

**REPORT ON EXAMINATION**  
**OF**  
**ASCENDANT COMMERCIAL**  
**INSURANCE, INC.**  
**MIAMI, FLORIDA**

**AS OF**  
**DECEMBER 31, 2010**

**BY THE**  
**FLORIDA OFFICE OF INSURANCE REGULATION**

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April 2, 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 69O-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, 2010, of the financial condition and corporate affairs of:

**ASCENDANT COMMERCIAL INSURANCE, INC.  
5835 BLUE LAGOON DRIVE, SUITE 400  
MIAMI, FLORIDA 33126**

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

## **SCOPE OF EXAMINATION**

This examination covered the period of September 1, 2009, through December 31, 2010. This was a first year examination. This examination commenced with planning at the Office on January 3, 2012, to January 5, 2012. The fieldwork commenced on January 18, 2012, and concluded as of April 2, 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 findings noted during this examination period have been resolved by the Company subsequent to the examination date. However, the findings or exceptions are discussed in detail in the body of the examination report.

## **SUBSEQUENT EVENTS**

Effective September 12, 2011, Victoria M. Ortiz resigned from the Company's Board of Directors (Board). She was replaced by Hilary Candela on April 20, 2012.

## **HISTORY**

### **General**

The Company was incorporated in Florida on August 31, 2009, and commenced business on September 1, 2009, as Ascendant Commercial Insurance, Inc.

The Company was party to Consent Order 106078-09-CO filed August 31, 2009 regarding the application for the issuance of a Certificate of Authority. The Company failed to comply with the following provisions of this consent order:

- The Company did not monitor its RBC ratio with proactive capital contributions when necessary in accordance with paragraph 14, **Subsequent Event:** The parent, Ascendant

Holdings, LLC, made a capital contribution that increased the Company's RBC to over 300%.

- The Company did not file all affiliated and related party agreements with the Office for prior approval in accordance with paragraph 22, (c), (d) and (r). **Subsequent event:** The Office approved the agreement on June 19, 2012.
- The Company did not ensure inclusion of required content in affiliate agreements in accordance with paragraph 22, (e) **Subsequent event:** The Office approved the agreement on June 19, 2012.

The Company was authorized to transact the following insurance coverage in Florida on December 31, 2010:

Workers' compensation  
Other liability  
Commercial automobile liability  
Commercial 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, 2010, the Company's capitalization was as follows:

Number of authorized common capital shares	1,000
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, Ascendant Holdings, LLC, who owned 100% of the stock issued by the Company.

The parent contributed \$6,000,000 in cash to the company as of August, 31, 2009.

**Subsequent Event:** The parent made additional capital contributions of \$1,650,000, \$550,000, and \$615,000 in cash to the Company on December 30, 2010, May 16, 2011, and February 28, 2012, respectively.

### **Surplus Debentures**

The Company did not have any surplus debentures during the period of this examination.

### **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, 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, including the authorization of investments as required by Section 625.304, Florida Statutes.

## **Conflict of Interest**

The Company adopted a policy statement that require 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 Sections 607.1601 and 628.231, Florida Statutes. Directors serving as of December 31, 2010, were:

### **Directors**

<b>Name and Location</b>	<b>Principal Occupation</b>
Pablo L. Cejas Key Biscayne, Florida	CEO & Chairman, Ascendant Commercial Insurance, Inc.
Paul L. Cejas Miami Beach, Florida	CEO & Chairman, PLC Investments, Inc.
Helene C. Cejas Washington, D.C.	Attorney, Capital One Bank
Daniel Echevarria Coconut Grove, Florida	Principal, El Paso Advisors
Victoria Ortiz (a) Winter Park, Florida	Principal, MAR Insurance Group

(a) Resigned effective September 12, 2011.

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

### Senior Officers

Name	Title
Pablo L. Cejas	CEO
Helene C. Cejas	Secretary
Jose L. Rodriguez	President

The Company's Board appointed several internal committees in accordance with Section 607.0825, Florida Statutes. Following were the principal internal board committees and their members as of December 31, 2010:

#### Audit Committee

Pablo L. Cejas <sup>1</sup>  
Paul L. Cejas  
Helene C. Cejas  
Daniel Echavarria  
Victoria Ortiz

#### Investment Committee

Pablo L. Cejas <sup>1</sup>  
Paul L. Cejas  
Daniel Echavarria

<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 on April 28, 2011, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

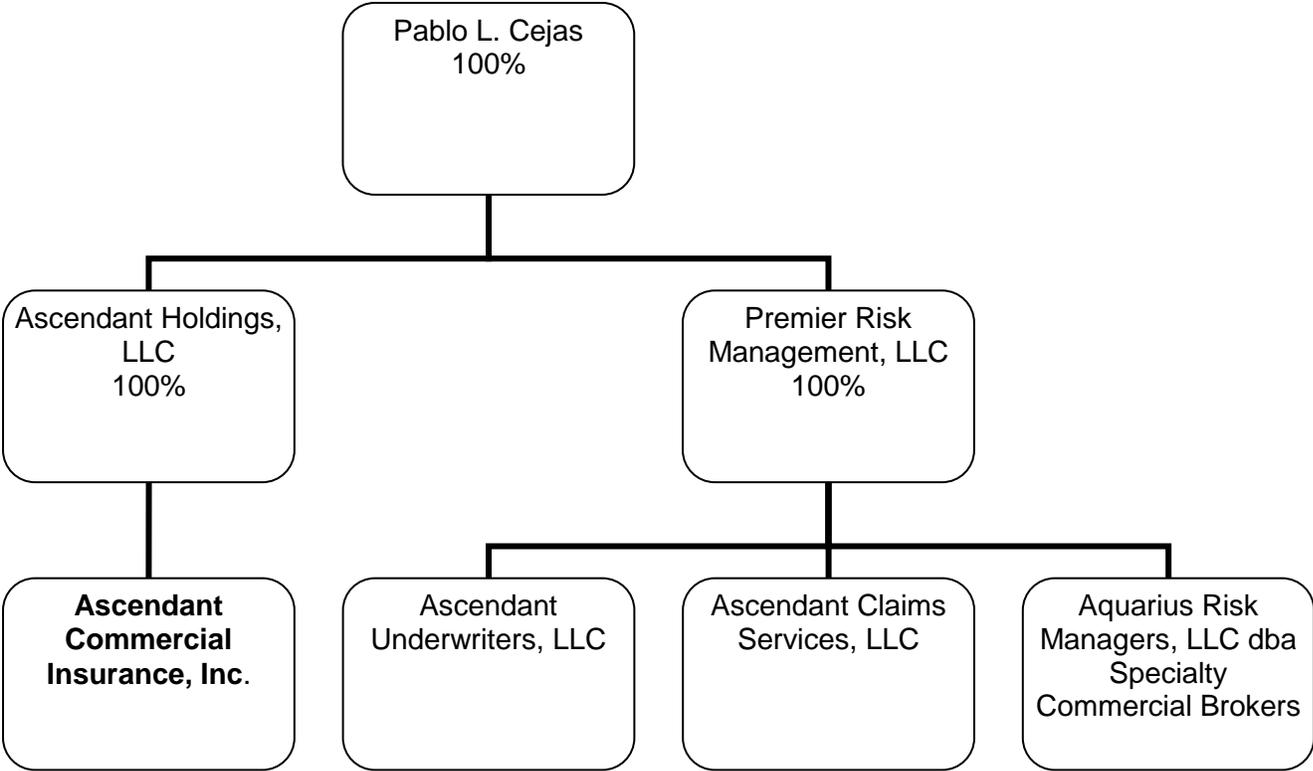
The Company's agreement with an affiliated broker, Aquarius Risk Managers, LLC d/b/a Specialty Commercial Brokers, was not reviewed and approved by the Office in advance and in violation of Section 628.255, Florida Statutes. **Subsequent event:** The Office approved the agreement on June 19, 2012.

The Company was not in compliance with the NAIC Annual Statement Instructions for Schedule Y, Part 2 and SSAP No. 25, Accounting for and Disclosures about Transactions with Affiliated and Other Related Parties. The schedule did not include all revenues and expenditures under management agreements and service contracts with related entities. The following related entities and corresponding revenues and expenditures were not included in Schedule Y, Part 2; Premier Risk Management, LLC, Optima Premium Finance, LLC and Aquarius Risk Managers, LLC (d/b/a Specialty Commercial Brokers). **Subsequent event:** The Company submitted the amended annual statement pages to the Office on May 11, 2012.

An organizational chart as of December 31, 2010, reflecting the holding company system, is shown on the following page. Schedule Y, Part 1 of the Company's 2010 Annual Statement provided a list of all related companies of the holding company group.

**ASCENDANT COMMERCIAL INSURANCE INC.  
ORGANIZATIONAL CHART**

**DECEMBER 31, 2010**



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

**Cost Allocation Agreement**

The Company entered into an agreement with its parent and affiliates which commenced on September 1, 2009. Shared expenses were allocated among the affiliates based on the value of services utilized by each party. Expenses allocated were settled on a monthly basis, due within 60 days of the end of the month in which the expenses were incurred.

## **Managing General Agent Agreement**

On September 1, 2009, the Company appointed its affiliate, Ascendant Underwriters, LLC (AU), as its managing general agent (MGA). AU was licensed on September 8, 2009. During 2010, all of the Company's business was written through the MGA. Pursuant to the terms of the agreement, AU was authorized to negotiate facultative reinsurance on behalf of the Company. MGA fees were based on 10% of total annual gross written premium plus acquisition expenses and a \$25 policy fee. In 2010, the Company made payments to AU totaling \$4,607,141, including \$2,182,073 for management fees, \$114,125 for policy fees, and \$2,310,943 for pass-through agent commissions.

The Company's MGA Agreement with affiliate AU was not in compliance with Section 626.7451 (5), Florida Statutes, as the agreement allows the MGA to assign the contract with the prior written consent of the Company. **Subsequent event:** The Office approval the amended agreement on June 19, 2012.

## **Claims Administration Services Agreement**

The Company entered into a claims administration services agreement with affiliate, Ascendant Claims Services, LLC, to adjust and settle claims for fees ranging from \$350-\$850 per claim, depending on the nature of the claim, plus 50% of subrogation proceeds and hourly rates for depute resolutions and investigations. Fees paid by the Company in 2010 for claims administration totaled \$1,678,050.

## **FIDELITY BOND AND OTHER INSURANCE**

The Company maintained fidelity bond coverage up to \$500,000 with a deductible of \$5,000, which reached the suggested minimum as recommended by the NAIC.

The Company also maintained Directors and Officers liability insurance and Errors and Omissions coverage with limits of \$2 million and \$1 million, respectively and deductibles of \$25,000 and \$150,000, respectively.

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

There were 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**

### **Profitability of Company**

The Company's initial growth resulted from the rewriting of the First Commercial Insurance and First Commercial Transportation and Property Insurance Company policies that were to be cancelled pursuant to order of the receivership court. The Company has continued to grow

through the affiliated MGA. During 2011, the Company entered into a 50% Quota Share Agreement with an unaffiliated reinsurer.

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>2010</b>	<b>2009</b>
Premiums Earned	20,791,361	4,715,675
Net Underwriting Gain/(Loss)	370,290	(1,966,801)
Net Income	(29,421)	(2,089,154)
Total Assets	31,360,480	21,741,912
Total Liabilities	24,794,833	16,508,213
Surplus As Regards Policyholders	6,565,647	5,233,699

### **LOSS EXPERIENCE**

The Company has not experienced significant changes to their loss development.

### **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 did not assume any reinsurance during the period of this examination.

**Ceded**

The Company ceded risk on an excess of loss basis as follows:

Effective September 1, 2010, the Company entered into various excess of loss reinsurance agreements that generally provide coverage of \$1.8 million excess of \$200,000 on policies classified by the Company as commercial auto liability, general liability, and garage-keepers liability. Should coverage under the corresponding layers be exhausted, the Company may incur additional premium to reinstate the exhausted layers.

Effective September 1, 2010, the Company entered into various excess of loss reinsurance agreements that generally provide coverage of \$9.5 million excess of \$500,000 on policies classified by the Company as workers' compensation and employers' liability. Should coverage under the corresponding layers be exhausted, the Company may incur additional premium to reinstate the exhausted layers.

Effective July 15, 2010, the Company entered into an excess of loss, facultative reinsurance agreement with RLI Insurance Company that generally provides coverage of \$6.75 million in excess of \$1 million on policies classified by the Company as commercial auto physical damage.

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 Miami, Florida.

An independent CPA audited the Company's statutory basis financial statements annually for the years 2010 and 2009, 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 Quick Books Enterprise. The Accounting System was fed indirectly by means of reports from auxiliary systems or import files generated by the Claims and Policy Management Systems

The Company and non-affiliates had the following agreements:

### **Custodial Agreement**

The Company maintained a custodial agreement with Merrill Lynch, Pierce, Fenner & Smith, Incorporated executed on October 29, 2009. The agreement was in compliance with Rule 69O-143.042, Florida Administrative Code.

### **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.

## Reinsurance Intermediary Agreement

The Company contracted with reinsurance intermediary, Guy Carpenter, to perform various reinsurance brokerage services for the workers compensation and excess of loss program, with commissions of 10% and 2.5% of gross ceded premiums for excess of loss and umbrella, respectively, and 50% of reinstated premiums.

## INFORMATION TECHNOLOGY REPORT

ParenteBeard, LLC 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	\$ 300,000	\$ 300,000
FL	Cash Interest	\$ 9,750	\$ 9,750
TOTAL FLORIDA DEPOSITS		<u>\$ 309,750</u>	<u>\$ 309,750</u>

## **FINANCIAL STATEMENTS PER EXAMINATION**

The following pages contain financial statements showing the Company's financial position as of December 31, 2010, 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."

**ASCENDANT COMMERCIAL INSURANCE, INC.**  
**Assets**

**DECEMBER 31, 2010**

	<b>Per Company</b>	<b>Examination Adjustments</b>	<b>Per Examination</b>
Cash and Short-Term Investments	\$23,002,977		\$23,002,977
Premiums and Considerations:			
Uncollected premiums and agents' balances in the course of collections	303,652		303,652
Deferred premiums, agents' balances and installments booked but deferred and not yet due	6,596,592		6,596,592
Current federal and foreign tax recoverable and interest thereon	38,930		38,930
Net deferred tax asset	555,811		555,811
Interest and dividend income due & accrued	1,858		1,858
Receivable from parents, subsidiaries and affiliates	849,159		849,159
Aggregate write-in for other than invested assets	11,501		11,501
Totals	\$31,360,480	\$0	\$31,360,480

**ASCENDANT COMMERCIAL INSURANCE, INC.**  
**Liabilities, Surplus and Other Funds**

**DECEMBER 31, 2010**

	<b>Per Company</b>	<b>Examination Adjustments</b>	<b>Per Examination</b>
Losses	\$8,479,328		\$8,479,328
Loss adjustment expenses	1,906,777		1,906,777
Other expenses	505,197		505,197
Taxes, licenses and fees	153,259		153,259
Unearned premium	10,956,737		10,956,737
Advance premium	303,625		303,625
Ceded reinsurance premiums payable	1,301,098		1,301,098
Payable to parent, subsidiaries and affiliates	919,000		919,000
Liability for amounts held under uninsured plans	269,812		269,812
<b>Total Liabilities</b>	<b>\$24,794,833</b>		<b>\$24,794,833</b>
Common capital stock	\$1,000		\$1,000
Gross paid in and contributed surplus	8,199,000		8,199,000
Unassigned funds (surplus)	(1,634,353)		(1,634,353)
Surplus as regards policyholders	\$6,565,647	\$0	\$6,565,647
<b>Total liabilities, surplus and other funds</b>	<b>\$31,360,480</b>	<b>\$0</b>	<b>\$31,360,480</b>

**ASCENDANT COMMERCIAL INSURANCE, INC.**  
**Statement of Income**

**DECEMBER 31, 2010**

**Underwriting Income**

Premiums earned		\$20,791,361
	<b>Deductions:</b>	
Losses incurred		\$10,263,611
Loss adjustment expenses incurred		3,218,354
Other underwriting expenses incurred		6,939,106
Total underwriting deductions		\$20,421,071
Net underwriting gain or (loss)		\$370,290

**Investment Income**

Net investment income earned		\$82,436
Net investment gain or (loss)		\$82,436

**Other Income**

Net gain or (loss) from agents' or premium balances charged off		(\$121,451)
Finance and service charges not included in premiums		69,360
Aggregate write-ins for miscellaneous income		203
Total other income		(\$51,888)
Net income before dividends to policyholders, after capital gains tax and before all federal & foreign income taxes		\$400,838
Net Income, after dividends to policyholders, after capital gains tax but before federal & foreign income taxes		\$400,838
Federal & foreign income taxes incurred		430,259
Net Income		(\$29,421)

**Capital and Surplus Account**

Surplus as regards policyholders, December 31 prior year		\$5,233,699
Net Income		(\$29,421)
Change in net deferred income tax		308,734
Change in non-admitted assets		(597,365)
Surplus adjustments: Paid in		1,650,000
Change in surplus as regards policyholders for the year		\$1,331,948
Surplus as regards policyholders, December 31 current year		\$6,565,647

A comparative analysis of changes in surplus is shown below.

**ASCENDANT COMMERCIAL INSURANCE, INC.  
Comparative Analysis of Changes in Surplus**

**DECEMBER 31, 2010**

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, 2010, per Annual Statement \$6,565,647

	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS:			
No Adjustment			
LIABILITIES:			
No Adjustment			
Net Change in Surplus:			<u>0</u>
Surplus as Regards Policyholders December 31, 2010, Per Examination			<u><u>\$6,565,647</u></u>

## COMMENTS ON FINANCIAL STATEMENTS

### Liabilities

#### Losses and Loss Adjustment Expenses \$10,386,105

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, 2010, 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, CPCU, ARM, FCA of Huggins Actuarial Services, Inc., reviewed the loss and loss adjustment expense work papers provided by the Company and he was in concurrence with this opinion.

### Capital and Surplus

The amount reported by the Company of \$6,565,647, exceeded the minimum of \$5,000,000 required by Section 624.408, Florida Statutes and Consent Order 106078-09-CO, Paragraph 14.

## CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Ascendant Commercial Insurance, Inc.** as of December 31, 2010, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as regards policyholders was \$6,565,647, which exceeded the minimum of \$5,000,000 required by Section 624.408, Florida Statutes and Consent Order 106078-09-CO, paragraph 14.

In addition to the undersigned, Michael C. Brennan, CPA, Examiner-In-Charge, and Phil Schmoyer, 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, Inc; Andrew B. Wittig, CISA, CIA, IT Senior Manager of ParenteBeard LLC; and Jonathan Frisard, Financial Examiner/Analyst Supervisor, and Samita Lamsal, Financial Examiner/Analyst II, of the Office also participated in the examination.

Respectfully submitted,

---

Kethessa Carpenter, CPA  
Exam Manager  
Florida Office of Insurance Regulation