

**REPORT ON EXAMINATION**  
**OF**  
**CASTLEPOINT FLORIDA INSURANCE**  
**COMPANY**  
**FT. LAUDERDALE, FLORIDA**

**AS OF**  
**DECEMBER 31, 2009**

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

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**TALLAHASSEE, FLORIDA**

September 30, 2010

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, 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, 2009, of the financial condition and corporate affairs of:

**CASTLEPOINT FLORIDA INSURANCE COMPANY  
500 WEST CYPRESS CREEK ROAD  
FORT LAUDERDALE, FLORIDA 33309**

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

## **SCOPE OF EXAMINATION**

This examination covered the period of February 19, 2009, through December 31, 2009. This was the first year examination. This examination commenced with planning at the Office on March 29, 2010 to April 1, 2010. The fieldwork commenced on April 22, 2010, and concluded as of September 30, 2010.

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.

#### **General**

The Company was a party to the Consent Order # 100214-08-CO, dated December 12, 2008, regarding the application for the issuance of a certificate of authority. The Company was not in compliance with Sections c (1), d, and e (7) of Paragraph 17 of this Consent Order which required that all agreements with affiliated companies be in writing, be approved by the Office, and specify all fees and charges for services. The Company and its ultimate parent, Tower Group (TG), provided and/or received services to/from other companies within the holding company system without a written cost sharing agreement nor were there any mechanisms to allocate the related costs. Prior to this examination the Office had not been made aware of, nor approved, this agreement.

### **Prior Exam Findings**

This was a first year exam and therefore, there are no prior year findings to report.

## **SUBSEQUENT EVENTS**

A change has been made to the management of the Company subsequent to the examination date. On June 8, 2010, Mr. William E. Hitzelberger replaced Mr. Frank Colalucci as the Chief Financial Officer.

## **HISTORY**

### **General**

The Company was incorporated in Florida on January 10, 2009, and commenced business on February 19, 2009, as Castlepoint Florida Insurance Company.

The Company was party to Consent Order 1001214-08-CO, regarding the application for the issuance of a Certificate of Authority. The Company was not in compliance with the following sections of paragraph 17 of this order:

c) (1) The Company agreed that any managerial, administrative, or Cost-sharing arrangements involving the Company would be in accordance with a formal written agreement and would contain, at the minimum, a requirement of monthly cash settlement of any expenses incurred for the month.

d) Any agreements the Company entered into with any affiliated person, entity or related party, as defined in Statement of Statutory Accounting Principles Number 25 of the National Association of Insurance Commissioners' Accounting Practices and Procedure Manual, would be in writing and submitted to the Office for the Office's review and prior written approval.

e) (7) All fees and charges were to be specified in the contract and they were to be comparable to fees charged to any other insurer for which similar contracted services were

provided by the affiliate. If the affiliate did not perform such services for other insurers, the fees charged were to be reasonable in relation to the services provided.

During the examination, it was noted that the Company and TG provided and/or received services to/from other companies within the holding company system. However, there was no written cost sharing agreement between these companies; there were no mechanisms to allocate the costs amongst the companies; and the Office had not approved such an agreement. Each of these were violations of Consent Order 1001214-08-CO.

The Company was authorized to transact the following insurance coverage in Florida on December 31, 2009:

Workers' Compensation	Commercial automobile liability
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The Articles of Incorporation and the Bylaws were not amended during the period covered by this examination.

### **Dividends to Stockholders**

The Company did not pay any dividends to its stockholders during the period under examination.

### **Capital Stock and Capital Contributions**

As of December 31, 2009, the Company's capitalization was as follows:

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

Control of the Company was maintained by its parent, CastlePoint Insurance Company (CIC), who owned 100% of the stock issued by the Company; CIC in turn was 50% owned by CastlePoint Management Corp. (CPM) and 50% by CastlePoint Reinsurance Company, Ltd. (CPRe). CPM was a Delaware company wholly owned by Ocean I Corporation, a Delaware company which, in turn was held by its ultimate parent, Tower Group, Inc. (TGI), a Delaware company. CPRe, a Bermuda company, was wholly owned by CastlePoint Bermuda Holdings, Ltd. which in turn, was owned by Ocean I Corporation.

The parent contributed \$10,000,000 in cash to the Company as of January 23, 2009.

### **Surplus Debentures**

The Company did not have any surplus debentures.

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

The Company had no acquisitions, mergers, disposals, dissolutions, and purchase or sale through reinsurance for the period under examination.

## **CORPORATE RECORDS**

The unanimous written consent of the Board of Directors (Board), was reviewed for the period under examination. The written consent adequately documented its meetings and approval of Company transactions and events in accordance with Section 607.1601, Florida Statutes, including the authorization of investments as required by Section 625.304, Florida Statutes.

## 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 Sections 607.1601 and 628.231, Florida Statutes. Directors serving as of December 31, 2009, were:

#### Directors

<b>Name and Location</b>	<b>Principal Occupation</b>
Michael H. Lee New York, New York	Director, President and CEO
Francis M. Colalucci <sup>(1)</sup> New York, New York	Director, Treasurer and CFO
Gary Maier Tenafly, New Jersey	Director, SVP and Chief Underwriting Officer
Joel Weiner New Hope, Pennsylvania	Director, SVP, Chief Actuary and Strategic Planning
Elliot Orol New York, New York	Director, SVP, Secretary and General Counsel

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

#### Senior Officers

<b>Name</b>	<b>Title</b>
Michael H. Lee	President
Francis Colalucci <sup>(1)</sup>	Treasurer
Elliot Orol	Secretary

(1) In 2010, Mr. Colalucci retired and was replaced by William E. Hitselberger.

The Company had no internal committees; however, the holding Company's Board appointed several internal committees in accordance with Section 607.0825, Florida Statutes, which acted for all.

Following were the principal internal board committees and their members as of December 31, 2009:

**Audit Committee**

Austin P. Young III, CPA **(a)**  
Charles A. Bryan CPA, FCAS, CPCU  
William W. Fox Jr.  
William A. Robbie, CPA

**Investment Committee**

Austin P. Young III, CPA  
Steven W. Schuster  
Robert S. Smith **(a)**  
William A. Robbie, CPA

**Corporate Governance & Nominating**

Steven W. Schuster **(a)**  
Charles A. Bryan CPA, FCAS, CPCU  
William W. Fox Jr.  
Jan R. Van Gorder

**Compensation Committee**

Steven W. Schuster  
Charles A. Bryan CPA, FCAS, CPCU **(a)**  
Robert S. Smith  
Jan R. Van Gorder

**(a) 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 holding company registration statement was filed with the State of Florida on May 6, 2010, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

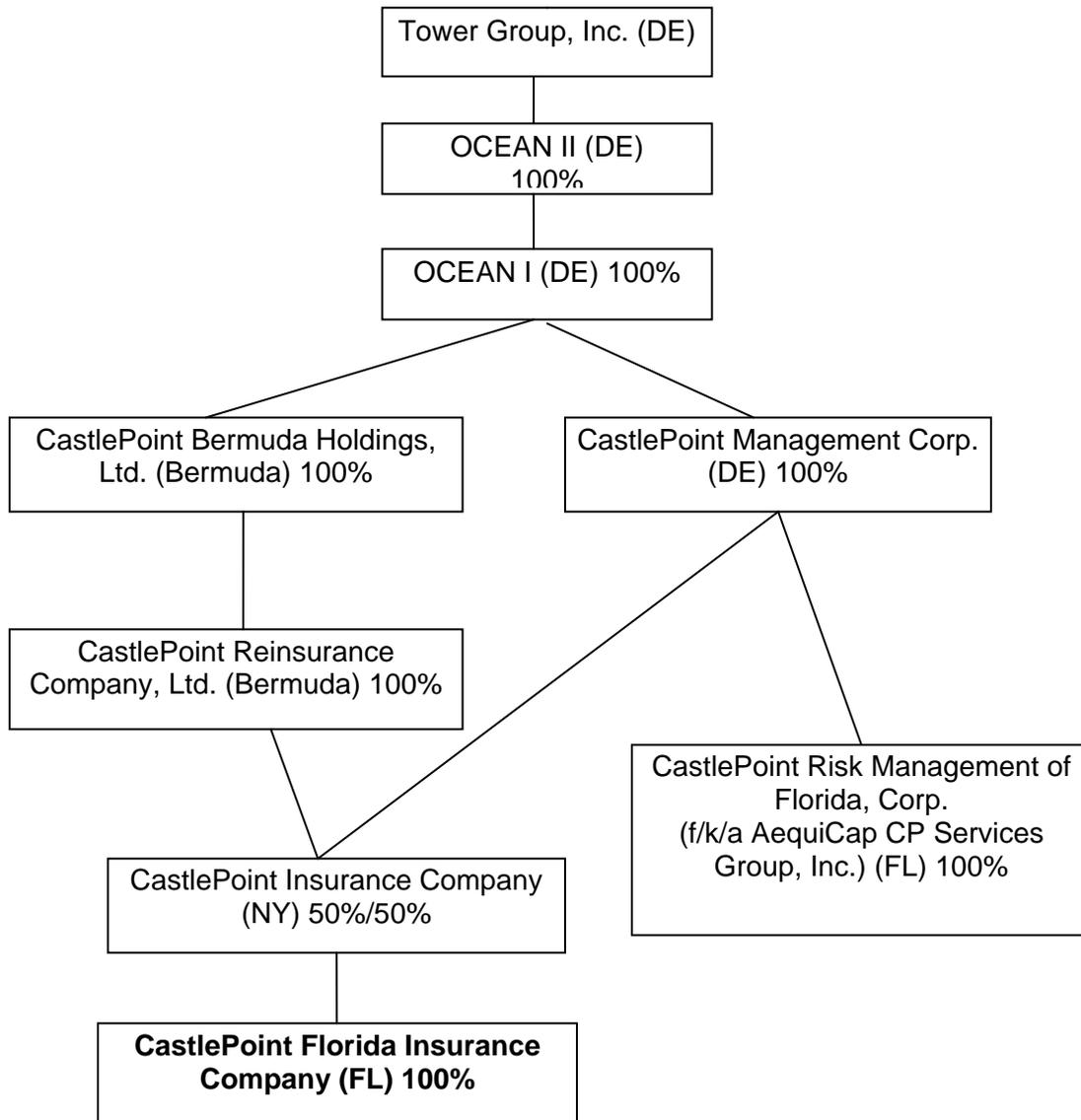
**Subsequent event:** The Company filed an updated holding company registration statement on July 12, 2010.

An organizational chart as of December 31, 2009, reflecting the holding company system, is shown below. Schedule Y of the Company's 2009 annual statement provided a list of all related companies of the holding company group.

# CASTLEPOINT FLORIDA INSURANCE COMPANY

## Organizational Chart

DECEMBER 31, 2009



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

### **Tax Allocation Agreement**

The Company, along with its parent, filed a consolidated federal income tax return. On December 31, 2009, the method of allocation between the Company and its parent was on a percentage method.

### **Service Agreement**

The Company entered into a Servicing Agreement with CPM on January 14, 2009, to provide support services with respect to certain operations of the Company.

### **Program Underwriting Agency Agreement**

The Company entered into a program underwriting agency agreement with AequiCap CP Services Inc., effective January 27, 2009.

### **Reinsurance Agreement**

The Company has entered into a 90% quota share reinsurance agreement with its direct parent, CIC, on February 19, 2009.

## **FIDELITY BOND AND OTHER INSURANCE**

The Company maintained fidelity bond coverage up to \$5,000,000 with a deductible of \$250,000, which reached the minimum recommended by the NAIC.

The Company also maintained Directors and Officers (D&O) liability insurance with an aggregate limit of liability including defense cost of \$10,000,000 and deductibles ranging from \$500,000 to \$1,000,000.

## PENSION AND STOCK OWNERSHIP PLANS

The Company did not have any pension or stock ownership plans as of December 31, 2009.

## 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 following table shows the profitability trend (in dollars) of the Company for the period of operations:

	<b>2009</b>
Premiums Earned	264,135
Net Underwriting Gain/(Loss)	(1,200,366)
Net Income	(839,840)
Total Assets	20,105,889
Total Liabilities	10,947,729
Surplus As Regards Policyholders	9,158,160

## **LOSS EXPERIENCE**

This is the Company's first year of operations and therefore, no significant changes in the loss experience were noted as of December 31, 2009.

## **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 had no assumed business on December 31, 2009.

### **Ceded**

The Company ceded risk on a quota share and excess of loss basis to its direct parent and various third party reinsurers.

The Company entered into a 90% quota share agreement with its direct parent, effective February 19, 2009.

The Company was reinsured under the Excess of Loss reinsurance programs covering the member companies of Tower Group. The Company ceded workers' compensation risk through an Excess of Loss reinsurance program, which provided limits up to \$50 million. Coverage was placed with Domestic, Bermuda, European and London reinsurers including several Lloyd's Syndicates. The Company ceded risk through an Excess of Loss reinsurance program that

provided Casualty Clash protection with limits up to \$10 million. Coverage was placed with Domestic and European reinsurers.

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 Fort Lauderdale, Florida. The examination was conducted in both Fort Lauderdale, Florida, and New York, New York.

An independent CPA audited the Company's statutory basis annual financial statements for the year 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 and non-affiliates had the following agreements:

### **Custodial and Safe Keeping Agreements**

The Company entered into a custodial agreement with State Street bank on January 20, 2010, and a safe keeping agreement with JP Morgan Chase on November 11, 2009. They contained all clauses in compliance with Rule 69O-143.042(2), Florida Administrative Code.

### **Claims Third Party Administration Agreement**

The Company with AequiCap CP Services Group Inc, entered into a claims third party administration agreement with AequiCap Insurance Company, and AequiCap Property and Casualty Insurance Company, effective October 14, 2009, to provide claims adjusting, and

administrative services including, but not limited to, setting case reserves, claims settlement, investigation and disposition for the workers compensation business in run-off.

### **Claims Administration Agreement**

The Company entered into a claims administration agreement with AequiCap Claims Services Inc., effective February 19, 2009, to provide claims adjusting, and administrative services including, but not limited to, setting case reserves, claims settlement, investigation and disposition for the commercial auto business.

### **Independent Auditor Agreement**

The Company engaged Johnson Lambert & Company LLP to perform the statutory audits of its financial statements for the year under examination, as required by section 624.424(8), of Florida Statutes and Rule 690-137.002, of Florida Administrative Code.

### **Information Technology Report**

Jenny Jeffers, CISA, AES 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	Money Market Mutual Fund	<u>\$ 306,601</u>	<u>\$ 306,601</u>
	TOTAL FLORIDA DEPOSITS	\$ 306,601	\$ 306,601
	TOTAL SPECIAL DEPOSITS	<u>\$ 306,601</u>	<u>\$ 306,601</u>

## FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2009, 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."

**CASTLEPOINT FLORIDA INSURANCE COMPANY**  
**Assets**  
**DECEMBER 31, 2009**

	Per Company	Examination Adjustments	Per Examination
Stocks:			
Common			
Cash	\$306,601		\$306,601
	11,083,201		11,083,201
Premiums and considerations:			
Uncollected premiums and agent balances in the course of collections			
	7,908,870		7,908,870
Current federal and foreign income tax recoverable and interest hereon			
	353,925		353,925
Receivable from parents, subsidiaries and affiliates			
	447,717		447,717
Aggregate write-in for other than invested assets			
	5,575		5,575
Totals			
	<u>\$20,105,889</u>	<u>\$0</u>	<u>\$20,105,889</u>

**CASTLEPOINT FLORIDA INSURANCE COMPANY**  
**Liabilities and Surplus and Other Funds**  
**DECEMBER 31, 2009**

	<b>Per Company</b>	<b>Examination Adjustments</b>	<b>Per Examination</b>
Losses	\$182,000		\$182,000
Taxes, licenses and fees	282,160		282,160
Unearned premium	1,083,007		1,083,007
Ceded Reinsurance Premiums Payable	9,394,391		9,394,391
Aggregate write-ins for liabilities	6,171		6,171
<b>Total Liabilities</b>	<b>\$10,947,729</b>		<b>\$10,947,729</b>
Common Stock		\$100,000	\$100,000
Gross paid in and contributed surplus	\$10,000,000	(100,000)	9,900,000
Unassigned funds (surplus)	(841,840)		(841,840)
<b>Surplus as regards policyholders</b>	<b>\$9,158,160</b>	<b>\$0</b>	<b>\$9,158,160</b>
<b>Total liabilities, surplus and other funds</b>	<b>\$20,105,889</b>	<b>\$0</b>	<b>\$20,105,889</b>

**CASTLEPOINT FLORIDA INSURANCE COMPANY**  
**Statement of Income**  
**DECEMBER 31, 2009**

<b>Underwriting Income</b>	
Premiums earned	\$264,135
<b>Deductions:</b>	
Losses incurred	\$182,000
Loss expenses incurred	
Other underwriting expenses incurred	1,282,501
Total underwriting deductions	<u>\$1,464,501</u>
Net underwriting gain or (loss)	<u>(\$1,200,366)</u>
<b>Investment Income</b>	
Net investment income earned	<u>\$6,601</u>
Net investment gain or (loss)	\$6,601
<b>Other Income</b>	
Net income before dividends to policyholders and before federal & foreign income taxes	<u>(\$1,193,765)</u>
Net Income, after dividends to policyholders, after capital gains tax & before all other federal & foreign income taxes	(\$1,193,765)
Federal & foreign income taxes	<u>(353,925)</u>
Net Income	<u><u>(\$839,840)</u></u>
<b>Capital and Surplus Account</b>	
Surplus as regards policyholders, December 31 prior year	
Net Income	(\$839,840)
Changes in net deferred income tax	65,010
Change in non-admitted assets	(67,010)
Surplus adjustments: Paid in Capital	10,000,000
Change in surplus as regards policyholders for the year	<u>\$9,158,160</u>
Surplus as regards policyholders, December 31 current year	<u><u>\$9,158,160</u></u>

A comparative analysis of changes in surplus is shown below:

**CASTLEPOINT FLORIDA INSURANCE COMPANY**  
**Comparative Analysis of Changes In Surplus**  
**DECEMBER 31, 2009**

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, 2009, per Annual Statement	\$9,158,160
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	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS:			\$0
No Adjustment were necessary			
LIABILITIES:			\$0
No Adjustment were necessary			
Other Expenses			
Net Change in Surplus:			\$0
Surplus as Regards Policyholders December 31, 2009, Per Examination			\$9,158,160

## COMMENTS ON FINANCIAL STATEMENTS

### Liabilities

#### Losses and Loss Adjustment Expenses \$182,000

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, 2009, 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 engaged an independent actuarial firm, Alliance Actuarial Services Inc., to review the reserves carried in the Company's balance sheet as of December 31, 2009, and they were in concurrence with this opinion.

### Capital and Surplus

The amount reported by the Company \$9,158,160, exceeded the minimum of \$4,000,000 required by Section 624.408, Florida Statutes.

## SUMMARY OF RECOMMENDATIONS

### Current examination Findings:

The following is a brief summary of items of interest regarding findings in the examination report as of December 31, 2009:

**General**

We recommend that the Company comply with its licensing Consent Order #100214-08-CO dated December 12, 2008 and prepare a written servicing agreement between the companies included in the holding company system who provide or receive services.

## CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **CastlePoint Florida Insurance Company** as of December 31, 2009, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as regards policyholders was \$9,158,160, in compliance with Section 624.408, Florida Statutes.

In addition to the undersigned, Maurice Fuller, Financial Examiner/Analyst II, and Fidel Gonzalez, Financial Examiner/Analyst Supervisor, with the Office; Roshanak Fekrat, CFE, CPA, CIA; Gary Farmer, CPA, CFE, AES; and Aram Morvari, MBA of Global Insurance Enterprises LLC; Jenny Jeffers, CISA, AES of Jenan Enterprises and Richard Lo, FCAS, MAAA, FCA of Alliance Actuarial Services, Inc. participated in the examination.

Respectfully submitted,

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