

EXAMINATION REPORT
OF THE
STARNET 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

STARNET INSURANCE COMPANY

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

Attest By:

A handwritten signature in black ink, appearing to be "K. Stewart", written over a horizontal line.

Date: May 1, 2015

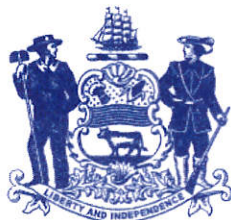


In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 1st day of May, 2015.

A handwritten signature in black ink, appearing to be "K. Stewart", written over a horizontal line.

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

Karen Weldin Stewart, CIR-ML
Commissioner



Delaware Department of Insurance

REPORT OF EXAMINATION
OF THE
STARNET 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".

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

Dated this 1st 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. 14.009, dated December 9, 2013, an examination has been made of the affairs, financial condition and management of the

STARNET 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 three (3) year period from January 1, 2007 to December 31, 2009. This examination covers the four (4) year period from January 1, 2010 through December 31, 2013, and encompasses a general review of transactions during the period,

STARNET INSURANCE COMPANY

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

STARNET 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 the 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

STARNET INSURANCE COMPANY

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 incorporated in the state of Delaware on June 11, 1998 as StarNet Casualty Company and commenced business on September 8, 1998. The Company was formed as a shell company in order to facilitate a re-domestication by merger of Starnet Insurance Company, a New York domiciled company, into the Company. Effective February 28, 1999, the re-domestication by merger of StarNet Insurance Company and StarNet Casualty Company was approved by the New York Department of Financial Services and Delaware Department Insurance. Concurrent with the merger, StarNet Casualty Company, the surviving corporation, changed its name to StarNet Insurance Company.

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 require the Board of Directors to meet at least four times during the year. Other meetings may be held as determined by Board of Director resolution and special meetings may be called by the Chairman of the Board or the President. The minutes of the meetings verified meetings took place as required 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 six and not more than fifteen Directors.

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>
William Robert Berkley	Chairman of the Board & Chief Executive Officer W.R. Berkley Corporation
W. Robert Berkley, Jr.	President & Chief Operating Officer W.R. Berkley Corporation
Eugene George Ballard	Senior Vice President & Chief Financial Officer

STARNET INSURANCE COMPANY

W.R. Berkley Corporation

Paul James Hancock Senior Vice President & Chief Corporate Actuary
W.R. Berkley Corporation

Carol Josephine LaPunzina Senior Vice President Human Resources
W.R. Berkley Corporation

Ira Seth Lederman Senior Vice President, General Counsel & Secretary
W.R. Berkley Corporation

Carl Fred Madsen Senior Vice President Reinsurance Operations
W.R. Berkley Corporation

Officers were elected in accordance with the Bylaws during the period under examination. The Bylaws require election of a President, one or more Vice Presidents, a Secretary, one or more Assistant Secretaries, a Treasurer and one or more Assistant Treasurers. The Board of Directors may also elect a Chairman of the Board and 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>
William Robert Berkley, Jr.	President
Eugene George Ballard	Treasurer
Ira Seth Lederman	Secretary
Christopher Caleb Brown	Executive Vice President
Mark Gary Davidowitz	Senior Vice President
John Stanley Diem	Executive Vice President
Joseph Patrick Dowd	Executive Vice President
John Kevin Goldwater	Executive Vice President

STARNET INSURANCE COMPANY

Joseph Lee Mathews Senior Vice President

Jason Richard Niemela Executive Vice President

Nayan Raval Rajiv 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.

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.

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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
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

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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
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

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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
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

STARNET INSURANCE COMPANY

Management Contract and/or Lending Relationship (Non-owned)

MADA Insurance Exchange
States Self-Insurers Trust
States Self Insurers Risk Retention Group
Union Standard Lloyds

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 September 8, 1998, and amended February 28, 1999, 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

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

- Investment Advisory Agreement – Effective July 16, 1998, and amended February 28, 1999, 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 authorized to transact the business of insurance in all fifty (50) states and the District of Columbia. The Company primarily writes mono-line workers compensation coverage through a select group of wholesale/retail distributors. During the exam period the Company began writing aviation risks. For the year ended December 31, 2013, the majority of the Company’s gross premium written was derived from direct business produced primarily by the following Profit Centers: Key Risk Management Services; Berkley Net Underwriters; Berkley Aviation; Berkley Underwriting Partners; Berkley Offshore Underwriting Managers; Berkley Asset Protection Underwriting Managers and FinSecure. In addition, a small amount of unaffiliated assumed business was produced by Berkley Offshore Underwriting Managers; Key Risk Management Services; Berkley Net Underwriters and Berkley Underwriting Partners. The following further describes the business written by each Profit Center:

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- Key Risk Management Services is a provider of workers' compensation insurance products and services for employers in the public and private sectors throughout the eastern United States. It focuses on middle-market accounts in specialty niches and on larger self-insured entities, with a special emphasis on expert claims and managed-care services. Additionally, Key Risk Management Services provides third party administration of self-insured workers' compensation programs.
- Berkley Net Underwriters focuses on niche insurance products for small and medium-sized commercial risks, using a web-based system to allow producers to quote, bind and service workers' compensation insurance products on behalf of WRBC member companies.
- Berkley Aviation offers a wide range of aviation insurance products, including coverage for airlines, helicopters, miscellaneous general aviation operations, non-owned aircraft, fixed-base operations, control towers, airports and other specialized niche programs. It places its business on an admitted and non-admitted basis nationwide.
- Berkley Underwriting Partners is a program management company offering both admitted and non-admitted insurance support on a nationwide basis for commercial casualty and inland marine program administrators with specialized insurance expertise. Its book is built around blocks of homogeneous business, or programs, allowing for efficient processes, effective oversight of existing programs and sound implementation of new programs.
- Berkley Offshore Underwriting Managers is a specialist global underwriter of energy and marine risks. Its three divisions provide specialty insurance products in the energy upstream, energy liability and marine sectors.

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- Berkley Asset Protection Underwriting Mangers 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.
- FinSecure serves the insurance needs of financial institutions, credit unions, mortgage lenders, mortgage servicers and trust managers. It offers a comprehensive range of property, casualty, professional liability and specialty lines insurance products and loss control services, including financial institution-specific commercial package policies, workers' compensation, umbrella, commercial auto, management liability coverages and financial institution bonds.

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:

<u>Year</u>	<u>Admitted Assets</u>	<u>Surplus as Regards Policyholders</u>	<u>Gross Premiums Written</u>	<u>Net Income</u>
2013	\$ 202,673,835	\$ 109,441,469	\$ 354,847,711	\$ (2,130,380)
2012	190,401,076	107,377,525	311,999,482	4,285,829
2011	189,165,333	113,399,761	298,382,449	4,266,953
2010	170,790,571	108,980,621	285,515,343	6,005,155
2009	185,778,185	113,991,037	204,813,595	5,317,365

For the year ended December 31, 2013, the Company's financial position was not significantly affected by the transfer of assets and liabilities and the first year of operations under

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the Reinsurance Pooling Agreement because the Company has historically ceded the majority of its risk to an affiliate. Since the prior examination, the Company has reported an increasing trend in gross premium written and admitted assets. In addition, the Company reported relatively stable surplus as regards to policyholders 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	\$ 347,716,102	98.0%	\$ 199,574,080	97.4%
Reinsurance assumed from non-affiliates	7,131,609	2.0%	5,239,515	2.6%
Gross premiums written ("GPW")	<u>\$ 354,847,711</u>	<u>100%</u>	<u>\$ 204,813,595</u>	<u>100%</u>
Reinsurance ceded to affiliates	\$ 355,003,757	100.0%	\$ 180,150,811	88.0%
Reinsurance ceded to non-affiliates	(156,046)	0.0%	4,647,287	2.3%
Total ceded	<u>\$ 354,847,711</u>	<u>100.0%</u>	<u>\$ 184,798,098</u>	<u>90.2%</u>
Net premiums written	<u>\$ -</u>	<u>0.0%</u>	<u>\$ 20,015,497</u>	<u>9.8%</u>

Assumed Reinsurance– Non-affiliated

For the year ended December 31, 2013, the Company wrote approximately \$7.1 million in unaffiliated gross assumed premium. The unaffiliated assumed reinsurance was produced by Berkley Offshore Underwriting Managers; Key Risk Management Services; Berkley Net Underwriters and Berkley Underwriting Partners. The majority of the assumed business is assumed through the National Council on Compensation Insurance ("NCCI") workers compensation pool. The most significant portion of the other assumed business is produced by Berkley Offshore Managers. During 2012, Berkley Offshore Managers began a Marine and Energy Liability Division that was added to its existing book of business.

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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 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

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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 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

Effective January 1, 2013, 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

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identified and tested. The Company's methodology for assessing the effectiveness of the established mitigation factors was also evaluated.

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

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Assets
As of December 31, 2013

	Ledger	Assets Not	Net Admitted	
	<u>Assets</u>	<u>Admitted</u>	<u>Assets</u>	<u>Notes</u>
Bonds	\$ 98,008,126	\$ -	\$ 98,008,126	<i>1</i>
Cash and short-term investments	3,936,560	-	3,936,560	
Investment income due and accrued	816,310	-	816,310	
Uncollected premiums and agent balances	43,337,518	2,686,618	40,650,900	
Deferred premiums	51,480,474	32,143	51,448,331	
Accrued retrospective premiums	6,670	-	6,670	
Reinsurance - Amounts recoverable from reinsurers	4,613,774	-	4,613,774	
Current federal and foreign income tax recoverable	165,519	-	165,519	
Net deferred tax asset	1,702,398	-	1,702,398	
Guaranty funds receivable or on deposit	121,488	-	121,488	
Receivables from parent, subsidiaries and affiliates	1,748,207	1,280,285	467,922	
Aggregate write-ins for other than invested assets	<u>735,839</u>	<u>-</u>	<u>735,839</u>	
 Total assets	 <u>\$ 206,672,883</u>	 <u>\$ 3,999,046</u>	 <u>\$ 202,673,837</u>	

STARNET INSURANCE COMPANY

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
Reinsurance payable on paid loss and loss adjustment expenses	151,317	
Commission payable, contingent commissions and other similar charges	5,855,477	
Other expenses	(66,280)	
Taxes, licenses and fees	7,640,368	
Advance premium	1,502,524	
Ceded reinsurance premiums payable	73,168,646	
Funds held by company under reinsurance treaties	3,938,889	
Amount withheld or retained by company for account of others	1,031,172	
Remittances and items not allocated	(56,269)	
Payable to parent, subsidiaries and affiliate	<u>66,524</u>	
 Total liabilities	 <u>\$ 93,232,368</u>	
 Common capital stock	 \$ 6,000,000	
Gross paid in and contributed surplus	88,950,611	
Unassigned funds (surplus)	<u>14,490,858</u>	
 Total surplus as regards policyholders	 <u>\$ 109,441,469</u>	
 Total liabilities, capital and surplus	 <u>\$ 202,673,837</u>	

STARNET INSURANCE COMPANY

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		2,684,296
Net realized capital gains		4,776
Other income		<u>591,694</u>
Total income		<u>\$ 3,280,766</u>
Expenses:		
Losses incurred		\$ -
Loss adjustment expenses incurred		-
Other underwriting expenses		-
Net loss from agents' or premium balances charged off		591,694
Federal and foreign income taxes incurred		<u>4,819,452</u>
Total expenses		<u>\$ 5,411,146</u>
Net income:		<u>\$ (2,130,380)</u>
Surplus as regards to policyholders, December 31, 2012		\$107,377,524
Net income		(2,130,380)
<u>Additions:</u>		
Change in net unrealized capital gains (losses)	\$ 384,816	
Change in net unrealized foreign exchange capital gains (losses)	5,460	
Change in net deferred income tax	4,479,535	
Change in provision for reinsurance	<u>12,851</u>	
Total additions		4,882,662
<u>Deductions:</u>		
Change in nonadmitted assets	\$(336,337)	
Change in foreign exchange capital gains (losses)	-	
Change in net deferred income tax	-	
Dividends	<u>(352,000)</u>	
Total deductions		(688,337)
Surplus as regards to policyholders, December 31, 2013		<u>\$109,441,469</u>

STARNET INSURANCE COMPANY

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

	Common Capital Stock	Gross Paid-in & Contributed Surplus	Unassigned Funds (Surplus)	Total
December 31, 2009	\$ 6,000,000	\$ 88,950,611	\$ 19,040,426	\$ 113,991,037
2010 Operations (1)	-	-	4,989,584	4,989,584
2010 Special Surplus	-	-	-	-
2010 Dividends (2)	-	-	(10,000,000)	(10,000,000)
2011 Operations (1)	-	-	4,419,140	4,419,140
2011 Special Surplus	-	-	-	-
2011 Dividends	-	-	-	-
2012 Operations (1)	-	-	4,977,763	4,977,763
2012 Special Surplus	-	-	-	-
2012 Dividends (2)	-	-	(11,000,000)	(11,000,000)
2013 Operations (1)	-	-	2,415,945	2,415,945
2013 Special Surplus	-	-	-	-
2013 Dividends (2)	-	-	(352,000)	(352,000)
December 31, 2013	<u>\$ 6,000,000</u>	<u>\$ 88,950,611</u>	<u>\$ 14,490,858</u>	<u>\$ 109,441,469</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 dividends below.

Common Capital Stock and Paid-in Surplus

As amended, the Certificate of Incorporation authorizes the Company to issue 835,771 shares of common stock with a \$10 par value and 100,000 shares of preferred stock with a \$10 par value. As of December 31, 2013, the Company had 600,000 common shares totaling \$6,000,000. The Company had no preferred shares issued and outstanding. All outstanding common shares of the Company are owned by Berkley Insurance Company.

As of December 31, 2013, the Company reported gross paid in and contributed surplus of \$89.0 million. Gross paid in and contributed surplus did not change during the exam period.

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Dividends

The Company paid ordinary dividends during the examination period in the amounts of \$10.0 million, \$11.0 million and \$350.0 thousand for the years ended 2010, 2012 and 2013, respectively. The dividends were paid in the form of cash or transfer of invested assets, including ownership of a wholly owned subsidiary valued at book adjusted carrying value on the date of transfer.

SCHEDULE OF EXAMINATION ADJUSTMENTS

None.

NOTES TO THE FINANCIAL STATEMENTS

Note 1: Bonds

\$ 98,008,126

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 \$98.0 million and fair market values of \$100.5 million. Bonds were comprised of the following classes:

	<u>Statement Value</u>	<u>% of Total</u>
U.S. Governments	\$ 2,965,848	3.0%
U.S. States, Territories & Possessions	11,433,550	11.7%
U.S. Political Subdivisions of States, Territories & Possessions	2,726,177	2.8%
U.S. Special Revenues	50,040,948	51.1%
Industrial and Miscellaneous	30,841,603	31.5%
Total	<u>\$ 98,008,126</u>	<u>100.0%</u>

The Company reported an additional \$4.7 million in bonds at book adjusted carrying value as short-term investments for total bond holdings of \$102.7 million. Of the Company's total bond holdings, \$93.7 million or 91.2% were categorized as Class 1 with respect to NAIC credit quality standards. The remaining holdings were NAIC Class 2 and 4 bonds at 4.9% and

STARNET INSURANCE COMPANY

3.9% of total bond holdings, respectively. The bond holdings were 93.0% publically traded and 7.0% private placement securities. Bond maturities were diversified relative to maturity with 27.7%, 40.5%, 22.1%, 7.3% and 2.3% maturing in less than one year, 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 that the Board hold annual meetings in accordance with Article 3, section 6 of the Company Bylaws. Additionally, it was recommended that officers be elected by the Board on an annual basis pursuant to Article V, section 2 of the Bylaws.

The Company has complied with this recommendation.

SUMMARY OF RECOMMENDATIONS

None.

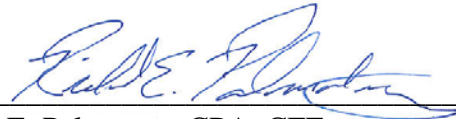
CONCLUSION

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	\$ 202,673,837	\$ 185,778,185	\$ 16,895,652
Liabilities	\$ 93,232,368	\$ 71,787,148	\$ 21,445,220
Capital and Surplus	\$ 109,441,469	\$ 113,991,037	\$ (4,549,568)

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