

**EXAMINATION REPORT**  
**OF**  
**STARSTONE NATIONAL INSURANCE COMPANY**  
**AS OF**  
**DECEMBER 31, 2018**

Office of the  
Commissioner



Delaware  
Department of Insurance

REPORT ON EXAMINATION  
OF  
STARSTONE NATIONAL INSURANCE COMPANY  
AS OF  
DECEMBER 31, 2018

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.

Handwritten signature of Trinidad Navarro in blue ink.

Trinidad Navarro  
Insurance Commissioner

Dated this 11 day of June, 2020

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May 29, 2020

Honorable Trinidad Navarro  
Commissioner of Insurance  
Delaware Department of Insurance  
1351 West North Street  
Suite 101  
Dover, Delaware 19904

Dear Commissioner:

In compliance with instructions and pursuant to statutory provisions contained in Exam Authority No. 19.019, dated June 5, 2019, an examination has been made of the affairs, financial condition and management of

**STARSTONE NATIONAL INSURANCE COMPANY**

hereinafter referred to as the Company or SNIC. SNIC was incorporated under the laws of the State of Delaware as a stock company with its registered office located at 1209 Orange Street, Wilmington, Delaware. The examination was conducted at the administrative office of the Company located at Harborside 5, 185 Hudson Street, Suite 2600, Jersey City, New Jersey 07311 and 221 Dawson Road, 2<sup>nd</sup> Floor, Columbia, South Carolina. The report of examination thereon is respectfully submitted.

**SCOPE OF EXAMINATION**

The Delaware Department of Insurance (Department) performed a risk-focused financial examination of the Company. The last examination was conducted as of December 31, 2013 by the Department as part of a multi-state coordinated examination. This examination covered the period of January 1, 2014 through December 31, 2018 and was performed as part of a multi-state

coordinated examination of the Enstar Group Limited (Enstar) U.S. regulated insurance entities (US Group), wherein Delaware is the lead state. The companies in the US Group and included in the examination are as follows:

<u>Company Name</u>	<u>NAIC Number</u>	<u>State of Domicile</u>
Clarendon National Insurance Company (CNIC)	20532	TX
Pavonia Life Insurance Company of New York (PLIC)	79340	NY
Providence Washington Insurance Company (PWIC)	24295	RI
StarStone National Insurance Company (Company)	25496	DE
StarStone Specialty Insurance Company (SSIC)	44776	DE
Yosemite Insurance Company (YIC)	26220	OK

Also included in this examination is StarStone Insurance Bermuda Limited (U.S. Reinsurance Trust) (SIBL). The examination was conducted concurrently with that of the Company's Delaware domiciled affiliates and to the fullest extent, the efforts, resources, project material and findings were coordinated and made available to all examination participants.

We conducted our examination in accordance with the *National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook* (Handbook) and generally accepted statutory insurance examination standards consistent with the Insurance Code and Regulations of the State of Delaware. The NAIC Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the company and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included

herein. If, during the course of the examination, an adjustment is identified, the impact of such adjustment will be documented separately following the Company's financial statements.

This examination report includes significant findings of fact, pursuant to the General Corporation Laws of the State of Delaware as required by 18 *Del. C.* § 321, along with general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature, are not included within the examination report but separately communicated to other regulators and/or the Company.

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 of the 2018 KPMG audit of the Company have been incorporated into the work papers of the examiners and have been utilized in determining the scope, areas of emphasis in conducting the examination, and in the area of risk mitigation and substantive testing.

#### **SUMMARY OF SIGNIFICANT FINDINGS**

There were no significant findings or material changes in financial statements as a result of this examination.

#### **COMPANY HISTORY**

The Company was incorporated as TIG Insurance Company on November 6, 1944, under the laws of the State of California, and commenced business on January 1, 1945.

On July 1, 2010, SSIC, formerly known as Torus Specialty Insurance Company, acquired the Company from Fairfax Holdings Limited as a clean shell for \$32.7 million, with all prior obligations remaining the responsibility of the sellers through a series of agreements. At that time, the Company's name was changed to Torus National Insurance Company.

On April 1, 2014, Kenmare Holdings Ltd., a wholly-owned subsidiary of Enstar, through its subsidiary, North Bay Holdings Limited (North Bay), and together with Trident V, L.P., Trident V Parallel Fund, L.P. and Trident V Professionals Fund, L.P., which are managed by Stone Point Capital LLC (Stone Point) (collectively Trident) purchased StarStone Insurance Holdings Limited (SIHL) for \$646 million, with the approval of the Department. SIHL became StarStone Specialty Holdings Limited (SSHL).

After the consummation of the purchase, the ownership interests of SSHL are now Enstar (58.98%), Trident (39.32%) and Dowling Capital Partners (1.70%). On September 21, 2015, the Company's name was changed to SNIC.

#### Capitalization

The Company's Certificate of Incorporation authorizes the issuance of 30,000 shares of common stock with a \$140 par value. As of December 31, 2018, the Company had 30,000 common shares issued and outstanding totaling \$4,200,000. All outstanding common shares of the Company are owned by SSIC.

As of December 31, 2018, the Company reported gross paid in and contributed surplus of \$92,242,333. The Company received a \$17,000,000 capital contribution from SSIC in 2018.

#### Dividends

The Company's Board of Directors (Board) did not approve, authorize, or pay any stockholder dividends to SSIC during the examination period.

## MANAGEMENT AND CONTROL

### Directors

Pursuant to the general Corporation Laws of the State of Delaware, as implemented by the Company's Certificate of Incorporation and bylaws, all corporate powers and its business property and affairs are managed by, or under the direction of, its Board.

In accordance with the Company's bylaws, the number of Directors shall be fixed from time to time by a resolution of the Board or stockholders. Directors shall be elected annually by the sole stockholder and shall hold office until successors are elected and qualified, or until resignation or removal. The members of the Board, serving as of December 31, 2018, each elected or appointed in accordance with the Company bylaws were as follows:

<u>Name</u>	<u>Title</u>
Robert Lincoln Trimble, Jr.	President
Paul Brockman	Chairman and SVP
Richard Seelinger	Senior Vice President
Robert Redpath	Senior Vice President
Mark Sioma	Executive Vice President
Nancy Hammer	Treasurer and CFO
Jennifer Miu	Senior Vice President

### Officers

In accordance with its bylaws, officers serving the Company shall be a President, a Secretary, a Treasurer or Chief Financial Officer and such other officers with such other titles as the Board shall determine. The senior officers, duly appointed in accordance with the bylaws and serving at December 31, 2018, were as follows:

<u>Name</u>	<u>Title</u>
Paul Brockman	Chairman and SVP
Robert Lincoln Trimble	President
Nancy Hammer	Treasurer, Chief Financial Officer
Thomas Balkan	Corporate Secretary
Rona Platt	Assistant Secretary



Corporate Records

The recorded minutes of the shareholder and Board were reviewed for the period under examination. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions and events including approval of investment transactions in accordance with 18 *Del. C.* §1304. In addition, the review of Company files indicated that written correspondence was submitted to the Department with regards to the changes in officers and directors during the period under examination in compliance with 18 *Del. C.* §4919.

Insurance Holding Company System

The Company is a member of an Insurance Holding Company System known as Enstar as defined under 18 *Del. C.* §5001 of the Delaware Insurance Code. The Company is a wholly owned subsidiary of SSIC.

An abbreviated organizational chart of the Enstar holding company system as of December 31, 2018, is as follows (with the percentage control of the subsidiary by the direct parent shown):

<u>Entity [domicile]</u>	<u>Control</u>	<u>Control</u>
Stone Point Capital LLC managed by Trident V funds	18.20%	18.20%
Enstar Group Limited [Bermuda] { 1 }	100.00%	100.00%
Kenmare Holdings Ltd [Bermuda]	58.98%	58.98%
Stone Point Capital LLC managed by Trident V funds { 2 }	39.32%	39.32%
Dowling Capital Partners	1.70%	1.70%
North Bay Holdings Limited [Bermuda]	100.00%	100.00%
StarStone Specialty Holdings Limited [Bermuda]	100.00%	100.00%
StarStone Insurance Bermuda Limited [Bermuda]	100.00%	100.00%
StarStone Finance Limited [United Kingdom]	100.00%	100.00%
StarStone US Holdings, Inc. [DE]	100.00%	100.00%
StarStone Specialty Insurance Company [DE]	100.00%	100.00%
<b>StarStone National Insurance Company [DE]</b>	<b>100.00%</b>	<b>100.00%</b>

{1} Other than Stone Point, no other individual or entity owns or controls greater than 17.0% of Enstar publicly traded common stock as of December 31, 2018. [17.0% calculation = 10.0% Ultimate Controlling Entity's Control Threshold divided by North Bay's 58.98% ownership percentage of subsidiary SSSL]. Consequently, Enstar is considered an ultimate controlling entity of the Company.

{2} No other individual or entity owns or controls greater than 25.4% of Stone Point as of December 31, 2018. [25.4% calculation = 10.0% Ultimate Controlling Entity's Control Threshold divided by Stone Point's 39.32% ownership percentage of subsidiary SSSL] Consequently, Stone Point is considered an ultimate controlling entity of the Company.

### Agreements with Affiliates

#### *Cost Sharing Agreement*

The Company, through an addendum, entered into an existing service agreement dated January 1, 2009, among SNIC, SSIC and StarStone US Services, Inc. (SSUS) effective July 1, 2010. The Company receives services from SSUS including: information technology; human resources and payroll services; underwriting; claims; actuarial; finance; regulatory and compliance; budget and forecasting; tax related services; management oversight; and other services. The costs of such services are charged to the Company and other members of the holding company group based on an allocation of the actual cost incurred by the provider of the services. The allocation is calculated as agreed by the parties in good faith and in accordance with NAIC *Accounting Practices and Procedures Manual, SSAP No 70, Allocation of Expenses*. The agreement states that within 15 days of receipt of the report, the party or parties shall remit payment in full. The original agreement and the amendment were approved by the Department.

#### *Tax Allocation Agreement and Amendment*

The Tax Allocation agreement was amended and restated as of October 19, 2016 between SUHI, SSUS, SSIC, SNIC, and StarStone US Intermediaries. As part of the amendment, the consolidated federal income tax liability of the Affiliated group, as determined under Section 1.1502 of the Treasury Regulations, shall be allocated to the members in accordance with Section 1.1552 (1)(a)(2) of the Treasury Regulations. For each taxable period, a member shall compute its allocable portion of the tax liability of the Affiliated Group and shall pay such amount to the SUHI. A Member's portion of the tax liability of the group shall be the liability of

the Affiliated Group, multiplied by a fraction, the numerator is the separate return liability of such Members and the denominator is the sum of the separate return liabilities of all members. For this purpose, a separate return is defined as a return completed by a member as if it were and had been filing as a separate taxpayer. A Member shall be paid for any foreign tax credits, investments credits, losses or any loss carry over generated by it, to the extent used in the consolidated return. Payment shall be equal to the reduction in tax generated by its credits.

*Intercompany Services Agreement*

The Company and Enstar USA, Inc. (Enstar US), entered into an intercompany services agreement effective as of January 1, 2016. Under the terms of this agreement, Enstar US shall provide the following services for the company: Executive and administrative services; legal services; data processing; treasury; corporate secretarial; premium collection and refunds; claims services; investment management; record-keeping and reporting; and other services.

**TERRITORY AND PLAN OF OPERATION**

Territory

As of December 31, 2018, the Company is licensed and authorized on an admitted basis to write insurance in all fifty U.S. States and the District of Columbia.

Plan of Operation

SNIC writes a range of casualty and specialty insurance, as well as reinsurance products, to a large client base. SNIC focuses on insurance and reinsurance products that provide benefit from an analytical underwriting approach. SNIC underwrites unique risks, typically of the type where underwriting performance is improved by a data driven approach supported by extensive knowledge of the underlying risk.

The Company's 2018 direct written premiums by line of business are as follows:

<u>Line of Business</u>	<u>2018</u>	<u>Percent</u>
Other Liability – Occurrence	\$146,745,777	42.60%
Workers' Compensation	125,570,102	36.46%
Home Owners Multiple Peril	15,205,608	4.41%
Ocean Marine	14,588,511	4.24%
Aircraft – all perils	11,703,287	3.40%
All Other Lines of Business Combined	<u>30,636,584</u>	<u>8.89%</u>
Total	<u>\$344,449,869</u>	<u>100.00%</u>

The Company's 2018 direct written premiums by jurisdiction are as follows:

<u>Jurisdiction</u>	<u>2018</u>	<u>Percent</u>
California	\$100,189,897	29.09%
New York	45,249,299	13.14%
Texas	38,721,282	11.24%
Florida	22,313,066	6.48%
New Jersey	18,883,683	5.48%
All Other Jurisdictions Combined	<u>119,092,642</u>	<u>34.57%</u>
Total	<u>\$344,449,869</u>	<u>100.00%</u>

### **REINSURANCE**

For 2018, the Company reported the following distribution of net premiums written:

Direct business	\$ 344,449,869
Reinsurance assumed (from affiliates)	(84,690)
Reinsurance assumed (from non-affiliates)	<u>27,282,325</u>
Total direct and assumed	\$ 371,647,504
Reinsurance ceded (to affiliates)	33,047,652
Reinsurance ceded to (non-affiliates)	<u>105,661,825</u>
Net premiums written	<u>\$ 232,938,027</u>

The Company cedes business on both a pro rata and on an excess of loss basis internally and to third-party reinsurers. Ceded reinsurance provides capacity to the Company while limiting its maximum loss exposure and other concentrations of risk. The Company remains obligated for amounts ceded in the event that the reinsurers do not meet their obligations.

Collateral is generally required for ceded unearned premiums and for amounts recoverable from reinsurers not authorized by the applicable state regulatory authorities. Management reviews the creditworthiness of each reinsurer on an ongoing basis. The Company requires its unauthorized reinsurers to enter into Letter of Credit agreements and/or funds held agreements to collateralize their reinsurance recoverable.

#### *Affiliate Reinsurance*

Effective January 1, 2013, the Company entered into a continuous quota share reinsurance agreement with SIBL, a member of its holding company group and an alien reinsurer which has been established as an accredited Delaware reinsurer under the provisions of 18 *Del. C.* § 911 Credit allowed a domestic ceding insurer and 18 *Del. Admin. Code* § 1003 Credit for Reinsurance. Under the quota share agreement, the Company cedes 65% of its net retained premium and commission plus a 20% reimbursement of the Company's underwriting expense. Effective January 1, 2014, the quota share agreement was amended to increase the ceding percentage from 65% to 100% on discontinued business. Effective December 31, 2017, the Company terminated the quota share agreement on a run-off basis. The agreement and the amendment were approved by the Department. The Company ceded \$(1,382,000) in written premiums and \$24,909,000 in incurred loss and LAE in 2018 and \$97,320,000 in written premiums and \$43,065,000 in incurred loss and LAE in 2017 to SIBL under the quota share agreement.

Effective January 1, 2013, the Company entered into a continuous aggregate excess of loss reinsurance agreement (Stop Loss) with SIBL. The Stop Loss provides protection against significant cumulative losses of the Company between an 80% calendar year net incurred loss ratio and a 160% calendar year net incurred loss ratio. Effective January 1, 2018, this agreement

was amended to decrease the attachment point ratio to 75%. This agreement was approved by the Department. The Company ceded written premiums of \$5,323,000 and \$2,681,000 in 2018 and 2017, respectively, to SIBL under the Stop Loss agreement. There were no ceded reserves or incurred loss and LAE in 2018 and 2017.

On December 15, 2016, the Company executed a quota share agreement with KaylaRe, Ltd (KaylaRe), a Bermuda-based Class 4 reinsurer primarily owned by Cavello Bay Reinsurance Limited (Cavello), a subsidiary of Enstar. During the first quarter of 2018, Enstar entered into an agreement to purchase the remaining shares of KaylaRe. The quota share agreement was effective January 1, 2016. Since the execution of the agreement surpassed nine months, the agreement had both retroactive and prospective provisions. Under the agreement, the Company cedes 35% of its net premium and acquisition costs after deduction of third-party reinsurance plus 35% of overhead expenses. Effective December 31, 2017, the Company terminated the quota share agreement on a run-off basis. Under the prospective portion of this agreement, the Company ceded written premiums of \$(1,140,000) and \$80,521,000 during 2018 and 2017, respectively. The Company ceded incurred losses and LAE of \$22,547,000 and \$51,621,000 in 2018 and 2017, respectively.

Effective January 1, 2018, the Company entered into a continuous quota share with SSIC. The Company cedes 100% of its net retained premium and commission on the Wellington homeowner's business under this agreement. The Department has approved this quota share agreement. During 2018, the Company ceded written premiums of \$26,870,000 and incurred losses and LAE of \$5,212,000 under the quota share agreement.

Effective December 1, 2017, the Company entered into a quota share agreement to reinsure its AmWINS workers compensation program. KaylaRe assumed a 33.33% share of this

quota share agreement. During 2018, the company ceded \$3,341,000 of written premiums and \$1,810,000 in incurred losses and LAE to KaylaRe under the quota share agreement. No premiums or incurred losses were ceded under this quota share agreement to KaylaRe during 2017. KaylaRe's participation on this quota share agreement ended on December 1, 2018 but will continue on a run-off basis.

Effective July 1, 2010, the Company entered into a quota share reinsurance agreement with TIG Indemnity Company (TIG Indemnity), whereby the Company cedes to TIG Indemnity 100% of its net loss and LAE reserves and unearned premium reserves on all business written prior to the purchase date. This reinsurance agreement was entered into concurrent with the acquisition of the Company by SSIC and was approved by the Department.

#### *Deposit Accounting*

The Company entered into a deposit accounting reinsurance agreement with The Coca-Cola Company (TCCC) and Cavello, effective August 5, 2016, to assume 100% of TCCC's liabilities for deductible/retention exposures for deposit premium and outstanding reserves of \$67,325,000 and to cede 100% of these risks to Cavello. The Company received \$67,325,000 in cash at the inception of this agreement from TCCC and immediately settled with Cavello. The total claims settled with TCCC were \$12,660,000 and \$10,114,000 during 2018 and 2017, respectively. The total claims recovered from Cavello were \$11,146,000 and \$10,114,000 during 2018 and 2017, respectively. The total deposit asset and liability were \$41,553,000 and \$40,039,000 as of December 31, 2018, respectively. The total deposit asset and liability were \$52,699,000 as of December 31, 2017.

*Retroactive Reinsurance*

The Quota Share endorsement effective January 1, 2014 with SIBL was bifurcated between prospective and retroactive. The retroactive portion of the Quota Share [the KaylaRe 35% quota share] endorsement included reserves commuted with StarStone Insurance (UK) Limited in 2014. The Company ceded initial reserves of \$21,421,000, paid \$21,362,000 in consideration, and recognized \$59,000 of initial retroactive reinsurance gains which is classified as Special Surplus Funds. The Company recognized retroactive reinsurance gains of \$1,925,000 in 2018 and retroactive reinsurance losses of \$128,000 in 2017.

Under the retroactive provision of the KaylaRe 35% quota share agreement, the Company ceded initial reserves of \$24,455,000, paid \$19,015,000 in consideration, and recognized \$5,440,000 of initial retroactive reinsurance gains which is classified as Special Surplus Funds. The Company recognized retroactive reinsurance losses of \$2,927,000 and \$1,043,000 in 2018 and 2017, respectively.

**FINANCIAL STATEMENTS**

The following financial statements, as reported and filed by the Company with the Department, are reflected in the following:

- Statement of Assets and Liabilities as of December 31, 2018
- Statement of Income for the year ended December 31, 2018
- Reconciliation of Capital and Surplus for the Period from the Prior Examination as of December 31, 2013 to December 31, 2018



**Statement of Assets and Liabilities**  
**As of December 31, 2018**

	Ledger Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$ 339,469,637	\$ -	\$ 339,469,637
Cash	790,602	-	790,602
Cash equivalents	5,519,993	-	5,519,993
Short Term Investments	1,994,832	-	1,994,832
Other Invested Assets	4,824,052	-	4,824,052
Subtotals, cash and invested assets	<u>\$ 352,599,116</u>	<u>\$ -</u>	<u>\$ 352,599,116</u>
Investment income due and accrued	2,190,436	-	2,190,436
Uncollected premiums and agents' balances	46,295,244	413,389	45,881,855
Deferred premiums	42,182,841	-	42,182,841
Amounts recoverable from reinsurers	14,881,680	-	14,881,680
Current federal and foreign income tax recoverable	3,527,175	-	3,527,175
Net deferred tax asset	8,090,921	1,523,612	6,567,309
Receivables from parent; subsidiaries and affiliates	8,155,082	-	8,155,082
Aggregate write-ins for other than invested assets	47,183,163	88,766	47,094,397
Total Assets	<u><u>\$ 525,105,658</u></u>	<u><u>\$ 2,025,767</u></u>	<u><u>\$ 523,079,891</u></u>

		<u>Notes</u>
Losses	\$ 123,405,878	(1)
Reinsurance payable on paid losses and loss adjustment expenses	(609,197)	
Loss adjustment expenses	18,317,351	(1)
Commissions payable	(30,162)	
Other expenses (excluding taxes, licenses and fees)	553,076	
Taxes, licenses, and fees	3,943,474	
Unearned premiums (after deducting unearned premiums for ceded reinsurance of \$59,974,287 and including warranty reserves of \$0)	112,759,649	
Ceded reinsurance premiums payable	46,873,748	
Funds held by company under reinsurance treaties	64,794,359	
Amounts withheld or retained by company for account of others	202,418	
Provision for reinsurance	1,099,432	
Payable to parent; subsidiaries and affiliates	4,772,978	
Payable for securities	1,889,642	
Aggregate write-ins for liabilities	33,045,944	
Total liabilities excluding protected cell liabilities	<u>\$ 411,018,590</u>	
Total liabilities	<u>\$ 411,018,590</u>	
Aggregate write-ins for special surplus funds	\$ 5,498,896	
Common capital stock	4,200,000	
Gross paid in and contributed surplus	92,242,333	
Unassigned funds (surplus)	10,120,072	
Surplus as regards policyholders	<u>\$ 112,061,301</u>	
Totals of liabilities & surplus	<u><u>\$ 523,079,891</u></u>	

**Statement of Income**  
**For the Year ended December 31, 2018**

Premiums earned	\$ 145,438,392
Deductions	
Losses incurred	\$ 68,976,139
Loss adjustment expenses incurred	19,580,386
Other underwriting expenses incurred	<u>86,222,256</u>
Total underwriting deductions	\$ <u>174,778,781</u>
Net underwriting gain (loss)	<u>\$ (29,340,389)</u>
<b>Investment Income</b>	
Net investment income earned	\$ 7,489,789
Net realized capital gains (losses)	<u>(168,595)</u>
Net investment gain (loss)	<u>\$ 7,321,194</u>
<b>Other Income</b>	
Net gain (loss) from agents' or premium balances charged off (amount recovered \$0 amount charged off \$249,772)	\$ (249,772)
Aggregate write-ins for miscellaneous income	<u>(1,022,554)</u>
Total other income	\$ <u>(1,272,326)</u>
Net income before dividends to policyholders; after capital gains tax and before all other federal and foreign income taxes	\$ (23,291,521)
Dividends to policyholders	<u>-</u>
Net income; after dividends to policyholders; after capital gains tax and before all other federal and foreign income taxes	\$ <u>(23,291,521)</u>
Federal and foreign income taxes incurred	(1,269,626)
Net Income	<u><u>\$ (22,021,895)</u></u>

**Reconciliation of Capital and Surplus  
For the Period from the Prior Examination  
As of December 31, 2013 to December 31, 2018**

	Common Capital Stock	Aggregate write- ins for special surplus funds	Aggregate write- ins for other than special surplus funds	Gross Paid-in and Contributed Surplus	Unassigned Surplus	Total
12/31/2014	\$ 4,200,000	\$ -	\$ (2,809,758)	\$ 75,242,333	\$ 553,265	(1) \$ 77,185,840
12/31/2015	-	-	(739,967)	-	16,357,206	(1) 15,617,239
12/31/2016	-	5,440,159	(3) 3,549,725	-	(7,658,169)	(1) 1,331,715
12/31/2017	-	(984,496)	(3) -	-	18,234,460	(1) 17,249,964
12/31/2018	-	1,043,233	(3) -	17,000,000	(2) (17,366,690)	(1) 676,543
	<u>\$ 4,200,000</u>	<u>\$ 5,498,896</u>	<u>\$ -</u>	<u>\$ 92,242,333</u>	<u>\$ 10,120,072</u>	<u>\$ 112,061,301</u>

(1) Represents Net income, Change in unrealized capital gains(losses), Change in net deferred income tax, Change in non-admitted assets, Change in provision for reinsurance

(2) Surplus adjustment – Paid In

(3) Retroactive Reinsurance loss/(gain)

**ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS RESULTING FROM THE EXAMINATION**

There were no changes made to the Financial Statements as a result of this Examination.

**COMMENTS ON FINANCIAL STATEMENT ITEMS**

Note 1:

Losses	\$123,405,878
Loss Adjustment Expenses	\$18,317,351

The examination liability for the aforementioned captioned items are the same as those balances reported by the Company as of December 31, 2018. The examination analysis of Loss and LAE reserves was conducted in accordance with Generally Accepted Actuarial Principles and Statutory Accounting Principles, including NAIC *Accounting Practices and Procedures Manual*, SSAP No. 55.

The examination actuaries' estimation of the net loss and LAE reserve of \$156.790 million is higher than the SNIC carried amount of \$141.722 million by \$15.068 million, or

10.6% of December 31, 2018 net Annual Statement reserves. The difference of \$15.068 million represents 13.4% of SNIC Policyholder Surplus as of December 31, 2018.

The examination actuaries noted that, as of December 31, 2019, SNIC strengthened its net loss and LAE reserves for accident years 2018 and prior by \$21.054 million, which is 14.9% of December 31, 2018 net Annual Statement reserves. This strengthening was based on additional data through December 31, 2019 that is not part of the actuaries' examination review but considering the strengthening of loss and LAE reserves, no adjustments were made to the financial statements in this report.

### **SUBSEQUENT EVENTS**

The following were the significant subsequent events noted since the period from the date of examination and the date of this report:

#### *Directors and Officers*

As a result of an operational reorganization within the holding company, the following Directors and/or Officers resigned effective October 16, 2019 from their position of authority in the Company:

Paul Brockman	Chairman and Director, Chairman
Jennifer Miu	Director; SVP
Robert Redpath	Director; SVP
Nancy Hammer	Director; Treasurer and CFO
Richard Seelinger	Director; SVP
Mark Sioma	Director; EVP

Effective October 17, 2019, the following Directors were appointed to the Board:

Robert Livingston	Chairman; SUHI
Dick Sanford	President, StarStone Group
John Hendrickson	CEO, StarStone Group
Robert Lincoln Trimble, Jr.	President; SSIC and SNIC
Karin Hirtler-Garvey	Independent, CPA

Officers:

Russell Sinco CFO; SSIC and SNIC (Replaced Nancy Hammer)

*Dividends/Capital Contribution*

Effective December 31, 2019, based on a Type 1 accounting treatment, the Department approved a contribution from SSIC to SNIC up to \$30 million on February 24, 2020. SNIC's 2019 Annual Statement reflected a contribution received of \$27 million from SSIC of which \$25 million was approved and received in 2019 and \$2 million was received in 2020.

*Pandemic*

During the first quarter of 2020, the world experienced a pandemic related to the COVID-19 illnesses and the pandemic continued through the completion of this examination. As of the date of this report, the Company has not been able to quantify the effects of this pandemic on its current or future financial statements. Also, as of the date of this report, the Company was functioning under its various continuation of operation plans and was providing services to its policyholder.

**SUMMARY OF RECOMMENDATIONS**

There were no recommendations as a result of this examination.

The assistance and cooperation of examiners representing the states on the coordinated examination is acknowledged. In addition, the assistance of the consulting actuarial firm, INS Consultants, Inc., the consulting information systems specialist firm, INS Services, Inc., the Company's outside audit firm, KPMG, and the Company's management and staff was appreciated and is acknowledged.

Respectfully submitted,



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Hails Taylor, CFE  
Examiner In-Charge  
State of Delaware



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James Call, CFE  
Supervising Examiner  
State of Delaware

StarStone National Insurance Company

I, Hails Taylor, hereby verify and attest, under penalty of perjury, that the above is a true and correct copy of the examination report and findings submitted to the Delaware Department of Insurance pursuant to examination authority 19.019.

A handwritten signature in black ink, appearing to read "Hails Taylor", written in a cursive style.

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Hails Taylor, CFE