

**REPORT ON EXAMINATION**

**OF**

**TOWER HILL SELECT INSURANCE**

**COMPANY**

**GAINESVILLE, FLORIDA**

**AS OF**

**DECEMBER 31, 2007**

**BY THE**

**OFFICE OF INSURANCE REGULATION**

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Tallahassee, Florida

April 9, 2009

Kevin M. McCarty  
Commissioner  
Office of Insurance Regulation  
State of Florida  
Tallahassee, Florida 32399-0326

Dear Sir and Madam:

Pursuant to your instructions, in compliance with Section 624.316, Florida Statutes, and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC), we have conducted an examination of December 31, 2007, of the financial condition and corporate affairs of:

**TOWER HILL SELECT INSURANCE COMPANY  
7201 NW 11<sup>TH</sup> PLACE  
GAINESVILLE, FLORIDA 32605**

Hereinafter referred to as the "Company". Such report of examination is herewith respectfully submitted.

## **SCOPE OF EXAMINATION**

This examination covered the period of January 1, 2007, through December 31, 2007. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2006. This examination commenced, with planning at the Office, on September 8, 2008, to September 12, 2008. The fieldwork commenced on October 6, 2008, and was concluded as of April 9, 2009.

This financial examination was a statutory financial examination conducted in accordance with the Financial Condition Examiners Handbook, Accounting Practices and Procedures Manual and annual statement instructions promulgated by the NAIC as adopted by Rules 69O-137.001(4) and 69O-138.001, Florida Administrative Code, with due regard to the statutory requirements of the insurance laws and rules of the State of Florida.

The Financial Condition Examiners Handbook requires that the examination be planned and performed to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company, and evaluating 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 and management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

In this examination, emphasis was directed to the quality, value and integrity of the statement of assets and the determination of liabilities, as those balances affect the financial solvency of the

Company as of December 31, 2007. Transactions subsequent to December 31, 2007, were reviewed where relevant and deemed significant to the Company's financial condition.

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

The examination included a review of the corporate records and other selected records deemed pertinent to the Company's operations and practices. In addition, the NAIC IRIS ratio reports, the Company's independent audit reports and certain work papers prepared by the Company's independent certified public accountant (CPA) and other reports as considered necessary were reviewed and utilized where applicable within the scope of this examination.

This report of examination is confined to financial statements and comments on matters that involved departures from laws, regulations or rules, or which were deemed to require special explanation or description.

### **Status of Adverse Findings from Prior Examination**

The following is a summary of significant adverse findings contained in the Office's prior examination report as of December 31, 2006, along with resulting action taken by the Company in connection therewith.

### **Agent's Balances**

The MGA held the premiums collected rather than depositing them in a bank in violation of Section 625.012(5)(a), Florida Statutes. **Resolution:** The Company was in compliance with this statute.

### **CAT Reserve**

The Company had not given consideration to conflagration or catastrophe hazards in its rates or rating plan, including surcharges and discounts, or established a reserve for that portion of the premium allocated to such hazard and did not maintain the premium in a catastrophe reserve, in accordance with Section 627.062(3)(b)(14)(d), Florida Statutes. **Resolution:** The Company purchased reinsurance to cover these hazards and the cost for such reinsurance is included in the Company's rate plan.

### **Information Technology (IT) Review**

The finding from the IT review were included in a report to the Company. **Resolution:** The Company resolved the issue.

## **HISTORY**

### **General**

The Company was incorporated in Florida on April 16, 2004 and commenced business on June 24, 2004.

The Company was party to Consent Orders 75375-04-CO filed March 25, 2004, 76793-04-CO filed June 24, 2004, 80666-05 filed March 24, 2005, and 80667-05 filed March 24, 2005, with the Office

regarding the application for the issuance of a Certificate of Authority and the application for an indirect acquisition of the Company. The company was in compliance with the consent orders.

The Company was authorized to transact the following insurance coverage in Florida as of December 31, 2007:

Homeowner's multi-peril  
Allied lines  
Fire  
Inland marine

The Articles of Incorporation and the Bylaws were not amended during the period covered by this examination.

### **Capital Stock**

As of December 31, 2007, the Company's capitalization was as follows:

Number of authorized common capital shares	100,000
Number of shares issued and outstanding	100,000
Total common capital stock	\$100,000
Par value per share	\$1.00

Control of the Company was maintained by its parent company, Tower Hill Holdings, Inc., which owned 100% of the stock issued by the Company, and which in turn was owned 59% by Mr. William J. Shively, the Chairman and CEO, 29% by Renaissance Re Ventures, Ltd. and 14% by Benfield Investment Holdings, Ltd.

### **Profitability of Company**

The following table shows the profitability trend (in dollars) of the Company for the period of operations, as reported in the filed annual statements.



	<b>2007</b>	<b>2006</b>	<b>2005</b>
Premiums Earned	42,532,910	25,748,898	6,581,745
Net Underwriting Gain/(Loss)	11,808,189	(7,450,032)	(28,735)
Net Income (Loss)	10,259,444	(5,536,210)	58,614
Total Assets	65,500,770	63,749,356	34,265,850
Total Liabilities	38,868,000	47,276,868	20,246,638
Surplus As Regards Policyholders	26,632,770	16,472,488	14,019,212

### **Dividends to Stockholders**

The Company declared and paid no dividends to its stockholder in 2007.

### **Management**

The annual shareholder meeting for the election of directors was held in accordance with Sections 607.1601 and 628.231, Florida Statutes. Directors serving as of December 31, 2007, were:

#### **Directors**

##### **Name and Location**

##### **Principal Occupation**

William J. Shively  
Gainesville, Florida

CEO, Tower Hill Insurance Group, Inc.

Philip M. Thomasson(a)  
Gainesville, Florida

President, Tower Hill Select Insurance Co.

Donald C. Matz, Jr.  
Gainesville, Florida

President, Tower Hill Insurance Group, Inc.

Keyton Benson  
Gainesville, Florida

Chief Claims Officer  
Tower Hill Insurance Group, Inc.

Joel P. Curran  
Gainesville, Florida

Chief Underwriting Officer  
Tower Hill Insurance Group, Inc.

The Board of Directors in accordance with the Company's bylaws appointed the following senior officers:

#### **Senior Officers**

<b>Name</b>	<b>Title</b>
William J. Shively	Chief Executive Officer
Philip M. Thomasson (a)	President
Donald C. Matz, Jr.	Chief Operating Officer and Secretary

(a) Resigned on January 3, 2008. Donald C. Matz, Jr was named President and Joel Phillip Curran became the Corporate Secretary.

The Company's board appointed an internal committee in accordance with Section 607.0825, Florida Statutes. Following is the principal internal board committee and its members as of December 31, 2007:

#### **Audit Committee**

William J. Shively <sup>1</sup>  
Philip M. Thomasson  
Donald C. Matz, Jr.

<sup>1</sup> Chairman

#### **Conflict of Interest Procedure**

The Company adopted a policy statement requiring annual disclosure of conflicts of interest in accordance with the NAIC Financial Condition Examiners Handbook.

## **Corporate Records**

The recorded minutes of the shareholder, Board of Directors, and certain internal committees were reviewed for the period under examination. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions and events in accordance with Section 607.1601, Florida Statutes, including the authorization of investments as required by Section 625.304, Florida Statutes.

## **Acquisitions, Mergers, Disposals, Dissolutions, and Purchase or Sales Through Reinsurance**

There were no acquisitions, mergers, disposals, dissolutions and purchases or sales through reinsurance during the period under examination.

## **Surplus Debentures**

As of December 31, 2007, there were no outstanding debentures of the Company.

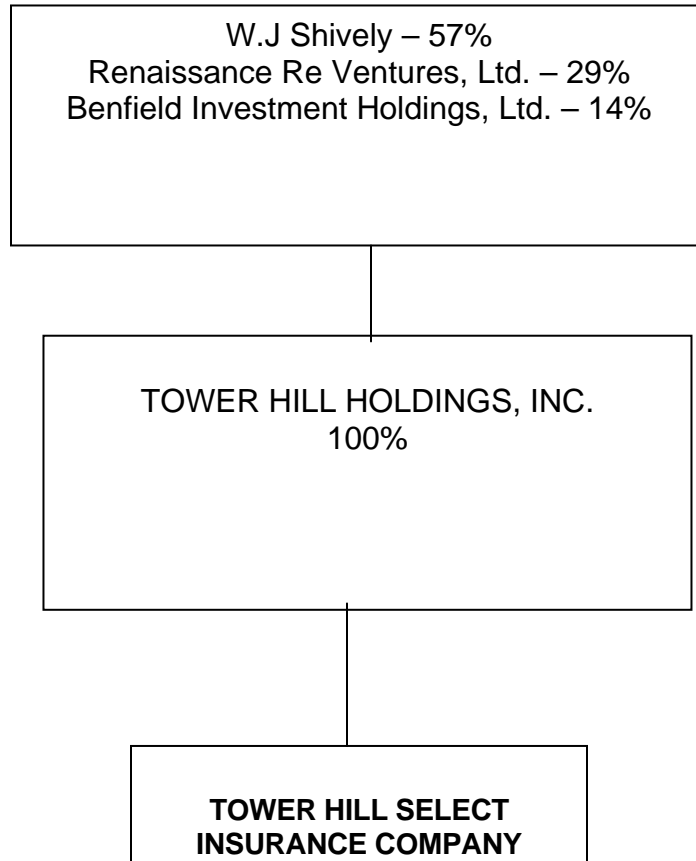
## **AFFILIATED COMPANIES**

The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), Florida Administrative Code. The latest amended holding company registration statement was filed with the State of Florida on April 15, 2008, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

A simplified organizational chart as of December 31, 2007, reflecting the holding company system, is shown below. Schedule Y of the Company's 2007 annual statement did not provide an accurate list of all of the shareholders in Tower Hill Holdings, Inc., the Company's parent as required by the NAIC Annual Statement Instructions.

**TOWER HILL SELECT INSURANCE COMPANY  
ORGANIZATIONAL CHART**

**DECEMBER 31, 2007**



The following agreements were in effect between the Company and its affiliates:

### **Tax Allocation Agreement**

The Company, together with its parent, Tower Hill Holdings, Inc. and other affiliated companies, filed a consolidated federal income tax return. On December 31, 2007, the method of allocation between the Company and the other group companies was to be equal to the amount that the Company would have paid had the Company filed a separate income tax return.

### **Claims Service Agreement**

A claims service agreement was in place with Tower Hill Claims Service, Inc., an affiliated company. The agreement provided for the management, adjustment, payment request and other various claims administrative duties as necessary, other than those services administered under the managing general agency agreement.

### **Management Agreement**

A management services agreement was in place with Tower Hill Holdings, Inc., the Company's parent. The agreement provided for the coordination of activities of the Company, development of corporate plans, legal counsel, executive management, compliance, contract negotiations and other such services as deemed necessary.

### **Managing General Agent Agreement**

A managing general agent (MGA) agreement was in place with Tower Hill Insurance Group, Inc., an affiliated company. The agreement provided for the management and direct oversight of the production of business for the underwriting and policy administration functions. Additionally, the

MGA facilitated the payment of premiums and other accounting, reporting and administrative functions.

### **FIDELITY BOND**

The Company maintained fidelity bond coverage up to \$3,100,000 with a deductible of \$50,000, which adequately covered the suggested minimum amount of coverage for the Company as recommended by the NAIC.

### **PENSION, STOCK OWNERSHIP AND INSURANCE PLANS**

The Company had no employees and, therefore, had no pension, stock ownership or insurance plans.

### **STATUTORY DEPOSITS**

The following securities were deposited with the State of Florida as required by Section 624.411, Florida Statutes:

STATE	Description	Par Value	Market Value
FL	Certificate of Deposit	<u>\$ 300,000</u>	<u>\$ 300,624</u>
TOTAL FLORIDA DEPOSITS		<u>\$ 300,000</u>	<u>\$ 300,624</u>
TOTAL SPECIAL DEPOSITS		<u><u>\$ 300,000</u></u>	<u><u>\$ 300,624</u></u>

## **INSURANCE PRODUCTS**

### **Territory**

The Company was authorized to transact insurance in the State of Florida only.

### **Treatment of Policyholders**

The Company established procedures for handling written complaints in accordance with Section 626.9541(1)(j), Florida Statutes.

The Company's claim services company, Tower Hill Claims Services, Inc., an affiliated company, maintained a claims procedure manual that included detailed procedures for handling each type of claim in accordance with Section 626.9541(i)(3)(a), Florida Statutes.

## **REINSURANCE**

The reinsurance agreements reviewed complied with NAIC standards with respect to the standard insolvency clause, arbitration clause, transfer of risk, reporting and settlement information deadlines.



## **Assumed**

The Company assumed no reinsurance risks during the examination period.

## **Ceded**

The Company ceded risks on a quota share basis to an unauthorized affiliated company, Renaissance Re, and ceded risks on an excess of loss basis to various authorized non-affiliated reinsurers and to various unauthorized affiliated and unauthorized non-affiliated reinsurers. The Company also ceded a substantial volume of risk on an excess of loss basis to the Florida Hurricane Catastrophe Fund.

The Company's reinsurance program was arranged by Benfield, Inc., a licensed reinsurance intermediary and an affiliate of Benfield Investment Holdings, Ltd., a 14% owner of Tower Hill Holdings, Inc., the Company's parent. This relationship was not disclosed in the Company's annual statement.

The Company, furthermore, ceded risks to two companies, Renaissance Re and DaVinci Re, which were affiliated with Renaissance Re Ventures, Ltd., a 29% owner of Tower Hill Holdings, Inc., the Company's parent company. The amounts ceded in the year ended December 31, 2007 totaled \$14,124,000 to Renaissance Re and \$1,485,000 to DaVinci Re. At December 31, 2007, there was a reinsurance balance payable of \$897,000 due to DaVinci Re and a reinsurance recoverable balance of \$96,000 due from Renaissance Re.

These balances were not properly disclosed as affiliated company transactions and balances in either of Schedule "F" or Schedule "Y", to the Company's annual statement as required by the NAIC Annual Statement instructions.

The reinsurance contracts were reviewed by the Company's appointed actuary and were utilized in determining the ultimate loss opinion.

### **ACCOUNTS AND RECORDS**

The Company maintained its principal operational offices in Gainesville, Florida, where this examination was conducted.

An independent CPA audited the Company's statutory basis financial statements annually for the years 2005, 2006 and 2007, in accordance with Section 624.424(8), Florida Statutes. Supporting work papers were prepared by the CPA as required by Rule 69O-137.002, Florida Administrative Code.

The Company's accounting records were maintained on a computerized system. The Company's balance sheet accounts were verified with the line items of the annual statement submitted to the Office.

The Company and non-affiliates had the following agreements:

### **Custodial Agreement**

The Company had a custodial agreement with US Bank which contained all necessary elements required in Rule 69O-143.042(2), Florida Administrative Code.

### **Independent Auditor Agreement**

The Company had an independent auditor agreement for the year 2007 with KPMG, LLP of Atlanta, Georgia.

### **Information Technology Report**

Brandon Thomas, HISP, MCM, of Huff Thomas & Company performed a computer systems evaluation on the Company. Results of the evaluation were noted in the Information Technology Report provided to the Company.

## **FINANCIAL STATEMENTS PER EXAMINATION**

The following pages contain financial statements showing the Company's financial position as of December 31, 2007, and the results of its operations for the year then ended as determined by this examination. Adjustments made as a result of the examination are noted in the section of this report captioned, "Comparative Analysis of Changes in Surplus."

**Tower Hill Select Insurance Company  
Assets**

**DECEMBER 31, 2007**

	Per Company	Examination Adjustments	Per Examination
Cash	\$ 49,728,182		\$ 49,728,182
Agents' Balances:			
Uncollected premium	10,002,172		10,002,172
Amounts recoverable from reinsurers	1,659,091		1,659,091
Investment income due and accrued	210,572		210,572
Guaranty funds receivable or on deposit	2,602,738		2,602,738
Net deferred tax asset	1,274,800		1,274,800
Aggregate write-in for other than invested assets	23,215		23,215
	<hr/>		<hr/>
Totals	<u>\$65,500,770</u>		<u>\$65,500,770</u>

**Tower Hill Select Insurance Company, Inc.  
Liabilities, Surplus and Other Funds**

**DECEMBER 31, 2007**

	Per Company	Examination Adjustments	Per Examination
Losses	\$5,578,513		\$5,578,513
Loss adjustment expenses	270,842		270,842
Other expenses	53,181		53,181
Taxes, licenses and fees	376,449		376,449
Unearned premium	17,127,640		17,127,640
Current federal income taxes payable	4,094,900		4,094,900
Ceded reinsurance payable	10,959,569		10,959,569
Amounts withheld	269,722		269,722
Payable to parent, subsidiaries and affiliates	137,184		137,184
	<hr/>		<hr/>
Total Liabilities	<u>38,868,000</u>		<u>38,868,000</u>
Common capital stock	100,000		100,000
Gross paid in and contributed surplus	20,900,000		20,900,000
Unassigned funds (surplus)	<u>5,632,770</u>		<u>5,632,770</u>
Surplus as regards policyholders	<u>26,632,770</u>		<u>\$26,632,770</u>
Total liabilities, surplus and other funds	<u><u>\$65,500,770</u></u>		<u><u>\$65,500,770</u></u>

**Tower Hill Insurance Company, Inc.  
Statement of Income**

**DECEMBER 31, 2007**

**Underwriting Income**

Premiums earned	\$42,532,910
<b>Deductions:</b>	
Losses incurred	12,660,121
Loss expenses incurred	1,231,917
Other underwriting expenses incurred	16,832,683
Total underwriting deductions	<u>30,724,721</u>
Net underwriting gain or (loss)	11,808,189

**Investment Income**

Net investment income earned	2,571,655
Net realized capital gains or (losses)	0
Net investment gain or (loss)	<u>2,571,655</u>

Net income	
before federal & foreign income taxes	14,379,844
Federal & foreign income taxes	<u>(4,120,400)</u>
Net income	<u>\$ 10,259,444</u>

**Capital and Surplus Account**

Surplus as regards policyholders, December 31 prior year	\$16,472,488
Net Income	10,259,444
Change in non-admitted assets	696,038
Change in net deferred income tax	(795,200)
Change in surplus as regards policyholders for the year	<u>10,160,282</u>
Surplus as regards policyholders, December 31 current year	<u>\$26,632,770</u>

## **COMMENTS ON FINANCIAL STATEMENTS**

### **Liabilities**

#### **Losses and Loss Adjustment Expenses**

\$5,849,355

An outside actuarial firm appointed by the Board of Directors, rendered an opinion that the amounts carried in the balance sheet as of December 31, 2007, made a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

The consulting actuary, R. Michael Lamb, FCSA, MAAA of R. Michael Lamb, LLC, reviewed work papers provided by the Company and was in concurrence with this opinion.

### **Capital and Surplus**

The amount reported by the Company of \$26,632,770, exceeded the minimum of \$4,000,000 required by Section 624.408, Florida Statutes.

A comparative analysis of changes in surplus is shown below.

**Tower Hill Select Insurance Company**

**COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS**

**DECEMBER 31, 2007**

The following is a reconciliation of Surplus as regards policyholders between that reported by the Company and as determined by the examination.

Surplus as Regards Policyholders December 31, 2007, per Annual Statement	\$26,632,770
-----------------------------------------------------------------------------	--------------

	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS:	No adjustments		\$ -
LIABILITIES:	No adjustments		-
Net Change in Surplus:			<hr/> -
Surplus as Regards Policyholders December 31, 2007, Per Examination			<hr/> <hr/> \$26,632,770



## **SUMMARY OF FINDINGS**

### **Compliance with previous directives**

The Company has taken the necessary actions to comply with the comments made in the 2006 examination report issued by the Office.

### **Current examination comments and corrective action**

There are no findings and no recommendations for corrective action.

## CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Tower Hill Select Insurance Company** as of December 31, 2007, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as regards policyholders was \$26,632,770, in compliance with Section 624.408, Florida Statutes.

In addition to the undersigned, Angela Searls, CPA, Insurance Examiner, Huff Thomas & Company, David Schleit, CPA, CFE, Insurance Examiner, Huff Thomas & Company, Brandon Thomas, HISP, MCM, Information Technology Specialist, Huff Thomas & Company, Maurice Fuller, Financial Examiner/Analyst II, Florida Office of Insurance Regulation and R. Michael Lamb, FCAS, MAAA, Actuary, R. Michael Lamb, LLC, participated in the examination.

Respectfully submitted,

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Kethessa Carpenter, CPA  
Financial Examiner/Analyst Supervisor  
Florida Office of Insurance Regulation