

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



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BERKLEY REGIONAL SPECIALTY 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



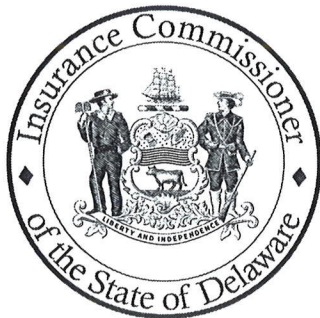
I, Karen Weldin Stewart, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of December 31, 2009 of the

BERKLEY REGIONAL SPECIALTY 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.

\_\_\_\_\_  
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  
311 West Washington Street, Suite 300  
Indianapolis, Indiana 46204-2787

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

Honorable Mila Kofman  
Secretary, Northeastern Zone  
Superintendent of Insurance  
Department of Professional Regulation and  
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Maine Bureau of Insurance  
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. 10.003D, dated February 18, 2010, an Association examination has been made of the affairs, financial condition and management of the

**BERKLEY REGIONAL SPECIALITY INSURANCE COMPANY**

hereinafter referred to as “Company” or “BRSIC” 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 main administrative office of the Continental Western Insurance Company, located at 11201 Douglas Avenue, Urbandale, IA 50306.

The examination was conducted concurrently with that of the Company’s upstream parent Berkley Insurance Company (DE), and immediate parent, Berkley Regional Insurance Company (BRIC) (DE), Delaware insurance subsidiaries: Firemen’s Insurance Company of D.C. (DE), Admiral Insurance Company (DE), Admiral Indemnity Company (DE), Gemini Insurance Company (DE) and Midwest Employers Casualty Company (DE) and other state domestics. Separate reports of examination were filed for each company by the respective state domicile. The report of this examination is submitted herewith.

## **SCOPE OF EXAMINATION**

The last examination was as of December 31, 2007. This examination is a comprehensive risk-focused examination which covers the two-year period from January 1, 2008 to December 31, 2009. The examination encompasses a general review of the Company’s business policies and practices, as well as management, and relevant corporate matters, with a determination of the financial condition of the Company at 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 actions per the Board of Directors meeting minutes:

- Effective May 1, 2010, the Board of Directors of the Company accepted the resignation of William C. Thornton as Chairman and Chief Executive Officer.
- Effective May 1, 2010, the Board of Directors of the Company elected Paul McAuliffe to the position of Chief Executive Officer in addition to having previously been elected as President, to serve until his respective successor shall have been chosen and qualified.
- Effective May 1, 2010 the Board of Directors of the Company decreased the size of the Board of Directors from seven Board members to five Board members.
- Effective June 7, 2010, the Board of Directors of the Company via unanimous written consent declared a \$1,000,000 ordinary dividend to be paid on or about July 15, 2010 to its sole shareholder, Berkley Regional Insurance Company (BRIC).
- Effective July 7, 2010, the Board of Directors of the Company via unanimous written consent established an Audit Committee for the Company. The committee members are made up of the Company's Board of Director members.

## **COMPANY HISTORY**

The Company was incorporated on April 2, 1992, in the State of Maine as Acadia Compensation Insurance Company and commenced business January 3, 1993. The Company was originally licensed to write only workers' compensation insurance.

On December 31, 1996, the Company changed its name to Chesapeake Bay Property and Casualty Insurance Company and, in 1997, was approved to expand writing business to multiple

lines insurance. On March 31, 2005, BRIC, the upstream parent, purchased all of the outstanding common shares of the Company from Acadia Insurance Company (Acadia). On April 12, 2005, the Company's name was changed to Berkley Regional Specialty Insurance Company. BRSIC re-domesticated from the State of Maine to the State of Delaware effective November 26, 2007.

During the period covered by this examination, gross paid-in and contributed surplus increased \$26,000,500 from \$17,021,434 in 2007 to \$43,021,934 in 2009. The increase for the period is illustrated in the following schedule.

Ending Balance as of December 31, 2007	\$17,021,434
2008: Capital Contribution from BRIC	2,000,000
2009: Capital Contribution from BRIC	24,000,500
Ending Balance as of December 31, 2009	\$43,021,934

The capital contributions were reported to and approved prior to payment by the Delaware Insurance Department in accordance with 18 Del.C. §5005 “Standards and Management of an Insurer within a Holding Company System.”

### **CORPORATE RECORDS**

The recorded minutes of the sole shareholder and Board of Directors (Board) of the Company were reviewed for the period under examination. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions and events, including the authorization of investments as required by 18 Del.C.13 § 1304.

### **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. As of the examination date the Company had six (6) directors per the 2009 Shareholder meeting minutes. Per the Company's 2009 Annual Statement Jurat page, the Company only listed four (4) directors. Therefore, the following examination recommendation is noted:

**Therefore,**

**It is recommended the Company reconcile the directors reported on the jurat page of the Annual Statement with the directors elected per the Shareholder meeting minutes.**

As noted previously under the Subsequent Events caption, effective May 1, 2010, the Board decreased the size of the Board from seven members to five members.

Board of Directors

As of the examination date the Company had seven (7) directors per the 2009 Shareholder meeting minutes. Per the Company's 2009 Annual Statement Jurat page, the Company only listed four (4) directors.

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

<u>Name</u>	<u>Principal Occupation</u>
William C. Thornton	Chairman - BRSIC
Eugene George Ballard	Senior Vice President, CFO and Treasurer, WRBC
William Robert Berkley, Jr.	President, Chief Operating Officer and Director, WRBC
Robert Paul Cole	Senior Vice President – Regional Operations, WRBC
Ira Seth Lederman	Senior Vice President, General Counsel and Secretary, WRBC
Paul Stephen McAuliffe	President – BRSIC
Walter E. Stradley	Senior Vice President – Berkley Regional Specialty LLC

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

<u>Name</u>	<u>Title</u>
William C. Thornton	Chairman
Paul Stephen McAuliffe	President
Gordon Lee Keffer	Treasurer
Janet Lynn Shemanske	Secretary
Donna Jean Latham	Vice President
Vickie Lynn Potts	Vice President
Philip John See	Vice President
Patrick Kenneth Watland	Vice President

#### 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 BRIC, a Delaware company and the sole stockholder. 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**

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.

## Berkley Regional Specialty Insurance Company

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 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.

## Berkley Regional Specialty Insurance Company

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  
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

Berkley Regional Specialty Insurance Company

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 following affiliated agreements were in effect as of December 31, 2009:

### Claims Service Agreement

Effective October 17, 2009, the Company entered into four (4) separate Claim Services Agreements with Acadia Insurance Group, LLC, Berkley Mid-Atlantic Group, LLC, Continental Western Group, LLC, and Union Standard Insurance Group, LLC, collectively referred to in this discussion as the Claim Services Providers. Pursuant to these agreements, the Claim Services Providers perform certain claims administrative and special services for the Company in its insurance and business operations. The Company maintains the ultimate responsibility for general

control of claims adjustments and claims payments. The services provided by the Claim Services Providers shall include, but not be limited to the rejection, adjustment, compromise and settlement of losses (for claims assigned by the Company to the Claim Services Providers) and any expenses incidental thereto and generally to do everything necessary and incidental to the performance of any service required. Amounts due under these Agreements shall be settled in cash within thirty (30) days of receipt of the statements of accounts for each quarter from each of the Claim Services Providers.

#### Management and Administration Agreement

Effective January 1, 2009, the Company entered into a Management and Administrative Agreement with Berkley Regional Specialty, LLC (BRS). This Agreement provided for the Company to appoint BRS as its legal representative and true and lawful attorney for the purpose of producing, underwriting, servicing all business coverages in all states in which the Company is licensed as an insurer and for all lines of business for which it is licensed. Included in this Agreement, BRS is to perform all administration functions and services with respect to the business, the affairs, and operations of the Company. BRS shall be subject to the Company's direction and ultimate authority.

#### Lease Agreement

Effective September 1, 2007, the Company entered into a lease agreement with Nautilus Insurance Company, an Arizona corporation. The lease is for a term of four years commencing September 1, 2007, and terminating on August 31, 2011.

#### Claim Services Agreement

The Company entered into a Claim Services Agreement ("Agreement") effective June 30, 2007, with Berkley Risk Administrators Company, LLC, (BRAC). Pursuant to the agreement, BRAC performs certain claims administrative and special services for the Company in its

insurance and business operations. The Company maintains the ultimate responsibility for general control of claims adjustments and claims payments. The services provided by BRAC shall include, but not be limited to the rejection, adjustment, compromise and settlement of losses (for claims assigned by the Company to BRAC) and any expenses incidental thereto and generally to do everything necessary and incidental to the performance of any service required. Amounts due under the Agreement shall be settled in cash within thirty (30) days of receipt of the statement of account for each quarter.

#### Claims Service Agreement

Effective January 1, 2007, the Company entered into a claims service agreement with Continental Western Insurance Company (CWIC). The services provided by CWIC shall include, but not be limited to the rejection, adjustment compromise and settlement of losses for claims assigned by the Company to CWIC, and any expenses thereto. The Company agrees to reimburse CWIC for services and facilities provided by CWIC or subsidiaries pursuant to this Agreement. Settlement shall be made quarterly. This Agreement shall not be assigned by CWIC without the express written consent of the Company.

#### Service Agreement

Effective August 25, 2005, the Company entered into a Services Agreement with Nautilus Insurance Company (Nautilus), an Arizona corporation. The Agreement provides that the Company appoints Nautilus as a general consultant and advisor for its business. In addition, Nautilus provides certain administrative, special services, property, equipment and facilities as the Company may request for use in its day to day operations. The Company shall have the ultimate and final authority over decisions and policies to include but not be limited to the acceptance, rejection or cancelling of risks, the payment or non-payment of claims and the purchase and sale of securities.

Investment Advisory Agreement

The Company and Berkley Dean & Company, Inc. (Berkley Dean), a subsidiary of WRBC, entered into an Investment Advisory Agreement on August 4, 2005. Berkley Dean provides investment advisory services at an annual fee per terms in the agreement based on the net asset value of the portfolio at the end of each quarter with billing rendered on a quarterly basis at one fourth of the annual rate.

Tax Allocation Agreement

The Company entered into a Tax Allocation Agreement with WRBC effective April 2, 1992. The provision for federal income tax is computed as if the Company were filing a separate federal income tax return. Benefits, which arise from tax credits and net operating losses, are allocated to the extent they are utilized in the consolidated federal income tax provision. Tax balances are settled quarterly.

**TERRITORY AND PLAN OF OPERATION**

The Company is licensed to write business in Delaware. The Company operates as a surplus lines facility that complements the core book of business in the Berkley Regional Group, which includes preferred, standard and nonstandard commercial lines currently declined by, unacceptable to or not contemplated by the regional companies. At present, the Company operates primarily as a surplus lines insurer and is approved in forty-three (43) states. In 2009, 53.4% of direct premiums were written in Colorado, Kansas, Missouri, Nebraska, Washington, and Wyoming.

The Company's three primary lines of business are commercial property, commercial inland marine, and commercial general liability. A select group of licensed producers, who also

have surplus lines authority, export the declined commercial lines (small to medium-sized risks) to BRSIC with the exception of commercial auto, workers' compensation, and surety/fidelity.

All business produced by the Company is ceded to its immediate parent, BRIC, pursuant to a 100% multiple lines quota share reinsurance agreement effective September 1, 2005, whereby BRIC assumes all of the Company's net underwriting business. Simultaneously therewith, BRIC assumed the Company's beginning loss reserves, loss adjusting reserves, and unearned premium reserve in exchange for securities and other assets. Although the Company cedes all of its net underwriting business to BRIC, it retains all investment income and expense.

The Company's parent, BRIC, provides a reinsurance facility for eight regionally operated insurance companies comprised of seven direct subsidiaries and one indirect subsidiary, referred to collectively as the Regional Group. The regional companies primarily write standard commercial and personal lines insurance through independent agents. The Group consists of the Company, Berkley Regional Specialty Insurance Company (BRSIC), Acadia Insurance Company, Tri-State Insurance Company of Minnesota, Continental Western Insurance Company, Union Standard Insurance Company (USIC), Union Insurance Company (UIC) and Union Standard Lloyds Insurance Company.

The Regional Group operations are structured into four geographic regions. Each region utilizes several of the legal entities to issue business, depending on state licensing, rating tier and other filing requirements. The Company provides the facility for qualified agents contracted with Regional Companies to submit excess and surplus lines business that does not otherwise meet underwriting or rating criteria to be written within the Regional Companies.

The lead companies in each of the four geographic regions are as follows:

1. New England – Acadia Insurance Company
2. Berkley Mid-Atlantic Group – Firemen's Insurance Company of Washington, D.C.

3. Midwest – Continental Western Insurance Company
4. Southern – Union Insurance Company

The Company’s operating plan is to provide its excess and surplus lines facility to agents of each Regional Group.

### **GROWTH OF THE COMPANY**

The following information was obtained from the Company’s filed Annual Statements and covers the two (2) year period from its last examination as of December 31, 2007, through this examination, December 31, 2009:

<u>Year</u>	<u>Gross Written Premiums</u>	<u>Net Written Premiums</u>	<u>Net Admitted Assets</u>	<u>Liabilities</u>	<u>Surplus as Regards Policyholders</u>	<u>Net Income (Loss)</u>
2009	\$ 15,069,838	\$ 0	\$ 54,956,034	\$ 3,460,471	\$ 51,495,563	\$ 917,296
2008	16,839,458	0	28,389,703	3,782,981	24,606,722	1,046,529
2007	16,067,442	0	25,520,812	3,874,034	21,646,778	638,049

The changes over the examination period are as follows:

- A 6.2% decrease in Gross Written Premiums
- A 115.3% increase in Net Admitted Assets
- A 10.7% decrease in Liabilities
- A 137.9% increase in Surplus as Regards Policyholders
- A 43.8% increase in Net Income

During the examination period, gross written premiums decreased by 6.2%. Net admitted assets increased by 115.3% and surplus as regards to policyholders increased by 137.9%, both increases were due the \$2 million contribution from the Company’s parent, BRIC, in 2008 and another \$24 million contribution from the parent in 2009. These contributions were to facilitate obtaining surplus lines eligibility in New York.

## **LOSS EXPERIENCE**

The Company ceded 100% of its business to its parent company, BRIC. Therefore, there is no net loss reserves experience.

## **REINSURANCE**

### **Assumed**

The Company does not assume reinsurance.

### **Ceded**

Effective September 1, 2005, an agreement was executed with BRIC to reflect the Company's name change to BRSIC. Pursuant to the reinsurance agreement with BRIC, the Company cedes 100% of any and all policies, contracts and binders of insurance or reinsurance in force at the effective date or issued after that date. Simultaneously therewith, BRIC assumed the Company's beginning loss reserves, loss adjusting reserves, and unearned premium reserve.

## **ACCOUNTS AND RECORDS**

The accounting and reporting financial functions are performed at various locations for profit centers within the Berkley Regional Group. Oversight of the accounting functions and statutory financial statement preparation for legal entities are performed at the offices located as follows: BRIC, CWIC, UIC and TSIC in Urbandale, Iowa; FIC in Glen Allen, Virginia; AIC in Westbrook, ME; and BRSIC in Scottsdale, AZ. Operational oversight for the sum of the profit centers is ultimately managed at WRBC.

The independent certified public accounting firm, KPMG audited the Company's records for the years ended 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 pages contain a statement of assets, liabilities, surplus and other funds as of December 31, 2009, as determined by this examination, 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**

<b>Assets</b>	<b>Ledger Assets</b>	<b>Non-Admitted Assets</b>	<b>Net-Admitted Assets</b>	<b><u>Notes</u></b>
Bonds	\$ 47,276,369	\$ 0	\$ 47,276,369	1
Cash	2,678,647	0	2,678,647	
Receivables for Securities	8,788	0	8,788	
Investment income due and accrued	632,248	0	632,248	
Premiums and Considerations:				
Uncollected premiums and agents balances	1,695,415	231,995	1,463,420	
Deferred premium	2,697,076	0	2,697,076	
Current federal income tax recoverable	83,836	0	83,836	
Net deferred tax asset	522,747	407,472	115,275	
EDP	42,601	42,601	-	
Furniture & Equipment	73,334	73,334	-	
Other assets	2,225	1,850	375	
<b>Total Assets</b>	<b><u>\$ 55,713,286</u></b>	<b><u>\$ 757,252</u></b>	<b><u>\$ 54,956,034</u></b>	

**LIABILITIES, SURPLUS AND OTHER FUNDS**

**DECEMBER 31, 2009**

Losses	\$	0	2
Reinsurance payable on paid losses and LAE		0	
Loss adjustment expenses		0	2
Commissions payable, contingent commissions and similar charges		218,053	
Other expenses		138,971	
Taxes, licenses and fees due and accrued		46,855	
Current federal and foreign income taxes		0	
Unearned premiums		0	
Ceded reinsurance premiums payable		3,156,603	
Amounts withheld or retained by company		(165,908)	
Payable to parent, subsidiaries and affiliates		54,250	
Deferred rent credit		4,694	
Other liabilities		6,953	
Total Liabilities	\$	<u>3,460,471</u>	
Common capital stock	\$	4,500,000	
Gross paid in and contributed surplus	\$	43,021,934	
Unassigned funds (surplus)		<u>3,973,629</u>	
Surplus as regards policyholders	\$	<u>51,495,563</u>	
<b>Total liabilities, surplus and other funds</b>	<b>\$</b>	<b><u>54,956,034</u></b>	

**SUMMARY OF OPERATIONS**

**DECEMBER 31, 2009**

**Underwriting Income**

Premiums earned	\$ 0
<b>Deductions</b>	
Losses incurred	0
Loss adjustment expenses incurred	0
Other underwriting expenses incurred	0
<b>Total underwriting deductions</b>	<u>\$ 0</u>
Net underwriting gain or (loss)	<u>\$ (0)</u>
<b>Investment Income</b>	
Net investment income earned	\$ 1,182,684
Net realized capital gains or (losses)	45,321
Net investment gain or (loss)	<u>\$ 1,228,005</u>
<b>Other Income</b>	
Net gain or (loss) from agents' or premium balances charged off	\$ 0
Total other income (loss)	<u>\$ 0</u>
Net income after dividends to policyholders and before federal income taxes	\$ 1,228,005
Federal income taxes incurred	<u>310,709</u>
<b>Net income</b>	<u><u>\$ 917,296</u></u>

**RECONCILIATION OF CAPITAL AND SURPLUS**

**FROM DECEMBER 31, 2007 to DECEMBER 31, 2009**

**Capital and Surplus Account**

Capital and Surplus, December 31, 2007	\$ 21,646,778
Net Income	\$ 1,963,825
Change in net unrealized capital gains	14,381
Change in net unrealized foreign exchange capital gain	0
Change in net deferred income tax	424,256
Change in non-admitted assets and related items	(553,677)
Change in provision for reinsurance	0
Capital paid in	1,999,500
Surplus adjustments paid in	26,000,500
Change in surplus as regards policyholders for the year	\$ 29,848,785
<b>Capital and Surplus, December 31, 2009</b>	<b><u>\$51,495,563</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 FINANCIAL STATEMENTS**

**(Note 1) Bonds** **\$47,276,369**

100% 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** **\$-0-**

**Loss Adjustment Expenses** **\$-0-**

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.

### **COMPLIANCE WITH PRIOR REPORT RECOMMENDATIONS**

There were no prior examination report recommendations.

### **SUMMARY OF RECOMMENDATIONS**

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

As of the examination date the Company had six (6) directors per the 2009 Shareholder meeting minutes. Per the Company's 2009 Annual Statement Jurat page, the Company only listed four (4) directors.

**Therefore,**

**It is recommended the Company reconcile the directors reported on the jurat page of the Annual Statement with the directors elected per the Shareholder meeting minutes.**

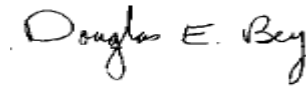
### CONCLUSION

The following schedule shows the changes from the previous examination and the financial condition of the Company, as of December 31, 2009:

<u>Description</u>	<u>December 31, 2009</u> <u>Examination</u>	<u>December 31, 2007</u> <u>Examination</u>	<u>Changes</u> <u>Increases/</u> <u>(Decreases)</u>
Assets	\$54,956,034	\$25,520,812	\$29,435,222
Liabilities	3,460,471	3,874,034	(413,563)
Policyholders Surplus	51,495,563	21,646,778	29,848,785

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