

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



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BERKLEY 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 14th day of June, 2011

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, 2009 of the

**BERKLEY INSURANCE COMPANY**

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

Attest By: *Sonia C. Harris*

Date: 14 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 14th day of June, 2011.

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 Stephen W. Robertson,  
Secretary, Midwestern Zone  
Commissioner of Insurance  
Indiana Department of Insurance  
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Indianapolis, Indiana 46204-2787

Honorable Sharon P. Clark,  
Secretary, Southeastern Zone  
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Kentucky Department of Insurance  
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Honorable Mila Kofman  
Secretary, Northeastern Zone  
Superintendent of Insurance  
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34 State House Station  
Augusta, Maine 04333-0034

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

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. 10.003, dated February 18, 2010, an Association examination has been made of the affairs, financial condition and management of the

**BERKLEY INSURANCE COMPANY**

hereinafter referred to as “Company”, “Berkley”, or “BIC”, 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 475 Steamboat Road, Greenwich, CT. 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, and 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**

Subsequent to December 31, 2009, the Company took the following action:

- The multi-line quota share reinsurance agreement between BIC and StarNet Insurance Company (SIC) was increased from a 90% cession to a 100% cession, effective January 1, 2010. The opening balances for Part 2A – Loss and Loss Adjustment Expense Reserves Schedule have been restated to reflect this change.

- The Company declared ordinary dividends to the Parent company of \$247,000,000, of which \$150,000,000 was paid in June 2010 and \$97,000,000 was paid in July 2010.
- During 2010, the Company received dividends from its wholly-owned subsidiaries of \$140,378,720.

## **COMPANY HISTORY**

The Company was incorporated on December 18, 1975, under the laws of the State of Nebraska and commenced business on December 31, 1975, as Signet Reinsurance Company (Signet Re). The Company continued to conduct business as a Nebraska domiciled company until March 31, 1995, when it re-domesticated to the State of Delaware.

Effective December 18, 1995, Signet Star was renamed North Star and Signet Star Re was renamed Signet Star. On December 28, 1995, General Reinsurance Corporation (Gen Re) reacquired North Star from Signet Star Holdings, with North Star and Signet Star entering into an Assumption and Indemnity Agreement for all liabilities and obligations from any insurance business written by North Star subsequent to December 31, 1992. Concurrent with these transactions, Gen Re sold its forty percent (40%) ownership in Signet Star Holdings to WRBC. The above ownership changes were a result of an Agreement and Plan of Restructuring approved by the Delaware Department of Insurance.

On December 31, 2000, the name of the Company was changed to Berkley Insurance Company and in the year 2002, the Company moved from its former administrative office in Morristown, New Jersey to its present location in Greenwich, Connecticut.

During the period covered by this examination, gross paid-in and contributed surplus increased \$56,053,009 from \$866,083,780 in 2006 to \$922,136,789 in 2009. The increase for the period is illustrated in the following schedule:

Ending Balance as of December 31, 2006	<u>\$866,083,780</u>
2007: Increase in par value of common stock	\$(38,700,000)
2008: Capital Contribution from WRBC	85,184,918
2009: Capital Contribution from WRBC	<u>9,568,091</u>
Subtotal	<u>\$56,053,009</u>
Ending Balance as of December 31, 2009	<u>\$922,136,789</u>

### **CORPORATE RECORDS**

The recorded minutes of the shareholders, Board of Directors (Board), and certain internal committees of the Company were reviewed for the period under examination. The recorded minutes of Board meetings held adequately documented its meetings and approval of Company transactions, events, and investments. It was noted, however, that no annual meeting was held by the Company for the year 2009. Per the Company bylaws Article 3, section 6 the Board shall hold an annual meeting for the purpose of organization and the transaction of business immediately after the annual meeting of the stockholders. Additionally, per Article V, section 2, the officers of the Company shall be chosen annually by the Board.

**Therefore,**

**It is recommended that the Board hold annual meetings in accordance with Article 3, section 6 of the Company bylaws. Additionally, it is recommended that officers of the Company be elected by the Board on an annual basis pursuant to Article V, section 2 of the bylaws.**

During 2007, the Company amended its certificate of incorporation to increase the par value of common stock from \$10 to \$100. This amendment resulted in an increase to common capital stock of \$38,700,000, which was offset by a decrease to gross paid-in capital of \$38,700,000. During the examination period, and as approved by the Delaware Department of

Insurance, the Company received capital contributions from its ultimate parent company, WRBC, in the amounts of \$85,184,918 and \$9,568,091, in 2008 and 2009, respectively.

### **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, business and affairs of the Company shall be managed by a Board of Directors, elected annually by its shareholder. The amended and restated bylaws state that the affairs of the Company shall be managed by its Board consisting initially of seven (7) directors and thereafter shall consist of such number as may be fixed from time to time by resolution of the Board. Each Director serves for a term of one (1) year until the next annual election and until their successors are elected and qualified.

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

<u>Name</u>	<u>Principal Occupation</u>
William Robert Berkley	Chairman of the Board and CEO, WRBC
William Robert Berkley Jr.	President and COO, WRBC
Eugene George Ballard	Senior VP and Chief Financial Officer, WRBC
Paul James Hancock	Senior VP and Chief Corporate Actuary, WRBC
Carol Josephine LaPunzina	Senior VP, Human Resources, WRBC
Ira Seth Lederman	Senior VP, General Counsel and Secretary, WRBC
C. Fred Madsen	Senior VP, Reinsurance Operations, WRBC
Tommy Nason Kellogg	Vice Chairman

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

<u>Name</u>	<u>Office</u>
William Robert Berkley	Chairman of the Board
William Robert Berkley Jr.	President
Eugene George Ballard	Senior Vice President
Carol Josephine La Punzina	SVP, General Counsel & Secretary
Ira Seth Lederman	Senior Vice President
Mark Gary Davidowitz	Senior VP and Treasurer
Kevin John Shea	Senior Vice President, Claims
Tommy Nason Kellogg	Vice Chairman

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 Signet Star Holdings, a Delaware Holding Company. 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:

**W.R. Berkley Corporation**

**All American Agency Facilities, Inc.**

**Berkley Dean & Company, Inc.**

**Berkley Capital Investors, LP**

**Berkley Capital, LLC**

**Berkley Holdings Corp. Two**

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

## Berkley Insurance Company

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

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 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  
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

Berkley Insurance Company

Riverport Insurance Company  
Reinserco, 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, service and limited partnership agreements that were in effect as of December 31, 2009:

### Tax Allocation Agreement

Effective January 1, 1996, and amended December 31, 2000, the Company and WRBC entered into a tax allocation agreement. The Company is a member of an affiliated group of corporations of which WRBC, directly or indirectly, is the common parent that files consolidated federal income tax returns for the participating member companies.

The tax liability is allocated among affiliates in the ratio that each affiliate's separate return tax liability bears to the sum of the separate return tax liabilities of all affiliates that are members of the WRBC Group filing. Estimated payments are made by the respective affiliates to WRBC and if such member is entitled to a credit, WRBC will account for such amount in the same way as if a credit or a claim for a refund was made directly by an affiliate with the Internal Revenue Service.

### Investment Agreements

The Company has two investment agreements described as follows:

#### (1) Investment Advisory Agreement

Effective April 1, 1996, and amended December 31, 2000, the Company entered into an investment advisory agreement with Berkley Dean and Company, Inc. (Berkley Dean) whereby Berkley Dean provides certain advisory and management services based upon criteria, standards and guidelines of the Company. The Company has ultimate and final authority over decisions and policies on purchases and sales of securities. Berkley Dean receives 0.25% of 1% of the first \$10,000,000 and 0.20% of 1% thereafter, of the net asset value of the portfolio at the end of each

quarter which is when fee payments are due. The agreement may be terminated at any time by either party with at least ninety (90) days written notice prior to each anniversary of the agreement.

(2) Asset Management Agreement

Effective January 1, 2005, the Company entered into an asset management agreement with Steamboat Asset Management, LLC (SAM) whereby SAM acts as manager for a specified portion of the Company's investment portfolio subject to the direction, control and supervision of the Company. SAM receives an annual administration fee paid by the Company monthly in arrears, equal to 1% per year of the Company's weighted average investment portfolio under the agreement for each calendar year, adjusted for deposits and withdrawals of funds, but not including or giving effect to gains or losses, dividends, distributions or other income from such portfolio during such year.

The agreement may be terminated at any time by either party with written notice and will automatically be cancelled in the event of its assignment by the manager without the written consent of the Company.

Cost Sharing Agreements

Effective July 1, 1997, and July 16, 1998, Berkley executed cost sharing agreements with Gemini Insurance Company (Gemini) and StarNet Insurance Company (StarNet) to provide certain property, equipment, facilities and personnel in performing certain underwriting, claims, accounting, legal and administrative functions and special services for its subsidiaries in their insurance and business operations.

Fees shall be charged on a cost basis and include directly allocable expenses, reasonably and equitably determined to be attributable to each subsidiary by Berkley plus a reasonable

charge for direct overhead to be mutually agreed upon by the subsidiaries and Berkley from time to time, provided however, that such charges shall be no greater than the subsidiaries would expend if providing such services for itself.

Berkley shall submit within thirty (30) days of the end of each calendar month a statement of the amount owed and Gemini and StarNet shall pay to Berkley within fifteen (15) days following receipt of such statement. Either party may cancel the agreement upon giving sixty (60) days prior written notice.

#### Underwriting Management Agreements

The Company has numerous underwriting management service agreements with affiliated corporate profit centers, which can either write business on behalf of the Company or cede business to the Company through intercompany quota share reinsurance agreements. The management agreements include producing, underwriting, and servicing its business.

Services performed are subject to the guidelines of the Company and include such functions as the following:

- Issue, cancel and amend policies and reinsurance contracts
- Collect and pay premiums and return premiums on policies and reinsurance contracts
- Pay, reject, settle and adjust loss and loss adjustment expenses
- Pay all taxes and fees imposed by any government jurisdiction

Berkley compensates its managers for the actual cost of services provided to the Company by the manager of which such costs include operating expenses incurred by the manager.

All agreements contain a provision that a statement of account shall be forwarded by the manager to the Company on a calendar quarterly basis in such form and detail as mutually agreed, but not later than thirty (30) days after the close of each quarter. Settlement of balances

by the manager to the Company shall be no later than thirty (30) days after the close of each quarter and payment to the manager shall be upon receipt of the statement of account, unless the parties agree otherwise.

Duration and termination provisions are included in the agreements that remain in effect until cancelled by either party. The key agreements are summarized below based on the materiality of the transactions recorded.

(1) Signet Star Re, LLC

Effective July 1, 2001, Berkley entered into an agreement with Signet Star Re, LLC (Signet Star) to act as its manager with the authority to do all things necessary and incidental to the conduct of all kinds of treaty reinsurance assumed business within the terms and conditions of the agreement.

The manager is authorized to utilize a gross line of \$ 5,000,000 for any one risk and in no event will the manager bind the Company for a net line greater than \$ 5,000,000 any one risk.

(2) Facultative Resources, Inc.

Effective January 1, 1998, and last amended on June 1, 2002, Berkley entered into an agreement with Facultative Resources, Inc (Fac Re) for managing its facultative reinsurance assumed business.

The manager is authorized to accept business by utilizing a gross line of \$7,500,000, any one certificate, each and every loss occurrence, any underwriting (calendar) year, but in no event will the manager bind the Company for a net line greater than \$4,500,000 any one certificate, each and every loss occurrence.

(3) Berkley Underwriting Partners, LLC

Effective July 1, 2001, Berkley entered into an agreement with Berkley Underwriters Partners, LLC (BUP) to act as a manager for coordinating and overseeing all activities relating to the production of insurance underwritten by general agencies that specialize in managing program business. In addition, among other activities, BUP manages the placement of reinsurance through reinsurers in connection with the program business, can enter into agreements on the Company's behalf with Third Party Administrators (TPAs) for obtaining claims administration services or BUP can directly adjust or settle claims arising out of or in connection with policies pursuant to a program administration agreement entered into on behalf of the Company.

Settlement of balances by the manager to the Company shall be no later than thirty (30) days after the close of each quarter and settlement by the Company to the manager shall be upon receipt of the statement of account, unless the parties agree otherwise.

Limited Partnership Agreement– Berkley Capital Investors, L.P

Effective February 1, 2003, the Company, along with Berkley Regional Insurance Company and Admiral Insurance Company, became limited partners in Berkley Capital Investors, L.P., (Berkley Capital) a Delaware limited partnership. The general partner is Berkley Capital, a Delaware limited liability company formed and controlled by WRBC.

The principal purpose of the partnership is to achieve long-term capital appreciation primarily through equity or equity-related investments in financial services and related companies. The general partner commits to contribute to the capital of the limited partnership, an amount equal to one tenth of one percent (0.1%) of the limited partnership's total capital commitments. Each of the three limited partners contributed \$ 5,000,000 and has a 33.3 % share

of the limited partnership. The agreement provides that the general partner receive an annual management fee for the services it provides to the partnership equal to 1 % of the partnership's total capital commitments. The term of the partnership, unless it is dissolved earlier as provided in the agreement, shall continue for ten (10) years after the initial closing date, but may be extended by the general partner for up to two additional one-year periods.

### **TERRITORY AND PLAN OF OPERATION**

The Company is licensed, admitted, or accredited to transact business in all 50 states and the District of Columbia. The Company is an insurance/reinsurance company engaged primarily in writing property and casualty reinsurance on a treaty and facultative basis.

The principal office facilities of the Company are located in Greenwich, Connecticut. There is one reinsurance branch office located in Wanchai, Hong Kong, formed in the year 2006 with an initial focus on property facultative reinsurance in the Asia Pacific region. There are also branch offices in Canada and Australia.

The Berkley Insurance Group, led by the Berkley, writes standard and specialty commercial lines insurance and reinsurance coverage and ranks among the top professional reinsurers in the United States.

As an established reinsurer with both broker market and direct distribution capabilities, the group specializes in providing products and services to its clients that include property and casualty treaty reinsurance, facultative reinsurance, alternative risk products, and fidelity and surety reinsurance.

The group maintains a corporate strategy, which, through its operating units, operates independently based on customer orientation, product, class of risk and geographic territory. Each corporate profit center serves its specific market segment in an autonomous manner, as described in detail under the “Affiliated Agreements” section.

The group’s reinsurance business is divided into different operating units that include the following affiliated companies:

Signet Star underwrites and manages the Company's property and casualty treaty business. Signet Star specializes in providing specialty broker market reinsurance products and services, focusing on commercial casualty and property.

Fac Re acts as the group's facultative underwriting manager, and writes business primarily on an individual risk basis. Emphasis is geared toward excess of loss placement for general liability products, products liability and, automobile coverage.

BUP was formed to provide reinsurance intermediaries and program administrator’s single source access to its primary insurance carriers and reinsurance support.

Primary insurance is also provided through other subsidiaries of the Company, which are significantly reinsured by BIC. Direct premiums written by the Company were produced by a general agent and amounted to \$53,280,187 during the year 2009.

## **GROWTH OF COMPANY**

The following information was extracted from the Company’s filed Annual Statements and covers the three-year period from the last examination as of December 31, 2006, through this examination, December 31, 2009:

<u>Year</u>	<u>Net Written Premiums</u>	<u>Net Admitted Assets</u>	<u>Surplus as Regards Policyholders</u>	<u>Net Income (Loss)</u>
2009	\$ 1,226,018,526	\$ 7,190,317,258	\$ 2,477,191,155	\$ 223,725,953
2008	1,232,305,050	6,846,450,134	2,036,628,671	264,618,234
2007	1,525,305,463	7,014,516,566	2,210,120,141	452,920,432
2006	1,800,711,691	6,796,348,696	2,178,722,445	442,620,297

The changes over the examination period are as follows:

- A 31.9% decrease in Net Written Premiums
- A 5.8% increase in Net Admitted Assets
- A 13.7% increase in Surplus as Regards Policyholders
- A 49.5% decrease in Net Income

The decrease in net written premiums was due in part to lower overall economic activity and less new business production, partially offset by higher premiums for recently started operating units. The Company has experienced increased competition and downward pressure on pricing since 2004.

### **LOSS EXPERIENCE**

Net loss and expenses unpaid reserves as of December 31, 2008 were \$4.15 billion. During 2009, \$769.9 million was paid for incurred loss and loss adjustment expense attributable to insured events of prior years. Reserves remaining for prior years are \$3.30 billion as of December 31, 2009. The decrease is the result of the reexamination of reserves on non-proportional assumed liability lines of coverage, other liability lines and workers compensation. Therefore, there has been a \$94.1 million favorable development for prior years since 2008. The decrease is attributable in part to non-proportional assumed liability business with adjustable features and offsetting reductions to earned premium.

## REINSURANCE

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

Direct business	\$ 53,280,189
Reinsurance assumed from affiliates	791,508,225
Reinsurance assumed from non-affiliates	<u>499,404,472</u>
Gross premiums written	<u>\$1,344,192,886</u>
Reinsurance ceded to affiliates	\$1,365,990
Reinsurance ceded to non-affiliates	<u>116,808,369</u>
Total ceded	<u>\$118,174,359</u>
Net premiums written	<u>\$ 1,266,018,526</u>

### Assumed Reinsurance– Affiliates

The Company has long standing assumed quota share (QS) reinsurance agreements in effect at December 31, 2009 with eleven wholly owned direct or indirect domestic subsidiaries. There are five affiliates who provided 91% of the Company’s affiliate assumed business for 2009, as follows:

<u>Company</u>	<u>QS%</u>	<u>Assumed Premiums</u>
Midwest Employers Casualty Co. (“MECC”) (DE)	100%	\$239,485,000
StarNet Insurance Co. (“StarNet”) (DE)	90	180,151,000
Gemini Insurance Co. (“Gemini”) (DE)	90	136,038,000
Key Risk Insurance Co. (“Key Risk”) (NC)	90	116,507,000
Preferred Employers Ins. Co. (“Preferred”) (CA)	90	46,855,000

The most significant lines of business assumed from affiliates were Workers’ Compensation (29.71%), Workers’ Compensation – Excess (18.90%) and Other Liability – Occurrence (13.78%).

### **Assumed Reinsurance – Non-Affiliates**

The Company assumed business from a wide range of insurance companies. The Company focuses a significant portion of its marketing efforts on specialty casualty insurers. Marketing is generally affected by the underwriting department at the direction of top level management. The Company's marketing efforts emphasize its specialized divisional operations and capital base. New clients are evaluated for financial stability and performance results, and are re-evaluated at least once annually thereafter.

Business underwritten by the Signet Star division pertained primarily to general commercial and personal lines. The treaty division accounted for 51.78% of premiums assumed from non-affiliates in 2009.

The Facultative Division comprised of business underwritten through Fac Re, primarily utilizing reinsurance brokers, and BF RE Underwriters, primarily dealing directly with the underlying insurance company. This business accounted for 24.51% of premiums assumed from non-affiliates in 2009.

### **Ceded to Non-affiliates**

The Company's net retention on any one risk is reduced to \$10,000,000 through its Ceded Reinsurance Program. Premiums ceded to non-affiliates were primarily on an excess of loss basis and provided catastrophic loss coverage to the Company. The Company ceded approximately 8.79% of the gross written premiums for the year ending December 31, 2009. Companies domiciled within the United States provide 53.75% of the coverage afforded by the Company's Ceded Reinsurance Program.

## **ACCOUNTS AND RECORDS**

The Company maintains its records on a combination of client server, host, and network applications which utilize 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, audited the Company's records for the years ended 2007, 2008 and 2009, and issued an unqualified opinion in each year. Audit reports and applicable work papers were made available for the examiners' use.

The accounts and records review included an assessment of the Company's risk management process in identifying and controlling risks in the determined 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.

## **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 Changes in the Financial Statements

## ASSETS

DECEMBER 31, 2009

Assets	Ledger Assets	Non-Admitted Assets	Net-Admitted Assets	NOTES
Bonds	\$ 4,554,891,009	\$ 0	\$ 4,554,891,009	1
Preferred Stocks	94,492,331	0	94,492,331	
Common Stocks	1,328,901,845	0	1,328,901,845	
Other than first liens - mortgage loans on real estate	126,770,852	0	126,770,852	
Real Estate Properties Occupied by the Company	89,018,309	0	89,018,309	
Cash	244,917,096	0	244,917,096	
Other Invested Assets	336,062,254	0	336,062,254	
Receivables for Securities	3,642,931	0	3,642,931	
Agg Write-Ins for Invested Assets	1,560,918	0	1,560,918	
Investment income due and accrued	52,468,442	0	52,468,442	
Premiums and Considerations:				
Uncollected premiums and agents balances	177,422,014		177,422,014	
Deferred premium	10,904,308		10,904,308	
Accrued retrospective premiums	1,939,851	0	1,939,851	
Reinsurance:				
Amounts recoverable from reinsurers	11,583,569	0	11,583,569	
Funds Held or deposited with reinsured Companies	5,848,035		5,848,035	
Current federal and foreign income tax recoverable and interest thereon	38,343,311		38,343,311	
Net deferred tax asset	178,600,955	72,656,008	105,944,947	
Electronic data processing equipment and software	91,099	0	91,099	
Furniture and equipment, including health care delivery assets	592,659	592,659	-	
Receivable from Parent, subsidiaries and affiliates	6,201,716	2,391,086	3,810,630	
Aggregate write-ins for other than invested	7,205,723	5,502,216	1,703,507	
<b>Total Assets</b>	<b><u>\$7,271,459,227</u></b>	<b><u>\$ 81,141,969</u></b>	<b><u>\$ 7,190,317,258</u></b>	

**LIABILITES, SURPLUS AND OTHER FUNDS**

**DECEMBER 31, 2009**

Losses	\$ 3,495,061,062	2
Reinsurance payable on paid losses and LAE	14,772,420	
Loss adjustment expenses	480,219,356	2
Commissions payable, contingent commissions and similar charges	6,074,967	
Other expenses	6,049,076	
Taxes, licenses and fees due and accrued	562,650	
Unearned premiums	537,972,302	
Ceded reinsurance premiums payable	17,581,694	
Funds held by company under reinsurance treaties	4,885,925	
Amounts withheld or retained by co. for acct. of others	609,753	
Provision for reinsurance	2,283,619	
Net adj. in assets and liabil. due to foreign exch. rates	3,066,944	
Payable to parent, subsidiaries and affiliates	28,030,947	
Aggregate write-ins for liabilities	115,955,388	
Total Liabilities	<u>\$ 4,713,126,103</u>	
Special surplus funds - Add. Admitted defered tax assets	\$ 29,033,952	
Common capital stock	43,000,000	
Preferred capital stock	10,000	
Gross paid in and contributed surplus	922,136,789	
Unassigned funds (surplus)	<u>1,483,010,414</u>	
Surplus as regards policyholders	<u>\$ 2,477,191,155</u>	
<b>Total liabilities, surplus and other funds</b>	<b><u>\$ 7,190,317,258</u></b>	

**SUMMARY OF OPERATIONS**

**DECEMBER 31, 2009**

**Underwriting Income**

Premiums earned	<u>\$ 1,234,609,263</u>
<b>Deductions</b>	
Losses incurred	567,584,316
Loss adjustment expenses incurred	170,969,534
Other underwriting expenses incurred	<u>399,879,097</u>
<b>Total underwriting deductions</b>	<u>\$ 1,138,432,947</u>
Net underwriting gain or (loss)	<u>\$ 96,176,316</u>

**Investment Income**

Net investment income earned	\$ 283,556,192
Net realized capital gains or (losses)	<u>(84,868,685)</u>
Net investment gain or (loss)	<u>\$ 198,687,507</u>

**Other Income**

Net gain or (loss) from agents' or premium balances charged off	\$ 202,073
Finance and service charges not included in premium	69,169
Aggregate write-ins for miscellaneous income	<u>(2,081,347)</u>
Total other income (loss)	<u>\$ (1,810,105)</u>
Net income after dividends to policyholders, but before federal income taxes	\$ 293,053,718
Federal income taxes incurred	<u>69,327,766</u>
<b>Net income</b>	<u><u>\$ 223,725,952</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>\$ 2,178,722,445</u>
Net Income	\$ 941,264,619
Change in net unrealized capital gains	(45,724,291)
Change in net unrealized foreign exchange capital gain	1,439,038
Change in net deferred income tax	(18,284,981)
Change in non-admitted assets and related items	(7,761,597)
Change in provision for reinsurance	31,843,374
Cumulative effect of changes in accounting principles	11,296,483
Capital Paid In	38,700,001
Surplus Paid In	56,053,008
Dividends to stockholder	(739,390,896)
Aggregate Write-Ins for Changes in Surplus	29,033,952
Change in surplus as regards policyholders for the year	<u>\$ 298,468,710</u>
<b>Capital and Surplus, December 31, 2009</b>	<b><u><u>\$2,477,191,155</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** **\$4,554,891,009**

99% 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** **\$3,495,061,062**  
**Loss Adjustment Expenses** **\$480,219,356**

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 loss adjustment Expenses (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 gross and 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.

### **SUMMARY OF RECOMMENDATIONS**

Examination findings and recommendations as of December 31, 2009, consisted of the following:

It was noted that no annual meeting was held by the Company for the year 2009. Per the Company bylaws Article 3, section 6 the Board shall hold an annual meeting for the purpose of organization and the transaction of business immediately after the annual meeting of the stockholders. Additionally, per Article V, section 2, the officers of the Company shall be chosen annually by the Board.

**Therefore,**

**It is recommended that the Board hold annual meetings in accordance with Article 3, section 6 of the Company bylaws. Additionally, it is recommended that officers be elected by the Board on an annual basis pursuant to Article V, section 2 of the bylaws.**

**CONCLUSION**

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

<b><u>Description</u></b>	<b>December 31, 2009</b>		<b>December 31, 2006</b>		<b>Changes</b>
	<b><u>Examination</u></b>	<b><u>Examination</u></b>	<b><u>Examination</u></b>	<b><u>Examination</u></b>	<b>Increases/ Decreases</b>
Assets	\$7,190,317,258	\$7,190,317,258	\$6,796,348,696	\$6,796,348,696	\$393,968,562
Liabilities	4,713,126,103	4,713,126,103	4,617,626,251	4,617,626,251	95,499,852
Policyholders Surplus	2,477,191,155	2,477,191,155	2,178,722,445	2,178,722,445	298,468,710

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