

**REPORT ON EXAMINATION**  
**OF**  
**BANKERS INSURANCE COMPANY**  
**ST. PETERSBURG, FLORIDA**  
**AS OF**  
**DECEMBER 31, 2012**

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

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January 24, 2014

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, 2012, of the financial condition and corporate affairs of:

**BANKERS INSURANCE COMPANY  
11101 ROOSEVELT BOULEVARD N.  
ST. PETERSBURG, FLORIDA 33716**

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, 2009, through December 31, 2012. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2008. This examination commenced with planning at the Office on August 12, 2013, to August 16, 2013. The fieldwork commenced on August 19, 2013, and concluded as of January 24, 2014.

This financial examination was a multi-state 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**

There were no material findings or exceptions noted during the examination as of December 31, 2012.

### **Prior Exam Findings**

Following is the one significant adverse finding contained in the Office's prior examination report as of December 31, 2008, along with resulting action taken by the Company in connection therewith.

The Company had not written insurance coverage in the following lines of business: Ocean Marine, Accident and Health, Private Passenger Automobile Liability, Commercial Automobile Liability, Burglary and Theft, Warranty, and Glass for a twelve month period.

Resolution: Although the Company had not written those lines of business in Florida, the Company did write those lines of business in other states. The other states require that the certificate of authority from the domiciliary state include those lines of business. Therefore, the Company received permission from the Office to maintain those lines of business on the certificate of authority. The Ocean Marine, Private Passenger Automobile Liability, and Warranty lines of business in Florida were withdrawn on June 25, 2010.

## **SUBSEQUENT EVENTS**

Navdeep Kumar Arora resigned as Chief Operating Officer in August, 2013. Per the Company, his position will not be filled at this time. His responsibilities were assumed by Wilbur Lincoln Martin IV, President.

In connection with the restructuring of the organization which is discussed later in this report, the Company consolidated and reduced the number of Board committees as of January 1, 2013.

## **HISTORY**

### **General**

The Company was incorporated on May 11, 1976, as a stock property and casualty insurance company under the applicable provisions of the Florida Statutes. The Company commenced writing business on June 11, 1976 as Bankers Insurance Company.

The Company was authorized to transact the following insurance coverage in Florida on June 6, 1976, and continued to be authorized as of December 31, 2012:

Homeowner's Multi-Peril	Glass
Commercial Multi-Peril	Burglary and Theft
Private Passenger Auto Physical Damage	Accident and Health
Commercial Auto Physical Damage	Bail Bonds
Other Liability	Surety
Allied Lines	Fidelity
Inland Marine	Fire
Credit	Workers' Compensation

The Company was also licensed to underwrite similar insurance coverages in all states except Rhode Island.

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

### **Dividends to Stockholders**

In accordance with Section 628.371, Florida Statutes, the Company declared and paid dividends to its stockholder in 2011, 2010, and 2009 in the amounts of \$3,000,000, \$2,500,000, and \$4,000,000, respectively.

## Capital Stock and Capital Contributions

As of December 31, 2012, the Company's capitalization was as follows:

Number of authorized common capital shares	1,500,000
Number of shares issued and outstanding	1,500,000
Total common capital stock	\$4,500,000
Par value per share	\$3.00

The Company was wholly owned by its parent, Bankers Insurance Group, Inc. (Bankers Group), a Florida corporation. The ultimate parent was Bankers International Financial Corporation (Bankers International), which in turn owned 100% of Bankers Financial Corporation (Bankers Financial), which owned 100% of Bankers Group and ultimately controlled the Company. Bankers International executed a disclaimer of control by which the officers and directors of Bankers International agree that they will not exercise control over the activities of Bankers Financial or its subsidiaries.

Paid-in surplus increased by \$7,825,082 since the last examination due to a non-cash contribution resulting from a series of transactions associated with the restructuring of the organization.

## Surplus Notes

A surplus note in the amount of \$5,000,000 was issued to G.D. van Wagenen Financial Services, Inc., an affiliate, on May 4, 2010, in exchange for cash. The surplus note was issued in compliance with Section 628.401, Florida Statutes, and was approved by the Office and the Board of Directors of the Company.

The surplus note accrued interest at 6% per year on the unpaid principal balance and was payable annually beginning December 31, 2010. Interest and principal payments may only be

made with the prior approval of the Office. The Company received approval on August 30, 2012, and June 30, 2011, for the payment of accrued interest due from the inception of the surplus note through April 30, 2012.

At December 31, 2012, the carrying value of the surplus note was \$5,000,000. Interest paid during 2012 was \$300,821.

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

On April 30, 2012, the Florida Office of Insurance Regulation and the State of Louisiana Department of Insurance approved the following series of transactions that occurred culminating in the Company owning 100% of the common stock of Bankers Specialty Insurance Company (Bankers Specialty) and Bankers Specialty owning 100% of the common stock of First Community Insurance Company (First Community).

The Company purchased 20% of Bankers Specialty common stock previously held by First Community, giving the Company 100% ownership of Bankers Specialty common voting stock. Bankers Group contributed its 50% ownership of the Company's common stock to the Company. Further, the Company contributed its 100% ownership of First Community to Bankers Specialty. As a result of the Company's 100% ownership of Bankers Specialty common stock, the Company which previously directly owned 50% of the First Community's common stock now indirectly owns 100%.

As of December 31, 2012, the Company owned 100% of Bankers Life Insurance Company domiciled in Florida, 100% of Bankers Specialty domiciled in Louisiana, Bankers Underwriters of Texas, Inc. and River Road Real Property Holdings, Inc.

## **CORPORATE RECORDS**

The recorded minutes of the Shareholder, 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 including the authorization of investments as required by Section 625.304, Florida Statutes.

### **Conflict of Interest**

The Company adopted a policy statement requiring periodic 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 not held in accordance with Section 628.231, Florida Statutes. A review of the corporate minutes found that the election of the board of directors had been occurring at the annual board of directors meeting rather than at the annual meeting of stockholders as required by Section 628.231, Florida Statutes.

Furthermore, there was no evidence that an annual stockholders meeting occurred during the period under examination.

Directors serving as of December 31, 2012, were:

### **Directors**

<b>Name and Location</b>	<b>Principal Occupation</b>
John Arthur Strong Greensboro, North Carolina	Chairman Bankers Financial Corporation
Ted Taylor Devine Glencoe, Illinois	President, Business Insurance Network/TechInsurance
William Dawson Gunter Jr. Tallahassee, Florida	Chairman of the Board Rogers, Gunter, Vaughn Insurance, Inc.
Brian Jay Kesneck St. Petersburg, Florida	President Bankers Surety Group
Wilbur Lincoln Martin IV La Canada, California	President Bankers Insurance Company
Brett Miller Menke Dunedin, Florida	Vice President Bankers Warranty Group
William Virden Nutt Jr. Greensboro, North Carolina	President Bankers Business Group
Connie Simmons Parker Annapolis, Maryland	President The CS Parker Group, LLC
David Hamilton Reed Tampa, Florida	Principal Shepard Capital Partners
Donald Barnett Roberts Bradenton, Florida	Vice President Bankers Life Insurance Company

In accordance with the Company's bylaws, the Board appointed the following senior officers:

## Senior Officers

Name	Title
Wilber Lincoln Martin IV	President
John Stuart Platter (a)	Senior Vice President
Brian Jay Kesneck	Senior Vice President
Preston Breckenridge Kavanaugh III (a)	Treasurer
Richard Gerard Torra	Secretary
James Dennis Albert	Chief Information Officer
Navdeep Kumar Arora (a)	Chief Operating Officer
William Alfred Lafontaine	Chief Marketing Officer
Svetlana Vyacheslavovna Townsend	Chief Financial Officer
Lisa Ann Basta	Vice President
Ian Brazie Barber	Vice President
Judy Marie Copechal	Vice President
Donald Barnett Roberts	Vice President
Robert Grant Southey Jr.	Vice President
Timothy Scott Stroble	Vice President
Matthew Walter Klimczak	Vice President

(a) Navdeep Kumar Arora resigned as Chief Operating Officer in August, 2013. Per the Company, his position will not be filled at this time. Preston Breckenridge Kavanaugh III and John Stuart Platter resigned as officers of the Company in May, 2013 and February 19, 2013, respectively. Their positions were not replaced.

The Company's Board appointed several internal committees. Following were the principal internal board committees and their members as of December 31, 2012:

### Executive Committee

Brian Jay Kesneck  
 Wilbur Lincoln Martin, IV  
 William Virden Nutt, Jr.  
 John Arthur Strong<sup>1</sup>

### Audit Committee

Ted Taylor Devine  
 William Dawson Gunter Jr.  
 Connie Simmons Parker<sup>1</sup>  
 David Robert Punzak  
 David Hamilton Reed  
 John Arthur Strong

### Compliance Committee

William Dawson Gunter Jr.<sup>1</sup>  
 Wilbur Lincoln Martin, IV  
 Robert M. Menke  
 Connie Simmons Parker  
 David Robert Punzak  
 Donald Barnett Roberts  
 John Arthur Strong

### Claims Committee

William Dawson Gunter Jr.  
 Wilbur Lincoln Martin, IV

### ERM Committee<sup>2</sup>

Wilbur Lincoln Martin, IV  
 Brett Miller Menke

### Finance Committee

Ted Taylor Devine  
 William Dawson Gunter Jr.

Brett Miller Menke  
William Virden Nutt, Jr.  
David Robert Punzak<sup>1</sup>  
Donald Barnett Roberts  
John Arthur Strong

Robert M. Menke  
William Virden Nutt, Jr.  
Connie Simmons Parker  
John Stuart Platter  
David Robert Punzak  
David Hamilton Reed  
Donald Barnett Roberts  
John Arthur Strong

Wilbur Lincoln Martin, IV  
David Kevin Meehan  
Brett Miller Menke  
Robert M. Menke  
William Virden Nutt, Jr.  
Connie Simmons Parker  
John Stuart Platter  
David Robert Punzak  
David Hamilton Reed<sup>1</sup>  
Donald Barnett Roberts  
John Arthur Strong

### **Investment Committee<sup>2</sup>**

Wilbur Lincoln Martin, IV  
Robert M. Menke  
John Stuart Platter  
David Hamilton Reed  
Donald Barnett Roberts  
John Arthur Strong

<sup>1</sup>Chairman

<sup>2</sup>No Chairman Designated

Subsequently and in connection with the restructuring of the organization, the Company consolidated and reduced the number of Board committees. As of January 1, 2013, the principal internal board committees and their members were as follows:

#### **Executive Committee**

Brian Jay Kesneck  
Wilbur Lincoln Martin, IV  
William Virden Nutt, Jr.  
John Arthur Strong<sup>1</sup>

#### **Audit, Compliance & ERM (ACE) Committee**

Ted Taylor Devine  
William Dawson Gunter Jr.  
Connie Simmons Parker<sup>1</sup>  
David Robert Punzak  
David Hamilton Reed  
John Arthur Strong

#### **Finance Committee**

Ted Taylor Devine  
William Dawson Gunter Jr.  
Wilbur Lincoln Martin, IV  
David Kevin Meehan  
Brett Miller Menke  
Robert M. Menke  
William Virden Nutt, Jr.  
Connie Simmons Parker  
John Stuart Platter  
David Robert Punzak  
David Hamilton Reed<sup>1</sup>  
Donald Barnett Roberts  
John Arthur Strong

<sup>1</sup>Chairman

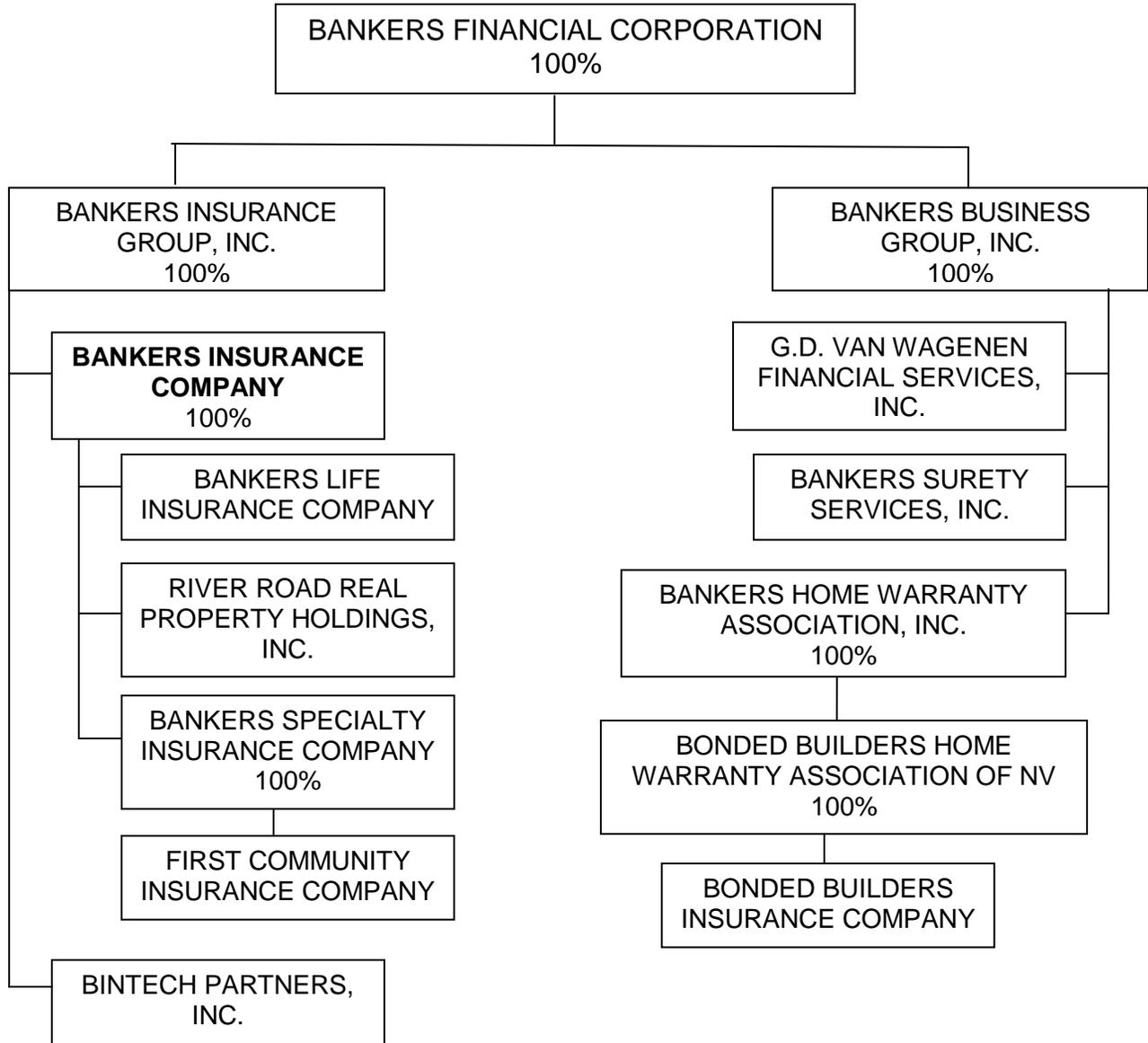
## **Affiliated Companies**

The most recent holding company registration statement was filed with the State of Florida on March 20, 2013, as required by Section 628.801, Florida Statutes.

A simplified organizational chart as of December 31, 2012, reflecting the holding company system, is shown on the following page. Schedule Y of the Company's 2012 annual statement provided a list of all related companies of the holding company group.

**BANKERS INSURANCE COMPANY  
ORGANIZATIONAL CHART**

**DECEMBER 31, 2012**



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

### **Tax Allocation Agreement**

Under an amended and restated agreement effective January 1, 2007, the Company, along with Bankers International, filed a consolidated federal income tax return. The original tax allocation agreement was effective December 3, 1982. The allocation between the various companies was determined as if each participant filed its tax return separately.

### **Intercompany Affiliated Service Provider and Cost Allocation Agreement**

Under an amended and restated cost sharing agreement effective April 1, 2011, the Company participated in a cost allocation agreement with Bankers Group, Bankers Underwriters, Inc., Bankers Financial, Bintech Partners Inc., Bankers Life Insurance Company, Bankers Specialty, and “any other affiliated commonly owned company which has executed a subscription addendum.” The original contract became effective in 2004 with the exception of the Bintech Partners Inc. arrangement which became effective in 2008. The contract provided that:

- Each member agreed to the extent requested by another member to perform such services requested by the requesting member as the recipient member may determine to be reasonably necessary in the conduct of its operations.
- Each member agreed to the extent requested by another member to make available its facilities to the recipient member as the recipient member may determine to be reasonably necessary in the conduct of its operations.
- Charges for services and facilities include all direct and directly allocable expenses determined to be attributable to the recipient member by the performing member.

- The members agreed that the compensation for providing the services shall be based on actual cost without a profit factor being built into that cost. The indirect and shared expenses shall be allocated in accordance with a method of cost allocation in conformity with SSAP No. 70.

Amounts due under this agreement were to be billed each quarter within 30 days after quarter end. Balances payable were to be paid within 30 days after receipt of such billing. Fees incurred under this agreement during 2012 amounted to \$406,586.

### **Managing General Agent Agreement**

Under an amended and restated agreement effective August 27, 2010, the Company used Bankers Underwriters Inc. (Bankers Underwriters) as a managing general agent to produce and administer its casualty and liability business lines to independent agents. The original agreement was effective in 2005.

The written agreement between the two affiliates specified the lines of business to be marketed and administered, maximum coverage limits, and the states Bankers Underwriters was allowed to operate on the Company's behalf. Compensation to Bankers Underwriters by the Company was specified in the contract. The agreement also allowed Bankers Underwriters to appoint agents, provide policy and claims administration services, and negotiate facultative reinsurance. The agreement could be terminated by either party upon 90 days written notice. Fees incurred under this agreement during 2012 amounted to \$59,450.

## **General Agency Agreements**

Under an agreement effective July 31, 2000, the Company used Bankers Insurance Services Inc. (Bankers Services) as a general agent to produce and administer its casualty and liability business lines to retail and financial institutions. The written agreement between the two affiliates specified the lines of business to be marketed and administered, maximum coverage limits, and the states Bankers Services was allowed to operate on the Company's behalf. Compensation to Bankers Services by the Company is also specified in the contract. The agreement could be terminated by either party upon 60 days written notice. Fees incurred under this agreement during 2012 amounted to \$1,066,727.

Under an amended and restated agreement dated January 1, 2009, the Company used Bankers Surety Services Inc. (Bankers Surety) as a general agent to produce and administer its bail bonds and immigration bonds. The original agreement was effective in 2001. The written agreement between the two affiliates specified that the Company is the final authority on all matters pertaining to these policies. Bankers Surety may not allow its agents to issue policies without the Company's prior consent. The contract also requires Bankers Surety to adhere to specific policy underwriting and issuing standards and guidelines. The agreement could be terminated by either party upon 90 days written notice. Fees incurred under this agreement during 2012 amounted to \$5,231,253.

## **Marketing Agreement**

Under an agreement effective January 1, 2010, the Company named Bankers Surety as a marketing agent to promote the Company, assist the Company in enlisting independent insurance agents, and also may engage in direct marketing. This agreement was initially

effective for one year with automatic one year renewals thereafter. The agreement could be terminated by either party upon 30 days written notice prior to the expiration of any one year term. Fees incurred under this agreement during 2012 amounted to \$480,000.

### **Administrative Services Agreements**

Under an agreement effective September 1, 2009, the Company named Decision Administrative Services, Inc. (formerly Bankers Employer Administrative Services, Inc.) as administrator of the following types of insurance policies: major medical, limited benefit medical plan, short term medical, excess of loss insurance, group term life insurance, and any other products mutually agreed upon. There were no fees incurred under this agreement during 2012.

Under an agreement effective April 2, 2012, the Company named BinTech Partners, Inc. as administrator for the following types of insurance policies: homeowners/DFI, excess flood, flood, business owners' policies, vector, and builder/building contractor general liability in all states in which the Company writes. Fees incurred under this agreement during 2012 amounted to \$139,471.

### **FIDELITY BOND AND OTHER INSURANCE**

The Company did not maintain fidelity bond coverage as recommended by the NAIC.

**Subsequent Event:** On November 19, 2013, the Company provided evidence of a rider to the fidelity bond policy of the parent, Bankers International, which specifically identified the Company as a covered entity, providing coverage up to \$5,000,000 with a deductible of \$100,000 which reached the suggested minimum of \$1,250,000.

The Company also maintained professional liability coverages, which included directors and officers (D&O), with an aggregate limit of \$10,000,000 as well as workers' compensation, general liability and umbrella coverage.

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

Company employees participated in a defined contribution savings plan sponsored by Bankers Financial. This plan covered substantially all employees of the Company. The plan provided that the Company may, but is not required to, make a contribution each year. Employees were permitted to contribute up to the government maximum allowed for a given year to the plan which is subject to a discretionary match from Bankers Financial. The Company had no legal obligations under this plan.

## **TERRITORY AND PLAN OF OPERATIONS**

The Company was authorized to transact insurance in all states except Rhode Island.

The Company is a multi-line carrier, underwriting commercial and personal lines property and casualty insurance through independent agents, general agents and managing general agents in all of the 49 states in which the Company is licensed to write. As of year-end 2012 the Company's major product lines covered the following areas of exposure:

- Surety coverage for bail bondsman

- General liability coverage for artisans and general contractors (Vector Program)

- General liability coverage for small business owners (Business Owners Protection)

- Homeowner's insurance

The following table reflects the concentration of the Company's exposure as of December 31, 2012:

Line of Business	Net Premium Percent	Premiums Earned
Other Liability	18%	\$ 7,146,632
Homeowners, Fire & Allied Lines	19%	7,513,151
Surety*	38%	15,075,764
Commercial Multiple Peril	16%	6,484,093
Other Lines	9%	3,421,417
Total	100%	\$ 39,641,058

\*Pursuant to state of Florida requirements, gross bail bond premiums of \$146,054,523 are reported net of agent commission expense of \$136,535,004.

### **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**

From December 31, 2011 to December 31, 2012, total assets increased \$12.5 million (10.7%) primarily due to increases in cash and short term investments of \$3.5 million and common stocks which increased by \$20 million. The increase in common stock is primarily the result of an increase in value in the common stock of 100% owned Bankers Life Insurance Company, and the net effect of the restructuring of the organization in 2012.

The Company experienced a slight decline in unpaid losses and loss adjustment expenses of \$67,000 (0.2%). While the total net change is small, there were some changes in unpaid loss balances of note including declines in homeowner's multiple peril of \$1 million (62%), commercial multiple peril of \$396,000 (26.3%), and workers compensation of \$1.3 million (25.3%). These were offset primarily by increases in other liability occurrence of \$1.2 million (6.1%) and surety of \$991,000.

Gross written premiums decreased \$18.8 million (26.4%) from \$71.3 million in 2011 to \$52.5 million in 2012. This was largely driven by decreases in surety of \$12.9 million (37.3%) and other liability of \$7.1 million (67.3%). The decrease in surety premium was primarily the result of a significant reduction in sales of the tenant bond product. The reduction in other liability was primarily the result of the discontinuance of the artisan contractor's product.

As of December 31, 2012, the Company reported a policyholders' surplus of \$56,176,119, which was an increase of \$18,620,666 from prior year end. Net income for the period was reported at \$1.9 million, which was an increase from a net loss of (\$1,355,178) for the prior year.

## Profitability of Company

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

	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>
Premiums Earned	39,641,058	49,574,811	53,190,494	48,428,733
Net Underwriting Gain/(Loss)	(4,853,635)	(4,378,692)	2,804,405	(5,011,545)
Net Income	1,991,530	(1,355,178)	32,885	(1,536,815)
Total Assets	129,729,210	116,240,232	119,974,759	110,449,776
Total Liabilities	73,553,091	78,684,779	74,840,525	73,154,525
Surplus As Regards Policyholders	56,176,119	37,555,453	45,134,234	37,295,254

## LOSS EXPERIENCE

During the current examination period, the Company showed unfavorable development overall. This was a result of more claims being reported for prior accident years than management had anticipated. The one and two-year net loss developments at the end of the current examination period were both unfavorable at \$1.67 million and \$3.47 million, respectively.

## 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 risk from three affiliates, one non-affiliate, and small amounts from mandatory pools.

Reinsurance was assumed from affiliates First Community Insurance Company and Bankers Specialty under a property catastrophe excess of loss agreement with a per loss occurrence limit of \$3,000,000 and an aggregate limit of \$6,000,000.

Reinsurance was assumed from affiliate First Community Insurance Company under a multi-line quota share agreement covering excess wind only on fire, allied lines, and homeowners. The Company assumed 50 % of the net liability up to \$250,000 per occurrence.

Reinsurance was assumed from affiliate Bonded Builders Insurance Company, a risk retention group, under an excess of loss agreement covering contractual liability business. The Company assumed 100% of the excess of loss above \$20,000 per policy.

Reinsurance was assumed from State National Insurance Company under a quota share agreement whereby the Company assumed 100% of the gross liability under contractors' general liability and miscellaneous coverages produced by Bonded Builders Insurance Services, Inc., an affiliate.

## **Ceded**

The Company ceded business under a property catastrophe excess of loss agreement. The Company retained the first \$3,000,000 and ceded to a maximum of \$2,000,000 per occurrence and \$2,000,000 for all occurrences. The lines of business covered are property perils only for

fire, allied lines, homeowner's multi-peril, private passenger and commercial auto physical damage, commercial multi-peril, and business owner's policies.

The Company ceded business under a property catastrophe excess of loss agreement. The Company retained the first \$5,000,000 and ceded under four layers to a maximum of \$90,000,000 per occurrence and \$180,000,000 for all occurrences. This coverage has one reinstatement. The lines of business covered are fire, allied lines, homeowner's multi-peril, private passenger, and commercial auto physical damage, commercial multi-peril, and business owner's policies. The Company also maintained property catastrophe excess of loss reinstatement premium protection under four layers to cover reinstatement of the above coverage.

The Company ceded business under excess of loss per risk coverage. The Company retained the first \$500,000 per risk and ceded under three layers to a maximum of \$3,000,000 per risk. The lines of business covered are fire, allied lines, inland marine, homeowner's multi-peril, commercial multi-peril, and general liability.

The Company ceded business under property catastrophe excess of loss. The Company retained the first \$1,500,000 per occurrence and ceded to a maximum of \$6,500,000 and \$13,000,000 for all occurrences. This covered allied lines for excess flood only.

The Company ceded business under property excess of loss per risk coverage. The Company retained the first \$500,000 per risk and ceded to a maximum of \$600,000 each risk, each loss and \$1,200,000 for each occurrence. This covered allied lines for excess flood only.

The Company ceded business under three separate 50% quota share agreements. Each agreement covered surety business produced by one specified agent.

The Company ceded business under a surety quota share agreement. The Company retained 50% of the bond limit and ceded the remaining 50% of the bond limit up to limit of \$1,500,000.

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 St. Petersburg, Florida.

An independent CPA audited the Company's statutory basis financial statements annually for the years under examination 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 and non-affiliates had the following agreements:

**Custodial Agreement**

The Company maintained a custodial agreement with The Northern Trust Company dated June 5, 2007. 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.

**INFORMATION TECHNOLOGY REPORT**

Paul L. Berkebile, CISA, of INS Services, Inc. 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 and with various state officials as required or permitted by law:

STATE	Description	Par Value	Market Value
FL	Wasxahachie Isd., 4.25%, 08/15/2013	\$ 540,000	\$ 609,660
FL	US Treasury Note, 2.00%, 10/31/2015	1,670,000	1,712,752
FL	US Treasury Note, 2.00%, 10/31/2015	1,575,000	1,615,320
FL	Weber Sd. Ut. Sch. Bond - B, 4.5%, 06/15/2023	400,000	455,840
FL	Bethlehem - Txb. - B, 5.25%, 11/01/2017	277,000	297,470
TOTAL FLORIDA DEPOSITS		<u>\$ 4,462,000</u>	<u>\$ 4,691,042</u>
GA	Wells Fargo Adv TR PL MM INS, 0%	\$ 100,000	\$ 100,043
IN	Cash	87,706	88,613
MA	US Treasury Note, 2.5%, 03/31/2013	500,000	502,930
NH	FNAM DTD 4.00%, 03/27/2013	500,000	504,580
NM	US Treasury Note, .25%, 07/15/2015	350,000	349,426
NC	US Treasury Note, .25%, 07/15/2015	1,500,000	1,497,539
OK	FNMA 08-13, 4.00%, 03/27/2013	500,000	504,578
OR	Montgomery Cty. MD Txb., 5.4%, 02/15/2017	260,000	266,791
PA	Certificates of Deposit, 1.92%	335,000	335,000
SC	Dell Corp Bond, 2.10%, 04/01/2014	200,000	203,660
TN	Certificate of Deposit, 4.04%	75,180	75,180
TX	28 Certificates of Deposit with branches of 12 different banks, varying rates	8,147,441	8,147,441
VA	GE Capital Corp., 6.75% due 3/15/2032	600,000	779,238
OT	Aggregate Alien & Others	2,102,282	2,102,282
TOTAL OTHER DEPOSITS		\$ 15,257,609	\$ 15,457,301
TOTAL SPECIAL DEPOSITS		<u>\$ 19,719,609</u>	<u>\$ 20,148,343</u>

## **FINANCIAL STATEMENTS PER EXAMINATION**

The following pages contain financial statements showing the Company's financial position as of December 31, 2012, 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."

**BANKERS INSURANCE COMPANY**  
**Assets**  
**DECEMBER 31, 2012**

	Per Company	Examination Adjustments	Per Examination
Bonds	\$28,572,034	\$0	\$28,572,034
Stocks:			
Preferred	504,869		504,869
Common	51,845,187		51,845,187
Real Estate:			
Properties held for the production of income	883,940		883,940
Cash and Short-Term Investments	25,412,671		25,412,671
Other invested assets	4,049,204		4,049,204
Investment income due and accrued	244,860		244,860
Premiums:			
Uncollected premium	2,958,108		2,958,108
Deferred premiums, agents' balances	2,291,095		2,291,095
Amounts recoverable from reinsurers	517,757		517,757
Funds held by or deposited with reinsured companies	5,025,648		5,025,648
Current federal income tax recoverable	3,537,483		3,537,483
Net deferred tax asset	2,909,041		2,909,041
EDP equipment and software	477,477		477,477
Receivable from parents, subsidiaries and affiliates	169,876		169,876
Aggregate write-in for other than invested assets	329,961		329,961
	<hr/>		
Totals	\$129,729,211	\$0	\$129,729,211
	<hr/>		

**BANKERS INSURANCE COMPANY**  
**Liabilities, Surplus and Other Funds**  
**DECEMBER 31, 2012**

	Per Company	Examination Adjustments	Per Examination
Losses	\$30,075,409		\$30,075,409
Reinsurance payable on paid losses	54,088		54,088
Loss adjustment expenses	12,944,364		12,944,364
Commissions payable	1,250,950		1,250,950
Other expenses	2,136,339		2,136,339
Taxes, licenses and fees	549,904		549,904
Unearned premium	24,161,479		24,161,479
Advance premium	438,162		438,162
Ceded reinsurance premiums payable	439,557		439,557
Funds held by Company	169,437		169,437
Amounts withheld	272,933		272,933
Remittances and items not allocated	517,909		517,909
Payable to parent, subsidiaries and affiliates	540,623		540,623
Aggregate write-ins for liabilities	1,936		1,936
<b>Total Liabilities</b>	<b>\$73,553,090</b>	<b>\$0</b>	<b>\$73,553,090</b>
Common capital stock	4,500,000		4,500,000
Surplus notes	5,000,000		5,000,000
Gross paid in and contributed surplus	40,205,898		40,205,898
Unassigned funds (surplus)	6,470,221		6,470,221
<b>Surplus as regards policyholders</b>	<b>\$56,176,119</b>	<b>\$0</b>	<b>\$56,176,119</b>
<b>Total liabilities, surplus and other funds</b>	<b>\$129,729,209</b>	<b>\$0</b>	<b>\$129,729,209</b>

**BANKERS INSURANCE COMPANY**  
**Income Statement**  
**DECEMBER 31, 2012**

**Underwriting Income**

Premiums earned		\$39,641,058
	<b>Deductions:</b>	
Losses incurred		\$11,417,263
Loss expenses incurred		5,997,442
Other underwriting expenses incurred		27,079,988
Aggregate write-ins for underwriting deductions		0
Total underwriting deductions		\$44,494,693
Net underwriting gain or (loss)		(\$4,853,635)

**Investment Income**

Net investment income earned		\$1,593,949
Net realized capital gains or (losses)		2,738,878
Net investment gain or (loss)		\$4,332,827

**Other Income**

Net gain or (loss) from agents' or premium balances charged off		(\$4,328)
Finance and service charges not included in premiums		98,718
Aggregate write-ins for miscellaneous income		796,327
Total other income		\$890,717
Net income before dividends to policyholders and before federal & foreign income taxes		\$369,909
Dividends to policyholders		0
Net Income, after dividends to policyholders, but before federal & foreign income taxes		\$369,909
Federal & foreign income taxes		(1,621,621)
Net Income		\$1,991,530

**Capital and Surplus Account**

Surplus as regards policyholders, December 31 prior year		\$37,555,453
Net Income		\$1,991,530
Net unrealized capital gains or losses		10,683,590
Change in net deferred income tax		(1,646,435)
Change in non-admitted assets		(233,101)
Surplus adjustments: Paid in		7,825,082
Change in surplus as regards policyholders for the year		\$18,620,666
Surplus as regards policyholders, December 31 current year		\$56,176,119

A comparative analysis of changes in surplus is shown below.

**BANKERS INSURANCE COMPANY**  
**Comparative Analysis of Changes in Surplus**

**DECEMBER 31, 2012**

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, 2012, per Annual Statement	\$56,176,119
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	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS:			
No Adjustment			
LIABILITIES:			
No Adjustment			
Net Change in Surplus:			0
Surplus as Regards Policyholders December 31, 2012, Per Examination			\$56,176,119

## COMMENTS ON FINANCIAL STATEMENTS

### Liabilities

**Losses and Loss Adjustment Expenses** \$ 43,019,773

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, 2012, 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, Jacqueline M. Lewis, FCAS, MAAA of INS Consultants, Inc., reviewed the loss and loss adjustment expense work papers provided by the Company and she was in concurrence with this opinion.

### Capital and Surplus

The amount of capital and surplus reported by the Company of \$56,176,119, exceeded the minimum of \$6,828,443 required by Section 624.408, Florida Statutes.

## CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Bankers Insurance Company** as of December 31, 2012, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's surplus as regards policyholders was \$56,176,119, which exceeded the minimum of \$6,828,443 required by Section 624.408, Florida Statutes.

In addition to the undersigned, John V. Normile, CFE, Examiner-In-Charge, and Patricia Casey Davis, CFE, CPA, Participating Examiner, of INS Regulatory Insurance Services, Inc. participated in the examination. Additionally, Jacqueline M. Lewis, FCAS MAAA, and David Macesic, ACAS, MAAA, consulting actuaries of INS Consultants, Inc. and Paul L. Berkebile, CISA, of INS Services, Inc. and Connie Hare, Financial Examiner/Analyst Supervisor, Kyra Brown, Financial Specialist, and Jonathan Frisard, Financial Examiner/Analyst Supervisor, of the Office participated in the examination.

Respectfully submitted,

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Robin Brown, CFE  
Chief Examiner  
Florida Office of Insurance Regulation