



STATE OF CONNECTICUT

INSURANCE DEPARTMENT

ORDER ADOPTING REPORT OF EXAMINATION

I, Andrew N. Mais, Insurance Commissioner of the State of Connecticut, having fully considered and reviewed the Examination Report (the "Report") of **Finial Reinsurance Company** (the "Company") as of December 31, 2021, do hereby adopt the findings and recommendations contained therein based on the following findings and conclusions.

TO WIT:

1. I, Andrew N. Mais, Insurance Commissioner of the State of Connecticut and as such is charged with the duty of administering and enforcing the provisions of Title 38a of the Connecticut General Statutes ("C.G.S").
2. The Company is a domestic insurer authorized to transact the business of insurance in the State of Connecticut.
3. On May 18, 2023, the verified Report of the Company was filed with the Connecticut Insurance Department (the "Department").
4. In accordance with C.G.S. §38a-14(e)(3), the Company was afforded a period of thirty (30) days within which to submit to the Department a written submission or rebuttal with respect to any matters contained in the Report.
5. On June 1, 2023, the Company filed a written submission indicating that they were in agreement with all of the recommendations contained in the Report. A copy of the Report is attached hereto and incorporated herein as Exhibit A.

NOW, THEREFORE, it is ordered as follows:

1. That the Report of the Company is hereby adopted as filed with the Department.
2. That the Company shall comply with the recommendations set forth in the Report, and that failure by the Company to so comply shall result in sanctions or administrative action as provided by Title 38a of the C.G.S.
3. Section 38a-14(e)(4)(A) of the CGS requires that:

"The secretary of the Board of Directors or similar governing body of the entity shall provide a copy of the report or summary to each director and shall certify to the Commissioner, in writing, that a copy of the report or summary has been provided to each director."

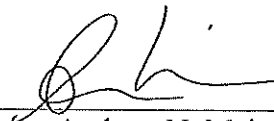
Please address the certification to the Commissioner but send said certification to the care/attention of William Arfanis, Assistant Deputy Commissioner of the Financial Regulation Division.

4. Section 38a-14(e)(4)(B) of the CGS requires that:

"Not later than one hundred twenty days after receiving the report or summary the chief executive officer or the chief financial officer of the entity examined shall present the report of summary to the entity's Board of Directors or similar governing body at a regular or special meeting."

This will be verified by the Insurance Department either through analysis or examination follow-up.

Dated at Hartford, Connecticut, this 1st day of June, 2023.



Andrew N. Mais
Insurance Commissioner

Exhibit A

EXAMINATION REPORT

OF

**FINIAL REINSURANCE COMPANY
(NAIC #39136)**

AS OF

DECEMBER 31, 2021

BY THE

CONNECTICUT INSURANCE DEPARTMENT



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May 18, 2023

The Honorable Andrew N. Mais
Insurance Commissioner
State of Connecticut Insurance Department
153 Market Street, 6th Floor
Hartford, Connecticut 06103

Dear Commissioner Mais:

In compliance with your instructions and pursuant to the requirements of section 38a-14 of the General Statutes of the State of Connecticut (CGS), the undersigned has made an examination of the condition and affairs of

FINIAL REINSURANCE COMPANY

(hereinafter referred to as the Company or FRC); a corporation with capital stock, incorporated under the laws of the State of Connecticut and having its statutory home office located at 100 First Stamford Place, Stamford, Connecticut. The report of such examination is submitted herewith.

SCOPE OF EXAMINATION

The previous examination of FRC was conducted as of December 31, 2016. The current examination, which covers the subsequent five-year period through December 31, 2021, was conducted virtually and at the statutory home office of the Company.

As part of the examination planning procedures, the Financial Regulation Division of the State of Connecticut Insurance Department (the Department) reviewed the following material submitted by the Company for the period under examination:

- Annual Statement filings;
- Audited financial reports;
- Board of Directors (Board) and other committee minutes (through the latest 2022 available);
- Management Discussion and Analysis;
- Statements of Actuarial Opinion; and
- Financial and regulatory filings submitted to the Department.

A comprehensive review was made of the financial analysis files and documents submitted to the Financial Analysis Unit of the Department as well as reports from the NAIC database.

FINIAL REINSURANCE COMPANY

Workpapers prepared by Deloitte & Touche LLP in connection with its annual statutory audit were reviewed and relied upon to the extent deemed appropriate.

We conducted our examination in accordance with the NAIC Financial Condition Examiners Handbook (Handbook). The 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 evaluating 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 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 and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the Company.

Comments in this report are generally limited to exceptions noted or to items considered to be of a material nature.

Failure of items in this report to add to totals or for totals to agree with captioned amounts is due to rounding.

HISTORY

The Company's predecessor, Zurich Reinsurance Company of New York (Zurich NY), a New York stock insurance company, commenced operations in October 1980. Effective February 1, 1993, as part of a redomestication of Zurich NY to Connecticut, Zurich NY was merged with and into Zurich Reinsurance Company of America (ZRCA).

On May 18, 1993, the Company was acquired by Zurich Reinsurance Centre Holdings, Inc. In the first quarter of 2001, Zurich Financial Services (ZFS) formed a new Swiss company, Converium Holding AG (Converium Holding), and during 2001, ZFS transferred its third party reinsurance operations (including the Company) to Converium Holding. On December 13, 2006, the Company and certain affiliates were sold by Converium Holding to National Indemnity Company (NICO), a Nebraska insurance company.

Effective September 7, 2007, the Company changed its name from Converium Reinsurance (North America) Inc. to Finial Reinsurance Company.

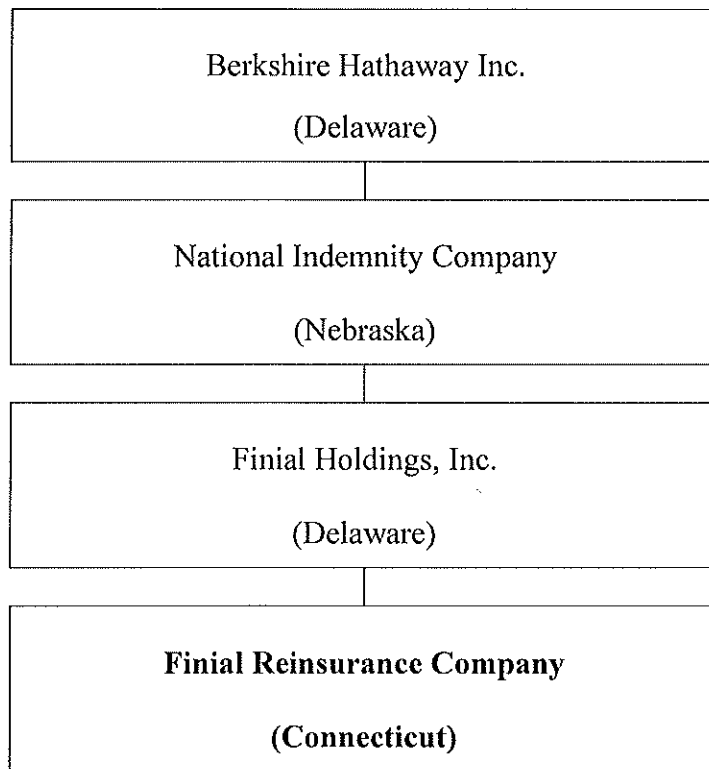
FINIAL REINSURANCE COMPANY

All shares of the Company are owned by Finial Holdings Inc. (FHI), a Delaware company. FHI is wholly-owned by NICO which is wholly-owned by Berkshire Hathaway Inc. (BHI), a Delaware corporation.

FRC's reinsurance operations were placed into orderly run off effective August 31, 2004, which resulted in the discontinuation of writing reinsurance as well as the commutation or novation of contracts wherever appropriate.

ORGANIZATIONAL STRUCTURE

The following is a partial organization chart, as of December 31, 2021:



MANAGEMENT AND CONTROL

The annual meeting of the shareholders shall be held at the principal office of FRC, or at such other place as prescribed by the Board, not later than June 30th of each year. At each annual meeting, directors shall be elected to hold office for one year until their successors are elected. The holders of the outstanding stock entitled to vote at any meeting shall constitute a quorum.

The Company's bylaws, revised as of March 9, 2016, state that the business and property of FRC shall be managed by a Board of not less than seven nor more than twenty-one directors to be elected annually. Regular meetings of the Board shall be held immediately following the annual

FINIAL REINSURANCE COMPANY

meeting of the shareholders at such intervals and on such dates as the Board may designate. There shall be no fewer than four regular meetings per year. Special meetings of the Board may be called by the chairman of the Board, the president or upon written request of any two members of the Board.

A quorum shall consist of one-third of the directors then in office but not less than five.

The members of the Board serving FRC at December 31, 2021, were:

<u>Name</u>	<u>Title and Principal Business Affiliation</u>
John Duane Arendt	Vice President Berkshire Hathaway Reinsurance Division
Bruce John Byrnes	Vice President Berkshire Hathaway Reinsurance Division
Kevin Donald Lewis	Vice President Berkshire Hathaway Reinsurance Division
Brian Gerard Snover	Senior Vice President and General Counsel Berkshire Hathaway Reinsurance Division
Brad Evan Rosen	Assistant Vice President Berkshire Hathaway Reinsurance Division
Brennan Scott Neville	Assistant Secretary National Indemnity Company
Carmel Mary O'Sullivan	Vice President and Controller Resolute Management Inc.

The officers serving FRC at December 31, 2021, were:

<u>Name</u>	<u>Title</u>
Brian Gerard Snover	President
Bruce John Byrnes	Vice President and Secretary
Joanne Sarah Spalla	Senior Vice President
Carmel Mary O'Sullivan	Vice President and Controller
Ateet Avanish Dhru	Treasurer

FINIAL REINSURANCE COMPANY

The bylaws require the existence of an Executive Committee, consisting of the president, ex officio and not less than two other directors, to be elected by the Board.

The members of the Executive Committee at December 31, 2021, were:

Bruce John Byrnes
Brian Gerard Snover
John Duane Arendt

In addition to the Executive Committee, the Board established an Audit Committee. The members of the Audit Committee at December 31, 2021 were:

Bruce John Byrnes
Kevin D. Lewis

RELATED PARTY AGREEMENTS

The Company had the following intercompany agreements in place as of December 31, 2021:

- Effective April 30, 1996, the Company and FHI entered into an Expense Sharing and Service Allocation Agreement, for the provision of services, the sharing of equipment and facilities and the allocation of the related costs between them.
- Effective January 31, 2007, the Company and NICO entered into an Investment Services Agreement for the provision of investment management services to the Company for a fee.
- Effective February 1, 2007, the Company and NICO entered into an Intercompany Service Agreement for the provision of certain administrative and special services and makes available certain property, equipment and facilities to the Company for a fee.
- Effective July 1, 2014, the Company and Resolute Management Inc. (RMI) entered into an Intercompany Service Agreement for the provision of certain administrative and special services for the Company, and to make available to the Company certain property, equipment and facilities.
- Effective December 7, 2017, the Company and BHI entered into an Investment Services Agreement. Pursuant to the agreement, BHI provides investment management services to the Company.
- Effective July 19, 2018, the Company and General Reinsurance Corporation (GRC) entered into a service agreement whereby GRC provides internal audit services to the Company.
- Pursuant to a Federal Income Tax Allocation Agreement, the Company joins a group of approximately 800 affiliated companies in the filing of a consolidated federal income tax return by Berkshire Hathaway Inc. (BHI), the common parent of the group.

FINIAL REINSURANCE COMPANY

INSURANCE COVERAGE

NICO and affiliates, including the Company, are covered by a fidelity institutional bond issued by the Great American Insurance Company. The limit of liability on the financial institution bond exceeded the suggested minimum limits of insurance pursuant to the Handbook. Additionally, NICO maintains property, general liability, auto, workers' compensation, and umbrella policies for itself and affiliates.

TERRITORY AND PLAN OF OPERATION

The Company is licensed in 27 states and is an accredited and approved reinsurer in 23 other states and the District of Columbia. The Company has been in run off since 2004.

REINSURANCE

ASSUMED REINSURANCE

Prior to run off, the Company operated in the North American market primarily as a professional reinsurer of property and casualty risks. The Company provided pro rata and excess of loss reinsurance through its treaty, individual risk and non-traditional capabilities.

During 2015 and 2016, the Company entered into five separate assumption reinsurance transactions that effectively increased its net reserves and loss adjustment expenses (LAE), predominately related to asbestos and environmental (A&E) claims. All transactions were approved by the Department:

- Effective October 1, 2015, the Company entered into a quota share (QS) agreement with Berkshire Hathaway Direct Insurance Company (BHDIC), an affiliate, whereby the Company accepts and assumes 100% of all policy liabilities for policies incepting prior to July 1, 2015. BHDIC paid the Company a premium of \$36,655,232 which was equal to the net loss and LAE reserves it assumed.
- Effective December 1, 2015, the Company entered into a QS agreement with Philadelphia Reinsurance Corporation (Phila Re), a former affiliate, whereby the Company accepts and assumes 100% of all policy liabilities for policies incepting prior to the effective date. Phila Re paid the Company a premium of \$62,577,157 which was equal to the net loss and LAE reserves it assumed.
- Effective December 1, 2015, the Company entered into an assumption agreement with Phila Re whereby the Company agreed to assume all liabilities of Phila Re while it was an affiliate, excluding those that were the subject of the Phila Re QS agreement. Phila Re paid the Company a fee of \$100,000 for the assumption agreement.

FINIAL REINSURANCE COMPANY

- Effective July 1, 2016, the Company entered into a QS agreement with Commercial Casualty Insurance Company (CCIC), an affiliate, now Wellfleet Ins. Co., whereby the Company accepts and assumes 100% of all policy liabilities for policies incepting prior to the effective date. CCIC paid the Company a premium of \$54,997,040 which was equal to the net loss and LAE reserves it assumed.
- Effective December 31, 2016, the Company entered into a QS agreement with Wellfleet New York Insurance Company, formerly Atlanta International Insurance Company (AIIC), an affiliate, now Wellfleet NY Ins. Co., whereby the Company accepts and assumes 100% of all policy liabilities for policies incepting prior to the effective date. The Company recorded a premium receivable due from AIIC of \$17,458,353, which was equal to the net loss and LAE reserves it assumed.

CEDED REINSURANCE

Finial's ceded reinsurance book of business is comprised only of ceded reinsurance transactions originating from its Pre-2004 legacy reinsurance business related to when Finial conducted operations as Coverium Reinsurance, and prior to Coverium being placed in an orderly runoff in 2004.

INFORMATION TECHNOLOGY (IT) CONTROLS

Due to the small size of the Company's IT department and the corresponding lack of segregation of duties and formalized controls, a comprehensive review was not performed. Instead, a limited review of key risks and controls pertaining primarily to the safeguarding of data and business continuity was performed. Due to the limited scope of this review, no reliance was placed on IT controls.

ACCOUNTS AND RECORDS

The company utilizes the SAP general ledger system for both generally accepted accounting principles and statutory reporting. Financial Accounting uploads technical data into SAP from the Framework system. The reserving process is based on excel spreadsheets using data from the Framework system. Once the financial statements have been reviewed and approved, the appropriate data is uploaded/input into the TCP-The Complete Package software, which generates the quarterly/annual statutory statements.

The 2021 trial balance was reconciled to the Annual Statement without exception.

FINIAL REINSURANCE COMPANY

FINANCIAL STATEMENTS

The following statements represent the Company's financial position, as filed by the Company as of December 31, 2021. No adjustments were made to surplus as a result of the examination.

ASSETS

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$40,615,572		\$40,615,572
Stocks:			
Preferred stocks	60,000,000		60,000,000
Common stocks	1,051,032,960	204,232,134	846,800,826
Cash and short-term investments	656,227,818		656,227,818
Receivables for securities	214		214
Subtotal, cash and invested assets	1,753,876,564	204,232,134	1,549,644,430
Investment income due and accrued	739,202		739,202
Premiums and considerations:			
Uncollected premiums and agents' balances in the course of collection	319,137	\$156,211	162,926
Deferred premiums, agents' balances and installments booked but deferred and not yet due	2,000		2,000
Accrued retrospective premiums	1,306,213		1,306,213
Reinsurance:			
Amounts recoverable from reinsurers	457,804		457,804
Funds held by or deposited with reinsured companies	953,163		953,163
Receivables from parent, subsidiaries and affiliates	1,775,966		1,775,966
Aggregate write-ins for other than invested assets	2,180,017	2,001,348	178,669
Totals	<u>\$1,761,610,065</u>	<u>\$206,389,693</u>	<u>\$1,555,220,372</u>

FINIAL REINSURANCE COMPANY

LIABILITIES, SURPLUS AND OTHER FUNDS

Losses	\$289,531,229
Reinsurance payable on paid loss and loss adjustment expenses	2,438,760
Loss adjustment expenses	47,593,334
Commissions payable, contingent commissions and other similar charges	3,491,588
Other expenses (excluding taxes, licenses and fees)	320,000
Current federal and foreign income taxes	3,795,030
Net deferred tax liability	126,029,716
Ceded reinsurance premiums payable	1,056
Funds held by company under reinsurance treaties	264,527
Amounts withheld or retained by company for account of others	2,698,499
Remittances and items not allocated	513,805
Provision for reinsurance	1,414,680
Payable to parent, subsidiaries and affiliates	458,122
Aggregate write-ins for liabilities	2,886,047
Total liabilities	481,436,395
Common capital stock	3,500,000
Gross paid in and contributed surplus	713,253,763
Unassigned funds (surplus)	357,030,215
Surplus as regards policyholders	1,073,783,978
Totals	<u>\$1,555,220,372</u>

FINIAL REINSURANCE COMPANY

STATEMENT OF INCOME

UNDERWRITING INCOME	
Premiums earned	\$251,903
DEDUCTIONS:	
Losses incurred	(17,508,874)
Loss adjustment expenses incurred	(155,327)
Other underwriting expenses incurred	150,049
Total underwriting deductions	(17,514,152)
Net underwriting gain (loss)	17,766,054
INVESTMENT INCOME	
Net investment income earned	17,906,522
Net realized capital gains (losses)	139,859
Net investment gain (loss)	18,046,381
OTHER INCOME	
Aggregate write-ins for miscellaneous income	(37,194)
Total other income	(37,194)
Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	35,775,241
Net income after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	35,775,241
Federal and foreign income taxes incurred	5,057,852
Net income	30,717,389
CAPITAL AND SURPLUS ACCOUNT	
Surplus as regards policyholders, December 31, prior year	885,919,289
Net income	30,717,389
Change in net unrealized capital gains or (losses)	245,294,217
Change in net deferred income tax	(1,333,358)
Change in nonadmitted assets	307,217
Change in provision for reinsurance	879,224
Dividends to stockholders	(88,000,000)
Change in surplus as regards policyholders for the year	187,864,689
Surplus as regards policyholders, December 31, 2021	<u>\$1,073,783,978</u>

FINIAL REINSURANCE COMPANY

LOSSES AND LOSS ADJUSTMENT EXPENSES (LAE)

\$337,124,563

The following items were included in the captioned accounts:

Losses	\$289,531,229
LAE	<u>47,593,334</u>
	<u>\$337,124,563</u>

The Department conducted a review in accordance with the risk focused approach as detailed in the Handbook. The scope of the review included an assessment of loss and LAE reserves of the Company.

Based on the risk-focused assessment and the Department’s review procedures, no material concerns were noted that affected the Company’s ability to manage its reserving risk.

CAPITAL AND SURPLUS ACCOUNT

The reconciliation of surplus for the period under examination, January 1, 2017, through December 31, 2021, was as follows:

Surplus, as of December 31, 2016	\$975,544,891
Net income	397,911,740
Change in net unrealized capital gains or (losses)	353,896,528
Change in net deferred income tax	(21,555,309)
Change in nonadmitted assets	(202,872,324)
Change in provision for reinsurance	2,858,452
Surplus adjustment – paid in	(250,000,000)
Dividends to stockholders	(182,000,000)
Net change in capital and surplus	98,239,087
Surplus, December 31, 2021	<u>\$1,073,783,978</u>

- In 2021, the Company’s had an increase in its net unrealized capital gains of \$245 million.
- In 2021, the Company nonadmitted \$204 million of common stock per the 10% of admitted assets in a single institution limitation in Section 38a-102c of the CGS. In addition, in 2021 and 2020, the Company had large decrease offset due to its payments of ordinary cash dividends to the Company’s parent, FHI of \$88 million and \$94 million, respectively.
- In 2017, the Company paid an extraordinary dividend of \$250 million to FHI. The dividend was paid out of Paid in and contributed surplus and treated as a return of capital to FHI.
- Another primary increase driver over the examination period was net income, the majority of the increase, \$289 million, occurred in 2017.

FINIAL REINSURANCE COMPANY

CONCLUSION

The results of the examination disclosed that as of December 31, 2021, the Company had admitted assets of \$1,555,220,372, liabilities of \$481,436,395, and capital and surplus of \$1,073,783,978. During the period under examination, admitted assets increased by \$68,253,704, liabilities decreased by \$29,985,383 and capital and surplus increased by \$98,239,087.

FINIAL REINSURANCE COMPANY

SIGNATURE

In addition to the undersigned, the following Department personnel participated in this examination: William Arfanis, CFE; Susan Cotugno, CPA; Cecilia Arnold, CFE; Kent Krajick, CFE; Chiffon King, AFE; Aishah Abdullah; Kenneth Roulier, AFE, CISA, AES; Wanchin Chou, FCAS, MAAA; and Qing He, FCAS, MAAA.

I, Kevin Beaudoin, CFE, do solemnly swear that the foregoing report of examination is hereby represented to be a full and true statement of the condition and affairs of the subject reinsurer as of December 31, 2021, to the best of my information, knowledge and belief.

Respectfully submitted,

Kevin Beaudoin

Kevin Beaudoin, CFE
Insurance Certified Financial Examiner
State of Connecticut
Insurance Department

State of Connecticut
County of Hartford

ss. Hartford

Subscribed and sworn before me, [Signature], Notary Public/Commissioner of the Superior Court, on this 18 day of _____, 2023.

[Signature]

Notary Public/Commissioner of the Superior Court

My commission expires June 30, 2026

