

**REPORT ON EXAMINATION**

**OF**

**AGIC, INC.**

**SARASOTA, FLORIDA**

**AS OF**

**DECEMBER 31, 2011**

**BY THE**

**FLORIDA OFFICE OF INSURANCE REGULATION**

## TABLE OF CONTENTS

<b>LETTER OF TRANSMITTAL</b> .....	<b>-</b>
<b>SCOPE OF EXAMINATION</b> .....	<b>1</b>
<b>SUMMARY OF SIGNIFICANT FINDINGS</b> .....	<b>2</b>
CURRENT EXAM FINDINGS.....	2
PRIOR EXAM FINDINGS .....	2
<b>SUBSEQUENT EVENTS</b> .....	<b>3</b>
<b>HISTORY</b> .....	<b>3</b>
GENERAL .....	3
DIVIDENDS TO STOCKHOLDERS.....	4
CAPITAL STOCK AND CAPITAL CONTRIBUTIONS.....	4
SURPLUS NOTES .....	4
ACQUISITIONS, MERGERS, DISPOSALS, DISSOLUTIONS, AND PURCHASE OR SALES THROUGH REINSURANCE .....	5
<b>CORPORATE RECORDS</b> .....	<b>5</b>
CONFLICT OF INTEREST.....	5
<b>MANAGEMENT AND CONTROL</b> .....	<b>5</b>
MANAGEMENT .....	5
AFFILIATED COMPANIES .....	7
ORGANIZATIONAL CHART .....	8
COST ALLOCATION AGREEMENT .....	9
MANAGING GENERAL AGENT AGREEMENT.....	9
<b>FIDELITY BOND AND OTHER INSURANCE</b> .....	<b>10</b>
<b>PENSION, STOCK OWNERSHIP AND INSURANCE PLANS</b> .....	<b>10</b>
<b>TERRITORY AND PLAN OF OPERATIONS</b> .....	<b>10</b>
TREATMENT OF POLICYHOLDERS .....	11
<b>COMPANY GROWTH</b> .....	<b>11</b>
PROFITABILITY OF COMPANY .....	12
<b>LOSS EXPERIENCE</b> .....	<b>12</b>
<b>REINSURANCE</b> .....	<b>13</b>
ASSUMED .....	13
CEDED .....	13
<b>ACCOUNTS AND RECORDS</b> .....	<b>13</b>
CUSTODIAL AGREEMENT .....	14
CLAIMS – THIRD-PARTY ADMINISTRATOR AGREEMENT.....	14
INDEPENDENT AUDITOR AGREEMENT .....	14
<b>INFORMATION TECHNOLOGY REPORT</b> .....	<b>14</b>
<b>STATUTORY DEPOSITS</b> .....	<b>15</b>

<b>FINANCIAL STATEMENTS PER EXAMINATION.....</b>	<b>15</b>
ASSETS.....	16
LIABILITIES, SURPLUS AND OTHER FUNDS.....	17
STATEMENT OF INCOME.....	18
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS.....	19
<b>COMMENTS ON FINANCIAL STATEMENTS.....</b>	<b>20</b>
LIABILITIES.....	20
CAPITAL AND SURPLUS.....	20
<b>SUMMARY OF RECOMMENDATIONS.....</b>	<b>21</b>
<b>CONCLUSION.....</b>	<b>22</b>

July 31, 2012

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

Dear Sir:

Pursuant to your instructions, in compliance with Section 624.316, Florida Statutes, Rule 690-138.005, Florida Administrative Code, and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC), we have conducted an examination as of December 31, 2011, of the financial condition and corporate affairs of:

**AGIC, INC.**  
**4054 SAWYER ROAD**  
**SARASOTA, FLORIDA 34233**

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

## **SCOPE OF EXAMINATION**

This examination covered the period of July 1, 2011, through December 31, 2011. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of June 30, 2011. This examination commenced with planning at the Office on April 3, 2012, to April 5, 2012. The fieldwork commenced on April 11, 2012, and concluded as of July 31, 2012.

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.

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

This report of examination is confined to significant adverse findings, a material change in the financial statements or other information of regulatory significance or requiring regulatory action. The report comments on matters that involved departures from laws, regulations or rules, or which were deemed to require special explanation or description.

## **SUMMARY OF SIGNIFICANT FINDINGS**

### **Current Exam Findings**

The following is a summary of material adverse findings, significant non-compliance findings, or material changes in the financial statements noted during this examination

### **Company Agreements**

The Company failed to identify Irvin B. Green & Associates, Inc. (IB Green) a licensed Managing General Agent, as a controlling entity in 2011 as defined by Section 625.012 (5)(a), Florida Statutes.

### **Prior Exam Findings**

The following is a summary of significant adverse findings contained in the Office's prior examination report as of June 30, 2011, along with resulting action taken by the Company in connection therewith.

### **Agent Appointments**

The Company did not appoint agents in a timely manner. This was not in compliance with Section 626.112 or Section 626.752, Florida Statutes, with regard to exchange of business.

**Resolution:** The Company used an affiliated MGA for underwriting policies and appointed agents on a timely basis.

## **SUBSEQUENT EVENTS**

The Company was approved by the Office to use an affiliated Managing General Agent (MGA), Palm Insure Inc., for underwriting and claims in 2012. The MGA has hired experienced underwriting and claims staff and has developed an underwriting/claims system. The MGA plans to slowly grow the business throughout the remainder of 2012.

## **HISTORY**

### **General**

The Company was incorporated in Florida on September 28, 2009, commenced business on October 1, 2009 as AGIC, Inc. and began writing business on February 23, 2010.

The Company was party to Consent Order 106077-09-CO filed August 28, 2009, regarding the application for the issuance of a Certificate of Authority. The Company was in compliance with the requirements of this consent order.

The Company was authorized to transact the following insurance coverage in Florida on October 28, 2009 and continues to be authorized as of December 31, 2011.

Private Passenger Auto Liability

Private Passenger Auto Physical Damage

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

## **Dividends to Stockholders**

The Company did not declare or pay any dividends during the period of this examination.

## **Capital Stock and Capital Contributions**

As of December 31, 2011, the Company's capitalization was as follows:

Number of authorized common capital shares	100,000
Number of shares issued and outstanding	1,000
Total common capital stock	\$1,000
Par value per share	\$1.00

Control of the Company was maintained by its parent, Ask Gary Holdings, LLC (AGH), who owned 100% of the stock issued by the Company. AGH has two types of equity interests with voting rights: Class A Common Units and Preferred Units, which together comprise 100% of the voting equity interest of AGH. Each unit has one vote. Dr. Gary Kompothecras owns 50% of the Class A Common Units and 100% of the Preferred Units. The remaining 50% of the Class A Common Units are owned by ABSAK, LLC, whose sole member is Kompo Family Company, LLC. Kompo Family Company, LLC is managed by Dr. Gary Kompothecras.

## **Surplus Notes**

The Company received \$2,500,000 in the form of a surplus debenture upon incorporation from its parent, Ask Gary Holdings, LLC. In addition, during the exam period the Company received an additional \$2,000,000 in the form of surplus debentures from its parent, Ask Gary Holdings, LLC.

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

The Company had no acquisitions, mergers, disposals, and purchase or sales through reinsurance during the period of this examination.

## **CORPORATE RECORDS**

The recorded minutes of the Shareholder(s), Board of Directors (Board) 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 compliance with the NAIC Financial Condition Examiners Handbook adopted by Rule 69O-138.001, Florida Administrative Code. Review of the Board of Directors meeting minutes, during the period under examination, indicated that the investment activities had not been approved as required by Section 625.304, Florida Statutes.

## **Conflict of Interest**

The Company adopted a policy statement requiring annual disclosure of conflicts of interest in accordance with the NAIC Financial Condition Examiners Handbook adopted by Rule 69O-138.001, Florida Administrative Code.

## **MANAGEMENT AND CONTROL**

### **Management**

The annual shareholder meeting for the election of directors was held in accordance with Section 628.231, Florida Statutes. Directors serving as of December 31, 2011, were:

## Directors

<b>Name and Location</b>	<b>Principal Occupation</b>
Gary Kompothecras Sarasota, Florida	President/Chairman, Physicians Group LLC
Vincent Payne Sarasota, Florida	President, AGIC Inc
Michael Smyth Sarasota, Florida	Regional Sales Representative, Pella Corp.
Jay Burmer Tampa, Florida	Owner, Green Wolf Group LLC
Howard T. Johnson, Jr Leesburg, Florida	Exec VP, IB Green and Associates

The Board in accordance with the Company's Bylaws appointed the following senior officers:

## Senior Officers

<b>Name</b>	<b>Title</b>
Gary Kompothecras	CEO
Vincent J. Payne	President & CFO
Jay Burmer	Vice Chairman & Vice President

The Company's Board appointed one internal committee. Following were the principal internal board committee and their members as of December 31, 2011:

## Audit Committee

Vincent Payne <sup>1</sup>  
Laura Lopez  
Jay Burmer

<sup>1</sup> Chairman

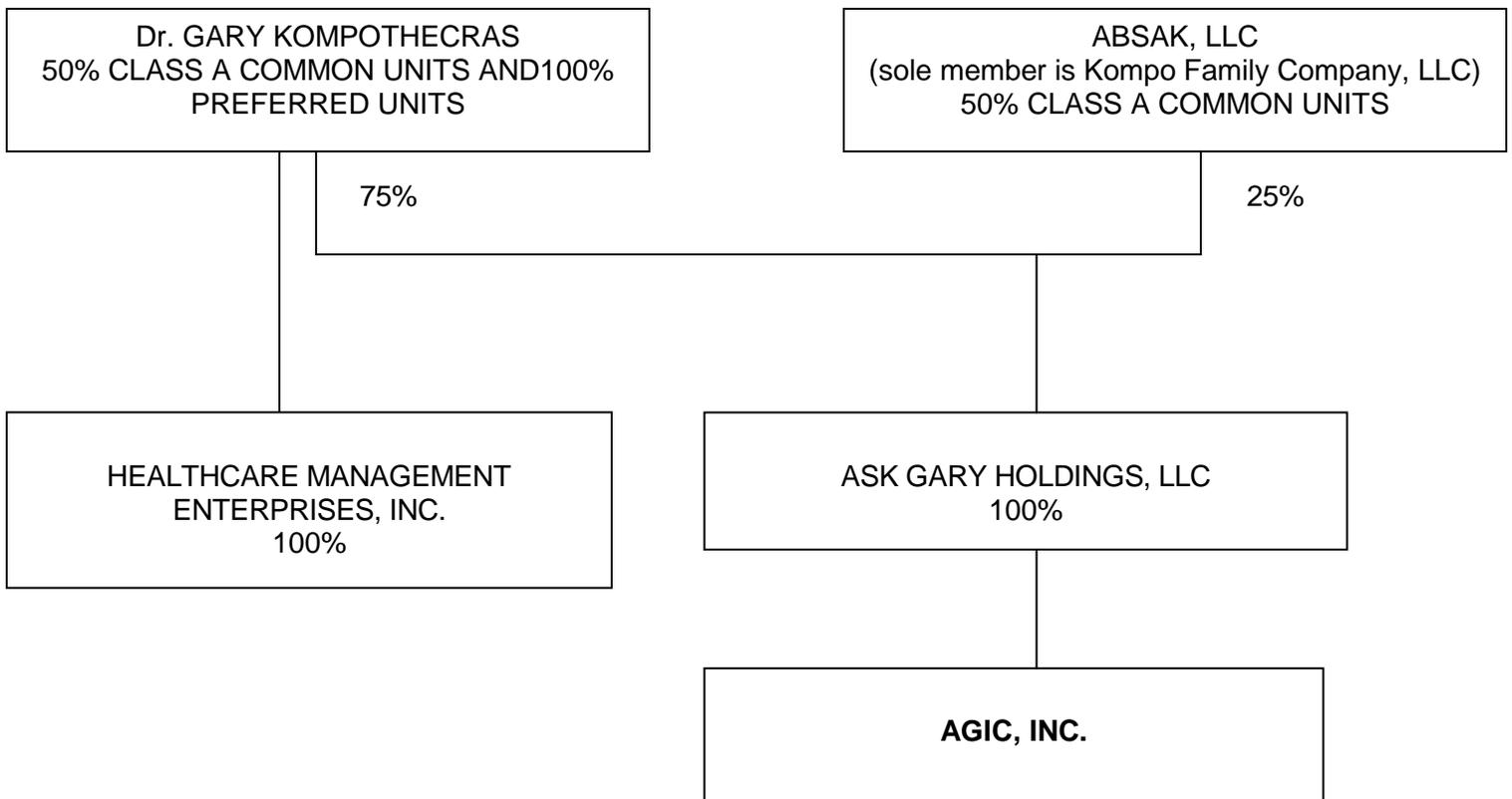
## **Affiliated Companies**

The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), Florida Administrative Code. The latest holding company registration statement was filed with the State of Florida on April 18, 2012, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

A simplified organizational chart as of December 31, 2011, reflecting the holding company system, is shown below. Schedule Y of the Company's 2011 annual statement did not provide a list of all related companies of the holding company group.

**AGIC, INC.  
ORGANIZATIONAL CHART**

**DECEMBER 31, 2011**



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

### **Cost Allocation Agreement**

The Company entered into a Cost Allocation Agreement with an affiliate, Healthcare Management Enterprise, Inc. on October 7, 2009. The agreement allocated cost of office space, equipment, supplies, and certain non-management personnel for the Company. Fees incurred under this agreement during 2011 amounted to \$15,500.

### **Managing General Agent Agreements**

The Company had an affiliated Managing General Agent services agreement to produce insurance business with Irvin B. Green & Associates, Inc. (IB Green), a Florida licensed Managing General Agent. The company failed to identify IB Green as a controlling entity in its 2011 Annual Statement filing as defined by Section 625.012 (5)(a), Florida Statutes. The Company reported that IB Green produced 100 percent of its written premium in 2011. Additionally, the Company did not maintain a trust account for IB Green premiums with a bank or other depository approved by the Office in violation of Section 625.012 (5)(a)(1), Florida Statutes.

Based on review of documentation provided by the Company, examination adjustments were made to balance sheet accounts as follows; Uncollected premiums and agents' balances in course of collection were reduced by \$152,911 resulting in a zero balance. A corresponding examination adjustment was made to Unassigned Funds (surplus) increasing the amount from (\$4,466,175) to (\$4,619,086).

## **Written Premium**

IB Green was responsible for underwriting, billing, collecting premiums, paying commissions, maintaining files and records, and has binding authority on behalf of the Company. IB Green was appropriately collecting a \$25 per policy MGA fee; however, the Company did not include the MGA fee policy in written premiums calculated for its premium tax return in accordance with Section 627.403, Florida Statutes. **Subsequent Event:** The Company filed an amended premium tax return for 2011 which resulted in additional premium taxes of approximately \$8,500.

## **FIDELITY BOND AND OTHER INSURANCE**

The Company maintained fidelity bond coverage up to \$500,000 with a deductible of \$25,000, which reached the suggested minimum as recommended by the NAIC. The Company also maintained Directors and Officers (D&O) liability insurance with a coverage limit of \$1,000,000 and a deductible of \$25,000.

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

There was not any pension, stock ownership or insurance plans in place at the Company during the period of this examination.

## **TERRITORY AND PLAN OF OPERATIONS**

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

## **Treatment of Policyholders**

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

The Company maintained a claims procedure manual that included detailed procedures for handling each type of claim in accordance with Section 626.9541(1) (i) 3a, Florida Statutes.

## **COMPANY GROWTH**

When the Company began writing business in February of 2010, the Company's initial rate filings were inadequate for the business being written. The resulting business had high cancellation rates and claim filings that were much higher than anticipated. In response to deteriorating financial results in the first half of 2011, the Company tightened underwriting criteria, filed and received a premium rate increase that was effective in August 2011 for new business and September 2011 for renewal business, renegotiated vendor contracts and reduced the number of agents that could write for the Company. These actions significantly reduced premiums written during the second half of 2011 and carried into 2012. Premiums written for the first 6 months of 2011 were \$9.1 million and for the last 6 months of 2011 were \$1.6 million. The Company also required additional surplus contributions during the examination period.

## 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>2011</b>	<b>2010</b>
Premiums Earned	11,903,566	1,941,257
Net Underwriting Gain/(Loss)	(3,242,239)	(2,555,097)
Net Income	(2,406,982)	(2,075,522)
Total Assets	10,479,008	11,172,760
Total Liabilities	5,445,183	5,310,805
Surplus As Regards Policyholders	5,033,825	5,861,955

## LOSS EXPERIENCE

During the current examination period, the Company showed favorable loss development. The one-year net loss development at the end of the current examination period was favorable at \$255,000. There was no two-year loss development as this was the Company's second year of operations. The Company's loss ratio decreased throughout the exam period, for ratio from 117.8% during 2010 to 83.4% during the fourth quarter of 2011.

## **REINSURANCE**

### **Assumed**

The Company did not assume any reinsurance during the period of this examination.

### **Ceded**

The Company did not cede any reinsurance during the period of this examination.

## **ACCOUNTS AND RECORDS**

The Company maintained its principal operational offices in Sarasota, Florida.

An independent CPA audited the Company's statutory basis financial statements annually for the years 2010 and 2011, 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 using a combination of Excel spreadsheets and MS Great Plains. Data was downloaded monthly from the two administrators in the areas of premiums and claims and loaded into a database for reporting and analysis by the Company.

The Company and non-affiliates had the following agreements:

### **Custodial Agreement**

The Company maintained a custodial agreement with Merrill Lynch executed on June 10, 2011. The agreement was in compliance with Rule 69O-143.042, Florida Administrative Code.

### **Claims – Third-Party Administrator Agreement**

The Company had a Claims Service Agreement with North American Risk Services, Inc. (NARS), a Delaware claim services company with principal offices in Maitland, Florida. Under the terms of this agreement, NARS was responsible for providing claims adjusting and administrative services to the Company. The Claim Services Agreement was approved by the Office.

### **Independent Auditor Agreement**

The Company contracted with an external independent CPA firm to perform the annual audit of its financial statements as required by Rule 69O-137.002 (7) (c), Florida Administrative Code.

## **INFORMATION TECHNOLOGY REPORT**

Andrew B. Wittig, CISA, performed an evaluation of the information technology and computer systems of the Company. Results of the evaluation were noted in the Information Technology Report provided to the Company.

## 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	Cash	<u>\$ 750,000</u>	<u>\$ 750,000</u>
TOTAL SPECIAL DEPOSITS		<u>\$ 750,000</u>	<u>\$ 750,000</u>

## FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2011, 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."

**AGIC, INC.**

**Assets**

**DECEMBER 31, 2011**

	<b>Per Company</b>	<b>Examination Adjustments</b>	<b>Per Examination</b>
Bonds	\$7,187,221		\$7,187,221
Cash and Short-Term Investments	1,472,512		1,472,512
Premiums and considerations:			
Uncollected premium	152,911	(\$152,911)	
Deferred premium	1,137,153		1,137,153
EDP Equipment and software	7,262		7,262
Investment income due & accrued	106,027		106,027
Aggregate write-in for other than invested assets	415,923		415,923
	<hr/>		<hr/>
Totals	\$10,479,009	(\$152,911)	\$10,326,098
	<hr/>		<hr/>

**AGIC, INC.**  
**Liabilities, Surplus and Other Funds**

**DECEMBER 31, 2011**

	<b>Per Company</b>	<b>Examination Adjustments</b>	<b>Per Examination</b>
Losses	\$2,734,418		\$2,734,418
Loss adjustment expenses	591,358		591,358
Commissions payable, contingent commissions and other similar charges	394,755		394,755
Other expenses	79,538		79,538
Unearned premium	1,640,570		1,640,570
Payable to parent, subsidiaries and affiliates	4,544		4,544
<hr/>			
Total Liabilities	\$5,445,183	\$0	\$5,445,183
Common capital stock	\$5,000,000	(4,999,000)	\$1,000
Surplus notes	4,500,000		\$4,500,000
Gross paid in and contributed surplus	0	4,999,000	4,999,000
Unassigned funds (surplus)	(4,466,175)	(152,911)	(4,619,086)
<hr/>			
Surplus as regards policyholders	\$5,033,825	(\$152,911)	\$4,880,914
<hr/>			
Total liabilities, surplus and other funds	\$10,479,008	(\$152,911)	\$10,326,098

**AGIC, INC.**  
**Statement of Income**

**DECEMBER 31, 2011**

**Underwriting Income**

Premiums earned		\$11,903,566
	<b>Deductions:</b>	
Losses incurred		\$8,272,761
Loss adjustment expenses incurred		2,363,340
Other underwriting expenses incurred		4,509,704
Aggregate write-ins for underwriting deductions		0
Total underwriting deductions		<u>\$15,145,805</u>
Net underwriting gain or (loss)		(\$3,242,239)

**Investment Income**

Net investment income earned		\$298,804
Net realized capital gains or (losses)		(19,325)
Net investment gain or (loss)		<u>\$279,479</u>

**Other Income**

Net gain or (loss) from agents' or premium balances charged off		\$0
Finance and service charges not included in premiums		555,778
Aggregate write-ins for miscellaneous income		0
Total other income		<u>\$555,778</u>
Net income before dividends to policyholders and before federal & foreign income taxes		(\$2,406,982)
Dividends to policyholders		0
Net Income, after dividends to policyholders, but before federal & foreign income taxes		(\$2,406,982)
Federal & foreign income taxes		0
Net Income		<u><u>(\$2,406,982)</u></u>

**Capital and Surplus Account**

Surplus as regards policyholders, December 31 prior year		\$5,861,955
Net Income		(\$2,406,982)
Net unrealized capital gains or losses		0
Change in non-admitted assets		(1,394,325)
Change in net deferred income tax		973,185
Change in surplus notes		2,000,000
Surplus adjustments: Paid in		0
Aggregate write-ins for gains and losses in surplus		(8)
Examination Adjustment		(152,911)
Change in surplus as regards policyholders for the year		<u>(\$981,041)</u>
Surplus as regards policyholders, December 31 current year		<u><u>\$4,880,914</u></u>

A comparative analysis of changes in surplus is shown below

**AGIC, INC.**  
**Comparative Analysis of Changes in Surplus**

**DECEMBER 31, 2011**

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, 2011, per Annual Statement \$5,033,825

	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
<b>ASSETS:</b>			
Premiums and Consideration:			
Uncollected premium	\$152,911	0	(\$152,911)
<b>LIABILITIES:</b>			
No Adjustment			
Net Change in Surplus:			<u>(152,911)</u>
Surplus as Regards Policyholders December 31, 2011, Per Examination			<u><u>\$4,880,914</u></u>

## COMMENTS ON FINANCIAL STATEMENTS

### Liabilities

#### Losses and Loss Adjustment Expenses

\$3,325,776

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, 2011, made a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

The Office consulting actuary, Ronald T. Kuehn, FCAS, MAAA of Huggins Actuarial Services, Inc. reviewed the loss and loss adjustment expense work papers provided by the Company and noted that the Company's provision for all unpaid loss and loss expense obligations was understated by \$103,000. This amount was not material and an adjustment was not made to the Company's financial statements. **Subsequent Event:** The Company increased the reserves by \$103, 000 on June 30, 2012.

### Capital and Surplus

The amount of Capital and surplus per the examination of \$4,880,914, exceeded the minimum of \$4,000,000 required by Section 624.408, Florida Statutes. The examiners reclassified \$4,999,000 from Common Capital Stock to Gross Paid in and Contributed Surplus to properly reflect the Company's issuance of 1,000 shares of \$1.00 par value stock for \$5,000,000.

## **SUMMARY OF RECOMMENDATIONS**

### **Company Agreements**

We recommend that the Company properly identify IB Green as a controlling entity and that the Company require IB Green to place all premiums in a trust account or provide the Company with a letter of credit or financial guaranty bond so that the Company can include premiums, excluding commissions payable thereon, due from a controlling or controlled person as an asset as required by Section 625.012 (5)(a), Florida Statutes.

## CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **AGIC, Inc.** as of December 31, 2011, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's surplus as regards policyholders was \$4,880,914, which exceeded the minimum of \$4,000,000 required by Section 624.408, Florida Statutes.

In addition to the undersigned, Michael C. Brennan, CPA, Examiner-In-Charge and Jennifer Cox, Participating Examiner, of ParenteBeard LLC participated in the examination. In addition, Ronald T. Kuehn, FCAS, MAAA, CPCU, ARM, FCA consulting actuary of Huggins Actuarial Services, Andrew Wittig, CISA, IT Senior Manager of ParenteBeard LLC, Kethessa Carpenter, CPA and Syntia K. King, APIR, Financial Examiner/Analyst II of the Office also participated in the examination.

Respectfully submitted,

---

Mary M. James, CFE, CPM  
Chief Examiner  
Florida Office of Insurance Regulation