

REPORT ON EXAMINATION
OF
FRANK WINSTON CRUM INSURANCE,
INC.

CLEARWATER, FLORIDA

AS OF
DECEMBER 31, 2005

BY THE
OFFICE OF INSURANCE REGULATION

TABLE OF CONTENTS

LETTER OF TRANSMITTAL	1
SCOPE OF EXAMINATION	1
STATUS OF ADVERSE FINDINGS FROM PRIOR EXAMINATION	2
HISTORY	2
GENERAL	2
CAPITAL STOCK	3
PROFITABILITY OF COMPANY	3
DIVIDENDS TO STOCKHOLDERS	4
MANAGEMENT	4
CONFLICT OF INTEREST PROCEDURE.....	5
CORPORATE RECORDS	5
ACQUISITIONS, MERGERS, DISPOSALS, DISSOLUTIONS, AND PURCHASE OR SALES THROUGH REINSURANCE.....	6
SURPLUS DEBENTURES	6
AFFILIATED COMPANIES	6
ORGANIZATIONAL CHART	7
MANAGEMENT SERVICES AGREEMENT	8
FIDELITY BOND	8
PENSION, STOCK OWNERSHIP AND INSURANCE PLANS	8
STATUTORY DEPOSITS	8
INSURANCE PRODUCTS AND RELATED PRACTICES	9
TERRITORY	9
TREATMENT OF POLICYHOLDERS.....	9
REINSURANCE	9
ASSUMED.....	10
CEDED	10
ACCOUNTS AND RECORDS	10
BACK OFFICE SERVICES AGREEMENT	11
CLAIMS SERVICE AGREEMENT.....	11
PRICING AND SERVICES CONTRACT	11
RISK MANAGEMENT CONSULTING AGREEMENT	11
INDEPENDENT AUDITOR AGREEMENT	12
ASSET MANAGEMENT AGREEMENT	12
RISK-BASED CAPITAL.....	12
FINANCIAL STATEMENTS PER EXAMINATION	12
ASSETS	13

LIABILITIES, SURPLUS AND OTHER FUNDS	14
STATEMENT OF INCOME.....	15
COMMENTS ON FINANCIAL STATEMENTS.....	16
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS.....	17
SUMMARY OF FINDINGS	18
CONCLUSION	19

Tallahassee, Florida

March 16, 2007

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, 2005, of the financial condition and corporate affairs of:

**FRANK WINSTON CRUM INSURANCE, INC.
100 SOUTH MISSOURI AVENUE
CLEARWATER, FLORIDA 33756**

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, 2005 through December 31, 2005. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2004. This examination commenced with planning at the Office on January 16, 2007, to January 19, 2007. The fieldwork commenced on January 22, 2007, and was concluded as of March 16, 2007. The examination included any material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination.

This was a second annual 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.

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 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.

Transactions subsequent to year-end 2005 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.

Status of Adverse Findings from Prior Examination

The following is a summary of significant adverse findings contained in the Office's prior examination report as of December 31, 2004, along with resulting action taken by the Company in connection therewith.

Loss and loss adjustment expenses

The Company's loss and loss adjustment expense reserves were determined to be deficient. It was recommended that the Company comply with Section 625.101, Florida Statutes and increase its loss and loss adjustment expense reserves. **Resolution: In accordance with Section 625.101, Florida Statutes, the Company increased its loss and loss adjustment expense reserves.**

HISTORY

General

The Company was incorporated in Florida on January 23, 2003 and commenced business on April 29, 2003 as Crum National Insurance, Inc. On March 2, 2004, the Company changed its name to Frank Winston Crum Insurance, Inc.

In accordance with Section 624.401(1), Florida Statutes, the Company was authorized to transact workers' compensation insurance coverage in Florida on December 31, 2005.

The articles of incorporation and bylaws were not amended during the period covered by this examination.

Capital Stock

As of December 31, 2005, the Company's capitalization was as follows:

Number of authorized common capital shares	7,500
Number of shares issued and outstanding	1,000
Total common capital stock	\$1,000
Par value per share	\$1.00

Control of the Company was maintained by Frank W. Crum, Jr., who owned 100% of the stock issued by the Company.

Profitability of Company

The following table shows the profitability trend (in dollars) of the Company since its inception, as reported in the Annual Statement.

	2005	2004	2003
Premiums Earned	11,826,934	8,279,000	2,232,010
Net Underwriting Gain/(Loss)	1,049,753	712,091	(541,184)
Net Income/(Loss)	832,273	765,219	(431,723)
Total Assets	52,743,782	22,539,239	12,208,982
Total Liabilities	44,473,726	15,104,495	5,890,528
Surplus As Regards Policyholders	8,270,056	7,434,744	6,318,454

Dividends to Stockholders

The Company did not declare or pay dividends to its stockholder in 2005.

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, 2005, were:

Directors

Name and Location	Principal Occupation
Frank Winston Crum, Jr. Odessa, Florida	President, Treasurer, Asst. Secretary Crum Services
Frank Winston Crum, Sr. (a) Clearwater, Florida	Executive VP, Secretary Crum Services
Brian Murphy Boales Clearwater, FL	President, Chief Operating Officer Frank Winston Crum Insurance, Inc.
Carol Ann Critelli Pinellas Park, Florida	Director of Accounting Crum Services
James Michael Carr Lutz, Florida	Treasurer, Vice President, CFO Frank Winston Crum Insurance, Inc.
John Harvey Meek, Jr. Clearwater, Florida	President Condon-Meek, Inc.
John Robert Dixon Tampa, Florida	Vice President Dixon, Lorenzen & Myer

(a) Deceased January 20, 2006

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

Senior Officers

Name	Title
Brian Murphy Boales	President
Frank Winston Crum, Jr.	Secretary
James Michael Carr	Treasurer
Frank Winston Crum, Sr. (a)	Executive VP

(a) Deceased January 20, 2006

The Company's board appointed several internal committees in accordance with Section 607.0825, Florida Statutes. Following are the principal internal board committees and their members as of December 31, 2005:

Audit Committee

Frank Winston Crum, Jr., Chairman
Brian Murphy Boales
Carol Ann Critelli

Investment Committee

Frank Winston Crum, Jr., Chairman
Brian Murphy Boales
Carol Ann Critelli

Conflict of Interest Procedure

The Company adopted a policy statement requiring annual disclosure of conflicts of interest.

Corporate Records

The recorded minutes of the shareholders and Board of Directors meetings were reviewed for the period under examination. The recorded minutes adequately documented its meetings and approval of Company transactions in accordance with Section 607.1601, Florida Statutes, including the authorization of investments as required by Section 625.304, Florida Statutes.

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

The Company had no acquisitions, mergers, disposals, dissolutions, purchase or sales through reinsurance during the period under examination.

Surplus Debentures

The Company had no surplus debentures during the period under examination.

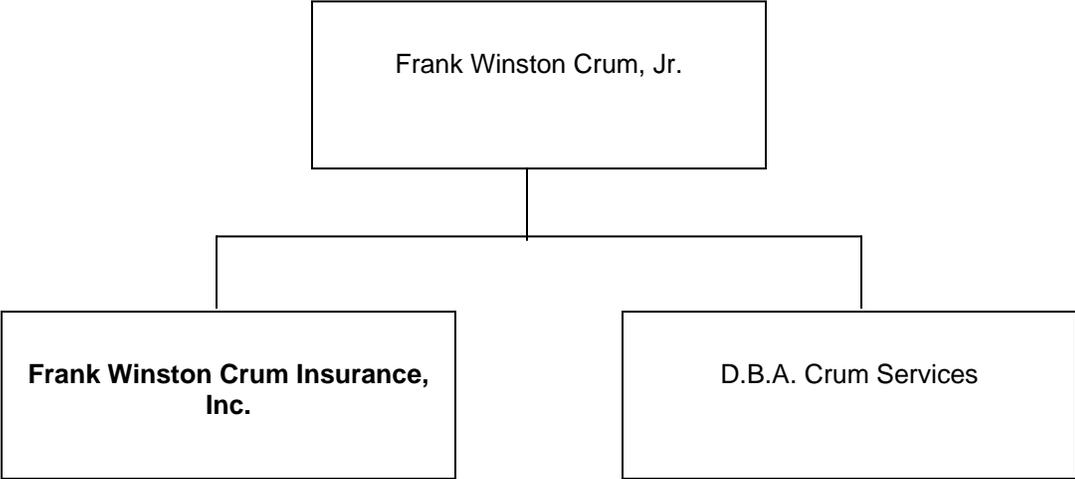
AFFILIATED COMPANIES

The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), Florida Administrative Code. The latest holding company registration statement was filed with the State of Florida on March 1, 2007, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

An organizational chart as of December 31, 2005, reflecting the holding company system, is shown below. Schedule Y of the Company's 2005 annual statement provided a list of all related companies of the holding company group.

**FRANK WINSTON CRUM INSURANCE, INC.
ORGANIZATIONAL CHART**

DECEMBER 31, 2005



The following agreement was in effect between the Company and its affiliate:

Management Services Agreement

The Company had a management services agreement with Crum Staffing II, an affiliate, to provide the Company with leased employees.

FIDELITY BOND

The Company maintained fidelity bond coverage up to \$350,000 with a deductible of \$5,000, 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, other than leased employees from its affiliate, at December 31, 2005.

STATUTORY DEPOSITS

The following security was deposited with the State of Florida as required by Section 624.411, Florida Statutes:

<u>State</u>	<u>Description</u>	<u>Par Value</u>	<u>Market Value</u>
FL	CD, 4.85%, 04/21/07	<u>\$ 250,000</u>	<u>\$ 250,000</u>
TOTAL FLORIDA DEPOSITS		<u>\$ 250,000</u>	<u>\$ 250,000</u>

INSURANCE PRODUCTS AND RELATED PRACTICES

The Company wrote high deductible workers' compensation insurance for its affiliate, Crum Services, a professional employer organization (PEO). The PEO provided human resources and administrative services to businesses that elect to outsource functions, such as human resource support, benefits administration, payroll, and federal and state employment tax filings. The Company issued one insurance policy to its affiliated PEO. Subsequently, the PEO issued certificates of insurance to its employers/clients. The number of businesses (clients/employers) contracting with the PEO to provide outsource functions as of December 31, 2005 approximated 2,800.

Territory

The Company was licensed 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.

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 risk.

Ceded

The Company ceded risk on an excess of loss basis to authorized reinsurers. The primary reinsurers were ACE Property & Casualty Insurance Company, Aspen Insurance UK Limited, and various Syndicates of Lloyd's, of which all were authorized unaffiliated reinsurers. The Company utilized an intermediary, Willis Re, Inc.

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 annually for the year 2005, 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'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 maintained its principal operational office in Clearwater, Florida, where this examination was conducted.

The Company and non-affiliates had the following agreements at December 31, 2005:

Back Office Services Agreement

The Company had a services agreement with Midwest Insurance Services, Inc. to provide the policy administration of the Company. The services provided include premium reporting, policy rating, policy preparation, policy issuance, unit statistical reporting and premium data collection and processing.

Claims Service Agreement

The Company entered into an agreement with RSKCo Services, Inc. (RSKCo) on April 30, 2003 to provide services in the administration of claims arising from its Florida workers' compensation policy. Effective April 30, 2004, the agreement was amended to document the transfer of RSKCo's claim handling obligations to Broadspire Services, Inc.

Pricing and Services Contract

The Company had a pricing and services contract with Colonial Risk Management, Inc. to provide safety and loss control services for its workers' compensation policy.

Risk Management Consulting Agreement

Effective February 24, 2005, the Company entered into an agreement with North American Risk Management, Inc. to perform loss prevention services, which included accident investigations, onsite safety evaluations, pre-risk assessment, and assistance with regulatory compliance issues.

Independent Auditor Agreement

The Company had an agreement with Melby & Guarino, CPA, PA to perform an audit of its statutory financial statements for the year 2005.

Asset Management Agreement

The Company entered into an agreement with Conning Asset Management during 2006 to provide investment management services for the Company. As of the date of this examination report, Conning Asset Management had not provided any services to the Company pursuant to this agreement.

Risk-Based Capital

The Company reported its risk-based capital at an adequate level.

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2005, 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."

FRANK WINSTON CRUM INSURANCE, INC.
Assets

DECEMBER 31, 2005

	Per Company	Examination Adjustments	Per Examination
Cash	\$51,894,242		\$51,894,242
Interest income due & accrued	6,108		6,108
Net deferred tax asset	156,210		156,210
Aggregate write-ins for other than invested assets	687,222		687,222
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Totals	\$52,743,782		\$52,743,782
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FRANK WINSTON CRUM INSURANCE, INC.
Liabilities, Surplus and Other Funds

DECEMBER 31, 2005

	Per Company	Examination Adjustments	Per Examination
Losses	\$8,078,554		\$8,078,554
Loss adjustment expenses	1,984,090		1,984,090
Other expenses (excluding taxes, licenses and fees)	751,354		751,354
Taxes, licenses and fees	345,383		345,383
Current federal income taxes	553,773		553,773
Amounts retained by company for account of others	32,760,572		32,760,572
Total Liabilities	\$44,473,726		\$44,473,726
Common capital stock	\$1,000		\$1,000
Gross paid in and contributed capital	6,999,000		6,999,000
Unassigned funds (surplus)	1,270,056		1,270,056
Surplus as regards policyholders	\$8,270,056		\$8,270,056
Total liabilities, capital and surplus	\$52,743,782		\$52,743,782

FRANK WINSTON CRUM INSURANCE, INC.
Statement of Income

DECEMBER 31, 2005

Underwriting Income

Premiums earned	\$11,826,934
DEDUCTIONS:	
Losses incurred	6,015,310
Loss expenses incurred	913,757
Other underwriting expenses incurred	3,848,114
Aggregate write-ins for underwriting deductions	0
Total underwriting deductions	<u>\$10,777,181</u>
Net underwriting gain or (loss)	\$1,049,753

Investment Income

Net investment income earned	\$728,800
Net realized capital gains or (losses)	0
Net investment gain or (loss)	<u>\$728,800</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	52,877
Total other income	<u>\$52,877</u>
Net income before dividends to policyholders and before federal & foreign income taxes	\$1,831,430
Dividends to policyholders	0
Net Income, after dividends to policyholders, but before federal & foreign income taxes	<u>\$1,831,430</u>
Federal & foreign income taxes	999,157
Net Income	<u>\$832,273</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year	\$7,434,744
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Gains and (Losses) in Surplus

Net Income	\$832,273
Change in net deferred income tax	364,033
Change in net unrealized capital gains	0
Change in nonadmitted assets	(360,994)
Examination Adjustment	0
Change in surplus as regards policyholders for the year	<u>\$835,312</u>
Surplus as regards policyholders, December 31 current year	<u><u>\$8,270,056</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Losses and Loss Adjustment Expenses \$10,062,644

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, 2005, 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 no reportable adjustments were recommended.

**FRANK WINSTON CRUM INSURANCE, INC.
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS**

DECEMBER 31, 2005

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, 2005, Annual Statement	\$8,270,056
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	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS:			
No adjustment.			
LIABILITIES:			
No adjustment.			
			0
Surplus as Regards Policyholders December 31, 2005, Per Examination			\$8,270,056

SUMMARY OF FINDINGS

Compliance with previous directives

The Company has taken the necessary actions to comply with the comments made in the 2004 examination report issued by the Office.

Current examination comments and corrective action

There were no material findings or corrective actions to be taken with regard to this examination.

CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Frank Winston Crum Insurance, Inc.** as of December 31, 2005, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as regards policyholders was \$8,270,056 which was in compliance with Section 624.408, Florida Statutes.

In addition to the undersigned, John Berry, Financial Examiner/Analyst Supervisor and Joe Boor, FCAS, Office Actuary, participated in the examination.

Respectfully submitted,

Donna Letterio, CFE, CPA, MS
Financial Specialist
Florida Office of Insurance Regulation