

REPORT OF EXAMINATION
OF
CLAREMONT LIABILITY INSURANCE COMPANY
AS OF
DECEMBER 31, 2009

Participating State
and Zone:

California

Filed June 13, 2011

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San Francisco, California
May 31, 2011

Honorable Joseph Torti, III
Chairman of the NAIC Financial
Condition Subcommittee
Superintendent of Business Regulation
Division of Insurance
Cranston, Rhode Island

Honorable Linda S. Hall
Secretary, Zone IV-Western
Director of Insurance
Alaska Division of Insurance
Anchorage, Alaska

Honorable Dave Jones
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Chairman, Secretary, and Commissioner:

Pursuant to your instructions, an examination was made of the

CLAREMONT LIABILITY INSURANCE COMPANY

(hereinafter also referred to as the Company) at its home office located at 6250 Claremont Avenue, Oakland, California 94618.

SCOPE OF EXAMINATION

The previous examination of the Company was made as of December 31, 2005. This examination covers the period from January 1, 2006 through December 31, 2009. The examination was conducted in accordance with the National Association of Insurance Commissioners' Financial Condition Examiners' Handbook. The Handbook requires the planning and performance of the examination to evaluate the Company's financial condition, to identify prospective risks, and to obtain information about the Company, including corporate governance, identification and assessment of inherent risks, and the evaluation of the system controls and procedures used to

mitigate those risks. The examination also included an assessment of the principles used and the significant estimates made by management, as well as an evaluation of the overall financial statement presentation, and management's compliance with Statutory Accounting Principles and Annual Statement instructions. All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

In addition to those items specifically commented upon in this report, other phases of the Company's operations were reviewed including the following areas that require no further comment: corporate records; fidelity bonds and other insurance; pensions, stock ownership and insurance plans; growth of company; loss experience; statutory deposits; accounts and records; and sales and advertising. The examination was conducted concurrently with that of the Company's parent, Medical Insurance Exchange of California.

SUBSEQUENT EVENTS

Effective December 31, 2010, the Company was sold to CLIC Holdings, Inc., a Delaware corporation and indirect subsidiary of Enstar Group Limited (Enstar), a public Bermuda corporation. This transaction was approved by the California Department of Insurance (CDI) on the same date. The purchase price was \$14.1 million. Other transactions made part of the sale included: (1) novation of the Company's prior assumed medical malpractice business in runoff since 2001 to its former parent, Medical Insurance Exchange of California (MIEC) for \$2.6 million; and (2) 100% coinsurance of the Company's remaining reinsurance assumed and medical malpractice direct reserves to MIEC for \$1.5 million. These transactions were approved by the CDI as part of the sale. This will leave Enstar with run-off of the contractors' liability business directly written by the Company from 2000 to 2003, which continues to be 100% reinsured by syndicates of Lloyd's of London.

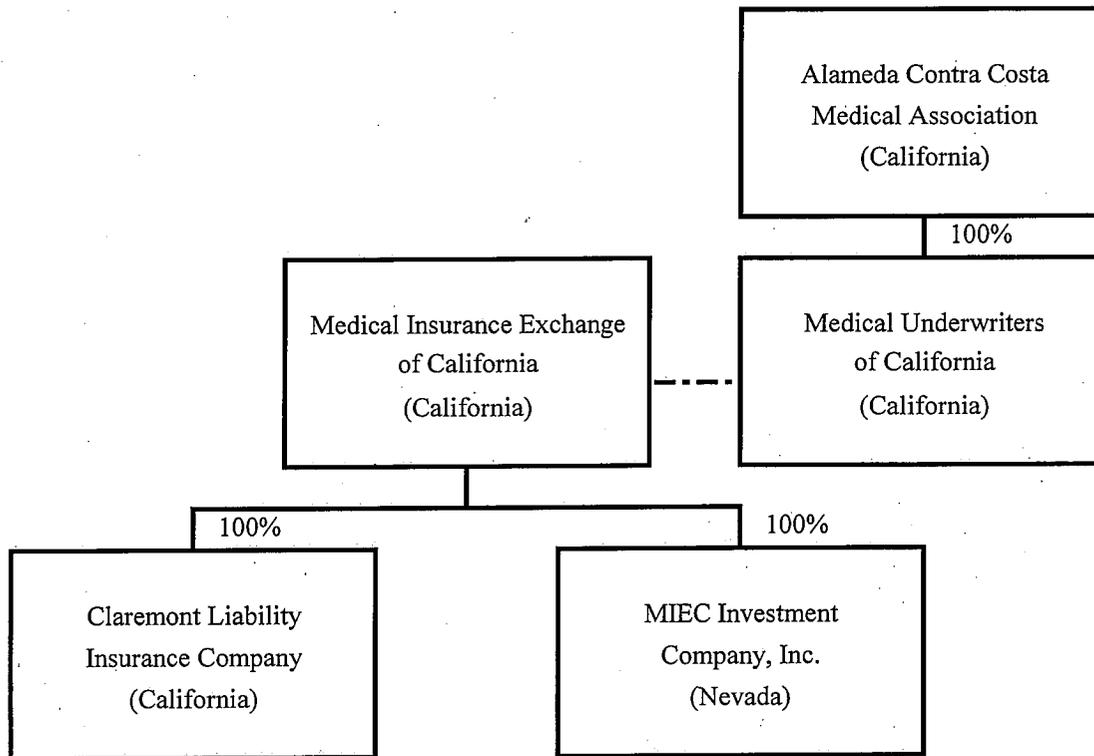
COMPANY HISTORY

During the examination period, the Company paid ordinary dividends to its parent, Medical Insurance Exchange of California as follows:

<u>Year</u>	<u>Amount</u>
2006	\$1,250,000
2007	\$1,300,000
2009	\$1,450,000
Total	<u>\$4,000,000</u>

MANAGEMENT AND CONTROL

The Company was wholly-owned by Medical Insurance Exchange of California (MIEC). All members of the Company's board of directors were also members of MIEC's board of governors. The Company had no employees. It was managed by its contract manager, Medical Underwriters of California (MUC) under the terms of an administrative services agreement. The Company was part of a holding company system. Companies existing within the system at December 31, 2009 were as follows:



----- Attorney-in-Fact for Medical Insurance Exchange of California

The Company was managed by a fifteen-member board of directors. A listing of the board members and principal officers serving on December 31, 2009 follows:

Board of Directors

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Toni J. Brayer, M.D. Mill Valley, California	Physician
Thayer E. Cleaver, M.D. Mt. Shasta, California	Retired Physician
Ronald V. Dorn III, M.D. Boise, Idaho	Physician

Name and ResidencePrincipal Business Affiliation

Fernando V. Dulay, M.D.
San Francisco, California

Retired Physician

James O. Gemmer, M.D., Chairman
Fairfield, California

Retired Physician

Scott A. Hoffinger, M.D.
Moraga, California

Physician

Robert J. Margolin, M.D.
Tiburon, California

Physician

Mark Oscherwitz, M.D., Secretary
San Francisco, California

Physician

Lamont D. Paxton, M.D., Vice Chairman
Orinda, California

Physician

Vinod K. Sawhney, M.D.
Hayward, California

Physician

Douglas G. Smith, M.D.
Anchorage, Alaska

Physician

Russell T. Stodd, M.D.
Kahului, Hawaii

Retired Physician

Cheryl A. Tanasovich, M.D.
Larkspur, California

Physician

Steven R. Una, M.D.
Danville, California

Physician

Ann L. Vercoutere, M.D.
Larkspur, California

Physician

Principal OfficersNameTitle

Andrew F. J. Firth

President

James F. King

Secretary and Treasurer

Inter-Company Agreements

Administrative Services Agreement: Under terms of this agreement, the Company received administrative services from its contract manager, Medical Underwriters of California (MUC) on a cost reimbursement basis. MUC provided underwriting, reserving, and claims handling of insurance for the Company, as well as accounting, financial reporting, and adequate personnel and facilities to perform these services. The agreement was effective January 1, 2000 and approved by the California Department of Insurance (CDI) on August 11, 2004. The Company's participation in the agreement was terminated effective December 31, 2010 with the sale of the Company.

Tax Allocation Agreement: The Company was party to a tax allocation agreement with its parent, MIEC. The agreement provided for the federal tax returns of the parties to be filed on a consolidated basis. Allocation was based on a separate company return basis with current credit given to a company for net losses or tax credits to the extent losses and/or credits result in an actual reduction to the consolidated group's tax liability. The agreement was effective May 26, 1996. The Company's participation in the agreement was terminated effective December 31, 2010 with the sale of the Company.

TERRITORY AND PLAN OF OPERATION

The Company has been in run-off since 2007. During the examination period, it wrote medical professional liability for a single hospital in California. It was licensed to write in California, Hawaii, Idaho, Nevada, Oregon, and Washington during the examination period. In 2006 and 2007, 100% of premiums written were in California.

REINSURANCE

Assumed

The Company did not assume any business during the examination period.

Ceded

The Company was covered by the following agreements as of December 31, 2009:

Type of Contract	Reinsurers All authorized except as noted by (U)		Company Retention	Reinsurer's Limits
Excess of Loss	Annual treaties with various reinsurers until 2007, when the Company stopped writing directly.		\$2 million	\$3 million
Clash	Annual treaties with various reinsurers until 2007, when the Company stopped writing directly.		\$3 million	\$4 million
Catastrophe Awards Made Excess of Loss covering ECO/XPL	Transatlantic Reinsurance Company Lloyd's Syndicates (nine total)	15.00% <u>75.00%</u> 90.00%	\$4 million, plus 10% of \$10 million	\$10 million

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2009

Underwriting and Investment Exhibit for the Year Ended December 31, 2009

Reconciliation of Surplus as Regards Policyholders
from December 31, 2005 through December 31, 2009

Statement of Financial Condition
as of December 31, 2009

<u>Assets</u>	<u>Ledger and Nonledger Assets</u>	<u>Nonadmitted Assets</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 18,304,874	\$	\$ 18,304,874	
Stocks:				
Preferred stocks	246,039		246,039	
Cash and short-term investments	1,029,271		1,029,271	
Investment income due and accrued	216,030		216,030	
Net deferred tax asset	528,931	215,140	313,791	
Aggregate write-ins for other than invested assets	<u>(2)</u>	<u> </u>	<u>(2)</u>	
Total assets	<u>\$ 20,325,143</u>	<u>\$ 215,140</u>	<u>\$ 20,110,003</u>	

Liabilities, Surplus and Other Funds

Losses			\$ 4,372,322	(1)
Loss adjustment expenses			356,186	(1)
Other expenses			11,090	
Taxes, licenses and fees			4,765	
Amounts withheld or retained by company for account of others			213,440	
Payable to parent, subsidiaries, and affiliates			357,963	
Aggregate write-ins for liabilities			<u>1,000</u>	
Total liabilities			5,316,766	
Common capital stock		\$ 3,000,000		
Gross paid-in and contributed surplus		7,050,000		
Unassigned funds (surplus)		<u>4,743,237</u>		
Surplus as regards policyholders			<u>14,793,237</u>	
Total liabilities, surplus and other funds			<u>\$ 20,110,003</u>	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2009

Statement of Income

Underwriting Income

Premiums earned		\$ (9,663)
Deductions:		
Losses incurred	\$ (619,068)	
Loss expenses incurred	246,192	
Other underwriting expenses incurred	<u>(173,346)</u>	
Total underwriting deductions		<u>(546,222)</u>
Net underwriting gain		536,559

Investment Income

Net investment income earned	\$ 1,038,826	
Net realized capital losses	<u>181,184</u>	
Net investment loss		<u>1,220,010</u>
Net income after capital gains tax and before federal income taxes		1,756,569
Federal income taxes incurred		<u>350,764</u>
Net income		\$ <u>1,405,805</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2008		\$ 14,728,355
Net income	\$ 1,405,805	
Change in net unrealized gains less capital gains tax of \$12,001	23,296	
Change in net deferred income tax	(258,331)	
Change in nonadmitted assets	197,112	
Change in provision for reinsurance	5,000	
Dividends to stockholders	(1,450,000)	
Aggregate write-ins for gains in surplus	<u>142,000</u>	
Change in surplus as regards policyholders for the year		<u>64,882</u>
Surplus as regards policyholders, December 31, 2009		\$ <u>14,793,237</u>

Reconciliation of Surplus as Regards Policyholders
from December 31, 2005 through December 31, 2009

Surplus as regards policyholders, December 31, 2005, per Examination			\$ 12,750,734
	<u>Gain in</u> <u>Surplus</u>	<u>Loss in</u> <u>Surplus</u>	
Net income	\$ 5,861,932	\$	
Change in net unrealized capital losses		13,664	
Change in net deferred income tax		895,154	
Change in nonadmitted assets	885,389		
Change in provision for reinsurance	205,000		
Dividends to stockholders		4,000,000	
Aggregate write-ins for losses in surplus	<u> </u>	<u>1,000</u>	
Total gains and losses	\$ <u>6,952,321</u>	\$ <u>4,909,818</u>	
Net increase in surplus as regards policyholders			<u>2,042,503</u>
Surplus as regards policyholders, December 31, 2009, per Examination			\$ <u>14,793,237</u>

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Losses and Loss Adjustment Expenses

Based on an analysis by a Senior Casualty Actuary from the California Department of Insurance, the Company's loss and loss adjustment expense reserves as of December 31, 2009 were found to be reasonably stated and have been accepted for purposes of this examination.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

None.

Previous Report of Examination

Accounts and Records – Information Systems Controls (Page 8): It was recommended the Company review the recommendations made regarding its information systems and make appropriate changes to strengthen its controls. The Company has adopted the recommendations.

Bonds (Page 13): It was recommended the Company deposit its securities with a qualified custodian pursuant to California Insurance Code Section 1104.9. The Company has adopted the recommendation.

ACKNOWLEDGEMENT

The courtesy and cooperation extended by the Company's officers and employees during the course of this examination is gratefully acknowledged.

Respectfully submitted,

/S/

Isabel Spiker, CFE
Examiner-In-Charge
Senior Insurance Examiner
Department of Insurance
State of California