

REPORT ON EXAMINATION
OF
EDISON INSURANCE COMPANY
BOCA RATON, FLORIDA
AS OF
DECEMBER 31, 2012

BY THE
FLORIDA OFFICE OF INSURANCE REGULATION

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July 19, 2013

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

**EDISON INSURANCE COMPANY
903 NW 65TH STREET, SUITE 200
BOCA RATON, FLORIDA 33487**

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, 2008, through December 31, 2012. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2007. This examination commenced with planning at the Office on April 1, 2013, to April 5, 2013. The fieldwork commenced on May 6, 2013, and concluded as of July 19, 2013.

This 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 finding noted during this examination period has been resolved by the Company subsequent to the examination date. However, the finding is discussed in detail in the body of the examination report.

Prior Exam Findings

There were no findings, exceptions or corrective action to be taken by the Company for the examination as of December 31, 2007.

HISTORY

General

The Company was incorporated in Florida on March 9, 2005, and commenced business on February 1, 2006, as Edison Insurance Company.

By legal acquisition under Consent Order # 108190-09-CO, approved by the Office on December 31, 2009, Florida Peninsula Holdings, LLC, owned 100% stock of the Company and was the ultimate controlling corporate entity until Florida Peninsula Insurance Company acquired 100% stock of the Company, effective January 5, 2010.

As of year-end 2011, all of the Company's insurance policies were renewed with Florida Peninsula Insurance Company. The Company is currently in run-off.

The Company was authorized to transact homeowners multi peril insurance coverage in Florida on January 4, 2006, and continued to be authorized as of December 31, 2012.

The Articles of Incorporation were not amended during the period covered by the examination. The Bylaws were amended during the period covered by this examination to show the change in office location resulting from the acquisition by Florida Peninsula Insurance Company.

Dividends to Stockholders

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

Capital Stock and Capital Contributions

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

Number of authorized common capital shares	1,000,000
Number of shares issued and outstanding	1,000,000
Total common capital stock	\$1,000,000
Par value per share	\$1.00

Control of the Company was maintained by its parent, Florida Peninsula Insurance Company, who owned 100% of the stock issued by the Company, who in turn was 100% owned by Florida Peninsula Holdings, LLC.

Surplus Notes

The Company did not have any surplus notes during the period of this examination.

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

The Company had no acquisitions, mergers, disposals, and purchase or sales through reinsurance during the period of this examination.

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, 2012, were:

Directors

Name and Location

Principal Occupation

Paul Montgomery Adkins
Boca Raton, Florida

Chairman, Florida Peninsula Insurance
Company

Gary Andrew Cantor
Ocean Ridge, Florida

Managing Director, Florida Peninsula
Insurance Company

Roger Louis Desjaddon
Franklin Park, New Jersey

Chief Executive Officer, Florida Peninsula
Insurance Company

Stacey Alexander Giuliani
Hollywood, Florida

Chief Legal Officer, Florida Peninsula
Insurance Company

Francis Joseph Lattanzio
Glastonbury, Connecticut

Chief Financial Officer, Florida Peninsula
Insurance Company

Clint Bryan Strauch
Lighthouse Point, Florida

Chief Operations Officer, Florida Peninsula
Insurance Company

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

Senior Officers

Name	Title
Roger Louis Desjaddon	Chief Executive Officer
Francis Joseph Lattanzio	Treasurer
Stacey Alexander Giuliani	Secretary

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

Audit Committee

Gary Andrew Cantor¹
Francis Joseph Lattanzio
Stacey Alexander Giuliani
Cindy Murphy

Investment Committee

Roger Louis Desjaddon¹
Francis Joseph Lattanzio
Paul Montgomery Adkins
Gary Andrew Cantor

¹ Chairman

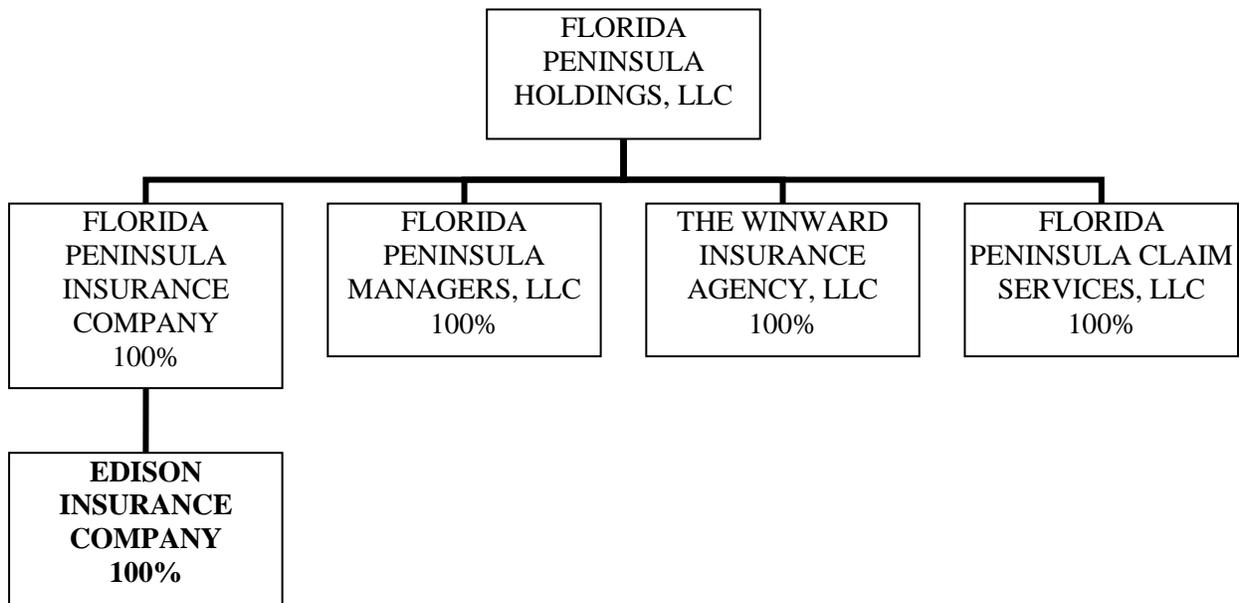
Affiliated Companies

The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), Florida Administrative Code. The most recent holding company registration statement was filed with the State of Florida on February 28, 2013, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

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

**EDISON INSURANCE COMPANY
ORGANIZATIONAL CHART**

DECEMBER 31, 2012



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

Managing General Agent Agreement

The Company entered into a Managing General Agency Agreement with its affiliate, Florida Peninsula Managers, LLC upon acquisition on January 5, 2010. The agreement provided for underwriting, policyholder, claims administration services, accounting and other similar services. Fees incurred under this agreement during 2012 amounted to \$0.

FIDELITY BOND AND OTHER INSURANCE

The Company maintained fidelity bond coverage up to \$7,500,000 with a deductible of \$75,000, which reached the suggested minimum as recommended by the NAIC. The Company also maintained Directors and Officers (D&O) and Private Company liability insurance coverage with limits of \$5,000,000 and deductibles ranging from \$25,000 to \$100,000, as well as Professional Liability coverage with limits of \$7,500,000 and a deductible of \$250,000.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company had no employees and therefore no pension, stock ownership or insurance plans.

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

The Company was in run-off and did not write any premium in 2012. Florida Peninsula Insurance Company submitted a transition plan for the Company to the Office on March 15, 2010, which was approved by the Office in April 2010 and indicated transition of the Company's policyholders to Florida Peninsula Insurance Company over a period of time, which was completed in December 2011. Florida Peninsula Insurance Company contributed cash for the Company to maintain the required \$4,000,000 in surplus, required by Consent Order # 108190-09-CO.

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.

	2012	2011	2010	2009	2008
Premiums Earned	0	1,313,661	2,812,345	9,171,213	12,589,317
Net Underwriting Gain/(Loss)	(1,477,403)	(1,452,488)	37,528	(8,055,200)	(847,753)
Net Income	(1,070,285)	(615,852)	36,233	(7,607,941)	(131,440)
Total Assets	4,716,501	7,551,288	16,095,071	20,074,678	26,553,979
Total Liabilities	1,786,785	3,551,288	12,003,474	16,074,678	19,214,248
Surplus As Regards Policyholders	2,929,715	4,000,000	4,091,596	4,000,000	7,339,731

LOSS EXPERIENCE

During the examination period, the Company reported adverse development overall. The primary cause of the adverse loss development related to the nature of the underlying exposure, Florida homeowners and the higher than expected losses attributable to sinkhole claims. The one and two-year net loss developments at the end of the examination period were both adverse at \$1.2 million and \$1.7 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 did not assume any reinsurance during the period of this examination.

Ceded

The Company ceded risk on a quota share basis through the end of December 31, 2011 when all policies had been transferred to Florida Peninsula. The Company was also covered on an excess of loss basis through its parent, which also participated in the Florida Hurricane Catastrophe Fund and maintained aggregate excess of loss reinsurance and reinstatement premium protection. The Company did not cede any premiums in 2012, as no premiums were written.

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 Boca Raton, Florida.

An independent CPA audited the Company's statutory basis financial statements annually for the years 2008, 2009, 2010 and 2011 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 was exempt from filing audited financials for 2012.

The Company's accounting records were maintained on a computer system developed externally.

The Company and non-affiliates had the following agreements:

Claims Services Agreement – NCA Group

Effective May 1, 2006, the Company's affiliate, Florida Peninsula Managers, LLC entered into a Claim Services Agreement with NCA Group, Inc. (NCA) to provide claims services for claims assigned to them. NCA was to act as administrator and fully investigate, evaluate and handle each claim reported within established authority for claims. The Company became covered under this agreement upon acquisition on January 5, 2010.

Independent Auditor Agreement

The Company contracted with an external independent CPA firm to perform the annual audit of its financial statements for years 2008 through 2011 as required by Rule 69O-137.002 (7) (c), Florida Administrative Code. The Company was exempt from filing audited financials for year 2012.

INFORMATION TECHNOLOGY REPORT

Scott Langstein, CISA, IT Manager, of Cerebres, LLC 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	Cash	<u>\$ 378,562</u>	<u>\$ 378,562</u>
TOTAL FLORIDA DEPOSITS		\$ 378,562	\$ 378,562
TOTAL SPECIAL DEPOSITS		<u><u>\$ 378,562</u></u>	<u><u>\$ 378,562</u></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."

EDISON INSURANCE COMPANY

Assets

DECEMBER 31, 2012

	Per Company	Examination Adjustments	Per Examination
Cash and Short-Term Investments	\$3,777,402		\$3,777,402
Investment Income due and accrued	1,912		1,912
Reinsurance recoverable	436,036		436,036
Current federal and FIT recoverable	501,151		501,151
Receivable from Parent, Subsidiaries, and affiliates	1,070,285		1,070,285
	<hr/>		<hr/>
Totals	\$5,786,786	\$0	\$5,786,786

EDISON INSURANCE COMPANY
Liabilities, Surplus and Other Funds

DECEMBER 31, 2012

	Per Company	Examination Adjustments	Per Examination
Losses	\$1,426,241		\$1,426,241
Loss adjustment expenses	88,311		88,311
Amounts withheld	46,822		46,822
Drafts outstanding	225,412		225,412
Total Liabilities	\$1,786,785	\$0	\$1,786,785
Common capital stock	\$1,000,000		\$1,000,000
Gross paid in and contributed surplus	20,070,332		20,070,332
Unassigned funds (surplus)	(17,070,332)		(17,070,332)
Surplus as regards policyholders	\$4,000,000		\$4,000,000
Total liabilities, surplus and other funds	\$5,786,785	\$0	\$5,786,785

EDISON INSURANCE COMPANY
Statement of Income

DECEMBER 31, 2012

Underwriting Income

Premiums earned		\$0
	Deductions:	
Losses incurred		\$628,059
Loss expenses incurred		477,055
Other underwriting expenses incurred		372,289
Aggregate write-ins for underwriting deductions		0
Total underwriting deductions		\$1,477,403
Net underwriting gain or (loss)		(\$1,477,403)

Investment Income

Net investment income earned		\$13,151
Net realized capital gains or (losses)		0
Net investment gain or (loss)		\$13,151

Other Income

Net gain or (loss) from agents' or premium balances charged off		\$176
Finance and service charges not included in premiums		0
Aggregate write-ins for miscellaneous income		0
Total other income		\$176

Net income before dividends to policyholders and before federal & foreign income taxes		(\$1,464,076)
Dividends to policyholders		0
Net Income, after dividends to policyholders, but before federal & foreign income taxes		(\$1,464,076)
Federal & foreign income taxes		(393,791)
Net Income		(\$1,070,285)

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year		\$4,000,000
Net Income		(\$1,070,285)
Net unrealized capital gains or losses		0
Change in non-admitted assets		5,029,607
Change in net deferred income tax		(5,029,607)
Change in excess statutory over statement reserves		0
Surplus adjustments: Paid in		1,070,285
Aggregate write-ins for gains and losses in surplus		0
Examination Adjustment		0
Change in surplus as regards policyholders for the year		\$0
Surplus as regards policyholders, December 31 current year		\$4,000,000

EDISON INSURANCE COMPANY
Comparative Analysis of Changes in Surplus

DECEMBER 31, 2012

Surplus as Regards Policyholders
 December 31, 2012, per Annual Statement \$4,000,000

	<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, 2012, Per Examination			<u><u>\$4,000,000</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Losses and Loss Adjustment Expenses

\$ 1,514,552

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, 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 \$4,000,000, met the minimum of \$4,000,000 required by Section 624.408, Florida Statutes.

Receivable from Parent, Subsidiaries and Affiliates

On its 2012 Annual Statement, the Company reported \$1,070,285 as the receivable from parents, subsidiaries, and affiliates balance and as an increase to gross paid-in and contributed surplus. However, the Company did not request approval from the office to report this amount as of December 31, 2012, which was not in compliance with SSAP 72. **Subsequent Event:**

On February 22, 2013, Florida Peninsula Insurance Company liquidated its corresponding intercompany payable balance and transferred \$1,070,285 contributed policyholder surplus, in cash, to the Company. The amount of \$1,070,285 will be admitted for the Company as of March 1, 2013.

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Edison 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 \$4,000,000, which met the minimum of \$4,000,000 required by Section 624.408, Florida Statutes.

In addition to the undersigned, the following three individuals with Lewis and Ellis, Inc. participated in the examination: Sarah Lucibello, CPA, CFE, Examiner-In-Charge; Amy Carter, CPA, and Lindsey Pittman, CPA, CFE, Participating Examiners. Also participating in the examination were: Greg Wilson, FCAS, MAAA, consulting actuary of Lewis & Ellis, Inc.; Scott Langstein, CISA, IT Specialist of Cerebres, LLC; Jonathan Frisard, Financial Examiner/Analyst Supervisor and Connie Hare, CFE (Fraud), Financial Examiner/Analyst Supervisor of the Office.

Respectfully submitted,

Robin Brown, CFE
Chief Examiner
Florida Office of Insurance Regulation