

Report of Examination of

**General Star National Insurance Company**  
Columbus, Ohio

As of December 31, 2009

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Columbus, Ohio  
March 2, 2011

Honorable Mary Taylor  
Lt. Governor/Director  
State of Ohio  
Department of Insurance  
50 West Town Street  
3<sup>rd</sup> Floor – Suite 300  
Columbus, Ohio 43215

Honorable Joseph Torti III  
Chairman, NAIC Financial Condition (E) Committee  
Deputy Director and Superintendent  
Insurance and Banking  
State of Rhode Island  
1511 Pontiac Avenue, Bldg. 69-2  
Cranston, Rhode Island 02920

Dear Directors:

In accordance with Section 3901.07 of the Ohio Revised Code (“ORC”), the Ohio Department of Insurance (“Department”) conducted an examination of

**General Star National Insurance Company**

an Ohio domiciled, stock, property and casualty insurance company, hereinafter referred to as the “Company.”

**Scope of Examination**

The Department last examined the Company as of December 31, 2004. The current examination covers the period of January 1, 2005 through December 31, 2009. Concurrently, the Connecticut Insurance Department (“CID”) examined certain affiliated, wholly owned subsidiaries of General Reinsurance Corporation.

The Department conducted the examination in accordance with the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners Handbook (“Handbook”). The Handbook requires that the Department plan and perform the examination to evaluate the Company’s financial condition and identify prospective risks including corporate governance, identify and assess inherent risks and evaluate system controls and procedures used to mitigate those risks. An examination also includes assessing 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 domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

For all years under examination, the Certified Public Accounting firm of Deloitte & Touche LLP provided an unqualified opinion on the Company’s financial statements based on Statutory Accounting Principles. The audited financial reports were reviewed during the examination.

## **Management and Control**

### **Board of Directors**

Management of the Company is vested in its Board of Directors, which was comprised of the following members as of the examination date:

<b>Name</b>	<b>Principal Occupation</b>
Gregory J. Diorio	Senior Vice President and Chief Operating Officer, General Star Management Company
William G. Gasdaska, Jr.	Senior Vice President, Treasurer and Chief Financial Officer, General Reinsurance Corporation
Daniel K. Lyons	Senior Vice President and Actuary, General Reinsurance Corporation
Adam D. Roberts	Vice President and Assistant General Counsel, General Reinsurance Corporation
Patricia H. Roberts	Chairman, President and Chief Executive Officer, General Star Management Company
Victoria J. Seeger	Senior Vice President and Chief Underwriting Officer, General Star Management Company
Damon N. Vocke	Senior Vice President, Secretary and General Counsel, General Reinsurance Corporation

### **Officers**

As of the examination date, the following officers were serving in the designated position:

<b>Name</b>	<b>Title</b>
Patricia H. Roberts	Chairman, President and Chief Executive Officer
William G. Gasdaska, Jr.	Chief Financial Officer and Treasurer
Adam D. Roberts	Secretary

## Insurance Holding Company System

The Company is a member of an insurance holding company system as defined in Section 3901.32 of the ORC and a wholly owned subsidiary of General Reinsurance Corporation. The Company and its affiliates, General Star Indemnity Company (“GSIC”) and General Star International Indemnity Limited, together represent the General Star Group. The General Star Group writes primarily excess and surplus lines business on an admitted and non-admitted basis.

Berkshire Hathaway Inc. is the ultimate parent of the Company and wholly owns General Re Corporation, which is the parent company and sole shareholder of General Reinsurance Corporation.

## Territory and Plan of Operations

The Company is an excess and specialty carrier underwriting insurance on an admitted basis in all states other than Connecticut (where it operates as a non-admitted carrier) through excess and surplus lines brokers and wholesale producers. The business is focused primarily on excess casualty and professional errors and omissions business.

General Star Management Company, an affiliate, provides underwriting, claims and administrative services to GSIC and the Company pursuant to an Underwriting Management Agreement. Certain administrative and other services are provided by General Reinsurance Corporation and other affiliates.

During 2009, the largest states in terms of direct premium written were as follows: California, \$10.3 million (20.2%); New York, \$7.5 million (14.8%), Illinois, \$3.5 million (6.8%); New Jersey, \$3.1 million (6.1%); and all other jurisdictions \$26.7 million (52.1%). The following schedule illustrates the Company’s premium written in 2009 by line of business, reported in thousands:

<b>Line of Business</b>	<b>Direct</b>	<b>Assumed</b>	<b>Ceded</b>	<b>Net</b>
Other liability - claims-made	\$26,112	\$ 0	\$13,146	\$12,966
Other liability - occurrence	18,334	0	9,210	9,123
Medical professional liability	3,146	0	1,573	1,573
Commercial auto liability	2,717	0	1,359	1,359
All other lines	<u>829</u>	<u>18</u>	<u>633</u>	<u>214</u>
Total	<u>\$51,138</u>	<u>\$ 18</u>	<u>\$25,921</u>	<u>\$25,235</u>

## Reinsurance

Effective January 1, 2005, the Company and certain of its affiliates entered into a loss portfolio reinsurance contract (“loss portfolio”) and a quota share reinsurance contract (“quota share”) with two other affiliates, National Indemnity Company and Columbia Insurance Company. 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 contract provides for a 50% reinsurance cover on net losses occurring on or after January 1, 2005.

The Company and GSIC had entered into an intercompany pooling agreement effective January 1, 2001. GSIC was the lead company in the pool at an 85% participation rate. The Company had a 15% participation. Effective January 1, 2008, the intercompany pooling agreement was terminated in accordance with its terms, upon mutual agreement of the parties with each party re-assuming its own unexpired risks.

## Significant Operating Results

The Company reported the following net underwriting results during the examination period, reported in thousands:

	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
Premiums earned	<u>\$ 25,337</u>	<u>\$ 25,109</u>	<u>\$ 20,048</u>	<u>\$ 21,321</u>	<u>\$(37,036)</u>
Losses incurred	16,220	5,276	1,959	5,293	(33,042)
Loss adjustment exp. incurred	8,819	5,436	1,698	2,382	(11,758)
Underwriting expenses incurred	<u>11,735</u>	<u>11,567</u>	<u>7,497</u>	<u>8,439</u>	<u>3,300</u>
Total underwriting deductions	<u>36,774</u>	<u>22,279</u>	<u>11,154</u>	<u>16,114</u>	<u>(41,500)</u>
Net underwriting gain (loss)	<u>\$(11,437)</u>	<u>\$ 2,830</u>	<u>\$ 8,894</u>	<u>\$ 5,207</u>	<u>\$ 4,464</u>
Pure loss ratio	64.0	21.0	9.8	24.8	89.2
Loss adjustment expense ratio	<u>34.8</u>	<u>21.7</u>	<u>8.4</u>	<u>11.2</u>	<u>31.8</u>
Loss ratio	98.8	42.7	18.2	36.0	121.0
Underwriting expense ratio	<u>46.5</u>	<u>41.7</u>	<u>43.3</u>	<u>38.1</u>	<u>(6.7)</u>
Combined ratio	<u>145.3</u>	<u>84.4</u>	<u>61.5</u>	<u>74.1</u>	<u>114.3</u>

## **Financial Statements**

The financial condition and the results of its operations for the period under examination as reported and filed by the Company with the Department and audited by the Company's external auditors, are reflected in the following:

Statement of Assets, Liabilities, Capital and Surplus

Statement of Income

Statement of Changes in the Capital and Surplus Account

**Statement of Assets, Liabilities, Capital and Surplus**  
**December 31, 2009**

Bonds	\$ 43,311,485
Preferred stocks	34,010,000
Common stocks	10,765,996
Cash and short term investments	<u>168,586,517</u>
Subtotal, cash and invested assets	256,673,998
Investment income due and accrued	1,268,433
Uncollected premiums in course of collection	5,215,129
Deferred premiums and installments booked, but not yet due	747,200
Amounts recoverable from reinsurers	3,877,978
Guaranty funds receivable or on deposit	42,223
Miscellaneous assets	<u>198,489</u>
Total admitted assets	<u>\$ 268,023,450</u>
Losses	\$ 63,566,246
Loss adjustment expenses	19,732,445
Taxes, licenses and fees	135,124
Current federal income taxes	48,602
Net deferred tax liability	990,366
Unearned premiums	10,584,033
Ceded reinsurance premiums payable (net of ceding commissions)	2,285,327
Amounts withheld or retained by Company for account of others	1,458,752
Provision for reinsurance	88,000
Payable to parent, subsidiaries and affiliates	3,939,385
Miscellaneous liabilities	<u>83,537</u>
Total liabilities	<u>102,911,817</u>
Common capital stock	4,000,000
Gross paid in and contributed surplus	50,107,585
Unassigned funds	<u>111,004,048</u>
Total capital and surplus	<u>165,111,633</u>
Total liabilities, capital and surplus	<u>\$ 268,023,450</u>

**Statement of Income**  
**As of December 31, 2009**

Premiums earned	<u>\$ 25,336,945</u>
Losses incurred	16,219,908
Loss adjustment expenses incurred	8,818,884
Other underwriting expenses incurred	<u>11,735,599</u>
Total underwriting deductions	<u>36,774,391</u>
Net underwriting gain (loss)	<u>(11,437,446)</u>
Net investment income earned	<u>6,224,297</u>
Net investment gain	<u>6,224,297</u>
Net gain (loss) from premium balances charged off	(50)
Miscellaneous income	<u>2,180</u>
Total other income	<u>2,130</u>
Net income (loss) before federal income taxes	(5,211,019)
Federal income taxes incurred	<u>(3,505,759)</u>
Net income (loss)	<u>\$ (1,705,260)</u>

**Statement of Changes in the Capital and Surplus Account**  
(in millions)

	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Capital and surplus, prior year end	<u>\$242.2</u>	<u>\$232.3</u>	<u>\$202.2</u>	<u>\$190.1</u>	<u>\$173.2</u>
Net income	(1.7)	8.8	16.9	14.0	15.8
Change in net unrealized cap. gains	9.0	0.5	0.0	0.0	0.0
Change in non-admitted assets	2.9	(0.5)	0.2	(0.2)	2.5
Change in provision for reinsurance	0.0	0.0	13.0	(1.6)	2.5
Dividends to stockholders	(87.0)	0.0	0.0	0.0	0.0
Other gains (losses) to surplus	<u>(0.3)</u>	<u>1.1</u>	<u>0.0</u>	<u>(0.1)</u>	<u>(3.9)</u>
Change in surplus for the year	<u>( 77.1)</u>	<u> 9.9</u>	<u> 30.1</u>	<u> 12.1</u>	<u> 16.9</u>
Capital and surplus, current year end	<u>\$165.1</u>	<u>\$242.2</u>	<u>\$232.3</u>	<u>\$202.2</u>	<u>\$190.1</u>

## Notes to Financial Statements

### Investments

The Company's investments were in compliance with ORC Section 3925.08 and valued in accordance with the relevant Statements of Statutory Accounting Principles and the NAIC Securities Valuation Office.

### Loss and Loss Adjustment Expense Reserves

The Company's Board of Directors appointed Daniel Lyons, FCAS, MAAA, Senior Vice President, General Reinsurance Corporation, to render the Company's Statement of Actuarial Opinion ("Opinion"). Mr. Lyons prepared an Actuarial Report supporting the Opinion in connection with the preparation of the Company's December 31, 2009 Annual Statement.

The CID engaged Milliman, Inc. ("Milliman") to conduct a comprehensive actuarial analysis of the loss and loss adjustment expense ("LAE") reserves of certain Connecticut domiciled wholly owned subsidiaries of General Reinsurance Corporation as of December 31, 2009. As noted in the Milliman report, General Reinsurance Corporation Actuarial Services perform the reserve analysis in combination with affiliated companies not domiciled in Connecticut (including the Company), and then allocate reserves to each company based on earned premium.

Mary D. Miller, FCAS, MAAA, Assistant Director, Product Regulation and Actuarial Services of the Department, reviewed the Company's Actuarial Report and the documentation prepared by Milliman and determined the loss and LAE reserves presented in the 2009 Annual Statement are reasonable.

### Conclusion

The balance sheet contained in this Report of Examination reflects the financial condition of the Company as of December 31, 2009, and is summarized as follows:

Total Assets	<u>\$ 268,023,450</u>
Liabilities	102,911,817
Capital and Surplus	<u>165,111,633</u>
Total Liabilities, Capital and Surplus	<u>\$ 268,023,450</u>

### **Subsequent Events**

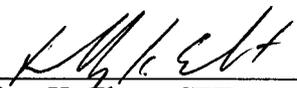
Effective June 30, 2010, Adam Roberts resigned from his positions with General Reinsurance Corporation. Solan B. Schwab, Vice President and Senior Regulatory Counsel, was named Secretary of the Company and was elected to the Board of Directors.

### **Acknowledgement**

Appreciation is expressed for the assistance extended by the officers and employees of the Company and its affiliates during the course of this examination.

In addition to the undersigned, David Finkler, CPA; Ryan Gibson, CFE; Nicholas Kostoff, CFE, CPA; Mary Miller, FCAS, MAAA; Edward Nagorny, CFE, CPA; and Brad Schroer, of the Department, participated in this examination.

Respectfully,

  
\_\_\_\_\_  
Jeffrey K. Ebert, CFE  
Assistant Chief Examiner  
Office of Risk Assessment  
Ohio Department of Insurance

**Verification**

As required by Section 3901.07 of the Ohio Revised Code, the undersigned hereby attest to the best of their knowledge and belief that the attached is a true Report of Examination as of December 31, 2009.

*J. K. Ebert*      3/14/11  
Assistant Chief Examiner      Date

State of Ohio

County of Franklin

Personally appeared before me the above named Jeffrey K. Ebert personally known to me, who executed the above instrument and that the statements and answers contained therein are true and correct to the best of his/her knowledge and belief.

Subscribed and sworn to before me this 14 day of March, 2011.

*Elizabeth Chase*  
(Notary Public)  
**ELIZABETH CHASE**  
NOTARY PUBLIC, STATE OF OHIO  
**MY COMMISSION EXPIRES MAY 22, 2012**  
My Commission Expires