

EXAMINATION REPORT

OF

**STARSTONE INSURANCE BERMUDA LTD
U.S. REINSURANCE TRUST**

AS OF

DECEMBER 31, 2018

Office of the
Commissioner



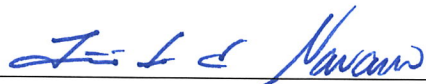
Delaware
Department of Insurance

REPORT ON EXAMINATION
OF
STARSTONE INSURANCE BERMUDA LIMITED (U.S. REINSURANCE TRUST)
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.



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. 19.021, dated May 30, 2019 and signed June 5, 2019 an examination has been made of the affairs, financial condition and management of

STARSTONE INSURANCE (BERMUDA) LIMITED (U.S. REINSURANCE TRUST)

hereinafter referred to as the Trust. The Trust was formed under the laws of Delaware, by StarStone Insurance Bermuda Limited (SIBL) an alien reinsurer which has been established as an accredited reinsurer under the provisions of 18 *Del. C.* § 911 Credit allowed a Domestic Ceding Insurer and 18 *Del. Admin. Code* § 1003 Credit for Reinsurance. SIBL is a Bermuda domiciled entity subject to regulation by the Bermuda Monetary Authority and has no National Association of Insurance Commissioners (NAIC) statutory statement filing requirements. The Trust files a financial statement regarding SIBL's Covered U.S. Liabilities and related Trust Assets, as defined in the Deed of Trust Agreement (Trust Agreement). The Trust utilizes the NAIC Annual Statement format for its filing with the Delaware Department of Insurance (Department). The examination was conducted at the SIBL's US affiliates administrative office

located at Harborside 5, 185 Hudson Street, Suite 2600, Jersey City, New Jersey 07311. The report of examination on the Trust is respectfully submitted.

SCOPE OF EXAMINATION

The examination of the Trust covers the five-year period from January 1, 2014 to December 31, 2018. The examination was limited to a review of Trust Assets and Liabilities, which were reported in the Trust Annual Statement filed with the Department in accordance with 18 *Del. C.* § 911(4). Trust Assets were reviewed to verify existence, and to ensure they were in compliance with the provisions of Delaware Statutes and Regulations as well as the Trust Agreement. In addition, a review of loss and loss adjustment expense (LAE) reserves as reported in the Trust's filed annual statement, was performed by actuaries from INS Consultants, Inc. (INS). Other liabilities reported on the Trust's Annual statement were reviewed to verify accuracy. Transactions subsequent to the examination date were reviewed where deemed necessary.

This examination report includes significant findings of fact, along with general information about the Trust 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 Trust.

During the course of this examination, consideration was given to work performed by the external accounting firm, KPMG, LLP (KPMG). Certain auditor work papers, for their 2018 audit, 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.

TRUST HISTORY

SIBL is an alien insurer domiciled in Bermuda and is an accredited reinsurer in Delaware in accordance with provisions of 18 *Del. C.* § 911 and 18 *Del. Admin. Code* § 1003. SIBL is not subject to NAIC statutory statement filing requirements. The Trust files a financial statement regarding SIBL's Covered U.S. Liabilities (as defined in the Trust Agreement and related Trust assets.

Effective March 7, 2013, SBIL requested and received approval for the Department to serve as the domiciliary regulator on the Trust Agreement established pursuant to 18 *Del. C.* § 911(4), § 911(5), and 18 *Del. Admin. Code* § 1003 (7).

SIBL U.S. REINSURANCE TRUST MANAGEMENT AND CONTROL

Directors

The Directors of SIBL who, in their capacity, oversee the affairs of the Trust elected and serving as of December 31, 2018 were as follows:

<u>Name</u>	<u>Business Affiliation</u>
Walker Rainey	Independent Director/Chair
Orla Gregory	Chief Operating Office, Enstar Group Limited
Duncan Scott	SVP/Managing Director, Finance Bermuda
Karen Esdale	Chief Risk Officer, Enstar Group Limited

Officers

Per the 2018 filed Annual Statement for the Trust, the listed Officers and respective titles were as follows:

<u>Name</u>	<u>Title</u>
Guy Bowker	Chief Executive Officer
Steve Brown	Chief Financial Officer

Insurance Holding Company System

SIBL is a member of an insurance holding company system as it is defined under 18 *Del. C.* § 5001 Definitions, “Insurance Holding Company System Registration”. The ultimate controlling person is the Enstar Group Limited, a Bermuda corporation.

An abbreviated organizational chart of the SIBL holding company, as of December 31, 2018, is as follows (ownership of subsidiaries is 100% unless otherwise noted):

StarStone Specialty Holdings Limited [Bermuda]
StarStone Insurance Bermuda Limited [Bermuda]
StarStone Insurance Bermuda Limited *
(US Reinsurance Trust)
StarStone Finance Limited [United Kingdom]
StarStone US Holdings, Inc. [DE]
StarStone Specialty Insurance Company [DE]
StarStone National Insurance Company [DE]

* The Trust is a wholly owned trust account of SIBL. It is not an entity or “subsidiary” as that term is commonly understood in the context of an insurance holding company system.

TERRITORY AND PLAN OF OPERATION

Pursuant to 18 *Del. C.* § 911(4), the Commissioner shall allow credit for reinsurance ceded by a domestic insurer to an assuming insurer which, as of any date on which statutory financial statement credit for reinsurance is claimed, and thereafter for so long as credit for reinsurance is claimed, maintains a trust fund in an amount prescribed by Code in a qualified U.S. financial institution (as defined in 18 *Del. C.* § 913(b)), for the payment of the valid claims of its U.S. domiciled ceding insurers, their assigns and successors in interest.

The only reinsurance balances from United States insurers collateralized by the Trust as of December 31, 2018 were for StarStone National Insurance Company and StarStone Specialty

Insurance Company who are domestic insurers in Delaware and wholly owned subsidiaries of SIBL. SIBL is an accredited reinsurer in the State of Delaware only.

TRUST AGREEMENTS

Amended and Restated Deed of Trust Agreement

Effective January 1, 2013 and last amended December 17, 2015, SIBL and Bank of New York Mellon (BNY Mellon) entered into a multi-beneficiary Trust Agreement on funds held in the United States.

SIBL established the U.S. Reinsurance Trust in the U.S. to provide security for certain ceding insurers so that credit may be allowed for the reinsurance ceded to SIBL and to qualify SIBL as an approved, trustee, accredited or certified reinsurer, as applicable, where permitted under the laws of the various jurisdictions in the United States.

The U.S. Reinsurance Trust was established with a minimum amount of \$20 million with at least \$10 million in cash, certificates of deposit and certain Admitted Assets (as defined in the Trust Agreement). The Trust is required to maintain, by its terms, sufficient assets to support its Covered U.S. Liabilities, as defined in the Trust Agreement, and a minimum surplus of \$20 million.

FINANCIAL STATEMENTS

The following financial statements, as reported and filed by the Trust 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 inception of this Trust as of January 1, 2014 to December 31, 2018.

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

Assets				
	<u>Ledger Assets</u>	<u>Nonadmitted Assets</u>	<u>Net Admitted Assets 2018</u>	<u>Notes</u>
Bonds	\$ 302,650,935	\$ -	\$ 302,650,935	(1)
Cash	-	-	-	
Cash equivalents	6,230,094	-	6,230,094	
Receivables for securities	<u>17,861</u>	<u>-</u>	<u>17,861</u>	
Subtotals, cash and invested assets	<u>308,898,890</u>	<u>-</u>	<u>308,898,890</u>	
Investment income due and accrued	1,216,967	-	1,216,967	
Total Assets	<u><u>\$ 310,115,857</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 310,115,857</u></u>	

Liabilities			Notes
Losses	\$ 174,334,227		(2)
Loss adjustment expenses	27,099,002		(2)
Unearned premiums	697,608		
Aggregate write-ins for liabilities	<u>6,070,183</u>		
Total liabilities excluding protected cell liabilities	<u>\$ 208,201,020</u>		
Total liabilities	<u>\$ 208,201,020</u>		
Aggregate write-ins for special surplus funds	\$ 20,000,000		
Common capital stock		-	
Preferred capital stock		-	
Gross paid in and contributed surplus		-	
Unassigned funds (surplus)		<u>81,914,837</u>	
Surplus as regards policyholders		<u>\$ 101,914,837</u>	
Totals of liabilities & surplus		<u><u>\$ 310,115,857</u></u>	

Statement of Income
For the Year Ended December 31, 2018

Underwriting Income	
Premiums earned	\$ 68,752,756
Deductions	
Losses incurred	\$ 42,712,355
Loss adjustment expenses incurred	16,722,368
Other underwriting expenses incurred	<u>(222,906)</u>
Total underwriting deductions	<u>\$ 59,211,817</u>
Net underwriting gain (loss)	<u>\$ 9,540,939</u>
Investment Income	
Net investment income earned	\$ 12,098,025
Net realized capital gains (losses)	<u>(1,898,203)</u>
Net investment gain (loss)	<u>\$ 10,199,822</u>
Other Income	
Net gain (loss) from agents' or premium balances charged off	\$ -
Finance and service charges not included in premium	-
Aggregate write-ins for miscellaneous income	<u>1,474,412</u>
Total other income	<u>\$ 1,474,412</u>
Net income before dividends to policyholders; after capital gains tax and before all other federal and foreign income taxes	<u>\$ 21,215,173</u>
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>\$ 21,215,173</u>
Federal and foreign income taxes incurred	-
Net Income	<u><u>\$ 21,215,173</u></u>

**Reconciliation of Capital and Surplus
As of January 1, 2014 to December 31, 2018**

	Aggregate Write-in for Special Surplus Funds	Unassigned Surplus		Total
12/31/2014	\$ 20,000,000	\$ 16,707,891	(1)	\$ 36,707,891
12/31/2015		(28,889,872)	(1)	(28,889,872)
12/31/2016		68,759,491	(1)	68,759,491
12/31/2017		4,417,585	(1)	4,417,585
12/31/2018		70,919,742	(1)	70,919,742
12/31/2018		(50,000,000)	(2)	(50,000,000)
	<u>\$ 20,000,000</u>	<u>\$ 81,914,837</u>		<u>\$ 101,914,837</u>

(1) Represents net income, change in unrealized capital gains/(losses), change in net unrealized foreign exchange capital gain, and paid-in and contributed surplus.

(2) Dividends Paid to Stockholders

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:
Bonds

\$ 302,650,935

Per the Trust Agreement, assets, including bonds, shall be valued according to their fair market value. Yearly, the BNY Mellon (as Trustee), confirms the investments to the Department. Per Article 2.13 of the Trust Agreement, “No later than February 28th of each year the Trustee shall furnish a written report to the Domiciliary Commissioner and Non-Domiciliary Commissioners including the balance, to include the fair market value, of the Trust and the assets held in the Trust Fund at the preceding year-end.” Per Article 2.2 of the Trust Agreement, the Trust was initially funded with Acceptable Assets with the fair market value of not less than an amount equal to the U.S. liabilities, plus \$20,000,000, at least \$10,000,000 of which shall,

on an ongoing basis, be in cash, certificates of deposit issued by a qualified United States Financial Institution, and the types of investments set forth in Paragraph 1 of Appendix A of the Trust Agreement and in the Delaware Insurance Regulations, 18 *Del. Admin. Code* § 1003 Credit for Reinsurance.

Note 2:

Losses	\$ 174,334,227
LAE	\$ 27,099,002

INS was retained by the Department to conduct a review of the Trust reserve methodologies and adequacy. The conclusions reached by INS are largely based upon information supplied by SIBL and its affiliate administrators, which included an in-depth actuarial analysis. The INS reserve review found, subject to comments that follow, the Trust's combined loss and LAE reserves were adequate to support the business collateralized by the Trust.

The examination actuaries' estimation of the net loss and LAE reserve of \$219.187 million for the Trust is higher than the Trust carried amount of \$201.433 million by \$17.754 million, or 8.8% of December 31, 2018 net financial statement reserves. The difference of \$17.754 million represents 17.4% of the SIBL Trust Surplus of \$101.915 million as of December 31, 2018.

As of December 31, 2019, SIBL strengthened its net loss and LAE reserves for accident years 2018 and prior by \$15.149 million, which is 7.5% of December 31, 2018 net financial 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 loss adjustment expense 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:

Strengthening of Loss and Loss Adjustment Expense Reserves

The strengthening of the Trust reserves discussed under Note 2 above is considered a significant subsequent event.

Pandemic

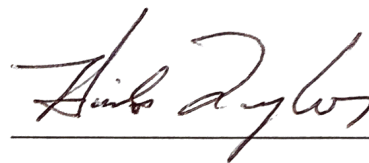
During the first quarter of 2020, the world experienced a pandemic related to the COVID-19 illnesses and the pandemic continues through the completion of this examination. As of the date of this report, SIBL has not been able to quantify the effects of this pandemic on its current or future trust assets.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

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, the consulting information systems specialist firm, INS Services, Inc., the outside audit firm, KPMG, and management and staff of SIBL's administrative affiliate was appreciated and is acknowledged.

Respectfully submitted,

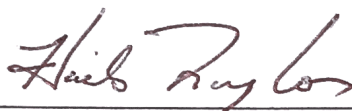


Hails Taylor, CFE
Examiner In-Charge
State of Delaware



James Call, CFE
Supervising Examiner
State of Delaware

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 19.021.

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