

EXAMINATION REPORT

OF

BUSINESSFIRST INSURANCE COMPANY

LAKELAND, FLORIDA

AS OF

DECEMBER 31, 2014

BY THE

FLORIDA OFFICE OF INSURANCE REGULATION

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April 15, 2016

David Altmaier
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, 2014, of the financial condition and corporate affairs of

BusinessFirst Insurance Company
2310 Commerce Point Drive
Lakeland, Florida 33801

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, 2010 through December 31, 2014. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) covering the period of January 1, 2007 through December 31, 2009. This examination commenced with planning at the Office on July 20, 2015 to July 24, 2015. The fieldwork commenced on August 3, 2015 and concluded as of April 15, 2016.

The examination was a multi-state examination conducted in accordance with the NAIC Financial Condition Examiners Handbook. The Handbook requires that the examination is planned and performed to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the company and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles.

This examination report includes significant findings of fact, as mentioned in Section 624.319, Florida Statutes and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the Company.

SUMMARY OF SIGNIFICANT FINDINGS

Current Examination Findings

There were no material adverse findings, significant non-compliance findings or material changes in the financial statements.

Prior Examination Findings

There were no material adverse findings, significant non-compliance findings or material changes in the financial statements in the Office's prior examination report as of December 31, 2009.

COMPANY HISTORY

General

The Company was incorporated in Florida on February 14, 2003, and commenced business on August 1, 2003.

The Company was authorized to transact workers' compensation insurance coverage in Florida on July 21, 2003 and continued to be authorized as of December 31, 2014.

Dividends

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

Capital Stock and Capital Contributions

As of December 31, 2014, the Company's capitalization was as follows:

Number of authorized common capital shares	10,000,000
Number of shares issued and outstanding	5,360,000
Total common capital stock	\$5,360,000
Par value per share	\$1.00

Control of the Company was maintained by its parent, RetailFirst Holdings, Inc., who owned 100% of the stock issued by the Company, and who in turn was 98.9% owned by RetailFirst Mutual Holdings, Inc., a Florida corporation. The parent contributed \$3 million in cash to the Company on June 30, 2015.

Surplus Notes

The Company issued a surplus note dated December 15, 2005 in the amount of \$3,000,000 to Summit Consulting, Inc. (Summit) in exchange for \$3,000,000 in cash. The maturity date of this surplus note was December 15, 2015. The Company had no recorded interest at December 31, 2014. The note was extinguished on June 30, 2015.

Acquisitions, Mergers, Disposals, Dissolutions and Purchase or Sales through Reinsurance

The Company had no acquisitions, mergers, disposals, dissolutions 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, 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 held in accordance with Section 628.231, Florida Statutes. Directors serving as of December 31, 2014 are shown below.

Directors

Name and Location	Principal Occupation
Thomas Samuel Petcoff Lakeland, Florida	President & CEO, Petcoff Companies
Nis Hansen Nissen, III Jacksonville, Florida	Secretary & CFO Nissen Advertising Inc.
John Douglas Hanselman	Retired

Odessa, Florida

William Kundrat, Jr.
Sun City Center, Florida

Retired

George Hall Sandefer
Palatka, Florida

Retired

Charles Richard Wintz, CPA
Jacksonville, Florida

Owner,
Charles R. Wintz, CPA, PA

Ricky Tarver Hodges
Lakeland, Florida

Owner,
Ricky Hodges Consulting

The Board appointed the following senior officers:

Senior Officers

Name

Title

Thomas Samuel Petcoff

President, CEO

William Kundrat, Jr.

Vice President

George Hall Sandefer

Vice President

Charles Richard Wintz, CPA

Vice President

Ricky Tarver Hodges

Vice President

Nis Hansen Nissen, III

Secretary, CFO

John Douglas Hanselman

Treasurer

The Company's Board appointed an audit committee. Following were audit committee members as of December 31, 2014:

Audit Committee

Charles Richard Wintz ¹

John Douglas Hanselman

William Kundradt, Jr.

Nis Hansen Nissen, III

Thomas Samuel Petcoff

George Hall Sandefer

¹ Chairman

The Company maintained an audit committee, as required by Section 624.424(8) (c), Florida Statutes.

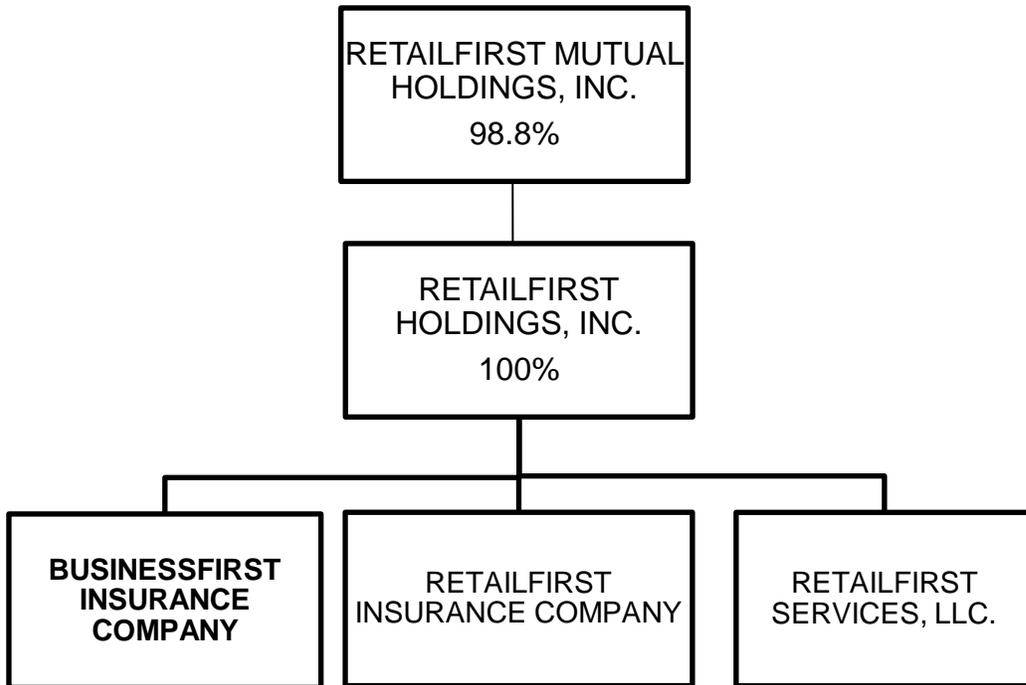
Affiliated Companies

The most recent holding company registration statement was filed with the Office on February 26, 2015, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

BusinessFirst Insurance Company

Organizational Chart

December 31, 2014



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

Tax Allocation Agreement

The Company, along with its affiliate, RetailFirst Insurance Company (RetailFirst), entered in to a Tax Allocation Agreement on March 16, 2006. The Company entered in to an amended and restated Tax Allocation Agreement effective May 19, 2011. During 2014, an intercompany tax settlement was received by the Company in the total amount of \$97,805.

Reinsurance Pooling Agreement

The Company and its affiliate, RetailFirst, are parties to a Reinsurance Pooling Agreement effective January 1, 2011 and amended effective August 16, 2011. Based on terms of the Agreement, the Company cedes 100% of its premium, losses and expenses to RetailFirst. Once pooled, the Company assumes 10% of the pooled premium, losses and expenses.

Multiple Cedant Agreement

The Company, along with its affiliate, RetailFirst, entered in to a Multiple Cedant Agreement, effective January 1, 2012 to allocate reinsurance premium for multiple cedant reinsurance agreements to each company based on the ratio that the subject premium of each company bears to the total subject premium of both companies combined.

TERRITORY AND PLAN OF OPERATIONS

The Company was authorized to transact insurance in Florida, Georgia, Kentucky, North Carolina, South Carolina and Tennessee.

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.

REINSURANCE

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

Assumed

The Company did not assume any reinsurance during the period of this examination; however, the Company was party to an affiliated Reinsurance Pooling Agreement by which it reports assumed reinsurance in Schedule F Part 1.

Ceded

Per its Reinsurance Pooling Agreement, the Company ceded 100% of its premium, losses and expenses to RetailFirst and assumed 10% of the total pooled premium, losses and expenses. During 2014, the Company paid RetailFirst intercompany reinsurance pooling settlements in the amount of \$5,044,071.

Effective January 1, 2014, the Company and its affiliate, RetailFirst, were also parties to an unaffiliated excess of loss reinsurance agreement whereby the Companies retain the first \$1,000,000 loss with a \$1,000,000 annual deductible. The reinsurer assumes all liability up to

\$10,000,000 per occurrence for workers' compensation and \$500,000 per occurrence for employers' liability with a limit of \$40,000,000 for all occurrences.

ACCOUNTS AND RECORDS

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

The Company and non-affiliates had the following agreements:

Custodial Agreement

The Company maintained a custodial agreement with U.S. Bank, NA executed on September 15, 2008. The agreement complied with Rule 69O-143.042, Florida Administrative Code.

Investment Management Agreement

The Company maintained an investment management services agreement with Conning Asset Management Company effective December 29, 2005, and amended January 1, 2014. The name was changed to Conning, Inc. on October 13, 2009.

Managing General Agent Agreement

The Company entered into a Managing General Agent (MGA) Agreement with Summit Consulting, Inc. (Summit) on September 2, 2010, with an amendment effective January 1, 2014. Pursuant to this agreement, Summit provided to the Company, administrative services, including policy

servicing, underwriting, claims administration, loss control and financial management. The agreement also provided for Summit to perform as a MGA for the Company as it provided

marketing, sales, and premium billing and collection services. The agreement remains in effect unless otherwise terminated within the guidelines of the agreement. Summit's annual management fees are calculated at a percentage between 13%-15% of earned normal premium, decreasing as earned normal premium increases. Summit also may earn a performance management fee ranging from 1.0-2.0% of the earned annual premium based on after tax profit margin. Summit's fees also include an expense constant calculated separately from the management or performance fees. Claims administration services were included in the agreement.

Independent Auditor Agreement

An independent CPA, Postlethwaite & Netterville, A Professional Accounting Corporation, audited the Company's statutory basis financial statements annually for the years 2010 through 2014, 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.

INFORMATION TECHNOLOGY REPORT

Lindsey Pittman, CFE, Lewis & Ellis, 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	Cash	\$ 1,001,693	\$ 1,047,227
TOTAL FLORIDA DEPOSITS		\$ 1,001,693	\$ 1,047,227
GA	Cash	\$ 97,702	\$ 105,489
NC	Cash	202,835	205,875
TOTAL OTHER DEPOSITS		<u>\$ 300,537</u>	<u>\$ 311,364</u>
TOTAL SPECIAL DEPOSITS		<u><u>\$1,302,230</u></u>	<u><u>\$1,358,591</u></u>

FINANCIAL STATEMENTS

The examination does not attest to the fair presentation of the financial statements included herein. If an adjustment is identified during the course of the examination, the impact of such adjustment will be documented separately following the Company's financial statements. Financial statements, as reported and filed by the Company with the Florida Office of Insurance Regulation, are reflected on the following pages:

BusinessFirst Insurance Company

Assets

December 31, 2014

	Per Company	Examination Adjustments	Per Examination
Bonds	\$25,798,569		\$25,798,569
Stocks:			
Common	2,987,097		2,987,097
Cash and Short-Term Investments	766,144		766,144
Agents' Balances:			
Uncollected premium	2,038,524		2,038,524
Deferred premium	442,343		442,343
Accrued retrospective premium	518,778		518,778
Reinsurance recoverable	3,767,636		3,767,636
income due & accrued	234,335		234,335
Net deferred tax asset	1,219,404		1,219,404
	<hr/>		
Totals	\$37,772,830	\$0	\$37,772,830
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BusinessFirst Insurance Company
Liabilities, Surplus and Other Funds

December 31, 2014

	Per Company	Examination Adjustments	Per Examination
Losses	\$11,628,716		\$11,628,716
Reinsurance payable on paid losses and loss adjustment expenses	\$1,730,518		\$1,730,518
Loss adjustment expenses	1,777,740		1,777,740
Commissions payable	149,511		\$149,511
Other expenses	244,936		244,936
Taxes, licenses and fees	493,900		493,900
Current federal and foreign income taxes	167,164		\$167,164
Unearned premium	185,284		185,284
Advance premium	84,272		\$84,272
Dividends Declared and unpaid:			
Stockholders	0		\$0
Policyholders	341,560		\$341,560
Ceded reinsurance premiums payable	4,937,635		\$4,937,635
Funds held under reinsurance treaties	0		0
Amounts withheld	34,315		34,315
Aggregate write-ins for liabilities	596,458		\$596,458
Total Liabilities	\$22,372,009	\$0	\$22,372,009
Common capital stock	\$5,360,000		\$5,360,000
Surplus notes	3,000,000		3,000,000
Gross paid in and contributed surplus	129,374		129,374
Unassigned funds (surplus)	6,911,447		6,911,447
Surplus as regards policyholders	\$15,400,821	\$0	\$15,400,821
Total liabilities, surplus and other funds	\$37,772,830	\$0	\$37,772,830

BusinessFirst Insurance Company

Statement of Income and Capital and Surplus Account

December 31, 2014

Underwriting Income

Premiums earned	\$11,182,194
Deductions:	
Losses incurred	\$6,706,074
Loss expenses incurred	1,097,890
Other underwriting expenses incurred	3,492,616
Aggregate write-ins for underwriting deductions	0
Total underwriting deductions	<u>\$11,296,580</u>
Net underwriting gain or (loss)	(\$114,386)

Investment Income

Net investment income earned	\$721,072
Net realized capital gains or (losses)	184,855
Net investment gain or (loss)	<u>\$905,927</u>

Other Income

Net gain or (loss) from agents' or premium balances charged off	(\$77,143)
Finance and service charges not included in premiums	0
Aggregate write-ins for miscellaneous income	0
Total other income	<u>(\$77,143)</u>

Net income before dividends to policyholders and before federal & foreign income taxes	\$714,398
Dividends to policyholders	262,389
Net Income, after dividends to policyholders, but before federal & foreign income taxes	\$452,009
Federal & foreign income taxes	148,326
Net Income	<u><u>\$303,683</u></u>

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year	\$14,826,292
Net Income	\$303,683
Net unrealized capital gains or losses	102,833
Change in net deferred income tax	71,904
Change in non-admitted assets	55,368
Change in provision for reinsurance	0
Change in excess statutory over statement reserves	0
Surplus adjustments: Paid in	40,740
Aggregate write-ins for gains and losses in surplus	0
Examination Adjustment	0
Change in surplus as regards policyholders for the year	<u>\$574,528</u>
Surplus as regards policyholders, December 31 current year	<u><u>\$15,400,820</u></u>

BusinessFirst Insurance Company
Comparative Analysis of Changes in Surplus
December 31, 2014

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, 2014, per Annual Statement	\$15,400,820
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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:			_____
Surplus as Regards Policyholders December 31, 2014, Per Examination			\$15,400,820

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses

An actuarial firm, KPMG LLP, appointed by the Board, rendered an opinion that the amounts carried in the balance sheet as of December 31, 2014, 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, Greg Wilson, FCAS, MAAA of Lewis & Ellis, 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 of capital and surplus reported by the Company of \$15,400,821, exceeded the minimum of \$4,000,000 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 BusinessFirst Insurance Company as of December 31, 2014, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's surplus as regards policyholders was \$15,400,821, which exceeded the minimum of \$4,000,000 required by Section 624.408, Florida Statutes.

In addition to the undersigned, Lindsey Pittman, CFE, CPA, Examiner-in-Charge, and Ashley Johnson, CPA, Amy Carter, CFE, CPA, Participating Examiners, of Lewis & Ellis, also participated in the examination. Members of the Office who participated in the examination include Jonathan Frisard, Financial Examiner/Analyst Supervisor, Examination Manager and Kyra Brown, Financial Specialist, Participating Examiner. Additionally, Greg Wilson, FCAS, MAAA of Lewis & Ellis, Inc. and Lindsey Pittman, IT Specialist of Lewis & Ellis, Inc., are recognized for participation in the examination.

Respectfully submitted,

Lamar Downs, CPA
Deputy Chief Examiner
Florida Office of Insurance Regulation