

REPORT ON EXAMINATION
OF
FRANK WINSTON CRUM INSURANCE,
INC.

CLEARWATER, FLORIDA

AS OF

DECEMBER 31, 2011

BY THE
FLORIDA OFFICE OF INSURANCE REGULATION

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June 22, 2012

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, 2011, 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, 2007, through December 31, 2011. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2006. This examination commenced with planning at the Office on March 12, 2012 to March 14, 2012. The fieldwork commenced on March 26, 2012, and concluded as of June 22, 2012.

This was a multi-state 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

There were no material findings or exceptions noted during the examination as of December 31, 2011.

Prior Exam Findings

There were no findings, exceptions or corrective action to be taken by the Company for the examination as of December 31, 2006.

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.

The Company was party to Consent Order 67801-03-CO filed April 29, 2003, regarding the application for the issuance of a Certificate of Authority. This consent order was amended most recently by Consent Order 108074-09-CO, which allowed the Company to begin writing workers'

compensation coverage to companies other than the FrankCrum Professional Employer Organizations (PEO).

The Company was also a party to three additional consent orders. Consent Order 75437-04-CO allowed the Company to place its new name on previously approved forms without submitting the amended forms for approval by the Office. Consent Orders 93441-07-CO and 100611-08-CO pertained to return of excess profits of \$3,376,168 and \$5,089,406, respectively. The Company was in compliance with these consent orders.

The Company was authorized to transact the following insurance coverages in Florida as of December 31, 2011:

Workers Compensation

Other Liability

The Company had not written insurance coverage in the previous year in the line of business of other liability. The Company was not in compliance with Section 624.430 (1), Florida Statutes, which requires that a company not writing premiums in a line of business in a calendar year, shall remove the line of business from its Certificate of Authority. **Subsequent Event:** The Company submitted a business plan to the Office on May 10, 2012 requesting approval from the Office for the Company to assume Other Liability business written by Cypress Insurance Group under a quota share agreement until the Company can write the business directly.

The Articles of Incorporation were amended during the period covered by this examination to authorize the Company to issue 50,000 shares of \$100 par value common stock.

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, 2011, the Company's capitalization was as follows:

Number of authorized common capital shares	50,000
Number of shares issued and outstanding	30,000
Total common capital stock	\$3,000,000
Par value per share	\$100

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

Surplus Debentures

The Company did not have any surplus debentures 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 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 and including the authorization of investments as required by Section 625.304, Florida Statutes.

Conflict of Interest

The Company adopted a policy statement requiring annual disclosure of conflicts of interest in accordance with the NAIC Financial Condition Examiners Handbook adopted by Rule 690-138.001, 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, 2011, were:

Directors

Name and Location	Principal Occupation
Brian Murphy Boales Snellville, Georgia	President and Chief Operating Officer Frank Winston Crum Insurance, Inc.
James Michael Carr Lutz, Florida	Chief Financial Officer, VP & Treasurer Frank Winston Crum Insurance, Inc.
Frank Winston Crum, Jr. Odessa, Florida	Chairman, Chief Executive Officer, Secretary Frank Winston Crum Insurance, Inc.
Matthew Christopher Crum Clearwater, Florida	VP Insurance Operations Frank Winston Crum Insurance, Inc.
John Robert Dixon Tampa, Florida	President Dixon and Associates

John Harvey Meek, Jr.
Clearwater Beach, Florida

President
Condon-Meek, Inc.

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

Senior Officers

Name	Title
Brian Murphy Boales	President
James Michael Carr	Treasurer
Frank Winston Crum, Jr.	Secretary
Matthew Christopher Crum	Vice President
Brigitte Boraks Becker	Vice President

The Company's Board appointed several internal committees. Following were the principal internal board committees and their members as of December 31, 2011:

Audit Committee

Frank W. Crum, Jr.¹
John H. Meek, Jr.
John R. Dixon

¹ Chairman

Investment Committee

Frank W. Crum, Jr.¹
Matthew C. Crum
Brian M. Boales

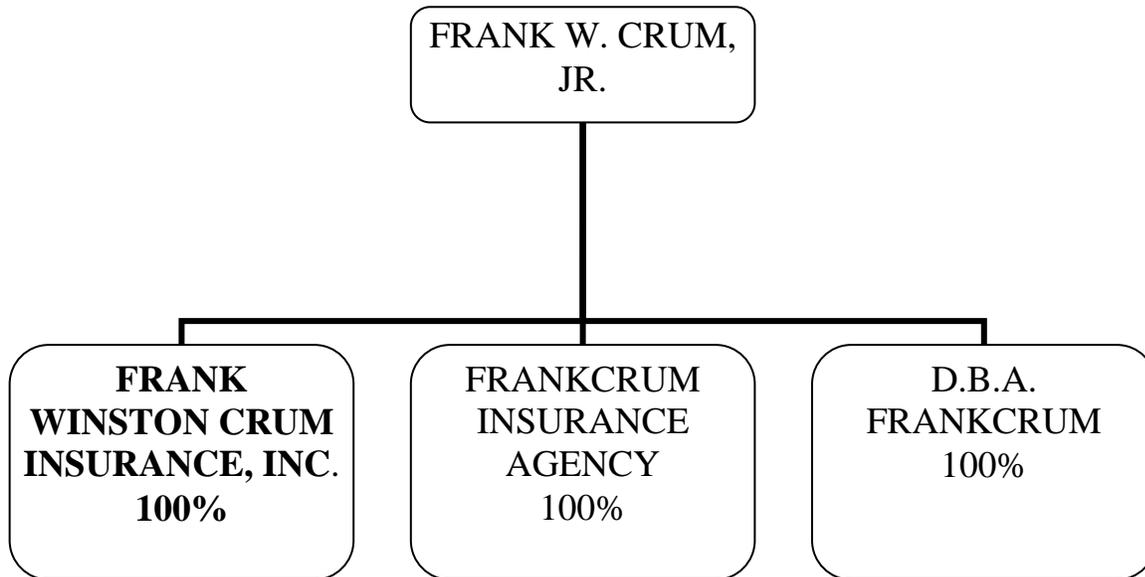
Affiliated Companies

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 February 29, 2012, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

A simplified organizational chart as of December 31, 2011, reflecting the holding company system, is on the following page. Schedule Y of the Company's 2011 annual statement provided a list of all related companies of the holding company group.

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

DECEMBER 31, 2011



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

Employee Leasing Agreement

The Company entered into an Employee Leasing Agreement with an affiliate, FrankCrum 2, Inc. (previously Crum Staffing II, Inc., noted above as D.B.A FrankCrum) on April 29, 2003 to provide the Company with leased employees. Fees paid under this agreement during 2011 amounted to \$1,425,728.

Producer Agreement

The Company entered into a Producer Agreement with its affiliate, FrankCrum Insurance Agency, Inc. on January 15, 2010. The agreement continues in force unless otherwise amended, terminated or suspended within the guidelines of the agreement. The commission paid by the

Company was equal to 12.0% of premium. Fees incurred under this agreement during 2011 amounted to \$46,382.

FIDELITY BOND AND OTHER INSURANCE

The Company maintained fidelity bond coverage up to \$500,000 with a deductible of \$5,000, which reached the suggested minimum as recommended by the NAIC.

The Company also maintained Directors and Officers (D&O) liability insurance and Private Company Liability coverage with a limit of \$2,000,000 and a deductible of \$25,000.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company participated in the 401(k) plan sponsored by its affiliate, FrankCrum 2, Inc. The Company also provided leased employees with health, dental, vision, life, and disability insurance through FrankCrum 2, Inc., in addition to other insurance offerings.

TERRITORY AND PLAN OF OPERATIONS

The Company was authorized to transact insurance in the following states, as well as the District of Columbia:

Alabama	Arizona	Arkansas
Delaware	Florida	Georgia
Indiana	Kansas	Kentucky
Louisiana	Maryland	Michigan
Mississippi	Missouri	Montana
Nebraska	Nevada	New Jersey
New Mexico	North Carolina	Oklahoma
Oregon	Pennsylvania	Rhode Island
South Carolina	Tennessee	Texas
Utah	Virginia	West 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.

COMPANY GROWTH

The decrease in the Company's earned premiums in 2009 was due substantially to the loss of several Professional Employer Organization, (PEO) affiliate clients, rate reductions in the State of Florida and the general economic downturn. The recent increases in earned premium were due largely to the Company's expansion into writing non-affiliate policies and expansion into other states. The Company was licensed in 30 states and the District of Columbia during the

examination period, prior to which the Company had only written in Florida. The Company also expanded its license into the Other Liability line of business, but has not yet written in this line. The decrease in net underwriting income and net income, resulting in losses in 2011, were due largely to increased losses for three large claims incurred in 2011. Surplus has remained relatively consistent, with fluctuations tied to net income (loss).

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.

	2011	2010	2009	2008	2007
Premiums Earned	4,912,373	3,855,886	2,312,707	485,800	5,489,752
Net Underwriting Gain/(Loss)	(2,497,188)	(84,701)	337,659	(3,819,835)	(1,554,102)
Net Income	(1,320,250)	300,476	1,756,647	(794,724)	999,897
Total Assets	45,358,941	52,449,183	57,742,433	71,952,963	72,020,344
Total Liabilities	31,916,937	37,756,476	43,331,682	59,254,047	58,885,846
Surplus As Regards Policyholders	13,442,004	14,692,707	14,392,751	12,698,916	13,134,498

LOSS EXPERIENCE

During the current examination period, the Company showed favorable development overall. The one and two-year net loss developments at the end of the current examination period were both favorable at \$1.3 million and \$2.1 million, respectively. The Company experienced a significant increase in incurred losses in 2011, which related to a small number of claims.

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 based on their participation in the National Workers' Compensation Reinsurance Pool that is administered by National Council on Compensation Insurance, Inc., (NCCI), as well as the Mississippi Workers' Compensation Assigned Risk Pool.

Ceded

The Company ceded risk on an excess of loss basis to authorized reinsurers. The primary reinsurers were Aspen Insurance UK Limited, Ace Property and Casualty Insurance Company and various Syndicates of Lloyd's, all 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

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

An independent CPA audited the Company's statutory basis financial statements annually for the years 2007, 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's accounting records were maintained in software licensed from a third party. As processes were largely handled by third parties, journal entries were made manually to the general ledger system to record activity.

The Company and non-affiliates had the following agreements:

Back Office Services Agreement

The Company had an agreement with MIS Insurance Services, Inc. to provide the policy administration of the Company. The services provided included policy rating, policy preparation, policy issuance, policy accounting and unit statistical reporting. The decision to bind policies was maintained by the Company.

Claims Service Agreement

The Company entered into an agreement with Broadspire Services, Inc. on April 30, 2003, with amendments on April 30, 2004 and April 30, 2007, in addition to updated fee schedules. Claims administration services under this agreement pertained to the affiliate PEO business written. The Company retained the responsibility to approve claims in excess of authority limits and to authorize settlement amounts.

Claims Service Agreement

The Company entered into an agreement with Risk Enterprise Management Limited on May 23, 2011 to provide claims administration services. Claims administration services under this

agreement pertained to the non-affiliate PEO business written. The Company retained the responsibility to approve claims in excess of authority limits and to authorize settlement amounts.

Asset Management Agreement

The Company entered into an agreement with Conning Asset Management effective August 1, 2006 and provided investment management services for the Company.

Custodial Agreement

The Company maintained a custodial agreement with U.S. Bank National Association executed on November 27, 2006. The agreement was in compliance with Rule 69O-143.042, Florida Administrative Code.

Independent Auditor Agreement

The Company contracted with an external independent CPA firm to perform the annual audit of its financial statements as required by Rule 69O-137.002 (7) (c), Florida Administrative Code.

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 and with various state officials as required or permitted by law:

STATE	Description	Par Value	Market Value
FL	Fannie Mae, 4.38%, 10/15/15	\$300,000	\$338,070
FL	USTNTS, 2.0 %, 08/15/12	\$1,000,000	\$1,010,300
FL	Fed Home LN Bank, 1.88%, 06/21/13	<u>\$1,000,000</u>	<u>\$1,022,700</u>
TOTAL FLORIDA DEPOSITS		<u>\$2,300,000</u>	<u>\$2,371,507</u>
DE	USTNTS, 1.375%, 11/15/12	\$125,000	\$126,333
NC	USTNTS, 1.375%, 11/15/12	\$250,000	\$252,666
NC	First Amer. TBDS, N/A, N/A	\$50,000	\$51,718
AZ	USTNTS, 1.375% 11/15/12	\$125,000	\$126,333
GA	Wells Fargo MM, 0%, N/A	\$75,024	\$75,025
NV	NV ST. HWY BD, 5.0%, 12/1/15	\$452,000	\$452,096
NM	USTNTS, .5%, 10/15/14	\$125,000	\$125,518
OR	USTNTS, .5%, 10/15/14	\$125,000	\$125,518
TX	Muni BDS, 5%, 8/15/15	\$500,000	\$573,825
VA	FED HM LN MG NTS, 4.125%, 12/21/12	<u>\$400,000</u>	<u>\$414,928</u>
TOTAL OTHER DEPOSITS		<u>\$2,227,024</u>	<u>\$2,323,960</u>
TOTAL SPECIAL DEPOSITS		<u>\$4,527,883</u>	<u>\$4,695,467</u>

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2011, 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, 2011

	Per Company	Examination Adjustments	Per Examination
Bonds	\$24,043,543	\$0	\$24,043,543
Stocks:			
Common	2,058,669		2,058,669
Cash and Short-Term Investments	16,951,134		16,951,134
Agents' Balances:			
Uncollected premium	306,446		306,446
Deferred premium	705,653		705,653
Reinsurance recoverable	25,151		25,151
Current federal and foreign income tax recoverable and interest therein	580,811		580,811
Net deferred tax asset	291,969		291,969
Interest and dividend income due & accrued	229,638		229,638
Aggregate write-in for other than invested assets	165,927		165,927
	<hr/>		<hr/>
Totals	\$45,358,941	\$0	\$45,358,941

**Frank Winston Crum Insurance Inc.
Liabilities, Surplus and Other Funds**

DECEMBER 31, 2011

	Per Company	Examination Adjustments	Per Examination
Losses	\$12,761,756	\$0	\$12,761,756
Reinsurance Payable	8,223		\$8,223
Loss adjustment expenses	1,959,575		1,959,575
Commissions payable	156,224		156,224
Other expenses	921,026		921,026
Taxes, licenses and fees	490,352		490,352
Unearned premium	1,291,488		1,291,488
Advance premiums	22,564		22,564
Ceded reinsurance premiums payable	239,324		239,324
Amounts withheld	14,066,405		14,066,405
Total Liabilities	\$31,916,937	\$0	\$31,916,937
Common capital stock	\$3,000,000		\$3,000,000
Gross paid in and contributed surplus	4,000,000		4,000,000
Unassigned funds (surplus)	6,442,004		6,442,004
Surplus as regards policyholders	\$13,442,004	\$0	\$13,442,004
Total liabilities, surplus and other funds	\$45,358,941	\$0	\$45,358,941

**Frank Winston Crum Insurance Inc.
Statement of Income**

DECEMBER 31, 2011

Underwriting Income

Premiums earned		\$4,912,373
	Deductions:	
Losses incurred		\$2,555,328
Loss expenses incurred		988,529
Other underwriting expenses incurred		3,865,704
Total underwriting deductions		\$7,409,561
Net underwriting gain or (loss)		(\$2,497,188)

Investment Income

Net investment income earned		\$582,365
Net realized capital gains or (losses)		1,850
Net investment gain or (loss)		\$584,215

Other Income

Aggregate write-ins for miscellaneous income		\$22,502
Total other income		\$22,502
Net income before dividends to policyholders and before federal & foreign income taxes		(\$1,890,471)
Dividends to policyholders		0
Net Income, after dividends to policyholders, but before federal & foreign income taxes		(\$1,890,471)
Federal & foreign income taxes		(570,221)
Net Income (Loss)		(\$1,320,250)

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year		\$14,692,707
Net Income (Loss)		(\$1,320,250)
Net unrealized capital gains or losses		40,776
Change in non-admitted assets		(76,922)
Change in net deferred income tax		105,693
Change in surplus as regards policyholders for the year		(\$1,250,703)
Surplus as regards policyholders, December 31 current year		\$13,442,004

A comparative analysis of changes in surplus is shown below.

**FRANK WINSTON CRUM INSURANCE, INC.
Comparative Analysis of Changes in Surplus**

DECEMBER 31, 2011

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, 2011, per Annual Statement \$13,442,004

	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS: No Adjustment			
LIABILITIES: No Adjustment			
Net Change in Surplus:			<u>0</u>
Surplus as Regards Policyholders December 31, 2011, Per Examination			<u><u>\$13,442,004</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses \$14,721,331

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, 2011, 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, and Patrick Glenn, ACAS, ASA, MAAA, of Lewis & Ellis, Inc., reviewed the loss and loss adjustment expense work papers provided by the Company and they were in concurrence with this opinion.

Capital and Surplus

The amount of Capital and surplus reported by the Company of \$13,442,004, exceeded the minimum of \$4,000,000 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 **Frank Winston Crum Insurance, Inc.** as of December 31, 2011, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's surplus as regards policyholders was \$13,442,004, which exceeded the minimum of \$4,000,000 required by Section 624.408, Florida Statutes.

In addition to the undersigned, David Palmer, CFE, Examiner-In-Charge, Amy Carter, CPA, Lindsey Pittman, CPA, and Sarah Lucibello, CFE, of Lewis & Ellis, Inc. participated in the examination. In addition, Greg Wilson, FCAS, MAAA, consulting actuary, Patrick Glenn, ACAS, ASA, MAAA, consulting actuary, of Lewis & Ellis, Inc., and Scott Langstein, CISA, IT Manager of Cerebres, LLC and Michael Tomes, Financial Examiner/Analyst II, and Billy Poulos, CIA, CGAP, Reinsurance/Financial Specialist, of the Office also participated in the examination.

Respectfully submitted,

Mary M. James, CFE, CPM
Financial Administrator
Florida Office of Insurance Regulation