

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

Karen Weldin Stewart, CIR-ML  
Commissioner



Delaware Department of Insurance

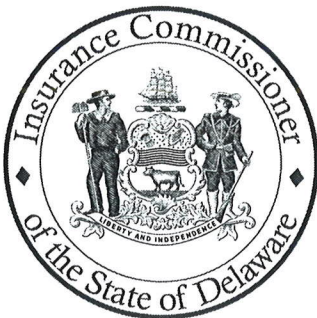
I, Karen Weldin Stewart, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of December 31, 2009 of the

**GEMINI 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.

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

Karen Weldin Stewart, CIR-ML  
Insurance Commissioner



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

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

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

**GEMINI INSURANCE COMPANY**

hereinafter referred to as “Company” or “GIC”, 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, Connecticut. 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**

There were no significant subsequent events.

## COMPANY HISTORY

The Company was incorporated on November 9, 1995 as the Gemini Reinsurance Company. Effective June 5, 1997, the Company amended the original Certificate of Incorporation by changing its name to Gemini Insurance Company. Gemini attained an admitted carrier status in Delaware on September 30, 1997. The Company is a wholly-owned subsidiary of BIC, a Delaware domiciled insurance/reinsurance company. BIC is a wholly-owned subsidiary of Signet Star Holdings, Inc., (Holdings) a Delaware holding company. Holdings is a wholly-owned subsidiary of WRBC, a Delaware insurance holding company.

There were no changes to the Company's gross paid-in and contributed surplus during the examination period.

## 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.**

## **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 seven (7) members.

The Board of Director's shall hold an annual meeting for the purpose of organization and the transaction of any business immediately after the annual meeting of the stockholders, provided a quorum is present. Special meetings of the Board may be called by the Chairman of the Board or by the President.

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 - Chief Financial Officer, WRBC
Paul James Hancock	Senior VP - 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

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

Name	Title
William Robert Berkley	Director and Chief Executive Officer
William Robert Berkley Jr.	Director and President
Eugene George Ballard	Director and Assistant Secretary
Paul James Hancock	Director
Carol Josephine LaPunzina	Director, SVP, General Counsel & Secretary
Ira Seth Lederman	Director
C. Fred Madsen	Director
Mark Gary Davidowitz	Senior VP and Treasurer
John Stanley Diem	Executive Vice President
Joseph Patrick Dowd	Executive Vice President
David Andrew Jordan	Executive Vice President
Annette Merz	Executive Vice President
Jason Richard Niemela	Executive Vice President
Jill Ellen Wadlund	Executive Vice President
Joseph Lee Mathews	Senior Vice President

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.**

## Gemini Insurance Company

W. R. Berkley London Finance, Limited  
W. R. Berkley London Holdings, Limited  
W. R. Berkley Insurance (Europe), Limited  
W. R. Berkley London Staff, Limited

### **Greenwich Knight Insurance Company**

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

Atlantic Aero Holdings, Inc.  
Atlantic Aero, Inc.  
Alamo Aerospace, LP  
Mid-Atlantic Freight, Inc.  
MartinAire Aviation LLC  
Mid-Atlantic Freight GenPar, LLC  
Banner Aerospace, Inc.  
GCCUS, Inc.  
DAC International, Inc.  
Matrix Aviation, Inc.  
NASAM Incorporated (formerly known as Banner Acquisition Corp. II)  
Professional Aircraft Accessories, Inc.  
Professional Aviation Associates, Inc.  
Summit Aviation, Inc.  
Western Acquisition Corp.  
Western Aircraft, Inc.

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

Admiral Insurance Company  
Admiral Indemnity Company  
Admiral Risk Insurance Services, Inc.  
Armada Insurance Services, Inc.  
Carolina Casualty Insurance Company  
Berkley Specialty Insurance Services, LLC  
Admiral Insurance Group, LLC  
Berkley Professional Liability, LLC  
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.**

## Gemini Insurance Company

### Signet Star Holdings, Inc.

#### Berkley Insurance Company

Berkley Canada Inc. (formerly known as Berkley Underwriting Managers Canada, Ltd.)

#### Berkley Regional Insurance Company

##### Acadia Insurance Company

Maine Compensation Services, Inc

##### Berkley Regional Insurance Services, LLC

Acadia Insurance Group, LLC

American Mining Insurance Group, LLC

Berkley Mid-Atlantic Group, LLC

Berkley North Pacific Group, LLC

Berkley Regional Specialty, LLC

Berkley Surety Group, LLC (formerly known as Berkley Surety Group, Inc.)

Continental Western Group, LLC

Regional Excess Underwriters, LLC

Union Standard Insurance Group, LLC

##### Berkley Regional Specialty Insurance Company

##### CGH Insurance Group, Inc.

American Mining Claims Service, Inc.

CGH Claims Service, Inc.

American Mining Insurance Company, Inc.

Deck Software, Inc.

Mining Insurance Markets, Inc.

##### Continental Western Insurance Company

##### Firemen's Insurance Company of Washington, D.C.

##### Tri-State Insurance Company of Minnesota

##### Union Insurance Company

##### Union Standard Insurance Company

##### Union Standard Management Company, Inc

#### Gemini Insurance Company

#### Key Risk Insurance Company

#### 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

Gemini Insurance Company

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  
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:

### Tax Allocation Agreement

Effective September 30, 1997, Gemini and WRBC entered into a tax allocation agreement whereby 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. 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 Advisory Agreement

Effective July 1, 1997, Gemini entered into an investment advisory agreement with Berkley Dean and Company, Inc. (Berkley Dean) whereby Berkley Dean will provide certain advisory and management services based upon criteria, standards and guidelines of the Company. Gemini 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.

### Cost Sharing Agreement

Effective July 1, 1997, Gemini entered into a cost sharing agreement with BIC whereby BIC will 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 Gemini by BIC plus a reasonable charge for direct overhead to be mutually agreed upon by Gemini and BIC from time to time; provided, however, that such charges shall be no greater than the Company would expend if providing such services for itself.

BIC shall submit within 30 days of the end of each calendar month a statement of the amount owed and Gemini shall pay to BIC 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 several underwriting management agreements with various affiliates and compensates its managers for the actual costs of services provided to the Company by the manager. Duration and termination provisions are contained in the agreements that may be cancelled by either party. The most significant agreements are described as follows:

#### (1) Vela Insurance Services, Inc., LLC (Vela)

Effective April 1, 1999, Gemini entered into an agreement with Vela to act as its manager for the solicitation, underwriting, binding and issuing of insurance coverage. This agreement

was terminated and replaced by a new agreement, effective January 1, 2009, to include Vela's claims handling authority.

The manager's authorized lines of business and products that can be written in all states that surplus lines authority has been granted to the Company are General Liability, Products and Completed Operations Liability and Owners and Contractors Protective Liability.

The manager's maximum limits of authority to be written are as follows:

\$ 1,000,000 per occurrence

\$ 2,000,000 general aggregate

\$ 2,000,000 products and completed operations aggregate

In addition, the manager has the ability to reinsure on a facultative basis with limits as follows:

\$ 5,000,000 per occurrence

\$ 5,000,000 general aggregate

\$ 5,000,000 products and completed operations aggregate

(2) Berkley Underwriting Partners, LLC (BUP)

Effective July 1, 2001, Gemini entered into an agreement with 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. BUP provides Managing General Agencies (MGAs) or Program Administrators services that include underwriting, claims, accounting, financing, information technology, regulatory compliance and actuarial support. In addition, BUP can manage activities regarding the placement of reinsurance through reinsurers in connection with the MGA or program business, enter into agreements on the Company's behalf with Third Party Administrators (TPAs) for obtaining claims administration services or

adjust or settle claims arising out of or in connection with policies pursuant to an MGA or program administration agreement entered into on behalf of Gemini.

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.

(3) Berkley Aviation, LLC (BA)

Effective April 24, 2006, Gemini entered into an agreement with BA to act as a manager for producing, underwriting and servicing, on the Company's behalf, aviation coverage, including the handling and servicing of all claims and losses, and legal actions resulting or arising from such business.

Aviation coverage includes policies written for airlines, aircraft charter operations, aircraft hull and liability used for personal and business uses, non-owned aviation liability, commercial general liability for operations that are directly involved in aviation and other aviation related operations requiring insurance and certain other risks as may be approved in writing by the Company.

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

- Acceptance and declination of risks
- Issuance, cancellation and amendment of contracts of insurance
- Collection and payment of premiums and return premiums
- Rejection, adjustment, compromise and payment of loss and loss expenses
- Recovery of losses and expenses from the Company and or its reinsurers, if any
- Payment of all taxes and fees imposed by any government or agency other than premium taxes
- Payment of all dues and all other expenses connected with the business
- Determination of what constitutes a "risk", an "insured", a "claim" and a "loss"

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 between the Company and the manager shall be within thirty (30) days upon receipt of the statement of account, unless the parties agree otherwise.

Claims Service Agreements

The Company has two types of claim service agreements of which one is directly made with an affiliate and the others are between two affiliates for functions done on behalf of the Company and are described as follows:

(1) Berkley Risk Administrators Company, LLC (BRAC)

Effective July 1, 2002, Gemini entered into an agreement with BRAC to provide claims administration services for property and casualty business managed by its affiliate, Vela Insurance Services, Inc. under its excess and surplus lines insurance program. The agreement was terminated effective March 31, 2007, and replaced by sixteen (16) separate claim agreements in effect for each Gemini program as discussed below.

BRAC's services include the investigation, adjustment, settlement and administering of claims unless otherwise specifically directed in writing by the Company. The discretionary settlement authority of BRAC is \$ 50,000 per claimant and \$ 100,000 per occurrence. The agreement may be terminated by either party with or without cause with one-hundred-eighty (180) days written prior notice.

(2) Berkley Risk Administrators Company, LLC and Berkley Underwriting Partners, LLC

Agreements are entered into between the Company's affiliates on behalf of Gemini, with BRAC, the servicing company that administers the claims and BUP, the company that acts as a

manager for Gemini, for the business underwritten by general agencies that specialize in managing specific types of program business.

BRAC performs detailed services that include; adjustment, settlement, and resisting of claims, furnishing of claim forms and claim files for each reported claim, establishment of case basis reserves for loss and loss adjustment expenses subject to BUP's authority and approval on all claims that are the subject matter of an agreement, claim investigation and adjustment work that can reasonably be performed from its own offices, and furnishes BUP with loss reports on a monthly basis.

BUP will make sufficient funds available to BRAC to pay claims and allocated loss adjustment expenses on behalf of Gemini and shall maintain a bank account from which BRAC shall issue checks for the payment of claims and expenses. BUP grants authority to BRAC to do whatever is necessary, legal and proper to administer claims within BRAC's discretionary settlement authority as varies within each type of agreement depending on the type of program business and permits BRAC to retain the services of third parties approved by BUP to provide loss investigation and loss adjustment and legal services.

The agreement may be terminated by either BRAC or BUP with or without cause upon sixty (60) days written prior notice to the other party.

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

The Company is authorized to transact the business of insurance in Delaware and is an eligible surplus lines insurer in forty-nine (49) states, the District of Columbia, Puerto Rico and the U.S. Virgin Islands.

Gemini develops non-admitted programs, targeting the specific insurance needs of the

surplus lines market with its business being mainly produced by program administrators/underwriting managers and for certain programs, managing general agents (MGAs), through contacts with general agents or surplus lines brokers. Coverage is provided to insureds that are not able to secure policies through the admitted insurance market.

The majority of the Company's direct written premiums for the year 2009 is comprised of General Liability, Products and Completed Operations Liability and Owners and Contractors Protective Liability, that was written through Vela, under a previously mentioned management agreement. The majority of the other business written by the Company was comprised of Commercial Automobile and Commercial Multiple Peril.

The Company's total direct premiums written as of December 31, 2009, amounted to \$135,017,820 which was ceded in its entirety to its parent BIC.

Business is written on a national basis, with emphasis in the states of California, Louisiana, New Jersey, Washington, and Texas as of December 31, 2009:

### **GROWTH OF THE 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	\$ -	\$ 79,031,329	\$ 56,344,408	\$ 1,886,427
2008	-	83,440,301	53,982,649	1,394,169
2007	-	92,677,352	52,175,741	2,042,867
2006	-	91,677,607	55,144,207	2,001,728

The changes over the examination period are as follows:

- A 13.8% decrease in Net Admitted Assets
- A 2.2% increase in Surplus as Regards Policyholders
- A 5.8% decrease in Net Income

The Company cedes 100% of all business written to BIC, after minimal cessions to other reinsurers. The Delaware Department of Insurance has granted permission to report the agreement as an inter-company pooling arrangement. As a result, the Company does not report any net loss and loss expense reserves or net unearned premium reserves on its Balance Sheet. In addition, the Company does not report net premiums earned, net losses incurred or net loss expenses incurred on its Statement of Income.

### **LOSS EXPERIENCE**

The Company cedes 100% of its business to its parent BIC. Therefore, there are is no net loss reserves experience.

### **REINSURANCE**

#### **Assumed**

The Company does not assume reinsurance.

#### **Ceded**

Effective January 1, 1998, the Company entered into a 90% quota share agreement with its parent BIC under which the Company ceded 90% of the net liabilities arising under the policies, contracts and binders of insurance or reinsurance in force at the effective date or issued

after that date and classified as property casualty insurance business by the Company. Effective October 1, 2003, the agreement was amended retroactively increasing the reinsurance percentage to 100%.

Premiums ceded to non-affiliates were minor in nature and provided catastrophic loss coverage to the Company.

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

The accounts and records review 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.

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

## **FINANCIAL STATEMENTS**

The following statements show the assets, liabilities, surplus and other funds of the Company, as determined by this examination, as of December 31, 2009, along with supporting exhibits as detailed below:

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

## ASSETS

DECEMBER 31, 2009

Assets	Ledger Assets	Non-Admitted Assets	Net-Admitted Assets	<u>Notes</u>
Bonds	\$ 55,755,497		\$ 55,755,497	1
Preferred stocks			-	
Common stocks			-	
Cash	(3,316,257)		(3,316,257)	
Investment income due and accrued	829,166		829,166	
Premiums and Considerations:				
Uncollected premiums and agents balances	18,479,567	\$ 1,454,286	17,025,281	
Deferred premium	6,629,742	376,665	6,253,077	
Reinsurance:				
Net deferred tax asset	936,921	424,769	512,152	
Electronic data processing equipment and software	23,442		23,442	
Furniture and equipment, including health care delivery assets	65,584	65,584	-	
Receivable from parent, subsidiaries and affiliates	47,279		47,279	
Aggr. write-ins-other than invested assets	2,362,119	460,427	1,901,692	
	<u>          </u>	<u>          </u>	<u>          </u>	
<b>Total Assets</b>	<b><u><u>\$ 81,813,060</u></u></b>	<b><u><u>\$ 2,781,731</u></u></b>	<b><u><u>\$ 79,031,329</u></u></b>	

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

		<b>NOTES</b>
Losses	\$ -	2
Reinsurance payable on paid losses and LAE	-	
Loss adjustment expenses	-	2
Commissions payable, contingent commissions and similar charges	440,692	
Other expenses	1,623,790	
Taxes, licenses and fees due and accrued	-	
Current federal and foreign income taxes	24,500	
Unearned premiums	-	
Ceded reinsurance premiums payable	17,054,664	
Funds held by company under reinsurance treaties	-	
Provision for reinsurance	55,000	
Payable to parent, subsidiaries and affiliates	3,181,635	
Aggregate write-ins for liabilities	<u>306,640</u>	
<b>Total Liabilities</b>	<u>\$ 22,686,921</u>	
Common capital stock	4,300,000	
Gross paid in and contributed surplus	42,000,000	
Unassigned funds (surplus)	<u>10,044,408</u>	
Surplus as regards policyholders	<u>\$ 56,344,408</u>	
<b>Total liabilities, surplus and other funds</b>	<u>\$ 79,031,329</u>	

**SUMMARY OF OPERATIONS****DECEMBER 31, 2009****Underwriting Income**

Premiums earned	\$ _____ -
<b>Deductions</b>	
Losses incurred	\$ -
Loss adjustment expenses incurred	-
Other underwriting expenses incurred	(695,577)
<b>Total underwriting deductions</b>	<u>\$ (695,577)</u>
Net underwriting gain or (loss)	<u>\$ 695,577</u>

**Investment Income**

Net investment income earned	\$ 2,287,952
Net realized capital gains or (losses)	<u>26,975</u>
Net investment gain or (loss)	<u>\$ 2,314,927</u>

**Other Income**

Net gain or (loss) from agents' or premium balances charged off	\$ (700,577)
Finance and service charges not included in premium	5,000
Aggregate write-ins for miscellaneous income	<u>0</u>
Total other income	<u>\$ (695,577)</u>
Net income after dividends to policyholders, but before federal income taxes	\$ 2,314,927
Federal income taxes incurred	<u>428,500</u>
<b>Net Income</b>	<u><u>\$ 1,886,427</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>\$ 55,144,207</u>
Net Income	\$ 5,323,463
Change in net unrealized capital gains	21,057
Change in net deferred income tax	(302,561)
Change in non-admitted assets and related items	1,163,046
Change in provision for reinsurance	(4,804)
Dividends to stockholder	<u>(5,000,000)</u>
Change in surplus as regards policyholders for the period	<u>\$ 1,200,201</u>
<b>Capital and Surplus, December 31, 2009</b>	<b><u><u>\$ 56,344,408</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** **\$55,755,497**

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 EXAMINATION RECOMMENDATIONS**

The Company has complied with all prior examination recommendations.

### **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:

<u>Description</u>	<b>December 31, 2009</b>		<b>December 31, 2006</b>	<b>Changes</b>
	<u>Examination</u>	<u>Examination</u>	<u>Examination</u>	<u>Increases/</u> <u>Decreases</u>
Assets	\$79,031,329	\$79,031,329	\$91,677,607	(\$12,646,278)
Liabilities	22,686,921	22,686,921	36,533,400	( 13,846,479)
Policyholders Surplus	56,344,408	56,344,408	55,144,207	1,200,201

The assistance of Delaware’s consulting actuarial firm, INS Consultants, Inc., and INS Services, Inc. is acknowledged.

Respectfully submitted,




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