

EXAMINATION REPORT
OF THE
BERKLEY REGIONAL SPECIALTY INSURANCE COMPANY
AS OF
DECEMBER 31, 2013

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 OF EXAMINATION, made as of December 31, 2013 of the

BERKLEY REGIONAL SPECIALTY INSURANCE COMPANY

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

Attest By: _____

Date: May 13, 2015



In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 13th day of May, 2015.

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

Karen Weldin Stewart, CIR-ML
Commissioner



Delaware Department of Insurance

REPORT OF EXAMINATION
OF THE
BERKLEY REGIONAL SPECIALTY INSURANCE COMPANY
AS OF
DECEMBER 31, 2013

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", written over a horizontal line.

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

Dated this 13th day of May, 2015

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SALUTATION

March 17, 2015

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

Commissioner:

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority No. 14.003, dated December 9, 2013, an examination has been made of the affairs, financial condition and management of the

BERKLEY REGIONAL SPECIALTY INSURANCE COMPANY

hereinafter referred to as "Company" at the main administrative offices of the Company located at 475 Steamboat Road, Greenwich, CT 06830. The examination was a coordinated examination and was conducted concurrently with other insurance entities in the W.R. Berkley Corporation Group. The State of Delaware was the assigned lead state by the National Association of Insurance Commissioners. Separate reports of examination were filed for each company. The report of examination thereon is respectfully submitted.

SCOPE OF EXAMINATION

The last examination of the Company was conducted by the Delaware Department of Insurance as of December 31, 2009, and covered the two (2) year period from January 1, 2008 to December 31, 2009. This examination covers the four (4) year period from January 1, 2010

BERKLEY REGIONAL SPECIALTY INSURANCE COMPANY

through December 31, 2013, and encompasses 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 of the Company as of December 31, 2013. Transactions subsequent to the examination date were reviewed where deemed necessary.

We conducted our examination in accordance with the *National Association of Insurance Commissioners ("NAIC") Financial Condition Examiners Handbook* ("NAIC Handbook") and generally accepted statutory insurance examination standards consistent with the insurance laws and regulations of the State of Delaware. 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 inherent risk within the Company and evaluating its system controls and procedures used to mitigate those risks. The examination also includes an assessment of the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to Delaware state regulations.

All accounts and activities of the Company were considered in accordance with the NAIC Handbook risk focused examination process. The examination report only addresses regulatory information revealed by 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 examination work papers and have been utilized in determining the scope and areas of emphasis in conducting the examination. In addition, the Company was

BERKLEY REGIONAL SPECIALTY INSURANCE COMPANY

Sarbanes Oxley (“SOX”) Section 404 compliant as of the examination date. The examination reviewed and relied on the Company’s SOX work where deemed appropriate.

The Company is an indirect subsidiary of the W.R. Berkley Corporation (“WRBC”) and member of NAIC Group Number 98, W.R. Berkley Corporation Group (“Group”). The Company’s direct parent is Berkley Regional Insurance Company, which is owned by Berkley Insurance Company (“BIC”). BIC is the direct or indirect owner of all companies in the Group, with the exception of Union Standard Lloyds. Including the Company, the Group consists of twenty-four property and casualty insurance companies and one life and health insurance company. The companies in the Group and the state of domicile are summarized as follows:

| <u>Company Name</u> | <u>NAIC Number</u> | <u>State of Domicile</u> |
|---|-------------------------------|-------------------------------------|
| Acadia Insurance Company | 31325 | NH |
| Admiral Indemnity Company | 44318 | DE |
| Admiral Insurance Company | 24856 | DE |
| American Mining Insurance Company | 15911 | IA |
| Berkley Insurance Company | 32603 | DE |
| Berkley Assurance Company | 39462 | IA |
| Berkley Life and Health Insurance Company | 64890 | IA |
| Berkley National Insurance Company | 38911 | IA |
| Berkley Regional Insurance Company | 29580 | DE |
| Berkley Regional Specialty Insurance Comp | 31295 | DE |
| Carolina Casualty Insurance Company | 10510 | IA |
| Clermont Insurance Company | 33480 | IA |
| Continental Western Insurance Company | 10804 | IA |
| Firemen’s Insurance Company of Wash, D.C. | 21784 | DE |
| Gemini Insurance Company | 10833 | DE |
| Great Divide Insurance Company | 25224 | ND |
| Key Risk Insurance Company | 10885 | NC |
| Midwest Employers Casualty Company | 23612 | DE |
| Nautilus Insurance Company | 17370 | AZ |
| Preferred Employers Insurance Company | 10900 | CA |
| Riverport Insurance Company | 36684 | MN |
| StarNet Insurance Company | 40045 | DE |
| Tri-State Insurance Company | 31003 | MN |
| Union Insurance Company | 25844 | IA |

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

Fidelity Bonds and Other Insurance

Pensions, Stock Ownership and Insurance Plans

Statutory Deposits

Loss Experience

SUMMARY OF SIGNIFICANT FINDINGS

None.

SUBSEQUENT EVENTS

None.

COMPANY HISTORY

The Company was originally incorporated in the State of Maine on April 2, 1992, 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 was approved to expand writings to include multiple lines insurance in 1997. On March 31, 2005, Berkley Regional Insurance Company purchased all of the outstanding common shares of the Company from Acadia Insurance Company and its name was changed to Berkley Regional Specialty Insurance Company on April 12, 2005. The Company re-domesticated from the State of Maine to the State of Delaware effective November 26, 2007.

CORPORATE RECORDS

The minutes of the Stockholder and Board of Directors were reviewed for the period under examination. The recorded minutes documented activities and transactions of the Company.

The Bylaws note that regular meetings of the Board of Directors shall be held, if so determined by a resolution by a simple majority of the Board, at such times and places as may be fixed from time to time by the Board. Special meetings may be called by the President or Secretary upon written request. The minutes of the meetings verified annual meetings took place in each year of the examination period.

All applicable agreements were filed with and approved by the Delaware Department of Insurance in accordance with 18 *Del. C.* § 5005 (a)(2) of the Delaware Insurance Code.

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. The Bylaws require the Board of Directors consist of not less than five or more than fifteen.

The Directors are elected annually by the stockholder and hold office until the next annual election and until their successors are elected and qualify. Directors duly elected and serving as of December 31, 2013, were as follows:

| <u>Name</u> | <u>Business Affiliation</u> |
|------------------------|---|
| W. Robert Berkley, Jr. | President & Chief Operating Officer W.R. Berkley Corporation |
| Eugene George Ballard | Senior Vice President & Chief Financial Officer W.R. Berkley Corporation |

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| | |
|------------------------|---|
| Ira Seth Lederman | Senior Vice President, General Counsel & Secretary W.R. Berkley Corporation |
| Paul McAuliffe | President & Chief Operating Officer Berkley Regional Specialty Insurance Company |
| William Mims Rohde Jr. | Senior Vice President of Regional Operating Units W.R. Berkley Corporation |

Officers were elected in accordance with the Bylaws during the period under examination. The Bylaws require election of a Chairman of the Board, a President, a Vice President, a Secretary and a Treasurer. The Board of Directors may also elect such other officers as considered necessary for the proper conduct of the business of the Company. The primary officers serving as of December 31, 2013 were as follows:

| <u>Name</u> | <u>Title</u> |
|-----------------|-----------------------|
| Paul McAuliffe | President |
| Gordon Keffer | Treasurer |
| Janet Shemanske | Secretary |
| Donna Latham | Vice President |
| Sheri Reinjtes | Vice President |
| Patrick Watland | Senior Vice President |

Holding Company System

The Company is a member of an Insurance Holding Company System as defined under Chapter 50 of the Delaware Insurance Code. The Company and its upstream parent companies are ultimately controlled by WRBC. WRBC is a publically traded insurance holding company that trades on the New York Stock Exchange.

BERKLEY REGIONAL SPECIALTY INSURANCE COMPANY

The following is an abbreviated organizational chart that reflects the identities and interrelationships between the Company, its parents and subsidiaries and other affiliates with direct business relationships with the Company as of December 31, 2013:

W.R. Berkley Corporation

- All American Agency Facilities, Inc.
- Berkley Dean & Company, Inc.
- Berkley Holdings Corp. Two
 - Berkley Holdings, LLC
- Berkley Insurance Services, LLC
- Berkley International, LLC
- Greenwich Knight Insurance Company
- LD Realty Advisors LLC
- LDPG Realty Investors L.P.
- MADA Reciprocal Services, Inc.
- Queen's Island Insurance Company, Ltd.
 - Signet Star Holdings, Inc.
 - Berkley Insurance Company
 - Admiral Insurance Company
 - Admiral Indemnity Company
 - Admiral Risk Insurance Services, Inc.
 - Armada Insurance Services, Inc.
 - Carolina Casualty Insurance Company
 - Clermont Insurance Company
 - Jersey International Brokerage Corporation
 - Nautilus Insurance Company
 - ARS Investors II 2012-1 HVB, LLC (99% Ownership)
 - Berkley Alternative Markets Insurance Services, LLC
 - Berkley Administrators of Connecticut, Inc.
 - Berkley Medical Excess Underwriters, LLC
 - Berkley Risk Administrators Company, LLC
 - All Claims of Nevada, Inc.
 - Berkley Risk Administrators of Texas, Inc.
 - Berkley Risk Services of Vermont, Inc.
 - Independent Plan Administrators, LLC
 - Rasmussen Agency, Inc.
 - Key Care, LLC
 - Key Risk Management Services, LLC
 - Key Risk Underwriting Managers, LLC
 - Midwest Employers Casualty Group, LLC
 - Midwest Employers Services, LLC
 - Preferred Employers Group, LLC

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Riverport Insurance Services, LLC
Berkley Assurance Company
Berkley Canada Inc.
Berkley Capital Investors, LP
 CC Investors, LLC
 GRG Investment Holdings, Ltd.
 Insurance Agency Holdings, LLC
Berkley Capital, LLC
 Berkley Capital Administrative LLC
Berkley Design Professional Underwriters, LLC
Berkley Insurance Company – Escritorio de Representacao no Brasil Ltda.
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
Berkley National Insurance Company
Berkley Regional Insurance Company
 Acadia Insurance Company
 Maine Compensation Services, Inc.
 American Mining Insurance Company
 Berkley Regional Specialty Insurance Company
 CGH Insurance Group, LLC
 American Mining Claims Service, Inc.
 CGH Claims Service, 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 Management Company, 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
 Continental Western Group, LLC
 Regional Excess Underwriters, LLC
 Union Standard Insurance Group, LLC
 ZES Insurance Agency, LLC
Berkley Specialty Insurance Services, LLC
 Admiral Insurance Group, LLC
 Berkley Custom Insurance Managers, LLC

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Berkley Professional Liability, LLC
Berkley Select, LLC
Berkley Specialty Underwriting Managers, LLC
Carolina Casualty Insurance Group, LLC
Clermont Specialty Managers, Ltd.
Monitor Liability Managers, LLC
Nautilus Excess Insurance Agency, LLC
Nautilus Insurance Group, LLC
Southwest International Underwriting Managers, Inc.
Vela Insurance Services, LLC
Verus Underwriting Managers, LLC
Berkley Southeast Insurance Group, LLC
CC Equity Holdings, LLC
 Center Place Holdings LLC (93% owned by CC Equity Holdings)
Franchise Credit LLC
Gemini Insurance Company
Great Divide Insurance Company
Greenwich AeroGroup, Inc.
Key Risk Insurance Company
Middle Patent Capital, LLC
 Loan Opportunity Fund I, LLC
 Loan Opportunity Fund II, LLC
 Loan Opportunity Fund III, LLC
Midwest Employers Casualty Company
Preferred Employers Insurance Company
 Select Marketing Insurance Services, LLC
Reinserco, Inc.
 Merrill Management Corporation
Riverport Insurance Company
SilverCap Greenwich, LLC (98.04% Ownership)
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 Global Underwriters, LLC
 Berkley Latin American and Caribbean Managers, LLC
 Berkley International Puerto Rico, LLC
 Berkley Life Sciences, LLC
 Berkley LS Insurance Solutions, LLC
 Berkley Net Underwriters, LLC
 Berkley Program Specialists, LLC
 Berkley Public Entity Managers, LLC
 Berkley Offshore Underwriting Managers, LLC
 Berkley Oil & Gas Specialty Services, LLC

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Berkley Re America, LLC
Berkley Re Direct, LLC
Berkley Risk Solutions, LLC
Berkley Technology Services, LLC
Berkley Technology Underwriters, LLC
BIL Advisors, LLC
Facultative ReSources, Inc.
FinSecure, LLC
Gemini Transportation Underwriters, LLC
WRBC Support Services, LLC
Surety-Pro Services, Inc.
W.R. Berkley Syndicate Holdings Limited
WRBC Corporate Member Limited
W.R. Berkley Syndicate Limited
W.R. Berkley Syndicate Management Limited
860 Development Co LLC
860 Washington Street LLC (75% Ownership)
Commodore Re Management Corporation
East Isles Reinsurance, Ltd.
Northwest International Underwriting Manager, Inc.
Steamboat Asset Management, LLC
WRBC Transportation, Inc.
Interlaken Capital Aviation Holdings, Inc.
Interlaken Capital Aviation Services, Inc.
WRBC Aviation Leasing, LLC
W.R. Berkley Capital Trust II
W.R. Berkley Capital Trust III
33 GP LLC
33 Grosvenor Place Limited
34 Leadenhall Street Limited
27 Leadenhall Street Properties Limited
120dB Films Capital, LLC
120 Films Lending, LLC

Management Contract and/or Lending Relationship (Non-owned)
MADA Insurance Exchange
States Self-Insurers Trust
States Self Insurers Risk Retention Group
Union Standard Lloyds

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Management, Service, and Other Agreements

Below is a summary of significant affiliated agreements (excluding reinsurance agreements) in effect as of December 31, 2013. All affiliated agreements and amendments were properly filed and approved by the Delaware Department of Insurance.

Affiliated Agreements

As of December 31, 2013, the Company had the following significant service and other agreements in effect with affiliates:

- Tax Allocation Agreement – Effective April 2, 1992, and amended November 29, 1995 and March 2, 2009, the Company and WRBC entered into an affiliated Tax Allocation Agreement. In accordance with the agreement, the Company will participate in WRBC's election to file a consolidated federal income tax return as long as the Company is a member of WRBC. For years where a consolidated federal tax return is filed, WRBC will pay or discharge, or cause to be paid or discharged, the consolidated federal tax liability of WRBC. Taxes are calculated on a separate return basis, and the Company will pay WRBC an amount equal to the federal income tax liability it would have incurred if it had filed on a separate return. Conversely, if the Company's separate return calculation results in a net operating loss, capital losses, deductions, tax credits or similar items, WRBC shall compensate the Company an amount equal to its federal income tax liability calculated on a separate return basis. In accordance with the contract, WRBC and the Company shall each pay its own state and local taxes. As of December 31, 2013, the agreement remained in effect for all years prior to December 31, 2012. Effective

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January 1, 2013, the agreement was replaced by the tax provisions stipulated in the affiliated Reinsurance Pooling Agreement.

- Investment Advisory Agreement – Effective August 4, 2005, the Company entered into an Investment Advisory Agreement with Berkley Dean and Company, Inc. (“Berkley Dean”). In accordance with the agreement, Berkley Dean provides certain investment advisory and management services based upon criteria, standards, and guidelines established by the Company. The Company has ultimate and final authority over decisions and policies on purchases and sales of securities.

TERRITORY AND PLAN OF OPERATION

The Company is licensed to write business in the state of Delaware and is approved in forty-eight states. At present, the Company operates primarily as a surplus lines facility that complements the core book of business written by BRIC and its other regional subsidiaries. The Company’s primary lines of business include preferred, standard and nonstandard commercial lines of business currently declined by, unacceptable to or not contemplated by the other regional companies. For the year ended December 31, 2013, the majority of the Company’s gross premium written was derived from direct business produced primarily by Berkley Regional Specialty and a small amount from Berkley Life Sciences; Berkley Asset Protection Underwriting Managers and Berkley Technology Underwriters. The following further describes the business written by each Profit Center:

- Berkley Regional Specialty provides excess and surplus lines coverage on a national basis to small to medium-sized companies with low to moderate insurance risk. Its product lines include general liability, liquor liability and some property and inland

BERKLEY REGIONAL SPECIALTY INSURANCE COMPANY

marine coverage. It serves a limited distribution channel consisting of select W.R. Berkley Corporation member company agents.

- Berkley Life Sciences offers a comprehensive spectrum of property casualty products to the life sciences industry on a global basis, including primary and excess liability coverage and commercial insurance. It serves pharmaceutical and biologic/biotech companies, medical device companies, dietary supplement manufacturers, medical and research software developers, contract service organizations, research institutions and organizations and other related businesses.
- Berkley Asset Protection Underwriting Managers provides products designed to protect a broad spectrum of high-value commercial and personal assets, including coverage for fine art risks such as museums, galleries, corporate and private collections; fidelity/crime for commercial and public entity risks; jewelers block for wholesale, retail, manufacturing and mining risks; cash-in-transit carriers and certain inland marine risks. Package coverages include property, general liability, umbrella and workers' compensation.
- Berkley Technology Underwriters provides a broad range of first and third-party insurance programs for technology exposures and technology industries on both a local and global basis.

GROWTH OF THE COMPANY

The following information reflects the admitted assets, surplus as regards policyholders, gross premiums written and net income of the Company since the prior examination:

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| Year | Admitted <u>Assets</u> | Surplus as Regards <u>Policyholders</u> | Gross Premiums <u>Written</u> | <u>Net Income</u> |
|------|---------------------------|---|----------------------------------|-------------------|
| 2013 | \$ 56,887,326 | \$ 51,612,668 | \$ 20,631,052 | \$ 1,750,522 |
| 2012 | 54,016,447 | 50,188,276 | 17,122,040 | 1,435,463 |
| 2011 | 57,087,969 | 53,863,014 | 14,025,194 | 1,641,438 |
| 2010 | 54,849,993 | 52,105,363 | 13,939,012 | 1,591,734 |
| 2009 | 54,956,034 | 51,495,563 | 15,069,838 | 917,296 |

For the year ended December 31, 2013, the Company’s financial position and operating results were not affected by the transfer of assets and liabilities and the first year of operations under the Reinsurance Pooling Agreement because the Company has historically ceded all risk to an affiliate. Since the prior examination, the Company has reported an increasing trend in gross premium written. In addition, the Company reported relatively stable surplus as regards to policyholders and total admitted assets over the examination period.

REINSURANCE

The Company reported the following distribution of premiums written for the year ended December 31, 2013:

| | <u>2013</u> | <u>% GPW</u> | <u>2009</u> | <u>% GPW</u> |
|---------------------------------|----------------------|---------------|----------------------|---------------|
| Direct business | \$ 20,631,052 | 100.0% | \$ 15,069,838 | 100.0% |
| Reinsurance assumed | - | - | - | - |
| Gross premiums written (“GPW”) | <u>\$ 20,631,052</u> | <u>100%</u> | <u>\$ 15,069,838</u> | <u>100%</u> |
| Reinsurance ceded to affiliates | <u>\$ 20,631,052</u> | <u>100.0%</u> | <u>\$ 15,069,838</u> | <u>100.0%</u> |
| Net premiums written | <u>\$ -</u> | <u>-</u> | <u>\$ -</u> | <u>-</u> |

Ceded Reinsurance – Affiliated

Effective January 1, 2013, the Company entered into a Reinsurance Pooling Agreement (“Pooling Agreement”) with BIC and eighteen of its twenty-three property and casualty

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insurance company subsidiaries. The Company and the other eighteen participants to the agreement are referred to as “Pool Affiliates.” The Pooling Agreement commutes all prior reinsurance agreements between BIC and Pool Affiliates and agreements among Pool Affiliates. Per the agreement, the Pool Affiliates cede and transfer 100% of (1) their respective liabilities on all direct insurance policies and all reinsurance contracts in force or that had expired or had been terminated or non-renewed as of January 1, 2013 and (2) those direct and assumed liabilities on policies issued subsequent to January 1, 2013. The Pooling Agreement appoints BIC to act as manager to do all things necessary and incidental to conduct the business of the Pool Affiliates, and provides BIC the right to subcontract any of the duties and obligations to various Profit Centers, other affiliates or unrelated third parties. Settlements required under the contract are made on a daily basis. The agreement also stipulates the Pool Affiliates be included in any consolidated federal income tax return of BIC. The Pool Affiliates pay BIC an amount of tax liability as if it had filed a separate federal income tax return, and full benefit is received for any net operating losses, capital losses, deductions, tax credits or similar items on a separate return basis. Tax payments are made to the Company quarterly. The Pooling Agreement was amended effective April 17, 2013 to add clarifying language in Article II of the contract regarding the Administration/Management provision.

Simultaneous to the Reinsurance Pooling Agreement BIC entered into an affiliated Management Agreement with forty-eight affiliated companies referred to as “Managers.” The Managers are also referred to as “Profit Centers” by the Group’s management, and specialize in property and casualty insurance underwriting, claims adjustment and payment and other management services. BIC also has similar agreements with other affiliated Profit Centers. In accordance with the agreements, BIC appointed the Profit Centers to act on its behalf and do all

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things necessary and incidental to conduct the business of BIC and its insurance subsidiaries. The agreements authorize the Profit Centers to subcontract any of the services furnished under the agreements to any subsidiary, affiliate or unrelated third party subject to BIC's approval.

Ceded Reinsurance - Unaffiliated

In accordance with the affiliated Reinsurance Pooling Agreement effective January 1, 2013, BIC received a settlement value plus any future reinsurance recoveries received by the Company as consideration. Accordingly, BIC now reports the NAIC Annual Statement *Schedule F – Part 3 Ceded Reinsurance* schedules as if it replaced the Company (original cedant) in all ceded reinsurance contracts issued by the Company prior to the agreement. After January 1, 2013, all aggregate and facultative reinsurance purchased to cover business underwritten by the Company is acquired in the name of BIC.

ACCOUNTS AND RECORDS

The Company's accounts and records and information technology processes and applications are maintained by BIC, or its designee, in accordance with the Reinsurance Pooling Agreement.

The accounts and records review included an assessment of the Company's risk management process for identifying and controlling risks in key operational areas. In making the assessment for each key area, processes were reviewed, risks were identified and controls were identified and tested. The Company's methodology for assessing the effectiveness of the established mitigation factors was also evaluated.

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The Company's information technology ("IT") platforms, applications and services are decentralized and managed locally at each Profit Center by local IT management and/or centralized by WRBC under an affiliated computer services agreement with Berkley Technology Services, LLC (BTS). BTS manages WRBC corporate IT applications and services that are provided to all Profit Centers. These applications include the PeopleSoft general ledger, the PAM investment software and the Freedom Reinsurance System.

The Delaware Department of Insurance engaged INS Services, Inc. to perform a review and assessment of the Company's information systems and the related control environment. There were no reportable examination findings with respect to the Company's information technology systems and controls.

FINANCIAL STATEMENTS

The following statements show the assets, liabilities, surplus as regards policyholders of the Company, as determined by this examination, as of and for the period ended December 31, 2013:

- Assets
- Liabilities, Surplus and Other Funds
- Statement of Income
- Capital and Surplus Account
- Reconciliation of Capital and Surplus From the Prior Examination

BERKLEY REGIONAL SPECIALTY INSURANCE COMPANY

Assets
As of December 31, 2013

| | Ledger <u>Assets</u> | Assets Not <u>Admitted</u> | Net Admitted <u>Assets</u> | <u>Notes</u> |
|--|-------------------------|-------------------------------|-------------------------------|--------------|
| Bonds | \$ 49,973,913 | \$ - | \$ 49,973,913 | 1 |
| Cash and short-term investments | 509,400 | - | 509,400 | |
| Receivable for securities | 45,500 | - | 45,500 | |
| Investment income due and accrued | 622,081 | - | 622,081 | |
| Uncollected premiums and agent balances | 2,467,951 | 866,846 | 1,601,105 | |
| Deferred premiums | 3,626,484 | - | 3,626,484 | |
| Net deferred tax asset | 269,000 | - | 269,000 | |
| Receivables from parent, subsidiaries and affiliates | 214,505 | - | 214,505 | |
| Aggregate write-ins for other than invested assets | <u>25,338</u> | <u>-</u> | <u>25,338</u> | |
| Total assets | <u>\$ 57,754,172</u> | <u>\$866,846</u> | <u>\$ 56,887,326</u> | |

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Liabilities, Surplus and Other Funds
December 31, 2013

| | | <u>Notes</u> |
|--|------------------------------|--------------|
| Losses | \$ - | 2 |
| Reinsurance payable on paid loss and loss adjustment expenses | - | |
| Loss adjustment expenses | - | 2 |
| Commission payable, contingent commissions and other similar charges | 195,284 | |
| Other expenses | 123,048 | |
| Taxes, licenses and fees | 480,197 | |
| Current federal & foreign income taxes | 129,062 | |
| Ceded reinsurance premiums payable | 4,251,399 | |
| Amount withheld or retained by company for account of others | 9,039 | |
| Remittances and items not allocated | 58,929 | |
| Payable to parent, subsidiaries and affiliate | <u>27,700</u> | |
| Total liabilities | <u>\$ 5,274,658</u> | |
| Common capital stock | \$ 4,500,000 | |
| Gross paid in and contributed surplus | 43,021,934 | |
| Unassigned funds (surplus) | <u>4,090,734</u> | |
| Total surplus as regards policyholders | <u>\$ 51,612,668</u> | |
| Total liabilities, capital and surplus | <u>\$ 56,887,326</u> | |

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Statement of Income
For the Period Ended December 31, 2013
and
Capital and Surplus Account
From December 31, 2012 to December 31, 2013

| | | |
|--|------------------|---------------------|
| Income: | | |
| Premiums earned | | \$ - |
| Net investment income earned | | 1,737,292 |
| Net realized capital gains | | 32,506 |
| Other income | | 114,379 |
| Total income | | <u>\$ 1,884,177</u> |
| Expenses: | | |
| Losses incurred | | \$ - |
| Loss adjustment expenses incurred | | - |
| Other underwriting expenses | | - |
| Net loss from agents' or premium balances charged off | | 114,379 |
| Federal and foreign income taxes incurred | | 19,276 |
| Total expenses | | <u>\$ 133,655</u> |
| Net income: | | <u>\$ 1,750,522</u> |
| Surplus as regards to policyholders, December 31, 2012 | | \$50,188,276 |
| Net income | | 1,750,522 |
| <u>Additions:</u> | | |
| Change in unrealized capital gains (losses) | \$ 49,943 | |
| Change in provision for reinsurance | - | |
| Paid in surplus | - | |
| Total additions | | <u>49,943</u> |
| <u>Deductions:</u> | | |
| Change in net deferred income tax | \$(241,059) | |
| Change in nonadmitted assets | <u>(135,014)</u> | |
| Total deductions | | (376,073) |
| Surplus as regards to policyholders, December 31, 2013 | | <u>\$51,612,668</u> |

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Reconciliation of Capital and Surplus From Prior Examination
December 31, 2009 to December 31, 2013

| | Common Capital <u>Stock</u> | Gross Paid-in & Contributed <u>Surplus</u> | Unassigned Funds <u>(Surplus)</u> | <u>Total</u> |
|----------------------|-----------------------------------|--|--------------------------------------|----------------------|
| December 31, 2009 | \$ 4,500,000 | \$ 43,021,934 | \$ 3,973,629 | \$ 51,495,563 |
| 2010 Operations (1) | - | - | 1,609,799 | 1,609,799 |
| 2010 Special Surplus | - | - | - | - |
| 2010 Dividends (3) | - | - | (1,000,000) | (1,000,000) |
| 2011 Operations (1) | - | - | 1,757,652 | 1,757,652 |
| 2011 Special Surplus | - | - | - | - |
| 2011 Dividends (3) | - | - | - | - |
| 2012 Operations (1) | - | - | 1,325,262 | 1,325,262 |
| 2012 Special Surplus | - | - | - | - |
| 2012 Dividends | - | - | (5,000,000) | (5,000,000) |
| 2013 Operations (1) | - | - | 1,424,392 | 1,424,392 |
| 2013 Special Surplus | - | - | - | - |
| 2013 Dividends (3) | - | - | - | - |
| December 31, 2013 | <u>\$ 4,500,000</u> | <u>\$ 43,021,934</u> | <u>\$ 4,090,734</u> | <u>\$ 51,612,668</u> |

(1): Operations is defined as: net income, change in net unrealized capital gains or (losses), change in net deferred income tax, change in non-admitted assets, change in provision for reinsurance, and aggregate write-ins for gains and losses to surplus.

(2): See discussion of common capital stock and paid-in surplus below.

(3): See discussion of dividends below.

Common Capital Stock and Paid-in Surplus

As amended, the Certificate of Incorporation authorizes the Company to issue 150,000 shares of common stock with a \$30 par value. As of December 31, 2013, the Company had 150,000 common shares issued and outstanding totaling \$4,500,000. All outstanding common shares of the Company are owned by Berkley Regional Insurance Company.

As of December 31, 2013, the Company reported gross paid in and contributed surplus of \$43.0 million. Gross paid in and contributed surplus has not changed since the prior exam.

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Dividends

The Company paid ordinary dividends during the examination period in the amounts of \$1.0 million and \$5.0 million for the years ended 2010 and 2012, respectively. The dividends were paid in the form of cash or securities.

SCHEDULE OF EXAMINATION ADJUSTMENTS

None.

NOTES TO THE FINANCIAL STATEMENTS

Note 1:

Bonds

\$ 49,973,913

As of December 31, 2013, the Company reported total bond investments on Schedule D – Part 1 with book adjusted carrying values in the amount of \$50.0 million and fair market values of \$52.4 million. Bonds were comprised of the following classes:

| | <u>Statement Value</u> | <u>% of Total</u> |
|--|------------------------|-------------------|
| U.S. Governments | \$ 4,417,943 | 8.8% |
| U.S. States, Territories & Possessions | 2,317,908 | 4.6% |
| U.S. Political Subdivisions of States, Territories & Possessions | 5,085,136 | 10.2% |
| U.S. Special Revenues | 32,719,720 | 65.5% |
| Industrial and Miscellaneous | 5,433,206 | 10.9% |
| Total | <u>\$ 49,973,913</u> | <u>100.0%</u> |

The Company reported an additional \$509.4 thousand in bonds at book adjusted carrying value as short-term investments for total bond holdings of \$50.5 million. Of the Company's total bond holdings, \$47.2 million or 93.5% were categorized as Class 1 with respect to NAIC credit quality standards. The remaining holdings were NAIC Class 2 bonds. The bond holdings were 98.0% publically traded and 2.0% private placement securities. Bond maturities were diversified relative to maturity with 18.5%, 28.9%, 28.7% 18.2% and 5.7% maturing in less than one year,

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one to five years, five to ten years, ten to twenty years, and over twenty years, respectively. The examination verified the existence, ratings and reported values for the bond securities as of December 31, 2013.

Note 2:

| | |
|---------------------------------|-------------|
| Losses | \$ 0 |
| Loss Adjustment Expenses | \$ 0 |

INS Consultants, Inc. (“Consulting Actuary”) performed a review of the inherent risks, management oversight and other mitigating controls over the Company’s actuarial processes and procedures. The Consulting Actuary’s review included detail testing and an independent calculation of the Company’s loss and loss adjustment expense reserves as of December 31, 2013. The Company’s actuarial staff provided the Consulting Actuary its Statement of Actuarial Opinion and the supporting actuarial data, documents and calculations. The Consulting Actuary determined the Company’s loss and loss adjustment expenses reserves were sufficient on both a gross and net basis as of December 31, 2013.

COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS

The following is a summary of the recommendations contained in the prior examination report as of December 31, 2009, and comments regarding the Company’s compliance during the current examination period:

It was recommended the Company reconcile the Directors reported on the jurat page of the Annual Statement with the Directors elected per the Shareholder meeting minutes.

The Company has complied with this recommendation.

SUMMARY OF RECOMMENDATIONS

None.

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> | <u>December 31, 2013</u> | <u>December 31, 2009</u> | <u>(Decrease)</u> |
|---------------------------|---------------------------------|---------------------------------|--------------------------|
| Assets | \$ 56,887,326 | \$ 54,956,034 | \$ 1,931,292 |
| Liabilities | \$ 5,274,658 | \$ 3,460,471 | \$ 1,814,187 |
| Capital and Surplus | \$ 51,612,668 | \$ 51,495,563 | \$ 117,105 |

The assistance of Delaware's consulting actuarial firm, INS Consultants, Inc. and the consulting information technology specialist with INS Services, Inc. is acknowledged.

Respectfully submitted,



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