

DISSOLUTION REPORT

OF

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

AS OF

NOVEMBER 30, 2024

TRINIDAD NAVARRO
COMMISSIONER



STATE OF DELAWARE
DEPARTMENT OF INSURANCE

REPORT ON DISSOLUTION EXAMINATION
OF
STARSTONE INSURANCE BERMUDA LIMITED (U.S. REINSURANCE TRUST)
AS OF
NOVEMBER 30, 2024

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 15 day of January, 2025

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January 13, 2025

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

Dear Commissioner:

In compliance with instructions and pursuant to statutory provisions contained in Exam Authority No. 24.045, dated August 26, 2024, a Trust Dissolution Examination has been made of the affairs, financial condition, and management of the **STARSTONE INSURANCE BERMUDA LIMITED (U.S. REINSURANCE TRUST)** hereinafter referred to as the Trust.

SCOPE OF DISSOLUTION EXAMINATION

This Dissolution Report is a limited-scope examination and is not intended to communicate all matters of importance for an understanding of the Trust's financial condition. The last examination performed by the Delaware Department of Insurance (Department) was performed as of December 31, 2018. This dissolution examination is as of November 30, 2024.

As a result of their decision, management has requested that the Trust be dissolved. Therefore, this examination was performed to determine, to the extent necessary, after the

date of the merger of StarStone Insurance Bermuda Limited (SIBL) into Cavello Bay Reinsurance Limited (Cavello Bay) the following:

- Verify the Trust's remaining investment/cash assets and determine any operating receivables that may exist.
- Ascertain and verify that there are no material liabilities other than residual general operating expenses.
- Review documents to verify the proper merger of SIBL into Cavello Bay and to determine that the protections afforded the Delaware domestic insurers under the Trust are no longer required.

HISTORY

SIBL was an alien insurer domiciled in Bermuda and was an accredited reinsurer in Delaware in accordance with provisions of 18 *Del. C.* § 911 and 18 *Del. Admin. Code* § 1003. SIBL was not subject to NAIC statutory statement filing requirements but did file on behalf of the Trust 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).

SBIL requested and received approval for the Department to serve as the domiciliary regulator over the matters related to the Trust. The Trust was required to file with the Department a financial statement regarding SIBL's Covered U.S. Liabilities and related Trust Assets, as defined in the Deed of Trust Agreement (Trust Agreement), utilizing the NAIC Annual Statement format.

In 2024, the ultimate controlling entity, the Enstar Group Limited (Enstar), a Bermuda corporation, requested approval from the Bermuda Monetary Authority to complete the merger of SIBL into Cavello Bay. All assets and liabilities of SIBL, along

with control of the Trust, were transferred to Cavello Bay, and SIBL's license in Bermuda was canceled. Bermuda Monetary Authority approved the merger and the certificate of merger, effective November 6, 2024, evidencing Cavello Bay as the surviving company.

Cavello Bay is a Class 3B licensed insurer in Bermuda and is bound to comply with the terms and conditions of the reinsurance contracts of all former US cedents of SIBL, including providing collateral by way of Letters of Credit, if required, to obtain credit for reinsurance.

Prior to the merger, the Department received an application dated October 17, 2024, from Cavello Bay to become a passport Reciprocal Jurisdiction Reinsurer in the State of Delaware to eliminate reinsurance collateral requirements pursuant to 18 *Del. C.* § 911(6) and 18 *Del. Admin. Code* § 1003 (9).

Based on the Department's review of the application, Cavello Bay was found to meet the requirements of 18 *Del. C.* § 911(6) and 18 *Del. Admin. Code* § 1003 (9). It was approved as a passport Reciprocal Jurisdiction Reinsurer from August 28, 2024, to December 31, 2025. Once approved, the Trust was no longer required, so Enstar, on behalf of Cavello Bay, requested the Department allow it to commence the dissolution of the Trust, which previously collateralized SIBL's obligations to Delaware cedents.

TRUST AGREEMENT

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

FINANCIAL STATEMENTS

The following financial statements, as reported by the Trust, demonstrate the transfer of liabilities from SIBL to Cavello Bay resulting from the merger and its designation as a Reciprocal Jurisdiction Reinsurer, which was effective at the time of the merger.

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

Statement of Assets and Liabilities, Surplus, and Other Funds
as of November 30, 2024

	<u>Net Admitted Assets</u>
Bonds	\$ 68,324,099
Cash and cash equivalents	2,664,163
Accrued Interest Receivable	275,872
Accounts Receivable, net	-
Total Assets	<u>\$ 71,264,134</u>
	<u>Liabilities</u>
Losses and loss adjustment expenses	\$ -
Accounts payable inter-company	(142,283)
Unearned premiums	-
Aggregate write-ins for liabilities	-
Total liabilities	<u>\$ (142,283)</u>
Aggregate write-ins for special surplus funds	\$ 20,000,000
Gross paid and contributed surplus	
Unassigned funds (surplus)	<u>51,406,417</u>
Surplus as regards policyholders	<u>\$ 71,406,417</u>
Totals of liabilities & surplus	<u>\$ 71,264,134</u>

PROCEDURES PERFORMED

The following procedures, in addition to other documentation reviews, were performed for this Dissolution Examination Report.

- Review of the 2023 Annual Statement and Quarterly Statements filed in 2024.
- Review of the September 30, 2024, proforma balance sheet provided by the Company.
- A review of the general ledger as of September 30, 2024.
- A review of the custodian account statements as of September 30, 2024 and November 29, 2024.
- A review of the 2023 actuarial opinion.
- A detailed review of information and documentation related to the merger of SIBL and Cavello Bay to determine proper authorization and treatment of accounting results.
- Documentation related to Cavello Bay applying for and receiving a passport Reciprocal Jurisdiction Reinsurer status in Delaware to protect the liabilities protected by the Trust.

SUMMARY CONCLUSIONS

Corporate Records

Certified minutes, provided by Enstar, of both SIBL and Cavello Bay were reviewed to determine that their Boards of Directors were fully informed and then properly authorized management to merge SIBL into Cavello Bay, with Cavello Bay being the surviving entity.

Related Party Agreements

Prior to the merger, the directors and management of SIBL had overseen the affairs and management of the Trust through various agreements. Subsequent to the merger, Cavello Bay assumed that role. Management or other agreements involving the management of Cavello Bay include the management of the Trust; consequently, the Trust was not directly a party to any related party agreements.

Reinsurance Agreements

Effective January 1, 2018, the SIBL 65% Quota Share Agreement on the continuing business of StarStone National Insurance Company (SNIC) and StarStone Specialty

Insurance Company (SSIC) was terminated but continues on a run-off basis. Both SSIC and SNIC are Delaware-domiciled insurers, and the Trust protected their reinsurance balances due and credits taken as a result of the agreement with SIBL (now Cavello Bay).

Due to decreasing liabilities, Enstar has requested and received approval to release excess funds from the Trust on multiple occasions. Effective November 30, 2020, Core Specialty Holdings acquired the SNIC and SSIC. As part of the transaction, a Loss Portfolio Transfer was initiated with Clarendon National Insurance Company, in which the reserves associated with this Trust were transferred out.

The above discussion of the reinsurance business is for informational purposes only and was obtained from related documentation. The reinsurance treaties were not reviewed as part of this examination.

Custodial Agreements

The Trust's investments are held by the Bank of New York Mellon pursuant to a written custodial agreement. This agreement was reviewed during the previous examination and found to be in compliance with Department and NAIC requirements.

Claims

The actuarial opinion of Enstar's Group Limited Chief Actuary as of December 31, 2023, was obtained and reviewed to determine the reasonableness of the reserves established by SIBL.

Also, based on the proforma financial statement provided by Enstar, after the merger, the Trust was securing no outstanding or open claims as of November 30, 2024.

Balance Sheet

The examiner reviewed the 2023 annual and third-quarter statements and a general ledger trial balance supporting the third-quarter statement. In addition, investment statements from the custodian were obtained from Enstar to verify that the Trust investments were reported accurately. Other documentation was utilized to supplement the review of the Trust, SIBL, and Cavallo Bay activities before and after their merger.

The Trust has complied with the dissolution requirements for the State of Delaware. The examination was conducted by the undersigned.

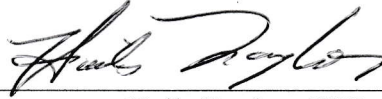
Respectfully Submitted,

A handwritten signature in cursive script, reading "Hails Taylor", is written over a horizontal line.

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

Anthony Cardone
Anthony Cardone, CFE
Supervising Examiner-In-Charge
Department of Insurance
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 No. 24.045.

A handwritten signature in cursive script, appearing to read "Hails Taylor", is written above a horizontal line.

Hails Taylor, CFE