

REPORT ON EXAMINATION
OF
DESOTO PRIME INSURANCE
COMPANY, INC.
GAINESVILLE, FLORIDA

AS OF
DECEMBER 31, 2002

BY THE
OFFICE OF INSURANCE REGULATION

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Tallahassee, Florida
January 30, 2004

Kevin M. McCarty
Director
Office of Insurance Regulation
State of Florida
Tallahassee, Florida 32399-0326

Dear Sir:

Pursuant to your instructions, in compliance with Section 624.316/641.27, Florida Statutes (FS), 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, 2002, of the financial condition and corporate affairs of:

**DESOTO PRIME INSURANCE COMPANY, INC.
7201 N.W. 11TH PLACE
GAINESVILLE, FLORIDA 32605**

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, 2002 through December 31, 2002. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2001. This examination commenced with planning at the Office on October 20, 2003. The fieldwork commenced on November 3, 2003 and was concluded as of January 30, 2004. The examination included any material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination.

This financial examination represents a statutory financial examination conducted in accordance with the Financial 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 (FAC), with due regard to the statutory requirements of the insurance laws and rules of the State of Florida.

In this examination, emphasis was directed to the quality, value and integrity of the statement assets and the determination of liabilities, as those balances affect the financial solvency of the Company.

The examination included a review of the corporate records and other selected records deemed pertinent to the Company's operations and practices. In addition, the NAIC IRIS ratio report, the A.M. Best Report, the Company's independent audit reports and certain work papers prepared by the Company's independent certified public accountant (CPA) were reviewed and utilized where applicable within the scope of this examination.

We valued and/or verified the amounts of the Company's assets and liabilities as reported by the Company in its annual statement as of December 31, 2002. Transactions subsequent to year-end 2002 were reviewed where relevant and deemed significant to the Company's financial condition.

This report of examination is confined to financial statements and comments on matters that involve departures from laws, regulations or rules, or which are deemed to require special explanation or description.

Based on the review of the Company's control environment and the materiality level set for this examination, reliance was placed on work performed by the Company's CPA after verifying the statutory requirements for the following accounts:

- Other Assets (EDP Equipment and Software)
- Taxes, Licenses and Fees
- Premium Testing
- Reinsurance Recoverable

Status of Adverse Findings from Prior Examination

There were no material items which required corrective actions to be taken by the Company.

HISTORY

General

The Company was incorporated on October 1, 1999, under the laws of the State of Florida as a stock property and casualty insurer and commenced business on April 1, 2000 as Desoto Prime Insurance Company.

In accordance with Section 624.401(1), FS, the Company was authorized to transact the following insurance coverage in Florida on December 31, 2002:

Homeowners Multi Peril	Allied Lines
Other Liability	Homeowners Physical Damage
Fire	

The articles of incorporation and the by-laws were amended during the period covered by this examination. The amendment, effective as of October 17, 2002 and signed March 24, 2003, states: "The maximum number of shares of capital stock that this company is authorized to issue is 120 shares of common stock having a par value of \$1.00 per share. The Company shall not begin transacting insurance until it has capital and surplus totaling not less than \$5 million."

Capital Stock

As of December 31, 2002, the Company's capitalization was as follows:

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

The control of the Company was maintained by its parent, Renaissance U.S. Holdings, Ltd., a Delaware corporation who owned 100 percent of the stock issued by the Company, who in turn was 100 percent owned by Renaissance Re Holdings, Ltd., a Bermuda corporation.

Profitability of Company

The Company's net underwriting losses for 2002 were (\$6,233,927), net investment gains were \$649,444 and total other income was \$534,469. The Company's net loss for the same period was (\$5,050,014). The Company's explanation for the net underwriting losses was that the Company strengthened their incurred but not reported loss reserves, as well as commuted the quota-share reinsurance contracts.

Dividends to Stockholders

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

Management

The annual shareholder meeting for the election of directors was held in accordance with Sections 607.1601 and 628.231, FS. Directors serving as of December 31, 2002, were:

Directors

Name and Location	Principal Occupation
James N. Stanard Paget, Bermuda	Director, Renaissance Holdings, Ltd.
Diana R. Davies Smiths, Bermuda	Director, Renaissance Re Holdings, Ltd.
William I. Riker Smiths, Bermuda	Director, Renaissance Re Holdings, Ltd.

Thomas H. Friedburg
New Jersey, USA

Director, Renaissance U.S. Holdings, Ltd.

John M. Lummis
Jacksonville, Florida

Director, Renaissance Re Holdings, Ltd.

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

Senior Officers

Name	Title
Forest I. Hughes	President
Joel R. Crisalli	Vice President & Secretary
Oldsmar W. Schlaegel	Treasurer

The Company did not maintain an audit committee as required by Section 624.424(8)(c), FS.

Conflict of Interest Procedure

The Company had adopted a policy statement requiring annual disclosure of conflicts of interest in accordance with Section 607.0832, FS. No exceptions were noted during this examination period.

Corporate Records

The recorded minutes of the shareholder, board of directors, and committee meetings were reviewed for the period under examination. The recorded minutes of the board adequately documented its meetings and approval of Company transactions in accordance with Section 607.1601, FS, including the authorization of investments as required by Section 625.304, FS.

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

On October 17, 2002, Desoto Insurance Company merged with Desoto Prime Insurance Company. The merged company maintained the name Desoto Prime Insurance Company. The Company was subsequently sold to Tower Hill Capital Holdings, LLC (Tower Hill) in March 2003.

Surplus Debentures

The Company had no surplus debentures as of December 31, 2002.

AFFILIATED COMPANIES

The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), FAC. The latest holding company registration statement was filed with the State of Florida on October 17, 2002, as required by Section 628.801, FS, and Rule 69O-143.046.

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

Tax Allocation Agreement

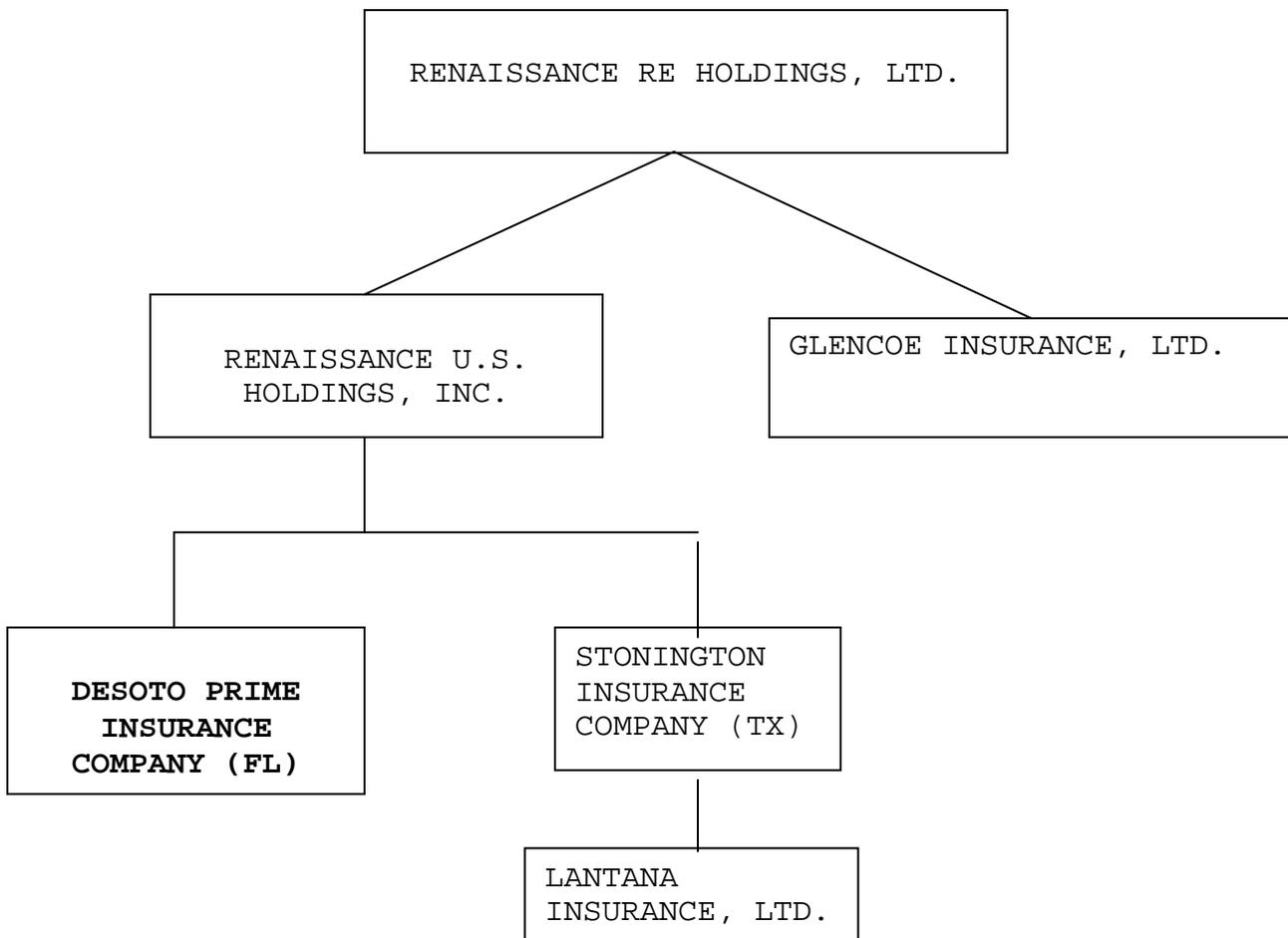
The Company, along with its parent, filed a consolidated federal income tax return. On December 31, 2002, the consolidated return was prepared as if each individual company filed a separate income tax return based on the income, losses, deductions and credits available to the individual company.

Management Agreement

The Company had a management agreement subsequent to December 31, 2002 with Tower Hill.

A simplified organizational chart as of December 31, 2002, reflecting the holding company system, is shown below. Schedule Y of the Company's 2002 annual statement provided a list of all related companies of the holding company group.

**DESOTO PRIME INSURANCE COMPANY
ORGANIZATIONAL CHART
DECEMBER 31, 2002**



FIDELITY BOND AND OTHER INSURANCE

The Company maintained fidelity bond coverage up to \$1,000,000 with a deductible of \$25,000, which adequately covered the suggested minimum amount of coverage for the Company as recommended by the NAIC.

PENSION, STOCK OWNERSHIP, AND INSURANCE PLANS

The Company had no employees during 2002.

STATUTORY DEPOSITS

The following securities were deposited with the State of Florida as required by Section 624.411, FS, and with various state officials as required or permitted by law:

State	Description	Par Value	Market Value
FL	Cash, Variable	<u>\$ 600,000</u>	<u>\$ 600,000</u>
	TOTAL FLORIDA DEPOSITS	\$ 600,000	\$ 600,000
	TOTAL SPECIAL DEPOSITS	<u><u>\$ 600,000</u></u>	<u><u>\$ 600,000</u></u>

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operation

The Company was authorized to transact insurance in the State of Florida in accordance with Section 624.401(2), FS.

Treatment of Policyholders

The Company had established procedures for handling written complaints in accordance with Section 626.9541(1)(j), FS.

The Company maintained a claims procedure manual that included detailed procedures for handling each type of claim.

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 through a quota share agreement during 2002.

Ceded

The Company ceded risk on a quota share and excess of loss basis.

The reinsurance contracts were reviewed by the Company's appointed actuary and were utilized in determining the ultimate loss opinion.

ACCOUNTS AND RECORDS

An independent CPA audited the Company's statutory basis financial statements for the year 2002, in accordance with Section 624.424(8), FS. Supporting work papers were prepared by the CPA as required by Rule 69O-137.002, FAC.

The Company's accounting records were maintained on a computerized system. The Company's balance sheet accounts were verified with the line items of the annual statement submitted to the Office. The Company was not in compliance with Rule 69O-143.047(1)(d), FAC, because they failed to provide all of the documentation as requested for the following accounts: advance premiums, cash receipts, claims and inter-company transactions.

The Company maintained its principal operational offices in Tallahassee, Florida until it was sold to Tower Hill, whose offices were maintained in Gainesville, Florida.

The Company and non-affiliates had the following agreements:

Custodial Agreement

On January 30, 2002, the Company entered into a written custodial agreement with the custodian of its investments, SunTrust Bank. The agreement complied with the requirements of Rule 69O-143.042, FAC.

MGA Agreement

The Company had a policy administration services agreement between Inspire Insurance Solutions, Inc, and Pembroke Managing Agents, Inc. This agreement terminated when Tower Hill purchased the Company.

Risk-Based Capital

The Company reported its risk-based capital (RBC) at an inadequate level. The Company explained the reason for the RBC ratio falling below the statutory minimum to 190.4% as follows: The RBC in 2002 was entirely driven by factor R5 - Underwriting/Net Written Premium (NWP). The R5 RBC was extremely high in 2002 due to the steep underwriting expense ratio of 77.8% of NWP of \$8.7 million. This expense ratio was impacted by nearly \$2.5 million in contingent commission expense in 2002 related to the quota-share agreement. Without this contingent commission expense in 2002, the expense ratio would have been 48.7% and the Authorized Control Level RBC would have been \$1.5 million (\$2.8 million was reported).

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2002, 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."

DESOTO PRIME INSURANCE COMPANY
Assets

DECEMBER 31, 2002

Classification	Per Company	Examination Adjustments	Per Examination
Bonds	\$9,342,271		\$9,342,271
Cash:			
On deposit	(923,519)		(923,519)
Short-term investments	6,164,459		6,164,459
Agents' balances:			
Uncollected premium	496,184		496,184
Deferred premium	347,238		347,238
Reinsurance recoverable	400,056		400,056
EDP equipment	95,701		95,701
Interest and dividend income due & accrued	120,118		120,118
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Totals	\$16,042,508	\$0	\$16,042,508
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DESOTO PRIME INSURANCE COMPANY
Liabilities, Surplus and Other Funds

DECEMBER 31, 2002

Liabilities	Per Company	Examination Adjustments	Per Examination
Losses	\$1,781,602		\$1,781,602
Reinsurance payable on paid loss and loss adjustment expenses	13,734		13,734
Loss adjustment expenses	256,426		256,426
Other expenses	179,743		179,743
Taxes, licenses and fees	88,615		88,615
Unearned premium	4,214,143		4,214,143
Advance premiums	224,053		224,053
Ceded reinsurance premiums payable	3,754,727		3,754,727
Amounts withheld	2,125		2,125
Payable to parent, subsidiaries and affiliates	224,106		224,106
Total Liabilities	\$10,739,274		\$10,739,274
Common capital stock	100		100
Gross paid in and contributed surplus	9,999,900		9,999,900
Unassigned funds (surplus)	(4,696,766)		(4,696,766)
Surplus as regards policyholders	\$5,303,234		\$5,303,234
Total liabilities, capital and surplus	\$16,042,508		\$16,042,508

DESOTO PRIME INSURANCE COMPANY
Statement Of Income

DECEMBER 31, 2002

Underwriting Income

Premiums earned	\$5,648,284
DEDUCTIONS:	
Losses incurred	4,236,880
Loss expenses incurred	892,686
Other underwriting expenses incurred	6,752,645
Aggregate write-ins for underwriting deductions	0
Total underwriting deductions	<u>\$11,882,211</u>
Net underwriting gain or (loss)	(\$6,233,927)

Investment Income

Net investment income earned	\$518,362
Net realized capital gains or (losses)	131,082
Net investment gain or (loss)	<u>\$649,444</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	534,469
Total other income	<u>\$534,469</u>

Net income before dividends to policyholders and before federal & foreign income taxes	(\$5,050,014)
Dividends to policyholders	0
Net Income, after dividends to policyholders, but before federal & foreign income taxes	(\$5,050,014)
Federal & foreign income taxes	0
Net Income	<u>(\$5,050,014)</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year	\$16,459,991
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Gains and (Losses) in Surplus

Net Income	(\$5,050,014)
Net unrealized capital gains or losses	0
Change in non-admitted assets	(391,109)
Change in net deferred income tax	284,366
Capital paid-in	(100)
Surplus adjustments: Paid in	(5,999,900)
Aggregate write-ins for gains and losses in surplus	0
Examination Adjustment	0
Change in surplus as regards policyholders for the year	<u>(\$11,156,757)</u>
Surplus as regards policyholders, December 31 current year	<u><u>\$5,303,234</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Assets

EDP Equipment and Software **\$95,701**

The company was unable to substantiate the assets with the limited breakdown of the EDP equipment and software list provided by the Company.

Liabilities

Losses and Loss Adjustment Expenses **\$2,371,361**

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, 2002 make a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

The Office actuary reviewed work papers provided by the Company and was in concurrence with this opinion.

DESOTO PRIME INSURANCE COMPANY
Comparative Analysis of Changes in Surplus

DECEMBER 31, 2002

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 per December 31, 2002, Annual Statement	\$5,303,234
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	<u>PER</u> <u>COMPANY</u>	<u>PER</u> <u>EXAM</u>	<u>INCREASE</u> <u>(DECREASE)</u> <u>IN SURPLUS</u>
ASSETS:			
No adjustments.			
LIABILITIES:			
No adjustments.			
Net Change in Surplus:			0
Surplus as Regards Policyholders December 31, 2002, Per Examination			\$5,303,234

SUMMARY OF FINDINGS

Compliance with previous directives

There were no material items which required corrective actions to be taken by the Company.

Current examination comments and corrective action

The following is a brief summary of items of interest and corrective action to be taken by the Company regarding findings in the examination as of December 31, 2002.

General

Management

The Company did not maintain an audit committee. **The Company is directed to comply with Section 624.424(8)(c), FS, which requires the Board to establish an audit committee of three or more directors. The Company is to provide documentation of compliance to the Office within 90 days after the report is issued.**

EDP Equipment and Software

The Company was unable to substantiate the assets with the limited breakdown of the EDP equipment and software list provided by the Company. **The Company is directed to maintain accurate records and to insure this asset complies with 625.012(11), FS.**

Account Records

The Company was not in compliance with Rule 69O-143.047(1)(d), FAC, because they failed to provide all of the documentation as requested for several areas of the examination. **The Company is directed to comply with Rule 69O-143.047(1)(d), FAC.**

Subsequent Events

Tower Hill purchased the Company in 2003. The following is a listing of directors and officers in the new management of the Company subsequent to December 31, 2002.

OFFICERS

William J. Shively

Phillip M. Thomasson

Donald C. Matz, Jr.

Brian T. Sheekey

Jonathon B. Palmquist

TITLE

Chief Executive Officer

President

Chief Operating Officer

Treasurer

Secretary

DIRECTORS

William J. Shively, Chairman of the Board

Phillip M. Thomasson

Donald C. Matz, Jr.

Brian T. Sheekey

Jonathon B. Palmquist

CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Desoto Prime Insurance Company, Inc.** as of December 31, 2002, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's surplus as regards policyholders was \$5,303,234, which was in compliance with Section 624.408, FS.

In addition to the undersigned, John C. Berry, Financial Examiner/Analyst Supervisor, James Collins, Financial Examiner/Analyst II and Joel Bengo, Financial Examiner/Analyst II, participated in the examination.

Respectfully submitted,

Jerry T. Golden
Financial Examiner/Analyst
Florida Office of Insurance Regulation