

**EXAMINATION REPORT**

**OF**

**COMP OPTIONS INSURANCE COMPANY, INC.**

**JACKSONVILLE, 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

Comp Options Insurance Company, Inc.  
5011 Gate Parkway Bldg 100, Suite 100  
Jacksonville, Florida 32256

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, 2014 through December 31, 2014. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) and covered the period of January 1, 2009 through December 31, 2013. This examination commenced with planning at the Office on October 27, 2015, to October 30, 2015. The fieldwork commenced on December 14, 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 (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

The following is a summary of 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, 2013, along with resulting action taken by the Company in connection therewith.

### Change among Company Principal Management

The Company did not provide written notification to the Office for all changes among the principal officers, as required by Section 628.261, Florida Statutes.

**Resolution:** After the Company was purchased on October 1, 2014, all the principal officers of the Company were replaced. The new officers and directors were reported in Form D filings with the Office.

### Related Party Agreement Settlement Provision

The Company's Quota Share Reinsurance Agreement, Excess of Loss Reinsurance Agreement, Claims Administration Agreement, Related Services Agreement and all related party agreements as of December 31, 2013, did not contain a settlement provision with a specified due date as required by Statements of Statutory Accounting Principles (SSAP) No. 25.

**Resolution:** All the Company's reinsurance agreements were commuted October 1, 2014, and replaced with reinsurance agreements implemented by its parent, AmTrust Financial Services, Inc. A review of the new reinsurance agreements confirmed that they contained settlement provisions.

## COMPANY HISTORY

### General

The Company was incorporated in Florida on July 28, 1997, and commenced business on September 2, 1997, as Comp Options Insurance Company, Inc.

The Company was party to Consent Order 81655-05-CO, filed August 15, 2006, regarding jurisdiction over subject matter for excessive profits. The Company filed an amendment with the Office. Upon review of the amendment, the Office determined excessive profits were not realized.

The Company was a party to Consent Order 105930-09-CO, filed August 27, 2009, and April 2, 2010, regarding excessive profits for the statutory period covering 2004, 2005, and 2006. The Company refunded the excessive profits to policyholders as noted by Consent Order filing 105930- 09-CO filed on April 2, 2010.

The Company was party to Consent Order 161063-14-CO, filed October 26, 2014, regarding the acquisition of Comp Options Insurance Company, Inc. by AmTrust Financial Services, Inc. on October 1, 2014. The Company complied with the Consent Order and continued to maintain a deposit of no less than \$250,000 with the Bureau of Collateral Management.

The Company was authorized to transact Workers' Compensation insurance coverage in Florida on September 9, 1997, 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	5,000,000
Number of shares issued and outstanding	1,000,000
Total common capital stock	\$1,000,000
Par value per share	\$1.00

Its parent, AmTrust Financial Services, Inc., a Delaware corporation that owned 100% of the stock issued by the Company, maintained control of the Company.

## **Surplus Notes**

The Company issued a \$1,400,000 par value Subordinated Surplus Debenture on August 1, 2003, to Blue Cross/Blue Shield of Florida in exchange for a like sum of cash. The surplus note and accrued interest of \$1,421,000 was paid in full as a condition of the stock purchase agreement prior to the acquisition by AmTrust Financial Services, Inc. on October 1, 2014.

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

The Company was purchased on October 1, 2014, by AmTrust Financial Services, Inc. from Diversified Health Services, Inc., a subsidiary of Blue Cross/Blue Shield of Florida, under a 100% stock purchase agreement.

## **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 held in accordance with Section 628.231, Florida Statutes. Directors serving as of December 31, 2014, are shown on the following page.

## Directors

<b>Name and Location</b>	<b>Principal Occupation</b>
Barry Dov Zyskind Rockaway Park, New York	President & CEO AmTrust Financial Services, Inc.
Harry Schlachter Brooklyn, New York	Senior Vice President of Finance & Treasurer, AmTrust Financial Services, Inc.
Stephen Barry Ungar Great Neck, New York	General Counsel & Secretary AmTrust Financial Services, Inc.
Donald Thomas DeCarlo Southold, New York	Attorney
Jay Jerome Miller New York, New York	Attorney

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

## Senior Officers

<b>Name</b>	<b>Title</b>
Joseph Christopher Santore, Jr.	President & CEO
Elissa Marie Pacheco	Executive Vice President
Kerry James Heitz	Treasurer
Barry Wolff Moses	Vice President & Assistant Secretary
Stephen Barry Ungar	Secretary

The Company's Board did not have any internal committees except at the holding company level. The following were the principal Board committees and their members as of December 31, 2014:

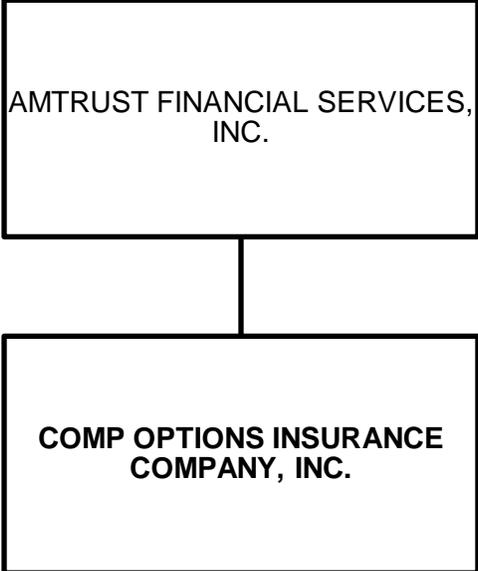
<b>Executive Committee</b>	<b>Audit Committee</b>	<b>Investment Committee</b>
Barry Dov Zyskind <sup>1</sup>	Abraham Gulkowitz	Donald Thomas DeCarlo
Michael Karfunkel	Donald Thomas DeCarlo	Michael Karfunkel
George Karfunkel	Jay Jerome Miller	Jay Jerome Miller

<sup>1</sup> Chairman

## **Affiliated Companies**

The most recent holding company registration statement was filed with the Office on September 14, 2015, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

**COMP OPTIONS INSURANCE COMPANY, INC.**  
**ORGANIZATIONAL CHART**  
**December 31, 2014**



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

### **Reinsurance Agreements**

The Company entered into a quota share reinsurance agreement with its affiliate, AmTrust International Insurance Ltd. (All), on October 1, 2014. Under the terms of this reinsurance agreement, the Company agreed to cede 50% of all business to All after insuring third party excess of loss reinsurance. Premiums ceded to All in 2014 amounted to \$8,993,000. Reinsurance recoverable at December 31, 2014 amounted to \$8,558,000.

### **Tax Allocation Agreement**

The Company entered into a tax allocation agreement with its ultimate parent, AmTrust Financial Services, Inc., on October 1, 2014. The Company, along with its parent, AmTrust Financial Services, Inc., and affiliates, file a consolidated federal income tax return. On December 31, 2014, the method of allocation between the Company and its parent was based upon separate return calculations with current credit for net losses. Intercompany tax balances are settled annually in the first quarter.

### **Managing General Agent Agreement**

The Company entered into an Insurance Services, Management, and Agency Agreement with an affiliate, AmTrust North America, Inc. (ANA), effective October 1, 2014. The Company appointed ANA as its agent to solicit and accept applications for policies; to perform certain management service processing functions; and to administer and adjust claims related to the policies. The agreement is continuous unless otherwise terminated within the guidelines of the agreement. ANA is to receive a flat 10% commission on all business written plus the producing

agents' commission, an annual claims management fee of \$100,000, a claims services fee equal to the insurer's proportionate share of the amount of claims payroll expense incurred by ANA, and all extraordinary expenses incurred by ANA in the performance of management services. Fees incurred under this agreement during 2014 amounted to \$2,836,500.

### **Management Agreement**

Effective October 1, 2014 the Company entered into an Intercompany Management Agreement with its parent, AmTrust Financial Services, Inc. (AFSI) whereby AFSI will perform financial, accounting, corporate and operational management services for the Company. The agreement is continuous unless otherwise terminated within the guidelines of the agreement. Fees incurred under this agreement during 2014 amounted to \$373,915.

## **TERRITORY AND PLAN OF OPERATIONS**

The Company was authorized to transact insurance in the states of Florida, Delaware, Maryland, New Jersey and Pennsylvania. However, the Company only wrote business in the State of Florida during the examination period.

### **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

### Assumed

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

### Ceded

The Company ceded risks on a quota share and excess of loss basis under reinsurance contracts.

- Effective October 1, 2014, the Company had the following excess reinsurance protection that was implemented at the holding company level with third party reinsurers for Workers' Compensation exposures.

Coverage per occurrence/per aggregate:

50% of \$5M/\$10M Xs \$5M

100% of \$331.7M/\$663.4M Xs \$10M

87.5% of \$40M/\$80M Xs \$341.7M

66.23% of \$128.3M/\$256.6M Xs \$381.7M

- Effective October 1, 2014, the Company entered into a quota share reinsurance agreement with its affiliate, AmTrust International Insurance Ltd. (All). Under the terms of this reinsurance agreement, the Company agreed to cede 50% of all business to All after inuring third party excess of loss reinsurance. Premiums ceded to All in 2014 amounted to \$8,993,000. Reinsurance recoverable at December 31, 2014, amounted to \$8,558,000.

## **ACCOUNTS AND RECORDS**

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

The Company and non-affiliates had the following agreements:

### **Custodial Agreement**

The Company maintained a custodial agreement with Bank of New York Mellon executed on November 1, 2006. The agreement complied with Rule 69O-143.042, Florida Administrative Code.

### **Independent Auditor Agreement**

An independent CPA, Price Waterhouse Coopers, LLP, audited the Company's statutory basis financial statements annually for the year 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**

James M. Coyle, CISA and Paul L. Berkebile, CISA, CFSIA, CRSIC with 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.

<u>State</u>	<u>Description</u>	<u>Par Value</u>	<u>Market Value</u>
FL	UST Note 4.5%, 02/15/16	<u>\$ 600,000</u>	<u>\$ 627,774</u>
TOTAL FLORIDA DEPOSITS		\$ 600,000	\$ 627,774
DE	ishares Barclays Cr. Bond	<u>\$ 119,850</u>	<u>\$ 119,379</u>
TOTAL OTHER DEPOSITS		<u>\$ 119,850</u>	<u>\$ 119,379</u>
TOTAL SPECIAL DEPOSITS		<u><u>\$ 719,850</u></u>	<u><u>\$ 747,153</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:

**Comp Options Insurance Company, Inc.**

**Assets**

**December 31, 2014**

	<b>Per Company</b>	<b>Examination Adjustments</b>	<b>Per Examination</b>
Bonds	\$74,385,911		\$74,385,911
Cash and Short-Term Investments	14,685,117		14,685,117
Agents' Balances:			
Uncollected premium	686,155		686,155
Deferred premium	32,069,523		32,069,523
Reinsurance recoverable	3,846,236		3,846,236
Other receivables from reinsurers	474,840		474,840
Interest and dividend income due & accrued	90,361		90,361
Receivable relating to uninsured plans	318,390		318,390
Net deferred tax asset	3,602,650		3,602,650
Aggregate write-in for other than invested assets	803,482		803,482
Totals	<u>\$130,962,665</u>		<u>\$130,962,665</u>

**Comp Options Insurance Company, Inc.**

**Liabilities, Surplus and Other Funds**

**December 31, 2014**

	<b>Per Company</b>	<b>Examination Adjustments</b>	<b>Per Examination</b>
Losses	\$38,923,569		\$38,923,569
Loss adjustment expenses	17,279,090		17,279,090
Commissions payable & similar charges	4,715,317		4,715,317
Other expenses	1,674,553		1,674,553
Taxes, licenses, and fees	556,705		556,705
Current federal and foreign income taxes	111,916		111,916
Unearned premium	24,975,946		24,975,946
Advance premium	536,192		536,192
Ceded reinsurance premiums payable	549,389		549,389
Funds held under reinsurance treaties	6,876,175		6,876,175
Amounts withheld	1,401,917		1,401,917
Payable to parent, subsidiaries, and affiliates	2,413,271		2,413,271
Aggregate write-ins for liabilities	1,937,668		1,937,668
	<hr/>		
Total Liabilities	\$101,951,708	\$0	\$101,951,708
Common capital stock	\$1,000,000		\$1,000,000
Gross paid in and contributed surplus	31,700,000		31,700,000
Unassigned funds (surplus)	(3,689,043)		(3,689,043)
	<hr/>		
Surplus as regards policyholders	\$29,010,957	\$0	\$29,010,957
	<hr/>		
Total liabilities, surplus and other funds	\$130,962,665	\$0	\$130,962,665
	<hr/> <hr/>		

## Comp Options Insurance Company, Inc.

### Statement of Income and Capital and Surplus Account

December 31, 2014

#### Underwriting Income

Premiums earned		\$43,626,856
	<b>Deductions:</b>	
Losses incurred		\$21,230,987
Loss expenses incurred		8,187,755
Other underwriting expenses incurred		13,277,625
Aggregate write-ins for underwriting deductions		0
Total underwriting deductions		<u>\$42,696,367</u>
Net underwriting gain or (loss)		\$930,489

#### Investment Income

Net investment income earned		\$1,139,119
Net realized capital gains or (losses)		0
Net investment gain or (loss)		<u>\$1,139,119</u>

#### Other Income

Net gain or (loss) from agents' or premium balances charged off		\$0
Finance and service charges not included in premiums		0
Aggregate write-ins for miscellaneous income		0
Total other income		<u>\$0</u>
Net income before dividends to policyholders and before federal & foreign income taxes		\$2,069,608
Dividends to policyholders		<u>(56,395)</u>
Net Income, after dividends to policyholders, but before federal & foreign income taxes		\$2,126,003
Federal & foreign income taxes		<u>3,071,617</u>
Net Income		<u><u>(\$945,614)</u></u>

#### Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year		28,386,180
Net Income		(\$945,614)
Change in net unrealized capital gains or losses		(53,498)
Change in net deferred income tax		2,520,838
Change in nonadmitted assets		503,051
Change in surplus notes		(1,400,000)
Surplus adjustments: Paid in		0
Aggregate write-ins for gains and losses in surplus		0
Examination Adjustment		0
Change in surplus as regards policyholders for the year		<u>\$624,777</u>
Surplus as regards policyholders, December 31 current year		<u><u>\$29,010,957</u></u>

**Comp Options Insurance Company, Inc.**  
**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	\$29,010,957
No Adjustment	
Net Change in Surplus:	_____
Surplus as Regards Policyholders December 31, 2014, Per Examination	<u>\$29,010,957</u>

**COMMENTS ON FINANCIAL STATEMENTS**

## **Liabilities**

### **Losses and Loss Adjustment Expenses**

An actuarial firm, Towers – Watson, 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, Michael W. Morro, FCAS, MAAA of INS Consultants, Inc., reviewed the loss and loss adjustment expense work papers provided by the Company and he was in concurrence with their opinion.

### **Capital and Surplus**

The amount of capital and surplus reported by the Company of \$29,010,957, exceeded the minimum of \$9,052,864 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 Comp Options Insurance Company, Inc. 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 \$29,010,957, which exceeded the minimum of \$9,052,864 required by Section 624.408, Florida Statutes.

In addition to the undersigned, Alvin Burrell, CFE, AIE, MCM, Examiner-in-Charge, and Charles P. McMorrow, CFE, CIA, CPCU, Staff Examiner, both of INS Regulatory Insurance Services, Inc. also participated in the examination. Members of the Office who participated in the examination include Jeffrey Rockwell, Financial Examiner/Analyst Supervisor, Examination Manager, and Marie Stuhlmuller, Financial Specialist, Participating Examiner. Additionally, Michael W. Morro, ACAS, MAAA of INS Consultants, Inc., and James S. Coyle, CISA, and Paul L. Berkebile, CISA, CFSA, CRISC, IT Specialists of INS Services, Inc. are recognized for participation in the examination.

Respectfully submitted,

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