

EXAMINATION REPORT
OF
GENERAL STAR NATIONAL INSURANCE COMPANY
AS OF
DECEMBER 31, 2021

TRINIDAD NAVARRO
COMMISSIONER



STATE OF DELAWARE
DEPARTMENT OF INSURANCE

REPORT ON EXAMINATION
OF
GENERAL STAR NATIONAL INSURANCE COMPANY
AS OF
DECEMBER 31, 2021

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 blue ink, appearing to read "Trinidad Navarro", is written above a horizontal line.

Trinidad Navarro
Insurance Commissioner

Dated this 24th day of February, 2023

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December 19, 2022

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

Commissioner:

In compliance with instructions and pursuant to statutory provisions contained in Examination Certification No. 22.003, dated November 2, 2021, an examination has been made of the affairs, financial condition and management of

GENERAL STAR NATIONAL INSURANCE COMPANY

hereinafter referred to as the Company. The Company 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 19801. The administrative office of the Company is located at 120 Long Ridge Road, Stamford, Connecticut 06902-1843. The report of examination thereon is respectfully submitted.

SCOPE OF EXAMINATION

We have performed our multi-state examination of the Company. The last examination of the Company was conducted as of December 31, 2016 by the Delaware Department of Insurance (Department). This examination of the Company covers the period of January 1, 2016 through December 31, 2021. Our examination was conducted concurrently with our examination of the

following affiliates of the Company: General Reinsurance Corporation (GRC), General Star Indemnity Company (GSI), and Genesis Insurance Company (GIC).

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 Law 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 the examination, consideration was given to work performed by the Company's external accounting firm, Deloitte & Touche LLP (Deloitte & Touche). Certain

auditor work papers have been incorporated into the examination work papers. The work papers were 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 to the Company's financial statements as a result of the examination.

COMPANY HISTORY

General

The Company was incorporated on September 10, 1864, under the laws of the State of Ohio as The Eureka Fire & Marine Insurance Company. On February 14, 1922, the company name was changed to The Eureka-Security Fire and Marine Insurance Company. Subsequently, on July 1, 1956, The Monarch Fire Insurance Company and the Eureka-Security Fire and Marine Insurance Company merged and adopted the name The Monarch Insurance Company of Ohio.

On November 14, 1985, GRC acquired all of the outstanding capital stock of the Company from Pearl American Corporation. The current company name was adopted on May 30, 1986. Effective October 1, 2012, the Company re-domesticated from the State of Ohio to the State of Delaware.

Effective December 21, 1998, Gen Re, including all of its subsidiaries was acquired by Berkshire Hathaway Inc. (BHI).

Capitalization

The Company's Certificate of Incorporation authorizes the issue of 4,000 shares of common stock, par value \$1,000 per share. As of December 31, 2021, the Company had 4,000

shares of common stock issued and outstanding totaling outstanding of \$4 million. All outstanding common stock shares of the Company are owned by GRC.

As of year-end 2021, the Company reported gross paid in and contributed surplus of \$60.1 million.

Dividends

The Company paid ordinary dividends to GRC, in the amounts of \$18 million, \$18 million and \$16.5 million during 2019, 2020 and 2021, respectively. The dividends were approved by the Company's Board of Directors (Board) and notification was provided to the Department. Payment was approved by the Department.

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, the business and affairs of the corporation shall be managed by its Board which may exercise all such powers of the corporation. The Company's bylaws state that the number of Directors constituting the Board shall not be less than three. Further, the Directors shall be elected at the annual meeting of the stockholders and each Director elected shall serve until his/her successor is elected and qualified, or until his/her resignation, removal or ineligibility. The bylaws require that the Board must elect a Chairman of the Board.

Directors duly elected and serving as of December 31, 2021, were as follows:

<u>Name</u>	<u>Principal Occupation</u>
Martin George Hacala	Chairman, Chief Executive Officer and President Company GSI GIC
Andrew Randall Gifford	General Counsel and Secretary GRC
Edward Michael Nosenzo	North America Chief Financial Officer Gen Re

Officers

Officers were elected in accordance with the bylaws during the period under examination. The bylaws require that the Board, at its next regular meeting after the annual meeting of stockholders, shall choose a Chairman of the Board, President, Treasurer and Secretary. The Chairman of the Board and the President shall be directors, but the other officers need not be directors. Either the Chairman of the Board or the President shall be designated Chief Executive Officer. All elected officers, except the Chairman of the Board, shall hold office for one year and until their successors shall be elected and qualified or until their death, resignation or removal. The Board may appoint one or more Vice Presidents, one of whom may be designated as Executive Vice President and one or more of whom may be designated as Senior Vice President(s). The Board may also appoint and assign duties to a Comptroller. The Chief Executive Officer may appoint and terminate other officers at his/her discretion. One person may hold more than one office, except that the offices of Chairman of the Board and Secretary or President and Secretary may not be held by the same person.

The primary officers serving as of December 31, 2021, were as follows:

<u>Name</u>	<u>Title</u>
Martin George Hacala	Chairman, Chief Executive Officer and President
Edward Michael Nosenzo	Treasurer
Solan Bernhard Schwab	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 the meetings, the election of directors and officers as well as the approval of Company transactions and events, including the authorization of investments as required by 18 *Del. C.* § 1304. In addition, review of the Company's 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 BHI as defined in 18 *Del. C.* § 5001(7) of the Delaware Insurance Code. GRC own 100% of the Company, which is wholly own by Gen Re. BHI is the ultimate parent owning 100% of Gen Re. BHI is a publicly traded holding company controlled by Warren E. Buffett. In addition to Gen Re, BHI owns numerous other domestic and foreign-based (re)insurance entities. BHI's insurance businesses provide insurance and reinsurance of property and casualty risks worldwide and also reinsure life, accident and health risks worldwide.

A presentation of the portion of the BHI holding company system that contains Gen Re is as follows:

General Star National Insurance Company

Berkshire Hathaway Inc. ⁽¹⁾	Delaware	Holding Company	None	
General Re Corporation	Delaware	Holding Company	100	1980/1998
General Reinsurance Corporation	Delaware	Reinsurer	100	1970
Elm Street Corporation	Delaware	Real Estate	100	1981
General Star Indemnity Company	Delaware	Insurer	100	1967
General Star National Insurance Company	Delaware	Insurer	100	1864/1985
General Star Management, LLC	Delaware	Management	100	1979
Genesis Management and Insurance Services, LLC	Delaware	Management	100	1988
Genesis Insurance Company	Delaware	Insurer	100	1976/1989
GRC Realty Corporation	Connecticut	Real Estate	100	1972
General Reinsurance Australia Ltd	Australia	Reinsurer	100	1961
General Re Compania de Reaseguros, S.A.	Uruguay	Reinsurer	100	1990
General Reinsurance AG	Germany	Reinsurer	100	1846/1994
General Re Servicios México S.A.	Mexico	Service Company	100	1976/1994
Gen Re Support Services Mumbai Private Limited	India	Service Company	99.99 ⁽⁴⁾	2014
General Reinsurance Africa Ltd.	South Africa	Reinsurer	100 ⁽²⁾	1966/1994
General Reinsurance AG Escritório de Representação no Brasil Ltda.	Brazil	Management	99.99 ⁽³⁾	1997
General Reinsurance Life Australia Ltd.	Australia	Reinsurer	100	1981/1994
Gen Re Beirut s.a.l. offshore	Lebanon	General Business Corp.	100 ⁽²⁾	1996
General Re Life Corporation	Connecticut	Reinsurer	100	1967/1994
Idealife Insurance Company	Connecticut	Insurer	100	1981/1994
Railsplitter Holdings Corporation	Delaware	Holding Company	100	2008/2008
Gen Re Japan Service Company Limited	Japan	Service Company	100	2017
New England Asset Management, Inc.	Delaware	Investment Adviser	100	1984/1995
New England Asset Management Limited	Ireland	Investment Adviser	100	2008
United States Aviation Underwriters, Incorporated	New York	Manager	100	1928/1982
Canadian Aviation Insurance Managers Ltd.	Canada	Manager	100	1937
Gen Re Intermediaries Corporation	New York	Intermediary	100	1926/1928
Faraday Holdings Limited	UK	Holding Company	100	1991/1998
GRF Services Limited	UK	General Business Corp.	100	1993/1998
Faraday Underwriting Limited	UK	Manager	100	1982/1998
Faraday Capital Limited	UK	Lloyd's Corporate Vehicle	100	1994/1998
Faraday MGA Limited	UK	Managing General Agent	100	2017
GRD Holdings Corporation	Delaware	Holding Company	100	2001
General Re Financial Products Corporation	Delaware	Former Swap Dealer	100	1990
Gen Re Long Ridge, LLC	Connecticut	Real Estate	100	2008
GRSA Services (Proprietary) Limited	South Africa	Service Company	100	2021

⁽¹⁾ As of March 2, 2022, Warren E. Buffett owned 238,624 shares of Class A common stock and 2,412 shares of Class B common stock, which is approximately 32.1% of the voting interest and 16.2% of the economic interest of BHI.

⁽²⁾ Percentages include any qualifying shares.

⁽³⁾ General Reinsurance AG owns 3,574,417 shares of General Reinsurance AG Escritório de Representação no Brasil Ltda. One share is owned by Luis E.C. Rayes, a Brazilian citizen.

⁽⁴⁾ General Reinsurance AG owns 99.99% of Gen Re Support Services Mumbai Private Limited. One share is owned by Suzie Foo (on behalf of General Reinsurance AG).

Through its directly and indirectly owned subsidiaries, Gen Re has global insurance, reinsurance and financial service operations with business activities in over forty-four cities throughout the world and provides property/casualty and life/health (re)insurance coverage worldwide. Gen Re's principal reinsurance operations are based in North America and Germany, with other major operations in Asia, Australia, Europe (primarily London) and South America. Gen Re's principal financial service operations are the New England Asset Management, Inc. (NEAM) operations located in the United States (Farmington, Connecticut) and Dublin, Ireland.

Affiliated Agreements

Master Services Agreement

Effective August 1, 2014, as Amended September 1, 2017, December 31, 2017 and September 30, 2021, GRC and its subsidiaries, including the Company, entered into a Master Services Agreement, whereby the entities provide various services and reporting to each other. The Master Services Agreement superseded various individual service agreements that existed between and among the entities.

Other Agreements

Other agreements with affiliates were entered into prior to the period covered by this examination and were reviewed in connection with earlier examinations. They remained in effect as of December 31, 2021.

TERRITORY AND PLAN OF OPERATION

The Company's direct parent, GRC, as a principal subsidiary of Gen Re, directly or indirectly owns the majority of Gen Re's domestic and international insurance operating entities. Gen Re operates in four principal business segments: North American property/casualty insurance and reinsurance, international property/casualty reinsurance, global life/health reinsurance and

financial services. Gen Re's standalone operations constitute the North American property/casualty reinsurance segment. The Company and its affiliates, GSI and GIC, as standalone operations constitute the U.S. property/casualty insurance segment of Gen Re.

The Company is licensed to write property and casualty insurance in all fifty states, the District of Columbia and Puerto Rico. The Company provides commercial casualty insurance on a primary and excess basis, primarily for small and mid-sized commercial entities. Business is written through wholesale brokers, program brokers and appointed agents. The Company's business is produced through two operating divisions, the Brokerage Division and the Delegated Division. The Brokerage Division writes commercial liability business in several states and within the New York Free Trade Zone. The Delegated Division writes commercial lines, excess liability and professional liability on a program basis. The Company uses producer agreements to grant authority to program administrators.

The Company and its insurance affiliates have branch offices in Atlanta, Georgia; Chicago, Illinois; Los Angeles, California and New York, New York

REINSURANCE

The Company utilizes reinsurance agreements to reduce its exposure to large losses. The Company's ceded reinsurance program is primarily concentrated with two BHI affiliates. Effective January 1, 2005, the Company (and affiliates: GRC, GSI and GIC) entered into a loss portfolio transfer reinsurance contract and a quota share reinsurance contract with two other BHI affiliates, National Indemnity Company (NICO) and Columbia Insurance Company. Both agreements cover the majority of the North American property/casualty business. The loss portfolio provides for a 50% reinsurance cover on existing net losses as of December 31, 2004,

subject to an overall aggregate limit of \$11,155 million. The quota share provides 50% reinsurance cover on net losses occurring after January 1, 2005.

Effective July 1, 2021, the Company, along with GRC, GSI and GIC, entered into a loss portfolio agreement with NICO that transfers their aggregate ultimate net loss to NICO related to their obligations under their asbestos and environmental loss liabilities.

The following is a summary of the Company's gross written premium, ceded premium and net written premium for the year ended December 31, 2021.

	2021 Premium Written and Ceded	% of 2021 Written Premium	2016 Premium Written and Ceded	% of 2016 Written Premium
Direct premium written	\$ 36,537,365	100.0%	\$ 20,681,029	100.0%
Ceded to affiliates	18,731,597	51.3%	10,332,300	50.0%
Ceded to non-affiliates	104,725	0.0%	104,725	0.5%
Total ceded	<u>\$ 18,731,597</u>	<u>51.3%</u>	<u>\$ 10,437,025</u>	<u>50.5%</u>
Net written premium	<u>\$ 17,805,768</u>	<u>48.7%</u>	<u>\$ 10,244,004</u>	<u>49.5%</u>

As of December 31, 2021, the Company's ceded reinsurance in-force is split almost evenly between affiliated reinsurance and reserves with third party reinsurers as demonstrated by the following summary of reported credits for reinsurance:

	Affiliated Reinsurers*	Unaffiliated Reinsurers*	Total as of 12/31/2021*
Paid losses and loss adjustment expenses	\$ 1,241	\$ -	\$ 1,241
Known case loss and loss adjustment expenses	14,252	16,252	30,504
Incurred but not reported	52,772	64,556	117,328
Unearned premiums and Contingent commissions	7,809	-	7,809
Total Reinsurance Recoverables	<u>\$ 76,074</u>	<u>\$ 80,808</u>	<u>\$ 156,882</u>

(*In Thousands)

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the Department, are reflected in the following:

- Statement of Assets as of December 31, 2021
- Statement of Liabilities, Surplus and Other Funds as of December 31, 2021
- Statement of Income for the Year Ended December 31, 2021
- Reconciliation of Capital and Surplus for the Period from the Prior Examination as of December 31, 2016 to December 31, 2021

Statement of Assets
As of December 31, 2021

	<u>Assets</u>	<u>Nonadmitted Assets</u>	<u>Net Admitted Assets</u>
Bonds	\$ 10,760,450	\$ -	\$ 10,760,450
Stocks			
Common stocks	126,802,120	53,400,000	73,402,120
Cash and cash equivalents	<u>136,816,637</u>		<u>136,816,637</u>
Subtotals, Cash and Invested Assets	<u>\$ 274,379,207</u>	<u>\$53,400,000</u>	<u>\$ 220,979,207</u>
Investment income due and accrued	283,633	-	283,633
Premiums and considerations			
Uncollected premiums and agents' balances in course of collection	2,508,931	169,519	2,339,412
Deferred premiums, agents' balances and installments booked but deferred	675,510		675,510
Reinsurance			
Amounts recoverable from reinsurers	1,240,851		1,240,851
Current federal and foreign income tax recoverable and interest thereon	99,605		99,605
Aggregate write-ins for other than invested assets	<u>32,507</u>	<u>13,000</u>	<u>19,507</u>
Total Assets	<u><u>\$ 279,220,244</u></u>	<u><u>\$53,582,519</u></u>	<u><u>\$ 225,637,725</u></u>

Statement of Liabilities, Surplus and Other Funds
As of December 31, 2021

		Notes
Losses	\$ 34,756,728	1
Loss adjustment expenses	10,060,636	1
Commissions payable, contingent commissions and other similar charges	39,833	
Net deferred tax liability	8,879,919	
Unearned premiums	7,283,098	
Ceded reinsurance premiums payable	2,972,368	
Amounts withheld or retained by company for account of others	28,419	
Remittances and items not allocated	7,428	
Payable to parent, subsidiaries, and affiliates	422,707	
Aggregate write ins for liabilities	78,961	
Total Liabilities	\$ 64,530,097	
Common capital stock	4,000,000	
Gross paid in and contributed surplus	60,107,585	
Unassigned funds (surplus)	97,000,043	
Surplus as regards policholders	\$ 161,107,628	
Total Liabilities, Capital and Surplus	\$ 225,637,725	

Statement of Income
For the Year Ended December 31, 2021

Premiums earned	\$ 17,332,662
Losses incurred	\$ 6,207,948
Loss adjustment expenses incurred	3,744,693
Other underwriting expenses incurred	5,685,586
Total underwriting deductions	<u>\$ 15,638,227</u>
Net underwriting gain (loss)	<u>\$ 1,694,435</u>
Net investment income earned	2,401,152
Net realized capital gains (losses)	20,055
Net investment gain (loss)	<u>\$ 2,421,207</u>
Net gain (loss) from agents' or premium balances charged off	<u>(63,122)</u>
Total other income	<u>\$ (63,122)</u>
Net income before dividends to policyholders	\$ 4,052,520
Dividends to policyholders	
Net income after dividends to policyholders	<u>\$ 4,052,520</u>
Federal and foreign income taxes incurred	828,198
Net Income	<u><u>\$ 3,224,322</u></u>

Reconciliation of Capital and Surplus
for the Period from the Prior Examination
as of December 31, 2016 to December 31, 2021

	Common Capital Stock	Gross Paid-in & Contributed Surplus	Unassigned Funds Surplus	Total
Balance at December 31, 2016	\$ 4,000,000	\$ 60,107,585	\$ 114,009,119	\$ 178,116,704
2017 Net income (loss)	-	-	34,628,679	34,628,679
2017 Other Changes ¹	-	-	(27,606,911)	(27,606,911)
Balance at December 31, 2017	\$ 4,000,000	\$ 60,107,585	\$ 121,030,887	\$ 185,138,472
2018 Net income (loss)	-	-	4,952,544	4,952,544
2018 Other Changes ¹	-	-	(7,136,776)	(7,136,776)
Balance at December 31, 2018	\$ 4,000,000	\$ 60,107,585	\$ 118,846,655	\$ 182,954,240
2019 Net income (loss)	-	-	4,510,510	4,510,510
2019 Other Changes ¹	-	-	11,771,758	11,771,758
2019 Dividends ²	-	-	(18,000,000)	(18,000,000)
Balance at December 31, 2019	\$ 4,000,000	\$ 60,107,585	\$ 117,128,923	\$ 181,236,508
2020 Net income (loss)	-	-	(96,190)	(96,190)
2020 Other Changes ¹	-	-	3,390,798	3,390,798
2020 Dividends ³	-	-	(18,000,000)	(18,000,000)
Balance at December 31, 2020	\$ 4,000,000	\$ 60,107,585	\$ 102,423,531	\$ 166,531,116
2021 Net income (loss)	-	-	3,224,322	3,224,322
2021 Other Changes ¹	-	-	7,852,190	7,852,190
2021 Dividends ⁴	-	-	(16,500,000)	(16,500,000)
Balance at December 31, 2021	\$ 4,000,000	\$ 60,107,585	\$ 97,000,043	\$ 161,107,628

¹ Changes in unassigned funds - other for each year include: change in net unrealized capital gains/(losses); change in net deferred income tax; and change in nonadmitted assets.

² On July 30, 2019, the Company notified the Department of their intent to pay an \$18 million ordinary dividend. The dividend was paid out of earned surplus to the Company's sole shareholder, GRC on August 16, 2019.

³ On July 29, 2020, the Company notified the Department of their intent to pay an \$18 million ordinary dividend. The dividend was paid out of earned surplus to the Company's sole shareholder, GRC on August 17, 2020.

⁴ On August 18, 2021, the Company notified the Department of their intent to pay a \$16.5 million ordinary dividend. The dividend was paid out of earned surplus to the Company's sole shareholder, GRC on August 30, 2021.

ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS RESULTING FROM THE EXAMINATION

There were no adjustments to the Company's financial statements as a result of the examination.

COMMENTS ON FINANCIAL STATEMENT ITEMS

Note 1:

Losses	\$ 34,756,728
Loss Adjustment Expense	10,060,636

INS Consultants, Inc. (Consulting Actuary) assisted in 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 selected segments of the Company's gross and net loss and loss adjustment expense reserves as of December 31, 2021. The examination analysis of Loss and Loss Adjustment Expense reserves was conducted in accordance with applicable guidance in the *Actuarial Standards of Practice* and the *NAIC Accounting Practices and Procedures Manual*.

SUBSEQUENT EVENTS

No significant events subsequent to the examination date were noted that directly impacted the Company.

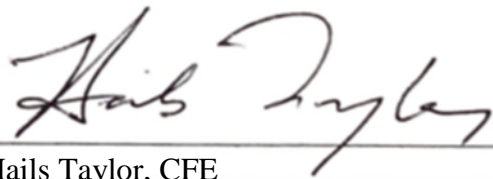
SUMMARY OF RECOMMENDATIONS

There were no examination findings or recommendations as a result of the examination.

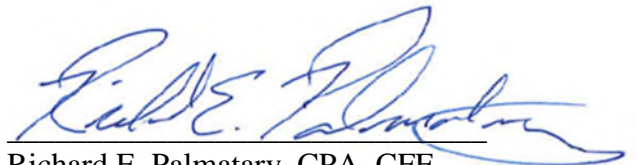
CONCLUSION

The assistance of the Department's Consulting Actuary and consulting information technology firm, INS Services, Inc. is acknowledged. In addition, the assistance and cooperation of the Company's external audit firm, Deloitte & Touche, and the Company's management and staff is appreciated and acknowledged.

Respectfully submitted,



Hails Taylor, CFE
Examiner-In-Charge
Delaware Department of Insurance



Richard E. Palmatary, CPA, CFE
Supervising Examiner
Delaware Department of Insurance

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 Certification No. 22.003.

A handwritten signature in cursive script that reads "Hails Taylor". The signature is written in black ink and is positioned above a horizontal line.

Hails Taylor, CFE