

EXAMINATION REPORT

OF

FHM INSURANCE COMPANY

(fka FLORIDA HOSPITALITY MUTUAL INSURANCE COMPANY)

JACKSONVILLE, FLORIDA

AS OF

DECEMBER 31, 2014

BY THE

FLORIDA OFFICE OF INSURANCE REGULATION

TABLE OF CONTENTS

LETTER OF TRANSMITTAL	-
SCOPE OF EXAMINATION	1
SUMMARY OF SIGNIFICANT FINDINGS	2
CURRENT EXAMINATION FINDINGS.....	2
PRIOR EXAMINATION FINDINGS.....	2
COMPANY HISTORY	2
GENERAL	2
DIVIDENDS	3
CAPITAL STOCK AND CAPITAL CONTRIBUTIONS.....	3
SURPLUS NOTES	3
ACQUISITIONS, MERGERS, DISPOSALS, DISSOLUTIONS AND PURCHASE OR SALES THROUGH REINSURANCE	3
CORPORATE RECORDS	4
CONFLICT OF INTEREST.....	4
MANAGEMENT AND CONTROL	4
MANAGEMENT	4
DIRECTORS	4
SENIOR OFFICERS	5
AFFILIATED COMPANIES	5
ORGANIZATIONAL CHART	6
MANAGING GENERAL AGENT AGREEMENT.....	7
MANAGEMENT SERVICES AGREEMENT WITH FHMIS	8
MANAGEMENT SERVICE AGREEMENT WITH FHMMC.....	8
TERRITORY AND PLAN OF OPERATIONS	8
TREATMENT OF POLICYHOLDERS	8
REINSURANCE	9
ASSUMED	9
CEDED	9
ACCOUNTS AND RECORDS	9
CUSTODIAL AGREEMENT	10
AGREEMENT FOR SERVICES	10
INDEPENDENT AUDITOR AGREEMENT	10
INFORMATION TECHNOLOGY REPORT	11
STATUTORY DEPOSITS	12
FINANCIAL STATEMENTS	13

ASSETS	14
LIABILITIES, SURPLUS AND OTHER FUNDS	15
STATEMENT OF INCOME AND CAPITAL AND SURPLUS ACCOUNT	16
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS.....	17
COMMENTS ON FINANCIAL STATEMENTS.....	18
LOSS AND LOSS ADJUSTMENT EXPENSES	18
CAPITAL AND SURPLUS	18
CONCLUSION.....	20

April 8, 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

FHM Insurance Company
4601 Touchton Rd. E. Bldg. 300 Suite 3150
Jacksonville, Florida 32246

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) and covered the period of January 1, 2005 through December 31, 2009. This examination commenced with planning at the Office on November 30, 2015 to December 3, 2015. The fieldwork commenced on December 7, 2015 and concluded as of April 8, 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 findings or exceptions noted during the examination as of December 31, 2014.

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 and commenced business in Florida on February 1, 1954.

The Company was authorized to transact insurance coverage in Florida on February 1, 1954 and continued to be authorized for Workers' Compensation coverage as of December 31, 2014. On or about September 21, 2010, Florida Hospitality Mutual Insurance Company changed its name to FHM Insurance Company.

Dividends to Policyholders

In accordance with Section 628.381, Florida Statutes, the Company declared and paid dividends to its Policyholders in 2010, 2011, 2012, 2013 and 2014 in the amounts of \$2,705,000, \$2,725,000, \$2,385,000, \$2,485,000 and \$2,330,000, respectively.

Capital Stock and Capital Contributions

The Company is a mutual insurance company; therefore, no capital stock was issued or capital contributions made by the stockholders.

Surplus Notes

The Company issued a subordinate surplus debenture on December 19, 2002 to FHM Management Corp. (FHMMC) in consideration of \$3,800,000. The surplus debenture matures on December 31, 2022. The terms of the surplus debenture provide for interest at 4.86% to be paid from earned surplus upon request of FHMMC subject to prior approval of the Commissioner of Insurance of Florida, and only to the extent the Company has sufficient surplus earnings to make such payments. The Company paid interest payments of \$184,680 in each year under exam.

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 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 Handbook adopted by Rule 69O-138.001, Florida Administrative Code.

MANAGEMENT AND CONTROL

Management

The annual policyholder 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
Jack Bernard Healan Amelia Island, Florida	Retired President Amelia Island Plantation
George DeSaussure Gabel, Jr. Jacksonville, Florida	Attorney Holland & Knight, LLP
Joseph Gurley Seay Jacksonville, Florida	Insurance & Tax Consultant
Walter Lee Banks Ft. Lauderdale, Florida	Owner & Operator Largo Mar Resort & Club
Mary Ann Richardson Daytona Beach, Florida	Retired Property Manager
William Bond, Jr. St. Petersburg, Florida	Retired President FHM Insurance Company

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

Senior Officers

Name	Title
Matthew Lupino	President & Chief Executive Officer
Mary Ann Richardson	Secretary
Joseph Gurley Seay	Treasurer
John Albert Lemine	Executive VP of Corporate Services
Heather Lynn McCoy	Vice President – Finance
Matthew Whisenant	Vice President – Insurance Services

The Company's Board appointed several internal committees. Following were the principal internal board committees and their members as of December 31, 2014:

Budget & Finance	Audit & Compliance	Investment
Jack Healan ¹	George Gabel ¹	Joseph Seay ¹
Joseph Seay	Walter Banks	Jack Healan
Walter Banks	Mary Ann Richardson	Walter Banks
	Joseph Seay	

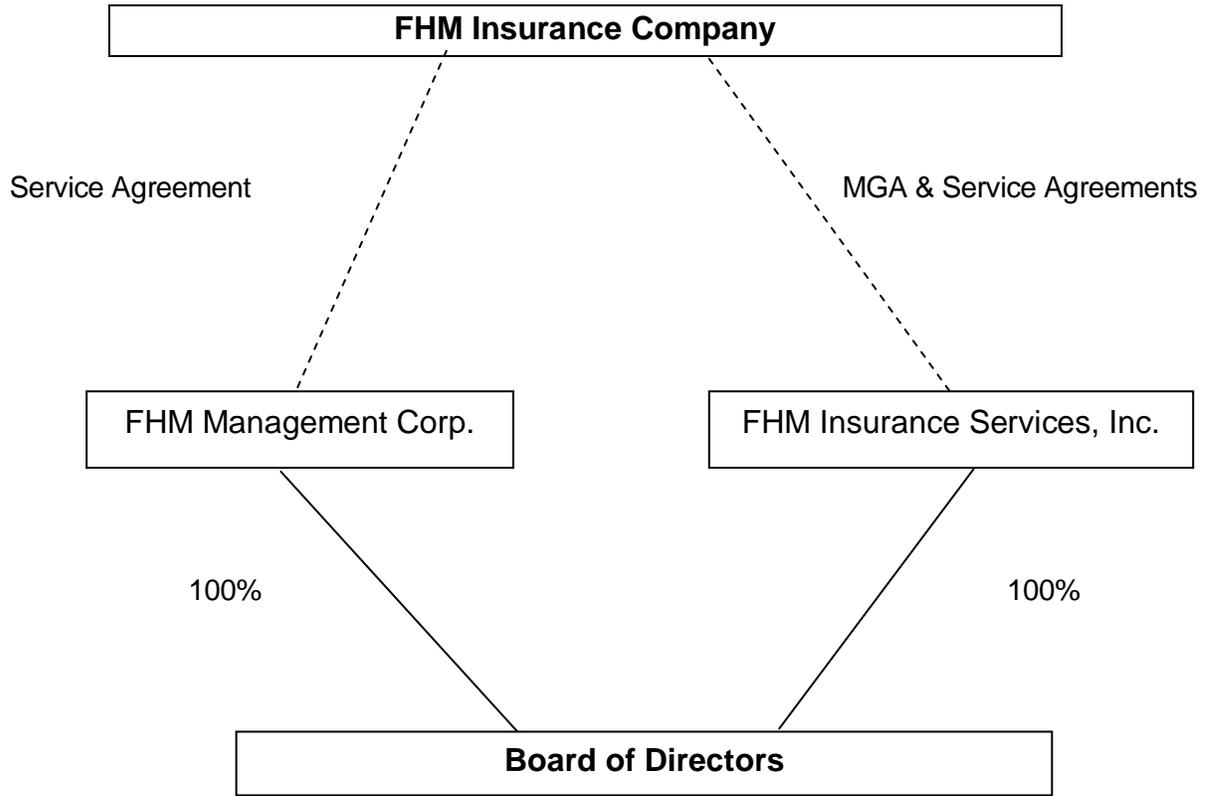
¹ Chairman

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 March 25, 2015, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

**FHM Insurance Company
Organizational Chart
December 31, 2014**



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

Managing General Agent Agreement

The Company entered into a Managing General Agency (MGA) Agreement with its affiliate, FHM Insurance Services, Inc. (FHMIS) on January 1, 2007 for underwriting and producing gross direct written premium subject to the guidelines contained in Article III, Section E of the MGA Agreement. The Company is a member of the National Council of Compensation Insurers (NCCI) and adopted NCCI rates and policy forms. Per the terms of the MGA Agreement, FHMIS was subject to adhering to NCCI's rates and policy forms, risk classifications permitted by the Company and Section 440, Florida Statutes. FHMIS was to render accounts to the Company detailing all transactions and remit funds due under this MGA Agreement directly to the Company on the day on which the funds are received. All premium payments collected for the account of the Company were to be deposited by FHMIS on the day on which they were received into the account of the Company at banks that were members of the Federal Reserve System. FHMIS was authorized to negotiate reinsurance on behalf of the Company. However, FHMIS was not authorized to bind reinsurance or retrocession or settle claims on behalf of the Company. The Company did not compensate its MGA, FHMIS. The MGA Agreement was amended January 1, 2012 to extend the term of the MGA Agreement for another five years.

Management Services Agreement with FHMIS

The Company entered into a Management Services Agreement with its affiliate, FHMIS, on January 1, 2005, to administer and manage some of the services previously provided by Brown & Brown d/b/a United Self Insured Services (USIS). Under the terms of the agreement, FHMIS provided marketing, underwriting, policyholder service functions and loss prevention services.

The compensation to be paid to FHMIS and FHMMC shall not exceed 21.5% of total written premiums and claim payments made for large deductible policies. The agreement was amended, effective January 1, 2012 to recognize FHMIS' election of using the tax-accrual basis for financial statement reporting and amended, effective January 1, 2014, to recognize that FHMIC would be responsible for paying all travel and entertainment expenses. Fees incurred under the Management Services Agreements with FHMIS and FHMMC during 2014 amounted to \$4,828,558.

Management Service Agreement with FHMMC

The Company entered into a Management Services Agreement with FHMMC effective October 1, 1996. Under the terms of the agreement, FHMMC provided claims services and assistance in the preparation of statutory reporting. The agreement was amended effective April 30, 2010 to define written premium as the earned portion of premium billed.

TERRITORY AND PLAN OF OPERATIONS

The Company was authorized to transact insurance in the following states:

Alabama	Florida	Georgia
Kentucky	North Carolina	South Carolina
Virginia		

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 participates in the mandatory National Workers' Compensation Reinsurance Association pool administered by NCCI.

Ceded

The Company ceded risk on an excess of loss basis to various reinsurers during the period covered by this examination utilizing Axiom Re, LP, as the reinsurance intermediary. The Company also had a facultative reinsurance agreement in place.

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 Comerica Bank & Trust, National Association, which was executed on August 27, 2012. Prior to August 27, 2012 the Company maintained a custodial agreement with Morgan Stanley & Co., Incorporated. The agreements complied with Rule 69O-143.042, Florida Administrative Code.

Agreement for Services

The Company and its affiliates, FHMS and FHMMC, entered into an agreement with Brown & Brown Inc., an independent insurance intermediary organization, and USIS, Inc. The agreement was effective October 1, 1996 and amended on January 1, 2014 to extend the agreement for a three-year period. Services to be performed include administrative and technology services, information technology to support policy and loss prevention, claims service, data management services, claim recoveries, medical cost containment services and administrative support services.

Independent Auditor Agreement

An independent CPA, Johnson Lambert & Co, LLP, audited the Company's statutory basis financial statements annually for the years 2010, 2011, 2012, 2013 and 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

Floyd Meeks, CISA, AES of Examination Resources, 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 and with various state officials as required or permitted by law.

State	Description	Par Value	Market Value
FL	Gen Elec, 3.65%, 11/15/20	\$ 1,000,000	\$ 1,039,250
FL	Gen Elec, 3.35%, 10/17/16	500,000	519,940
FL	Gen Elec, 4.65%, 10/17/21	250,000	281,783
FL	Microsoft, 1.625%, 09/25/15	<u>300,000</u>	<u>302,733</u>
TOTAL FLORIDA DEPOSITS		\$ 2,050,000	\$ 2,143,706
GA	USTBDS, .75%, 12/31/17	\$ 85,000	\$ 84,103
NC	USTBDS, .375%, 4/15/15	225,000	225,176
SC	USTBDS, .875%, 11/30/16	125,000	125,548
VA	FL Util Sys, 5.00%, 10/01/37	<u>250,000</u>	<u>272,028</u>
TOTAL OTHER DEPOSITS		<u>\$ 685,000</u>	<u>\$ 706,855</u>
TOTAL SPECIAL DEPOSITS		<u><u>\$2,735,000</u></u>	<u><u>\$2,850,561</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:

FHM Insurance Company

Assets

December 31, 2014

	Per Company	Examination Adjustments	Per Examination
Bonds	\$79,081,310		\$79,081,310
Stocks:			
Common	2,454,931		2,454,931
Real Estate:			
Properties			
occupied by Company			0
Other properties			0
Cash and Short-Term Investments	6,393,561		6,393,561
Receivables for securities	216,866		216,866
Aggregate write-in for invested assets			0
Agents' Balances:			
Uncollected premium	914,537		914,537
Deferred premium	1,047,999		1,047,999
Accrued retrospective premium	959,473		959,473
Reinsurance recoverable	136,882		136,882
Interest and dividend income due & accrued	910,164		910,164
Net deferred tax asset	2,245,621		2,245,621
Guaranty funds receivable or on depos	64,182		64,182
Receivable from parents, subsidiaries and affiliates	69,764		69,764
Aggregate write-in for other than invested assets	432,362		432,362
	<hr/>		<hr/>
Totals	\$94,927,652	\$0	\$94,927,652
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FHM Insurance Company
Liabilities, Surplus and Other Funds
December 31, 2014

	Per Company	Examination Adjustments	Per Examination
Losses	\$42,796,489		\$42,796,489
Reinsurance Payable	131,771		131,771
Loss adjustment expenses	6,337,329		6,337,329
Commissions payable	588,530		588,530
Other expenses	28,868		28,868
Taxes, licenses and fees	2,391,107		2,391,107
Unearned premium	3,475,525		3,475,525
Advance premiums	489,129		489,129
Amounts withheld	90,569		90,569
Policyholder dividends declared and unpaid	3,130		3,130
Ceded reinsurance premiums payable	375,027		375,027
Provision for reinsurance	1,899		1,899
Payable to parent, subsidiaries and affiliates	73,951		73,951
Aggregate write-ins for liabilities	1,993,895		1,993,895
Total Liabilities	<u>\$58,777,219</u>	\$0	<u>\$58,777,219</u>
Surplus notes	\$3,800,000		\$3,800,000
Gross paid in and contributed surplus	10,391,310		10,391,310
Unassigned funds (surplus)	21,959,123		21,959,123
Surplus as regards policyholders	<u>\$36,150,433</u>		<u>\$36,150,433</u>
Total liabilities, surplus and other funds	<u><u>\$94,927,652</u></u>		<u><u>\$94,927,652</u></u>

FHM Insurance Company
Statement of Income and Capital and Surplus Account
December 31, 2014

Underwriting Income

Premiums earned		\$34,337,506
	Deductions:	
Losses incurred		\$25,353,622
Loss expenses incurred		5,394,682
Other underwriting expenses incurred		11,271,061
Aggregate write-ins for underwriting deductions		0
Total underwriting deductions		\$42,019,365
Net underwriting gain or (loss)		(\$7,681,859)

Investment Income

Net investment income earned		\$2,275,788
Net realized capital gains or (losses)		559,211
Net investment gain or (loss)		\$2,834,999

Other Income

Net gain or (loss) from agents' or premium balances charged off		(\$19,788)
Finance and service charges not included in premiums		26,180
Aggregate write-ins for miscellaneous income		
Total other income		\$6,392
Net income before dividends to policyholders and before federal & foreign income taxes		(\$4,840,468)
Dividends to policyholders		2,330,000
Net Income, after dividends to policyholders, but before federal & foreign income taxes		(\$7,170,468)
Federal & foreign income taxes		(288,079)
Net Income		(\$6,882,389)

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year		\$44,228,068
Net Income		(\$6,882,389)
Net unrealized capital gains or losses		(161,614)
Change in net deferred income taxes		2,491,457
Change in non-admitted assets		(3,523,190)
Change in provision for reinsurance		(1,899)
Surplus adjustments: Paid in		0
Aggregate write-ins for gains and losses in surplus		0
Examination Adjustment		
Change in surplus as regards policyholders for the year		(\$8,077,635)
Surplus as regards policyholders, December 31 current year		\$36,150,433

FHM 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	\$36,150,433
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INCREASE
(DECREASE)
IN SURPLUS

ASSETS:
No Adjustment
LIABILITIES:
No Adjustment

Net Change in Surplus:	_____
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Surplus as Regards Policyholders December 31, 2014, Per Examination	<u><u>\$36,150,433</u></u>
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COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses

Huggins Actuarial Services, Inc., an actuarial firm 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 engaged Brent M. Sallay, FCAS, MAAA of Taylor-Walker Consulting, LLC, to review 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 \$36,150,433, exceeded the minimum of \$5,522,604 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 **FHM 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 \$36,150,433, which exceeded the minimum of \$5,522,604 required by Section 624.408, Florida Statutes.

In addition to the undersigned, Susan Carroll, CFE, CPA, Examiner-in-Charge of Examination Resources, LLC, also participated in the examination. Members of the Office who participated in the examination include Connie Hare, AFE, Financial Examiner/Analyst Supervisor, Examination Manager and Paula Bowyer, Financial Examiner/Analyst II, Participating Examiner. Additionally, Brent M. Sallay, FCAS, MAAA of Taylor-Walker Consulting, LLC and Floyd Meeks, CISA, AES, IT Specialist of Examination Resources, LLC, are recognized for participation in the examination.

Respectfully submitted,

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