other liability lines, $5.5 million in the professional lines, and $2.7 million in the inland marine line of business. Per the Company, the movement is generally the result of ongoing analysis of recent loss development as original estimates are increased or decreased as additional information becomes known regarding individual claims.

REINSURANCE

General

During the year ended December 31, 2010, the Company's assumptive reinsurance activities were limited relative to direct premium written representing only 20.3% of total gross premium written. Of the total assumed, the Company assumed 97.1% from affiliated insurers and an immaterial amount from non-affiliates at less than one percent of total gross premium.

Meanwhile, total premium ceded represented only 24.4% of total gross written premium allowing the Company to maintain a total retention of 75.6% of total gross written premium. Of total gross premium ceded 9.2% and 15.2% was ceded to affiliated and non-affiliated reinsurers, respectively. The following is a summary of the 2010 Annual Statement Underwriting and Investment Exhibit – Part 1B – Premium Written:

Direct	$293,277,105
Reinsurance assumed from affiliates	72,295,808
Reinsurance assumed from non-affiliates	2,199,989
Total gross (direct and assumed)	$367,772,902
Reinsurance ceded to affiliates	$33,971,195
Reinsurance ceded to non-affiliates	55,814,788
Total ceded	$89,785,983
Net premiums written	$277,986,919

Assumed

As stated above, the Company assumed $74.4 million in premium for the year ended December 31, 2010. Of the total premium assumed, over 97% was assumed from affiliated companies. Under the affiliated reinsurance agreements, the Company receives one hundred percent of gross premium written and retains one hundred percent of risk related to the underlying policies. The contracts are between the Company and Evanston, MIC and MAIC. The underwriting manager for all companies under the assumptive reinsurance agreements is the Company's exclusive underwriting manager UMI, which is now known as Markel Southeast, Inc. The following is a summary of the terms of the affiliated casualty and professional liability quota share contracts:

Type of Agreement	Business Covered	Ceding Company	Liability Ceded
Miscellaneous Casualty Quota Share	Net Direct & Assumed business underwritten & managed by UMI	Evanston Insurance Company	100% of net retained liability
Miscellaneous Casualty & Professional Liability Quota Share	Miscellaneous Casualty Professional Liability & Other Liability coverages underwritten and managed by UMI	Markel Insurance Company	100% of net retained liability
Miscellaneous Casualty Quota Share	Net Direct & Assumed business underwritten & managed by UMI	Markel American Insurance Company	100% of net retained liability

Ceded

As stated above, the Company retained 75.6% of its gross written premium for the year ended December 31, 2010, and the Company cedes the remaining premium to both affiliates and third parties. Premium ceded to affiliates totaling $34.0 million for the period ended December 31, 2010, relates to business written on the Company's paper by affiliated underwriting managers, which have exclusive underwriting agreements with affiliated insurance companies. The Company cedes associated premium written to the insurance affiliate who maintains the exclusive underwriting agreement with the respective underwriter. As discussed above, the affiliated assumptive contracts are structured similarly.

The Company cedes 100% of gross premium written and losses to its affiliated insurance companies under the terms of the following miscellaneous quota share agreements:

Type of Agreement	Business Covered	Assuming Company	Liability Assumed
Miscellaneous Casualty Quota Share	Net Direct & Assumed business underwritten & managed by Markel Midwest	Evanston Insurance Company	100% of net retained liability
Miscellaneous Casualty Quota Share	All Casualty business underwritten by Markel Services Inc (MSI) d/b/a Markel Underwriters & Brokers (MUB)	Markel Insurance Company	100% of net retained liability

For the period ended December 31, 2010, the Company ceded premium to non-affiliates in the amount of $55.8 million or 15.2% of gross premium written. The Company utilizes third-party reinsurers to manage its risk by line of business and in the aggregate. As of December 31, 2010, the Company's largest net retention in any one risk was $7 million. The following pages contain a list summarizing reinsurance coverage on treaties that had premium written during the year ended December 31, 2010, and had not expired as of December 31, 2010. The name of the reinsurer was not included because in most cases the agreement has more than one reinsurer.

Type of Agreement	Business Covered	Company Retention	Reinsurers' Limits
Quota Share	Liquor Liability policies	50% Quota Share	50% Quota Share up to a maximum of $1 million each common cause & $1 million in the aggregate
Environmental Auto Carve Out Quota Share	Policies underwritten by Markel Underwriting Managers (MUM) Environment Department for automobile coverages in excess of $1 million primary coverages	25% share of individual policies with a maximum limit of $5 million CSL each occurrence in excess of primary coverage	75% share of individual policies with a maximum limit of $5 million CSL each occurrence in excess of primary coverage
Environmental Quota Share	Policies underwritten by Markel Underwriting Managers (MUM) Environment Product Line Division & classified as casualty insurance	82% share of $2 million being $1,640,000	18% share with a maximum limit equal to $360,000 each loss, each policy being 18% of $2 million
Environmental Excess of Loss	Policies underwritten by Markel Underwriting Managers (MUM) Environment Product Line Division & classified as casualty insurance	15% of $8 million in excess of $2 million	85% of $8 million in excess of $2 million each loss, each policy
Excess & Umbrella Quota Share & Excess of Loss	Section A: Umbrella Liability & Excess Liability underwritten by Markel E&U Product Line Division & Burns and Wilcox Ltd. Policies with limits in excess of $3 million	40% share of losses on covered policies	60% share of losses up to $6 million each occurrence being 60% of $10 million
	Section B: Primary Liability Excess Cessions not including Railroad General Liability policies underwritten by Markel Binding P&C Division & Markel Brokerage Casualty Product Line Division	$3 million each occurrence, each policy	$2 million ultimate net loss (UNL) in excess of $3 million
	Section C: Railroad	$2 million each	$3 million ultimate net loss

Type of Agreement	Business Covered	Company Retention	Reinsurers' Limits
Ocean Marine Quota Share	Gulf Coast Marine Hull / Cargo: Section A: Not exceeding $500,000 total policy limit Section B: $500,001 to $1,000,000 total policy limit Protection & Indemnity (PI) Section C: Not exceeding $250,000 total policy limit Section D: $250,001 - $500,000 total policy limit		Reinsurer's Limit of Liability: Section A: 30.77% of up to $162,500 any one hull including collision and / tower liability Section B: 29.41% of up to $340,000 any one hull including collision and / tower liability Section C: 80% of up to $156,250 any one occurrence Section D: 78.94% of up to $316,700 any one occurrence
Ocean Marine Excess of Loss	Marine Hull and Machinery including War and S.R.C.C., Marine Liabilities, Protection and Indemnity, Excess Protection and Indemnity, Marine Cargo and Marine Cargo War Risks, Builders Risk, Boat Dealers, Yachts, Watercraft, Marine-Related General Liability and Property Coverage	Section A: $5 million each occurrence	Section A: $5 million in excess of $5 million Section B: $7.5 million in excess of $10 million Section C: $7.5 million in excess of $17.5 million
Boiler & Machinery Equipment Breakdown Quota Share	Equipment Breakdown sections of Commercial Multiple Peril programs		100% share of Equipment Breakdown coverage with a cession limit of $50 million any one risk, any one policy
Property Per Risk Excess of Loss – First Layer Agreement	Section A: Property coverage underwritten by Inland Marine, Railroad or Binding Property Line Division	$1 million each loss, each risk and 10% of $4 million in excess of $1 million each loss, each risk	90% of $4 million in excess of $1 million each loss, each risk

Type of Agreement	Business Covered	Company Retention	Reinsurers' Limits
Continued from Previous Page	Section B: Property coverage underwritten by Specialty Admitted Division	$2 million each loss, each risk and 10% of $3 million each loss, each risk in excess of $2 million each loss, each risk	90% of $3 million each loss, each risk in excess of $2 million each loss, each risk Property Per Risk - First layer Section A & B combined aggregate limits $12 million one loss occurrence & $20 million agreement year
Property Per Risk Excess of Loss – Second Layer Agreement	Property coverages		$5 million in excess of $5 million each loss each risk Aggregate limits: $10 million limit each occurrence $20 million limit for the agreement year
Property Per Risk Excess of Loss – Third Layer	Property coverages		$15 million in excess of $10 million each loss, each risk Aggregate limits: $15 million limit each occurrence $30 million limit for the agreement year
Property Per Risk Excess of Loss – All Peril CAT	Property coverages	$100 million ultimate net loss (UNL) any one occurrence	$50 million UNL in excess of $100 million UNL and $100 million UNL during the term of this agreement
Property Per Risk Excess of Loss – Earthquake CAT	Property coverages (losses arising from earthquake)	$150 million ultimate net loss (UNL) any one occurrence	$50 million UNL in excess of $150 million UNL and $100 million UNL during the term of this agreement
Property Per Risk Quota Share	Property coverage written by Brokerage Property & Catastrophe Property Line Divisions	50% Quota Share each loss, each risk	Quota Share not to exceed 50% of $5 million each loss, each risk

Type of Agreement	Business Covered	Company Retention	Reinsurers' Limits
Property Per Risk Surplus Share	Property coverage written by Brokerage Property & Catastrophe Property Line Divisions	Net retention or $5 million each risk	One times the Company's retention not to exceed $5 million each loss, each risk
Public Entity Liability Quota Share	All acceptances or insurance & reinsurance issued by the Public Entity Product Line Division	Quota Share retained by policy limits on risk acceptances: 81% - $0M to $1M 44% - $1M to $2M 31 & 44% - $2M to $5M 24.25% - $5M to $9M	Quota Share reinsured by policy limits on risk acceptances: 19% - $0M to $1M 56% - $1M to $2M 56% & 69% - $2M to $5M 75.75% - $5M to $9M
Casualty Railroad Excess of Loss	Short Line Railroad Liability policies issued by the Railroad Product Line Division and classified as Casualty Insurance	$5 million each claim, each insured, each policy / program	$5 million in excess of $5 million and $10 million limit during the term of the agreement

All reinsurance contracts were reviewed and the credits for reinsurance on paid and unpaid losses and unearned premiums were analyzed. All of the contracts contain the necessary provisions to transfer risk in accordance with *SSAP No. 62 – Property and Casualty Reinsurance.*

ACCOUNTS AND RECORDS

The Company maintains its records on a combination of client server, host and network applications. The Company utilizes various reporting systems to record and report financial information.

The accounts and records reviewed included an evaluation of the Company's operational and organizational controls. The areas evaluated included computer systems, accounting systems, organizational structures, and the processing structure.

The independent certified public accounting firm, KPMG, LLP (KPMG), audited the Company’s records for all years under examination. Audit reports and applicable work papers were made available for the examination.

The accounts and records reviewed included an assessment of the Company’s risk management process in identifying and controlling risks in the key operational areas of the Company. In determining a residual risk assessment in each key area, processes were reviewed, risks were identified, and key operational and organizational controls were identified and tested for design and operating effectiveness. In addition, the Company’s methodology for assessing the effectiveness of the established mitigation factors was evaluated.

The primary systems used in the operations of the Company were also evaluated. The consulting firm of INS Services, Inc. performed an Exhibit C review of the Company’s information technology operations.

During the course of the examination, the Company's books and records were reviewed and compared to reported items and values in the annual statements. No material discrepancies were noted during this review.

STATUTORY DEPOSITS

The Company’s state statutory deposits are comprised of U.S. Treasury Notes and other direct obligations of states, municipalities and corporations. The following statutory deposits were on file with the referenced states:

	Deposits For The Benefit of All Policyholders		All Other Special Deposits	
STATE	Book/Adjusted Carrying Value	Fair Value	Book/Adjusted Carrying Value	Fair Value
Arkansas	$ -	$ -	$ 126,680	$ 128,375
Delaware	2,646,216	2,637,986	-	-
Louisiana	-	-	100,000	100,000
Massachusetts	-	-	127,222	126,826
Michigan	-	-	111,479	112,970
Missouri	-		278,697	282,425
New Hampshire	-	-	834,576	831,980
New Mexico	-	-	116,546	118,105
New York	-	-	2,621,354	2,861,355
Oklahoma	-	-	111,955	111,607
South Carolina	-	-	330,777	329,748
Aggregate Alien & Other	-	-	17,587,624	18,864,971
TOTAL DEPOSITS	$ 2,646,216	$ 2,637,986	$ 22,346,910	$ 23,868,362

FINANCIAL STATEMENTS

The following statements show the assets, liabilities, surplus and other funds of the Company, as determined by this examination, as of December 31, 2010:

Assets
Liabilities, Surplus and Other Funds
Statement of Income
Capital and Surplus Account
Analysis of Financial Statement Changes from Examination

ESSEX INSURANCE COMPANY
ASSETS
DECEMBER 31, 2010

	Assets	Non-Admitted Assets	Net Admitted Assets	Notes
Bonds	$ 648,856,733		$ 648,856,733	1
Common stocks	245,059,249		245,059,249	
Cash, Cash Equivalents and Short-term Investments	57,257,313		57,257,313	
Other invested assets	31,000,000		31,000,000	
Subtotals, cash and invested assets	$ 982,173,295	$ 0	$ 982,173,295	
Investment income due and accrued	8,788,697		8,788,697	
Uncollected premiums and agents' balances in the course of collection	40,791,361		40,791,361	
Deferred Premiums, Agents' Balance booked but not due	262,551		262,551	
Amounts recoverable from reinsurers	4,942,838		4,942,838	
Funds held by or deposited with reinsured companies	3,316,645		3,316,645	
Other amounts receivable under reinsurance contracts	2,395,397		2,395,397	
Receivable from parent, subsidiaries, and affiliates	10,101,453		10,101,453	
Claims advance	1,268,301		1,268,301	
Receivable Specialty Surplus Insurance Company	1,421,923	1,415,812	6,111	
Receivable PMA Capital Insurance Company	632,144	542,570	89,574	
Receivable reinsurance interest	5,380		5,380	
Other A/R	1,880		1,880	
Totals	$1,056,101,865	$ 1,958,382	$ 1,054,143,483	

ESSEX INSURANCE COMPANY
LIABILITES, SURPLUS AND OTHER FUNDS
DECEMBER 31, 2010

		Notes
Losses	$ 407,032,363	2
Reinsurance Payable on Paid Losses and LAE	10,939	
Loss adjustment expenses	172,528,394	2
Commissions payable, contingent commissions	916,039	
Other expenses	858,794	
Taxes, licenses and fees	369,458	
Current federal and foreign income taxes	2,151,910	
Net deferred tax liability	97,691	
Unearned premiums	119,393,332	
Ceded reinsurance premiums payable	8,340,392	
Funds held by company under reinsurance treaties	2,141,162	
Amounts withheld or retained by company for account of others	1,387,412	
Provisions for reinsurance	1,954,849	
Payable to parent, subsidiaries, and affiliates	1,288,123	
Retroactive reinsurance ceded	(4,123,237)	
Miscellaneous liability for American Nuclear Insurers	129,716	
Premium payable Specialty Surplus Insurance Company	2,641	
Premium payable American Motorist Insurance Company	3,268	
Fund held for the benefit of the insured	25,000	
Total liabilities	$ 714,508,246	
Special Surplus from retroactive reinsurance	$ 793,364	
Common capital stock	4,500,000	
Gross paid in and contributed surplus	$ 108,577,322	
Unassigned funds (surplus)	225,764,551	
Surplus as regards policyholders	$ 339,635,237	
Totals	$1,054,143,483	

ESSEX INSURANCE COMPANY
SUMMARY OF OPERATIONS
DECEMBER 31, 2010

Premiums earned	$262,387,425
Losses incurred	$ 68,066,512
Loss adjustment expenses incurred	49,058,459
Other underwriting expenses incurred	146,583,162
Total underwriting deductions	$263,708,133
Net underwriting gain (loss)	$ (1,320,708)
Net investment income earned	35,235,424
Net realized capital gains or (losses)	9,517,999
Net investment gain (loss)	$ 44,753,423
Retroactive reinsurance gain (loss)	$ (171,652)
Miscellaneous income	109,163
Total other income	$ (62,489)
Net income after dividends to policyholders	43,370,226
Federal and foreign income taxes incurred	5,833,019
Net income	$ 37,537,207
Surplus as regards policyholders, December 31, 2009	$343,609,090
Net income (losses)	37,537,207
Change in net unrealized capital gains (losses) less capital gains tax of $10,958,688	20,351,852
Change in net deferred income tax	(4,452,340)
Change in non-admitted assets	534,127
Change in provision for reinsurance	(470,009)
Dividends to stockholders	(57,474,690)
Net change in capital and surplus for the year	$ (3,973,853)
Surplus as regards policyholders, December 31, 2010	$339,635,237

ESSEX INSURANCE COMPANY
RECONCILIATION OF CAPITAL AND SURPLUS
FROM DECEMBER 31, 2007 to DECEMBER 31, 2010

	Common Capital Stock	Aggregate Write-in for Special Surplus Funds	Gross Paid-in and Contributed Surplus	Unassigned Surplus	Total
December 31, 2007	$ 4,500,000	-	$ 55,875,000	$ 282,586,128	$ 342,961,128
Operations 2008				(4,659,160)	(46,859,752)
Surplus paid-in:			52,702,322		
Dividends to SH				(95,553,802)	
Special Surplus Retroactive Reinsurance		650,888			
Operations 2009				74,895,025	47,507,714
Surplus paid-in:					
Dividends to SH				(29,610,138)	
Special Surplus Retroactive Reinsurance		314,128			
Additional Admitted DTA Per SSAP 10R		1,908,699			
Operations 2010				55,581,188	(3,973,853)
Surplus paid-in:					
Dividends to SH				(57,474,690)	
Special Surplus Retroactive Reinsurance		(171,652)			
Additional Admitted DTA Per SSAP 10R		(1,908,699)			
December 31, 2010	$ 4,500,000	$ 793,364	$ 108,577,322	$ 225,764,551	$ 339,635,237

ANALYSIS OF CHANGES IN THE FINANCIAL STATEMENTS

There were no financial adjustments to the Company's financial statements as a result of this examination.

NOTES TO THE FINANCIAL STATEMENTS

(Note 1) Bonds	**$648,856,733**

Over 99% of the Company's bonds are rated as Class 1 or Class 2 by the NAIC. Of the total bonds owned, 59% mature within five (5) years and 92% within ten (10) years. As of December 31, 2010, the Company had exposure to investments in residential and commercial mortgage backed securities totaling 8% of total bonds and 4.9% of total admitted assets. In addition, the portfolio was comprised of special revenue bonds of municipalities, direct obligations of state and municipalities, corporate issuer obligations, United States government and agency securities, and Canadian government issuer obligations at 44.2%, 30.5%, 10.1%, 5.4% and 2.0% of total bonds, respectively. The Company's strategy has been to maintain an investment mix that provides for preservation of capital through relatively safe and stable investments and recognizes the need to balance investment risk and underwriting risk.

(Note 2) Losses	**$407,032,363**
Loss Adjustment Expenses	**$172,528,394**

The Department's consulting actuary, INS Consultants Inc., (INS), was retained to perform an independent analysis of the Company's gross and net loss and loss adjustment expense (LAE) reserves as of December 31, 2010. As of December 31, 2010, the Company's carried gross reserve loss and loss adjustment expense reserve of $714.2 million is considered adequate compared to the INS estimate. Further, the Company's carried net loss and loss adjustment expense reserve of $579.6 million is also considered adequate compared to the INS reserve estimate.

COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS

The examination report for the period ended December 31, 2007, recommended that the Company settle intercompany balances in accordance with the stated terms of the agreements or at least quarterly as recommended by *SSAP 96 – Settlement Requirements for Intercompany Transactions.*

As of December 31, 2010, the Company was in compliance with the recommendation.

The examination report for the period ended December 31, 2007, recommended that the Company, "keep a complete permanent record of the proceedings of its Board of Directors and subordinate committees thereof," as required by the NAIC Annual Statement Instructions for Property/Casualty Companies and in compliance with 18 Del. C. § 320(d), which requires adequate records to be maintained.

As of December 31, 2010, the Company was in compliance with the recommendation.

SUMMARY OF RECOMMENDATIONS

There were no specific recommendations as a result of this examination.

CONCLUSION

The following schedule shows the results of this examination and the results of the prior examination with changes between the examination periods:

Description	December 31, 2010	December 31, 2007	(Decrease)
Assets	$1,054,143,483	$1,143,954,141	$(89,810,658)
Liabilities	$ 714,508,246	$ 800,993,013	$(86,484,767)
Capital and Surplus	$ 339,635,237	$ 342,961,128	$ (3,325,891)

The consulting firm of INS Consultants, Inc. performed the actuarial review of the Company's loss reserves, loss adjustment expenses reserves, and reinsurance program related to the examination. The consulting firm of INS Services, Inc. performed a review of the Company's information technology platforms, security, and the related control environment. John Clark, CFE assisted with performing the financial examination.

The courteous cooperation of the Company's management and staff is hereby acknowledged.

Respectfully submitted,

Richard E. Palmatary, CPA, CFE
Examiner In-Charge
State of Delaware