

**REPORT ON EXAMINATION**  
**OF THE**  
**ADMIRAL INSURANCE COMPANY**  
**AS OF**  
**DECEMBER 31, 2009**



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OF THE  
ADMIRAL INSURANCE COMPANY  
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The above-captioned Report was completed by examiners of the Delaware Department of Insurance.

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

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

A handwritten signature in black ink, appearing to read "Karen Weldin Stewart".

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Karen Weldin Stewart, CIR-ML  
Insurance Commissioner

Dated this 28th day of June, 2011



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, 2009 of the

**ADMIRAL INSURANCE COMPANY**

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

Attest By: *Sonia C. Harris*

Date: 28 June 2011



In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 28th day of June, 2011.

A handwritten signature in black ink, appearing to read "Karen Weldin Stewart".

Karen Weldin Stewart, CIR-ML  
Insurance Commissioner

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March 7, 2011

**SALUTATION**

Honorable Joseph Torti, III  
Chairman, Financial Condition (E) Committee,  
NAIC  
Deputy Director and Superintendent of  
Insurance and Banking  
Division of Insurance  
Department of Business Regulation  
State of Rhode Island  
1511 Pontiac Avenue, Bldg # 69-2  
Cranston, Rhode Island 02920

Honorable Sharon P. Clark,  
Secretary, Southeastern Zone  
Commissioner of Insurance  
Kentucky Department of Insurance  
P.O.Box517  
Frankfort, Kentucky 40602-0517

Honorable Monica J. Lindeen  
Secretary, Western Zone  
Commissioner of Securities and Insurance  
Montana State Auditor's Office  
840 Helena Ave.  
Helena, Montana 59601

Honorable Stephen W. Robertson,  
Secretary, Midwestern Zone  
Commissioner of Insurance  
Indiana Department of Insurance  
311 West Washington Street, Suite 300  
Indianapolis, Indiana 46204-2787

Honorable Mila Kofman  
Secretary, Northeastern Zone  
Superintendent of Insurance  
Department of Professional Regulation and  
Financial Regulation  
Maine Bureau of Insurance  
34 State House Station  
Augusta, Maine 04333-0034

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

Commissioners:

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority No. 10.003B, dated February 18, 2010, an Association examination has been made of the affairs, financial condition and management of the

**ADMIRAL INSURANCE COMPANY**

hereinafter referred to as “Company” or “AIC”, incorporated under the laws of the State of Delaware as a stock company with its statutory home office located at 1209 Orange Street, Wilmington, Delaware. The examination was conducted at the principal offices of the Company located at 1255 Caldwell Road, Cherry Hill, New Jersey. The examination report thereon is respectfully submitted.

### **SCOPE OF EXAMINATION**

The last examination was as of December 31, 2006. This examination is a comprehensive risk-focused examination which covers the three (3) year period from January 1, 2007, to December 31, 2009. The examination encompassed a general review of transactions during the period, the Company’s business policies and practices, as well as management and relevant corporate matters, with a determination of the financial condition as of December 31, 2009. Transactions subsequent to the examination date were reviewed where deemed necessary.

This examination was conducted in accordance with the NAIC Financial Condition Examiners Handbook (Handbook). The NAIC Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company, including corporate governance, identifying and assessing material inherent risks within classified Company key activities, evaluating company procedures and system controls used to mitigate those risks, and conducting targeted substantive procedures on accounts and areas determined to have unmitigated risks moderate and above. The examination also included assessing the principles used and significant estimates made by management, as well as evaluating overall financial statement presentation, management’s compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk focused examination process. The examination report addresses regulatory issues revealed during the examination process.

During the course of this examination, consideration was given to work performed by the Company's external accounting firm, KPMG, LLP (KPMG). Certain auditor work papers have been incorporated into the work papers of the examiners and have been utilized in determining the scope and areas of emphasis in conducting the examination.

This report of examination was confined to financial statements and comments on matters that involved departures from laws, regulations or rules, or which were deemed to require special explanation or description.

### **SUMMARY OF SIGNIFICANT FINDINGS**

There were no significant findings or material adjustments to the Company's financial statement that warranted disclosure in this examination report.

### **SUBSEQUENT EVENTS**

There were no significant subsequent events.

### **COMPANY HISTORY**

AIC was incorporated on December 5, 1978, under the temporary title of "Admiral Insurance Company of Delaware" under the laws of the State of Delaware to act as the vehicle to effect a change in corporate domicile of the Admiral Insurance Company from Austin, Texas to

Wilmington, Delaware. The Texas insurer was incorporated and began operations on November 26, 1952. Since October 1, 1979, financial control of the Company has been held by the W. R. Berkley Corporation (WRBC) of Greenwich, Connecticut. The Company's corporate structure and ownership was unchanged during the current examination period.

During the 3<sup>rd</sup> quarter of 2009, AIC acquired the balance of the common stock of Carolina Casualty Insurance Company (CCIC), an affiliate, through a capital transaction in which AIC issued preferred shares of stock with a par value of \$1 million to WRBC in consideration of acquiring CCIC. AIC purchased the remaining shares of CCIC from an affiliated insurer for cash. The purchase of CCIC resulted in an increase of \$186,595,876 to AIC's gross paid in and contributed surplus.

The purchase of CCIC was reported to and approved by the Delaware Insurance Department in accordance with 18 Del. C. §5005.

During the period covered by this examination, gross paid-in and contributed surplus increased \$186,595,876 from \$160,188,452 in 2006 to \$346,784,328 in 2009. The increase for the period is illustrated in the following schedule.

Ending Balance as of December 31, 2006	\$160,188,452
Increase resulting from purchase of CCIC Stock mentioned above	<u>186,595,876</u>
Ending Balance as of December 31, 2009	<u>\$346,784,328</u>

## CORPORATE RECORDS

The recorded minutes of the shareholders, the Company's Board of Directors (Board), and certain internal committees were reviewed for the period under examination. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions and events.

During the review of the Company minutes, it was noted that the Chairman was not elected to the Investment or the Underwriting Committees. Article II Section 7 of the bylaws requires the Chairman to be a member of the Investment Committee and Article II Section 8 of the bylaws requires the Chairman to be a member of the Underwriting Committee. It was further noted that the Secretary is not a member of the Board. Article III Section 1 of the bylaws requires the Secretary be a member of the Board.

**Therefore,**

**It is recommended the Company comply with its bylaws, Article II Sections 7 and 8 and Article III Section 1, with regards to election of Committee and Board members.**

On November 24, 2009, the Company amended and restated their "Certificate of Incorporation" which amended Article 4 to increase the number of authorized shares. The aggregate number of shares of capital stock which the Corporation shall have authority to issue is 4,000 shares consisting of 2,000 shares of Common Stock, par value of \$2,300 per share; and 2,000 shares of redeemable Preferred Stock, par value \$1,000 per share. Preferred Stock designated as Series B Preferred Stock with a dividend rate of \$8,500 per share per annum and shall be redeemable.

## MANAGEMENT AND CONTROL

Pursuant to the general Corporation Laws of the State of Delaware, as implemented by the Company's Certificate of Incorporation and bylaws, the property and business of the Company shall be managed by the Board. The bylaws provide that the number of directors that shall constitute the whole Board shall not be less than five (5) members. The Board, by vote of a majority of the whole Board, may from time to time designate one or more committees. The bylaws provide that the committees shall keep regular minutes of their meetings and the findings of the committees shall be reported to the Board.

The Board serving as of December 31, 2009, is as follows:

<u>Name</u>	<u>Principal Occupation</u>
William Robert Berkley, Jr.	President, COO and Director, WRBC
James Stephen Carey	President and CEO, AIC
Martin Marcel Michell	Regional VP, Texas Office, AIC
Eugene George Ballard	Senior Vice President and Chief Financial Officer, WRBC
Ira Seth Lederman	Senior VP, General Counsel and Secretary, WRBC
Robert C. Hewitt	Senior VP, Excess & Surplus Lines, WRBC
Scott R. Barraclough	Regional VP, AIC

The Company's principal officers and their titles serving as of December 31, 2009:

<u>Name</u>	<u>Title</u>
Robert W. Berkley	Chairman of the Board
James S. Carey	President and CEO
Thomas G. Grilli, Jr.	Senior V.P., CFO and Treasurer
Daniel MacDonald	Senior V.P. and Secretary
Scott R. Barraclough	Regional V.P.
Curtis E. Fletcher	Regional V.P.
Michael S. Howey	Regional V.P.
Martin M. Mitchell	Regional V.P.
Michael S. Bernstein	Vice President
Mark R. Brown	Senior Staff Underwriting Officer
Blake R. Dotson	V.P. Casualty
Susan D. Geers	V.P. Claims
Carolyn Grob	V.P. Property
Letha E. Heaton	V.P. Marketing
Bernard E. Hempelman	V.P. Professional Liability
Christopher J. La Roche	V.P. Claims
Daniel D. Mayo	V.P. Property
Richard Moore	V.P. General Counsel
Robert Morgan	V.P. Information Technology
Sharon S. Murray	V.P. Professional Liability
Anthony Peraine	V.P. Chief Actuary
Michael R. Peterson	V.P. Casualty
Bradley D. Phillips	V.P.Strategic/ProductDevelopment Leader- Professional Liability
Stephen Pratten	V.P. Casualty
Daniel J. Smyrl	V.P. Casualty
Walter G. Strauss	V.P. Underwriting
Leah E. Taylor	V.P. Professional Liability
Patricia A. Vreeland	V.P. Human Resources
Mark E. Watkins	V.P. Property
James W. Wright, Jr.	V.P. Property
Douglas R. Keith	Controller
Dorothy C. Keenan	Assistant V.P.
John Benedetto	Assistant Secretary
Joseph M. Junfola	Assistant Secretary
Ira S. Lederman	Assistant Secretary
Robert K. Steere	Assistant Secretary

It was noted that written correspondence was submitted to the Delaware Department of Insurance in regards to the changes in officers and directors during the period under examination in compliance with 18 Del. C. §4919 “Change in Officer and Director Notice”.

## HOLDING COMPANY SYSTEM

The Company is a member of the WRBC insurance holding company system. WRBC operates in five segments of the property and casualty insurance business: specialty insurance, regional property and casualty insurance, alternative markets, reinsurance and international. As of December 31, 2009, the Company is a wholly-owned subsidiary of J/I Holding Corporation. The ultimate parent is WRBC.

WRBC is a United States property and casualty insurance and insurance services holding company with operations throughout the U.S., as well as South America, Australia, Hong Kong, the United Kingdom and Continental Europe. WRBC is publicly traded on the New York Stock Exchange as “WRB”. As of December 31, 2009, WRBC reported assets of \$17.3 billion and stockholders’ equity of \$3.6 billion on a GAAP basis, held in excess of 160 separate legal entities.

An organizational chart listing the Holding Company System in which the Company is a member as of December 31, 2009, is as follows:

### **Organizational Chart**

W.R. Berkley Corporation  
All American Agency Facilities, Inc.  
Berkley Dean & Company, Inc.  
Berkley Capital Investors, LP  
Berkley Capital, LLC  
Berkley Holdings Corp. Two

## Admiral Insurance Company

Berkley Holdings, LLC

### **Berkley Insurance Services, LLC**

### **Berkley International, LLC**

Berkley International Holdings, LLC

Berkley International Latinoamerica S. A.

Berkley International Aseguradora de Riesgos del Trabajo S. A.

Berkley International do Brasil Seguros S. A.

Berkley International Seguros, S. A. (99.6% Ownership)

Berkley International Seguros, S. A. (Uruguay)

Cotasy Corporation S. A.

Independencia Compania de Seguros de Vida, S. A.

BI China, Limited

Magaverse, Limited

Masterclass, Limited

Global Direct, LLC

Steamboat Advisory Services, Limited

Berkley Offshore Underwriting Managers UK, Limited

### **Berkley Life and Health Insurance Company**

### **Berkley London Holdings, Inc.**

W. R. Berkley London Finance, Limited

W. R. Berkley London Holdings, Limited

W. R. Berkley Insurance (Europe), Limited

W. R. Berkley London Staff, Limited

### **Greenwich Knight Insurance Company**

### **Greenwich AeroGroup, Inc.**

Atlantic Aero Holdings, Inc.

Atlantic Aero, Inc.

Alamo Aerospace, LP

Mid-Atlantic Freight, Inc.

MartinAire Aviation LLC

Mid-Atlantic Freight GenPar, LLC

Banner Aerospace, Inc.

GCCUS, Inc.

DAC International, Inc.

Matrix Aviation, Inc.

NASAM Incorporated (formerly known as Banner Acquisition Corp. II)

Professional Aircraft Accessories, Inc.

Professional Aviation Associates, Inc.

Summit Aviation, Inc.

Western Acquisition Corp.

Western Aircraft, Inc.

### **J/I Holding Corporation**

Admiral Insurance Company

Admiral Indemnity Company

Admiral Risk Insurance Services, Inc.

Armada Insurance Services, Inc.

Carolina Casualty Insurance Company

Berkley Specialty Insurance Services, LLC

Admiral Insurance Group, LLC

Berkley Professional Liability, LLC

Admiral Insurance Company

Berkley Select, LLC (formerly known as Select Specialty Managers, LLC)  
Berkley Specialty Underwriting Managers, LLC  
Carolina Casualty Insurance Group, LLC  
Clermont Specialty Managers, Ltd.  
Monitor Liability Managers, LLC (formerly known as Monitor Liability Managers, Inc.)  
Nautilus Insurance Group, LLC  
Southwest International Underwriting Managers, Inc.  
Vela Insurance Services, LLC (formerly known as Vela Insurance Services, Inc.)

Clermont Insurance Company  
Jersey International Brokerage Corporation  
Nautilus Insurance Company

Great Divide Insurance Company  
Commodore Re Management Corporation  
East Isles Reinsurance, Ltd.  
Northwest International Underwriting Manager, Inc.

**MADA Reciprocal Services, Inc.**

**Peyton Street Independent Financial Services Corporation (6)**

Insurbanc

**Queen's Island Insurance Company, Ltd.**

**Signet Star Holdings, Inc.**

Berkley Insurance Company  
Berkley Canada Inc. (formerly known as Berkley Underwriting Managers Canada, Ltd.)  
Berkley Regional Insurance Company  
Acadia Insurance Company  
Maine Compensation Services, Inc  
Berkley Regional Insurance Services, LLC  
Acadia Insurance Group, LLC  
American Mining Insurance Group, LLC  
Berkley Mid-Atlantic Group, LLC  
Berkley North Pacific Group, LLC  
Berkley Regional Specialty, LLC  
Berkley Surety Group, LLC (formerly known as Berkley Surety Group, Inc.)  
Continental Western Group, LLC  
Regional Excess Underwriters, LLC  
Union Standard Insurance Group, LLC  
Berkley Regional Specialty Insurance Company  
CGH Insurance Group, Inc.  
American Mining Claims Service, Inc.  
CGH Claims Service, Inc.  
American Mining Insurance Company, Inc.  
Deck Software, Inc.  
Mining Insurance Markets, Inc.  
Continental Western Insurance Company  
Firemen's Insurance Company of Washington, D.C.  
Tri-State Insurance Company of Minnesota  
Union Insurance Company  
Union Standard Insurance Company  
Union Standard Management Company, Inc  
Gemini Insurance Company  
Key Risk Insurance Company

Admiral Insurance Company

Midwest Employers Casualty Company

Berkley Alternative Markets Insurance Services, LLC

Berkley Medical Excess Underwriters, LLC

Berkley Administrators of Connecticut, Inc

Berkley Risk Administrators Company, LLC

All Claims of Nevada, Inc.

Berkley Risk Administrators of Texas, Inc.

Berkley Risk Services of Vermont, Inc.

Garnet Captive Services, LLC

Independent Plan Administrators, LLC

Rasmussen Agency, Inc.

Key Care, LLC

Key Risk Management Services, LLC (formerly Key Risk Management Services, Inc.)

Key Risk Underwriting Managers, LLC (formerly Key Risk Underwriting Managers, Inc.)

Midwest Employers Casualty Group, LLC

Midwest Employers Services, LLC

Preferred Employers Group, LLC

Select Marketing Insurance Services, LLC.

Riverport Insurance Services, LLC

Preferred Employers Insurance Company

Riverport Insurance Company

Reinsenco, Inc

Merrill Management Corporation

StarNet Insurance Company

Starnet Insurance Services, LLC

Berkley Accident and Health, LLC

Berkley Asset Protection Underwriters, LLC

Berkley Aviation, LLC

Berkley Facultative Reinsurance Services, LLC

Berkley Life Sciences, LLC

Berkley Net Underwriters, LLC

Berkley Offshore Underwriting Managers, LLC

Berkley Oil & Gas Specialty Services, LLC

Berkley Risk Solutions, LLC (formerly known as Berkley Risk Solutions, Inc.)

Berkley Technology Services LLC

Berkley Underwriting Partners, LLC

B F Re Underwriters, LLC

Facultative ReSources, Inc.

FinSecure, LLC

Lenpex, LLC

Signet Star Re, LLC

Watch Hill Fac Management, LLC

Surety-Pro Services, Inc.

WR Berkley Syndicate Holdings, Ltd (formerly known as WRBC (SH), Limited)

WRBC Corporate Member, Ltd

WR Berkley Syndicate, Ltd (formerly known as WRBC (ST), Limited)

**Steamboat Asset Management, LLC**

**WRBC Transportation, Inc.**

Interlaken Capital Aviation Holdings, Inc.

Interlaken Capital Aviation Services, Inc.

**W. R. Berkley Capital Trust**  
**W. R. Berkley Capital Trust II**  
**W. R. Berkley Capital Trust III**

MANAGEMENT CONTRACT AND/OR LENDING RELATIONSHIP (NON-OWNED)  
MADA Insurance Exchange  
Union Standard Lloyds  
States Self-Insurers Trust  
    States Self Insurers Risk Retention Group  
W. R. Berkley Syndicate 1967

A review of the Insurance Holding Company Annual Registration Statement filings (*Form B* and *Form C*) made by the Company for all years under examination revealed that the Company had complied with the requirements of 18 Del. Administrative Code 1801.

#### AFFILIATED AGREEMENTS

The Company participated in the following inter-company management, and service and limited partnership agreements that were in effect as of December 31, 2009:

##### Investment Advisory Agreement

The Company is a party to an investment advisory agreement effective April 1, 1996, with Berkley Dean & Company, Inc (Berkley Dean). Berkley Dean has the authority to (i) supervise and direct the investment and reinvestment of all of the Company's Securities, subject to certain limitations, and (ii) when, it deems appropriate, in its full discretion (a) to buy, sell, exchange, convert or otherwise trade in any common stocks, bonds and other fixed income securities and financial commodities and commercial paper, certificates of deposit, preferred stock, options and futures and (b) to place orders for the execution of such transaction with or through such brokers, dealers, or issuers as the investment advisor may select.

Computer Services Agreement

The Company is a party to a computer services agreement effective January 1, 2002 with Berkley Technology Services, LLC (BTS) whereby BTS agrees to provide computer and data processing services.

Management Agreement

The Company is a party to a management agreement effective June 11, 1992 with Monitor Liability Managers, LLC (Monitor) wherein Monitor will act as Manager on behalf of AIC for the purpose of producing, underwriting and servicing indemnity business, including the handling and servicing of all claims and losses and legal actions.

Management Agreement

The Company is a party to a management agreement effective June 30, 2002 with Berkley Medical Excess Underwriters, LLC (BMEU) wherein AIC appointed BMEU as its legal representative for the purpose of producing, underwriting and servicing, including the handling of claims, on its behalf with regard to healthcare facility excess professional liability, healthcare facility excess general liability and follow-form excess liability coverages.

Management and Administration Agreement

The Company is a party to a management and administration agreement effective January 1, 2009 with Admiral Insurance Group, LLC wherein Admiral Insurance Group LLC acts as AIC's

legal representative and true and lawful attorney for the purpose of producing, underwriting and servicing business on its behalf, performs all administrative functions and services with respect to the business, the affairs, and operations, and provides certain property, equipment and facilities to use in its day to day operations for coverage's in all states in which AIC is licensed as an insurer or eligible as a surplus lines insurer and for all lines of business for which it is licensed or eligible.

Claims Administration Agreement

The Company is a party to a claims administration agreement effective December 31, 2008 with W.R. Berkley Insurance (Europe) Limited wherein the affiliate will administer claims arising out of or in connection with certain excess and surplus lines insurance policies written by AIC in its insurance and business operations in countries other than the U.S. and where W.R. Berkley Insurance (Europe) Limited is licensed to do business and service claims.

Administrative Services Agreement

The Company is a party to an administrative services agreement effective September 1, 2008 with Clermont Specialty Managers, Ltd. (CSM) wherein CSM appointed AIC to perform certain administrative and special services for CSM in connection with a management agreement between CSM and Admiral Indemnity Company.

Tax Allocation Agreement

Effective April 1, 1980, the Company and WRBC entered into a tax allocation agreement. Estimated payments are made to WRBC on an individual company tax basis.

Standby Line of Credit

The Company maintains a standby line of credit which was effective September 6, 2002 with WRBC whereby the ultimate parent agrees to make loans to AIC in an amount not to exceed \$10,000,000 and for a term not to exceed three months. There have been no transactions against this Letter of Credit.

**TERRITORY AND PLAN OF OPERATION**

The Company is a licensed insurer in the states of Delaware and New Jersey and writes business on a surplus or non-admitted basis in all other states, the District of Columbia, Guam, Puerto Rico, the U.S. Virgin Islands and Canada.

The Company's significant profit centers are:

- Admiral Only, which traditionally writes a significant amount of business in the casualty, professional liability and products liability lines of business.
- Monitor Liability Managers, which primarily writes directors & officers, and employment practices liability insurance.
- Carolina Casualty, which has specialized in the past in writing long haul trucking insurance.

The Admiral Only business is conducted through branch offices in Austin, Texas; Seattle, Washington; Atlanta, Georgia; and the home office in Cherry Hill, New Jersey. In addition, the Admiral Only profit center amounts include the Admiral Excess Casualty program. For 2009, the net premiums written for the Admiral Excess Casualty business was \$9.6 million. This business is written out of branch offices in Los Angeles, Chicago and Stamford. From 2006 to 2009, net

premiums written reported by the Admiral Only profit center decreased from \$514.2 million to \$276.8 million, or 46.2%.

Monitor is located in Rolling Meadows, Illinois but operates nationwide. Monitor utilizes the Company and CCIC for the issuance of business, depending whether the policy is written on an admitted or surplus lines basis. Approximately \$102.9 million in net premiums written was reported by Monitor in 2009.

On July 1, 2009, the Company entered into a 100% multi-line quota share reinsurance agreement with CCIC, an Iowa domiciled insurance company that writes primarily admitted commercial auto liability insurance specializing in long haul trucking business. Pursuant to this agreement, AIC now assumes 100% of the net liabilities under policies contracts, and binders of insurance and reinsurance of CCIC. The coverage is for all policies and contracts issued by CCIC prior to July 1, 2009 as well as policies or contracts issued or renewed after that date. The contract includes provisions for the portfolio transfer of all CCIC's net loss, loss adjustment expense (LAE), and unearned premium reserves as of July 1, 2009. CCIC is headquartered in Jacksonville, Florida and operates nationwide. CCIC reported net written premiums in the amount of \$137 million in 2009.

Berkley Medical Excess Underwriters (BMEU) was formed in 2001 and began operations in 2002. BMEU is located in Chesterfield, Missouri and provides medical malpractice excess insurance and reinsurance coverage to hospitals and hospital associations. Net premiums written during 2009 were \$12.8 million.

For 2009, the Company reported the following distribution of premiums:

Direct	\$ 354,789,858
Assumed	246,817,570
Ceded	<u>(38,636,187)</u>
Net Written Premiums	<u>\$ 562,971,241</u>

The Company's direct written premiums are heavily weighted toward the casualty lines of business written through Admiral Only's profit center. As of December 31, 2009, the Company reported direct premium in the following lines of business:

Other liability-occurrence	\$115,049,502
Other liability-claims made	76,633,773
Products liability-occurrence	39,801,702
Medical malpractice claims made	79,754,072
All other lines of business	<u>43,550,809</u>
Total	<u>\$354,789,858</u>

The Company's assumed business increased significantly from 2008 to 2009 mainly due to the acquisition of CCIC. The Company reported assumed premium in the following lines of business:

Commercial auto liability	\$107,837,878
Other liability-claims made	75,331,864
Commercial multiple peril	27,046,688
Auto physical damage	19,650,827
All other lines of business	<u>16,950,313</u>
Total	<u>\$246,817,570</u>

In 2009 CCIC reported a Net Underwriting loss of \$43.7 million.

The following summarized the 2009 and 2008 net premiums by profit center:

**Net Premiums Written by Profit Center/Entity (millions)**

	<u>2009</u>	<u>2008</u>	<u>Change</u>
Admiral Only	\$276.8	\$357.0	(\$80.2)
CCIC	137.0	0.0	137.0
Monitor	102.9	28.5	74.4
Clermont/Admiral Indemnity	33.4	33.6	(0.2)
BMEU	<u>12.8</u>	<u>11.9</u>	<u>.9</u>
<b>TOTAL</b>	<b><u>\$562.9</u></b>	<b><u>\$431.0</u></b>	<b><u>\$131.9</u></b>

**GROWTH OF THE COMPANY**

The following information was obtained from the Company's filed Annual Statements and covers the four-year period from the previous examination as December 31, 2006, through the current examination, December 31, 2009:

<u>Year</u>	<u>Admitted Assets</u>	<u>Surplus as Regards Policyholders</u>	<u>Net Premium Written</u>	<u>Net Income</u>
2009	\$3,308,366,547	\$1,340,248,609	\$562,971,242	\$ 56,245,026
2008	\$2,514,474,105	\$1,057,363,864	\$430,970,149	\$104,619,917
2007	\$2,756,181,852	\$1,215,398,372	\$571,640,460	\$190,029,187
2006	\$2,584,972,105	\$1,109,411,430	\$604,481,757	\$140,463,346

From 2006 to 2009, the Company's financial results fluctuated as follows:

- Approximately 27.9% increase in admitted assets. The growth is primarily due to the acquisition of \$1,273.1 million of bonds during 2009 in part from CCIC's portfolio transfer. This was partially offset by bond sales of \$740.2 million during 2009. In addition, Common Stocks of Affiliates increased by \$287.3 million (43.6%) in 2009 primarily due to increased

earnings from equity method investments in affiliates of \$86 million, plus the acquisition of additional common stock for \$202.5 million.

- Approximately 20.8% increase in Surplus as Regards Policyholders. The increase is mainly due to the acquisition of CCIC which increased Gross Paid-in and Contributed Surplus of \$186,595,876 from \$160,188,452 in 2008 to \$346,784,328 in 2009.
- Net written premiums decreased by approximately \$173.5 million or \$28.7% from 2006 to 2008 due to the current soft market conditions that the Company is facing. That trend continued in 2009 but AIC's net premiums written increased in that year due to the assumptions from CCIC.
- Net Income decreased approximately \$133.7 million or \$70.4% when comparing 2007 to 2009. The Company reported positive Net Income for each of the years under examination, and Net Income totaled \$350.9 million for the three (3) year period.

### **LOSS EXPERIENCE**

The reserves for losses and loss adjustment expenses as of December 31, 2008 were \$1,180.5 million. During 2009, \$(54.4) million was paid for incurred loss and loss adjustment expense (LAE) attributable to insured events of prior years, and are the result of \$387,974 in loss and LAE reserves recorded as negative assumed paid loss and LAE, as part of the CCIC portfolio transfer described previously. Therefore, there has been a \$9.5 million unfavorable prior year development since 2008.

## REINSURANCE

### Assumed From Affiliates

The Company has assumed reinsurance agreements in effect at December 31, 2009, with four wholly-owned direct or indirect domestic subsidiaries. The affiliates are as follows:

	% of affiliated Premium
Admiral Indemnity Company (“Indemnity”), De	12.1%
Carolina Casualty Insurance Company (“CCIC”), IA	85.7%
Clermont Insurance Company (“CIC”), IA	1.5%
Nautilus Insurance Company (“NIC”), AZ	0.7%

See the comments below for further detail regarding the agreements with these four affiliated companies. The most significant lines of business assumed from affiliates were Commercial Auto Liability (43.8%), Other Liability-Claims Made (30.6%), Commercial Multi-peril (10.9%) and Auto Physical Damage (7.9%).

### Admiral Indemnity Company

The Company assumes business from Indemnity under a quota share reinsurance agreement. Indemnity cedes business to outside reinsurers first and then the Company assumes 70% of the net retained liability.

### Carolina Casualty Insurance Company

On July 1, 2009, the Company entered into a 100% quota share reinsurance agreement and related portfolio reinsurance transfer with CCIC. The business assumed from CCIC is primarily Commercial Auto Liability. Pursuant to this agreement, the Company assumes 100% of the net liabilities for all policies issued by CCIC prior to and after the effective date. No gain or loss in surplus was recorded as a result of this transaction.

Admiral Insurance Company

Clermont Insurance Company

The Company assumes from CIC under a quota share reinsurance agreement. CIC cedes business to outside reinsurers first and then the Company assumes 100% of the net retained liability.

Nautilus Insurance Company (NIC)

The Company assumes a small amount of surplus lines business written in New Jersey and Delaware from NIC.

Ceded To Non-affiliates:

The company ceded 5.6% of its gross premiums to non-affiliates. As of December 31, 2009, the Company's parent maintained a group-wide catastrophic excess of loss program for \$110 million excess of \$10 million. This coverage covers primary business written by the Group's United States affiliates, which includes the Company. The cost of this coverage is allocated based on subject premium, modeled catastrophe exposures and estimates of potential loss costs. Reinsurers domiciled within the United States provide 82.2% of the coverage afforded by the Company's ceded reinsurance program.

Agreement Terms

During the prior examination, it was recommended that that the Company's reinsurance contracts be amended as needed to comply with SSAP 62, Section 8.C which requires that "The agreement shall constitute the entire contract between the parties".

A review of the contracts in place as of December 31, 2009, disclosed that language was added to the contracts to indicate that the agreement shall constitute the entire contract between the parties.

## ACCOUNTS AND RECORDS

The accounts and records review 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, audited the Company's records for the years ended 2007, 2008 and 2009 and issued an unqualified audit opinion in each year. Audit reports and applicable work papers were made available for the examiners' use.

The accounts and records review also included an assessment of the Company's risk management process in identifying and controlling risks in the key operational areas of the Company. In making the assessment in each key area, processes were reviewed, risks were identified, operational and organizational controls were identified and tested and 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 IT operations.

In 2009, the Company changed its method of accounting for deferred income taxes due to the adoption of Statement of Statutory Accounting Principles (SSAP) No. 10R, *Income Taxes – Revised, A Temporary Replacement of SSAP 10*. Also in 2009, the Company adopted SSAP No. 43, *Revised – Loan-Backed Structured Securities*.

## **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, 2009, along with supporting exhibits as detailed below:

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

## ASSETS

DECEMBER 31, 2009

Assets	Ledger Assets	Non-Admitted Assets	Net-Admitted Assets	NOTES
Bonds	\$ 1,672,477,407		\$ 1,672,477,407	1
Stocks:				
Preferred stocks	42,741,326		42,741,326	
Common stocks	1,053,641,442	\$ 500,000	1,053,141,442	
Mortgage loans on realstate				
First liens	3,510,000	585,000	2,925,000	
Second liens	82,153,555		82,153,555	
Real estate				
Properties occupied by the co.	46,903		46,903	
Cash and Short Term Investments	113,168,129		113,168,129	
Other invested assets	133,121,690		133,121,690	
Receivables for Securities	4,104,143		4,104,143	
Aggregate write-ins for inv. assets	1,016,675		1,016,675	
Investment income due and accrued	21,820,498		21,820,498	
Premiums and Considerations:				
Uncollected premiums and agents balances	51,587,889	4,796,473	46,791,416	
Deferred premium	40,981,636	1,027,768	39,953,868	
Reinsurance:				
Amounts recoverable from reinsurers	11,495,814		11,495,814	
Federal income tax recoverable	19,799,884		19,799,884	
Net deferred tax asset	107,727,448	48,398,460	59,328,988	
EDP equipment and software	1,024,071	358,660	665,411	
Furniture and equipment	1,130,430	1,130,430	0	
Receivable from parent, subs and affiliates	1,327,064		1,327,064	
Agg. Write-ins for other than inv. Assets	3,860,587	1,573,253	2,287,334	
<b>Total Assets</b>	<b>\$ 3,366,736,591</b>	<b>\$ 58,370,044</b>	<b>\$ 3,308,366,547</b>	

**LIABILITIES, SURPLUS AND OTHER FUNDS****DECEMBER 31, 2009**

		<b>NOTES</b>
Losses	\$ 1,135,622,960	2
Reinsurance payable on paid losses	58,187,584	
Loss adjustment expenses	423,255,867	2
Commissions payable	979	
Other expenses	2,133,856	
Taxes, licenses and fees	721,149	
Unearned premiums	255,039,749	
Ceded reinsurance premiums payable	3,383,794	
Funds held by company under reinsurance treaties	3,195,896	
Amounts withheld or retained by company	1,063,831	
Remittance and items not allocated	746,696	
Provisions for reinsurance	2,802,170	
Payable to parents subsidiaries and affiliates	5,174,702	
Payable for securities	5,973,092	
Aggregate write-ins	70,815,613	
Total Liabilities	<u>\$ 1,968,117,938</u>	
Aggregate write-ins for special surplus funds	\$ 22,755,495	
Common capital stock	4,600,000	
Preferred capital stock	2,000,000	
Gross paid in and contributed surplus	346,784,328	
Unassigned funds (surplus)	<u>964,108,786</u>	
Surplus as regards policyholders	<u>\$ 1,340,248,609</u>	
<b>Total liabilities, surplus and other funds</b>	<b><u><u>\$ 3,308,366,547</u></u></b>	

## SUMMARY OF OPERATIONS

DECEMBER 31, 2009

### Underwriting Income

Premiums earned	<u>\$ 508,867,278</u>
<b>Deductions</b>	
Losses incurred	\$ 301,885,898
Loss expenses incurred	80,159,772
Other underwriting expenses incurred	<u>130,518,715</u>
<b>Total underwriting deductions</b>	<u>\$ 512,564,385</u>
Net underwriting gain or (loss)	<u>\$ (3,697,107)</u>

### Investment Income

Net investment income earned	\$ 113,915,351
Net realized capital gains (losses)	<u>(34,713,049)</u>
Net investment gain or (loss)	<u>\$ 79,202,302</u>

### Other Income

Net gain or (loss)	\$ (997,032)
Aggregate write-ins for miscellaneous income	<u>(2,335,400)</u>
Total other income	<u>\$ (3,332,432)</u>

Net Income, after dividends to policyholders, but before federal & foreign income taxes	\$ 72,172,763
Federal income taxes	<u>(15,927,736)</u>
<b>Net Income</b>	<u><u>\$ 56,245,027</u></u>

**RECONCILIATION OF CAPITAL AND SURPLUS**

**FROM DECEMBER 31, 2006 to DECEMBER 31, 2009**

**Capital and Surplus Account**

Capital and Surplus, December 31, 2006	<u>\$ 1,109,411,430</u>
Net Income	\$ 350,894,131
Change in net unrealized capital gains	81,696,140
Change in net unrealized foreign exchange capital gain	(784,793)
Change in net deferred income tax	32,252,527
Change in non-admitted assets and related items	(33,978,828)
Change in provision for reinsurance	4,098,579
Cumulative effect of changes in accounting principles	4,236,181
Capital Paid In	1,000,000
Surplus Paid In	186,595,876
Dividends to stockholder	(417,928,129)
Aggregate Write-Ins for Changes in Surplus	<u>22,755,495</u>
Change in surplus as regards policyholders for the period	<u>\$ 230,837,179</u>
<b>Capital and Surplus, December 31, 2009</b>	<b><u><u>\$1,340,248,609</u></u></b>

## ANALYSIS OF CHANGES IN THE FINANCIAL STATEMENTS

DECEMBER 31, 2009

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**

**\$1,672,477,407**

98.3% of the Company's bonds and mortgage-backed securities (MBS) are rated as Class 1 or Class 2 by the NAIC. The Company does not have any direct investments in subprime mortgage loans, direct investments in securities with underlying subprime mortgage exposure, or equity investments in subsidiary, controlled or affiliated entities with significant subprime mortgage exposure.

**(Note 2) Losses**

**\$1,135,622,960**

**Loss Adjustment Expenses**

**\$423,255,867**

INS Consultants, Inc. (INS) was retained by the Delaware Insurance Department to conduct a review of the Company's reserve methodologies and adequacy. INS evaluated the Company's book of business by line of business for losses and LAE. The conclusions reached by INS are largely based upon information supplied by the Company's staff, which included an in-depth actuarial analysis. The INS reserve analysis was performed on both a gross and net of reinsurance basis and did not address the collectability of reinsurance recoverables. The INS reserve review found the Company's combined net loss and LAE reserves were adequate to support the business underwritten.

Loss and LAE reserves are subject to errors of estimation arising from the fact that the ultimate liability for claims evaluated as of the valuation date are dependent on future contingent events which cannot always be anticipated. The possible occurrence of such events, as well as the

inherent uncertainty associated with statistical estimates, allows no guarantee that the actual ultimate liabilities will be the same as the reserve levels described in this examination report. The review was conducted in conjunction with the current financial examination. Based on the review, INS has accepted the conclusion that additional actuarial reserves were not required as of December 31, 2009.

### **COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS**

The Company has complied with all recommendations from the prior Report on Examination.

### **SUMMARY OF RECOMMENDATIONS**

The examination recommendation as of December 31, 2009 was

**Therefore,**

**It is recommended the Company comply with its bylaws, Article II Sections 7 and 8 and Article III Section 1, with regards to election of Committee and Board members.**

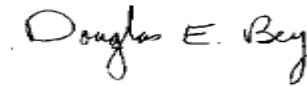
### **CONCLUSION**

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

<u>Description</u>	<b>December 31, 2009</b> <u>Examination</u>	<b>December 31, 2006</b> <u>Examination</u>	<b>Changes</b> <b>Increases/</b> <b>Decreases</b>
Assets	\$3,308,366,547	\$2,584,972,105	\$723,394,442
Liabilities	\$1,968,117,938	\$1,475,560,675	\$492,557,263
Capital and Surplus	\$1,340,248,609	\$1,109,411,430	\$230,837,179

The assistance of Delaware's consulting actuarial firm, INS Consultants, Inc., and INS Services, Inc. and Company management and staff is acknowledged.

Respectfully submitted,



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Douglas E. Bey, CFE  
Examiner In-Charge  
State of Delaware