

REPORT ON EXAMINATION

OF

FRANK WINSTON CRUM INSURANCE,

INC.

CLEARWATER, FLORIDA

AS OF

DECEMBER 31, 2004

BY THE

OFFICE OF INSURANCE REGULATION

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Tallahassee, Florida

February 3, 2006

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 (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, 2004, of the financial condition and corporate affairs of:

**FRANK WINSTON CRUM INSURANCE, INC.
100 SOUTH MISSOURI ROAD
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 23, 2003 through December 31, 2004. This is the Company's first financial examination. This examination commenced, with planning at the Office, on December 19, 2005, to December 30, 2005. The fieldwork commenced on January 3, 2006, and was concluded as of February 3, 2006. 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 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 (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 and the Company's independent audit reports 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, 2004. Transactions subsequent to year-end 2004 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.

HISTORY

General

The Company was incorporated under Florida law on January 23, 2003. The Office approved the name change from Crum National Insurance, Inc., to Frank Winston Crum Insurance, Inc., on March 2, 2004.

The Company began writing high deductible workers compensation policies starting April 30, 2003, as a domestic stock company. The Company wrote business in Florida only. The Company was wholly owned by Frank W. Crum, Sr. and Frank W. Crum, Jr. The purpose of forming Frank Winston Crum Insurance, Inc. was to provide a high deductible worker's compensation policy solely for its affiliated Professional Employer Organization (PEO) companies collectively referred to as Crum Services.

Crum Services is the only insured under the Company. A master policy was issued to Crum Services with certificates of insurance issued only to the clients of each PEO operating under Crum Services. The Company would not extend or provide coverage to any risks and/or clients located outside the state of Florida, assume any premiums, or reinsure any business without the prior

written approval of the Office, or assume any premiums from or write any business from the two PEO's of Crum Services operating outside Florida. The Company was licensed to only write traditional and PEO workers' compensation business in Florida. The Company was not rated by A.M. Best.

In accordance with Section 624.401(1), FS, the Company was authorized to transact workers' compensation insurance coverage in Florida on December 31, 2004.

The articles of incorporation and the bylaws were amended during the period covered by this examination to reflect the Company's name change.

Capital Stock

As of December 31, 2004, 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, Sr., and Frank W. Crum, Jr., who each owned 50 percent of the stock issued by the Company.

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 statement of the Company.

	2004	2003
Premiums Earned	8,279,000	2,232,010
Net Underwriting Gain/(Loss)	712,091	(541,184)
Net Income	765,219	(431,723)
Total Assets	22,539,239	12,208,982
Total Liabilities	15,104,495	5,890,528
Surplus As Regards Policyholders	7,434,744	6,318,454

Dividends to Stockholders

There were no dividends paid during this reporting period.

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, 2004, were:

Directors

Name and Location

Principal Occupation

Frank Winston Crum, Jr.
Clearwater, Florida

Chairman, CEO
President of Crum Services

Frank Winston Crum, Sr.
Clearwater, Florida

Director, Executive VP
VP, Secretary Crum Services

Brian Murphy Boales
Snellville, Georgia

Director, President, COO

Carol Ann Critelli
Clearwater, Florida

Director
CFO Crum Services

James Michael Carr
Lutz, Florida

Director, Treasurer, CFO, VP

John Harvey Meek, Jr.
Clearwater, Florida

Director
President, Gordon-Meek, Inc.

John Robert Dixon
Odessa, Florida

Director
VP, Dixon, Lorenzen & Myer

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.	Executive VP

The Company's board appointed several internal committees in accordance with Section 607.0825, FS. Following are the principal internal board committees and their members as of December 31, 2004:

Audit Committee

Frank Winston Crum, Jr.¹
Frank Winston Crum, Sr.
Carol Ann Critelli

Investment Committee

Frank Winston Crum, Sr.¹
Frank Winston Crum, Jr.
Carol Ann Critelli

¹ Chairman

Conflict of Interest Procedure

The Company 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 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 in accordance with Section 607.1601, FS, including the authorization of investments as required by Section 625.304, FS.

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 February 24, 2005, as required by Section 628.801, FS, and Rule 69O-143.046, FAC.

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

Administrative Services Agreement

The Company had an administrative services agreement with Midwest Insurance Services, Inc. to provide the Company with premium reporting, statistical reporting, and third party affiliate (TPA) data collection and processing.

Management Services Agreement

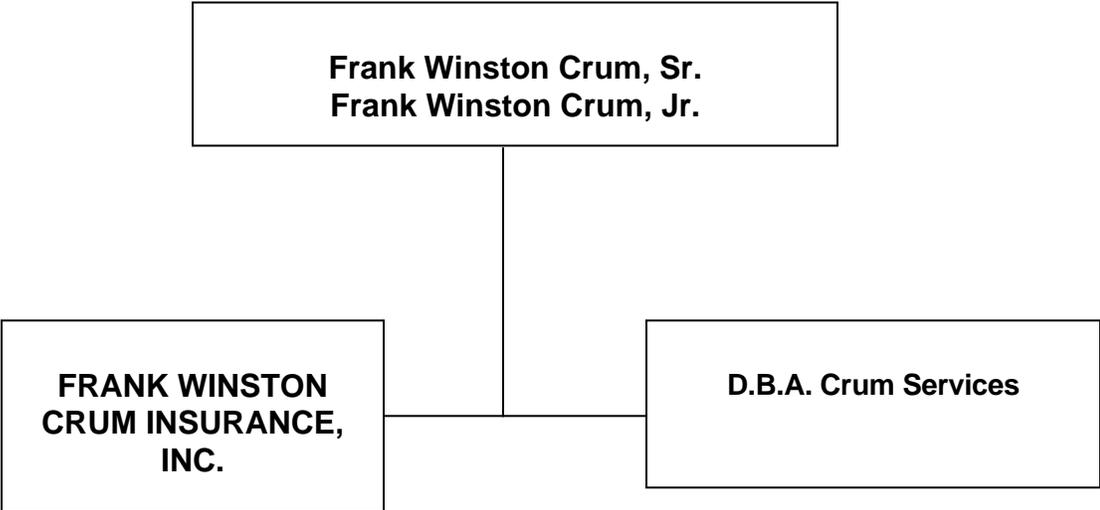
The Company had a management services agreement with a Crum Staffing II, an affiliate, to provide the Company with leased employees, manage workers' compensation claims, claim

filings and related procedures for leased employees. Crum Services also provides certain administrative services including payroll and personnel administration.

A simplified organizational chart as of December 31, 2004, reflecting the holding company system, is shown below. Schedule Y of the Company's 2004 annual statement provided a list of all related companies of the holding company group.

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

DECEMBER 31, 2004



FIDELITY BOND

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

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	CD, 3.285%, 04/21/06	<u>\$ 250,000</u>	<u>\$ 250,000</u>
	TOTAL FLORIDA DEPOSITS	<u>\$ 250,000</u>	<u>\$ 250,000</u>
	TOTAL SPECIAL DEPOSITS	<u>\$ 250,000</u>	<u>\$ 250,000</u>

INSURANCE PRODUCTS AND RELATED PRACTICES

The Company writes high deductible workers' compensation for its affiliated PEO.

Territory

The Company was authorized to transact insurance in Florida only.

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.

This report does not include any issues or findings that may result from an ongoing market conduct examination.

REINSURANCE

The reinsurance agreements reviewed were found to comply 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 various reinsurance companies, the largest being Ace Property and Casualty, and Aspen Insurance UK. The Company utilized Willis Re, Inc. as the intermediary.

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 years 2003 and 2004, 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 maintained its principal operational offices in Clearwater, Florida, where this examination was conducted.

Risk-Based Capital

Risk-based capital was recomputed as a result of an adjustment to surplus and was at an adequate level.

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2004, 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, 2004

Classification	Per Company	Examination Adjustments	Per Examination
Cash:			
On deposit	\$ 22,381,896		\$ 22,381,896
Net deferred tax asset	156,667		156,667
Receivable from PSA	676		676
	<hr/>		
Totals	\$ 22,539,239	\$0	\$ 22,539,239
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FRANK WINSTON CRUM INSURANCE, INC.
Liabilities, Surplus and Other Funds

DECEMBER 31, 2004

Liabilities	Per Company	Examination Adjustments	Per Examination
Losses	\$ 2,640,381	\$ 1,278,000	\$ 3,918,381
Loss adjustment expenses	1,100,000		1,100,000
Other expenses	451,391		451,391
Taxes, licenses and fees	2,167,336		2,167,336
Current federal & foreign income taxes	418,177		418,177
Ceded reinsurance premiums payable	361,000		361,000
Amounts withheld for accounts of others	7,966,210		7,966,210
Total Liabilities	<u>\$ 15,104,495</u>	<u>\$ 1,278,000</u>	<u>\$ 16,382,495</u>
Common capital stock	\$ 1,000		\$ 1,000
Gross paid in and contributed surplus	6,999,000		6,999,000
Unassigned funds (surplus)	434,744		434,744
Surplus as regards policyholders	<u>\$ 7,434,744</u>	<u>\$ (1,278,000)</u>	<u>\$ 6,156,744</u>
Total liabilities, capital and surplus	<u><u>\$ 22,539,239</u></u>		<u><u>\$ 22,539,239</u></u>

FRANK WINSTON CRUM INSURANCE, INC.
Statement of Income

DECEMBER 31, 2004

Underwriting Income	
Premiums earned	\$ 8,279,000
DEDUCTIONS:	
Losses incurred	\$ 1,780,148
Loss expenses incurred	950,000
Other underwriting expenses incurred	4,836,761
Aggregate write-ins for underwriting deductions	0
Total underwriting deductions	<u>\$ 7,566,909</u>
Net underwriting gain or (loss)	\$ 712,091
Investment Income	
Net investment income earned	\$ 66,844
Net realized capital gains or (losses)	0
Net investment gain or (loss)	<u>\$ 66,844</u>
Other Income	
Aggregate write-ins for miscellaneous income	\$ 404,461
Total other income	<u>\$ 404,461</u>
Net income before dividends to policyholders and before federal & foreign income taxes	\$ 1,183,396
Dividends to policyholders	0
Net Income, after dividends to policyholders, but before federal & foreign income taxes	<u>\$ 1,183,396</u>
Federal & foreign income taxes	<u>418,177</u>
Net Income	\$ 765,219
Capital and Surplus Account	
Surplus as regards policyholders, December 31 prior year	\$ 6,318,454
Gains and (Losses) in Surplus	
Net Income	\$ 765,219
Change in net deferred income taxes	105,145
Change in non-admitted assets	245,926
Examination Adjustment	(1,278,000)
Change in surplus as regards policyholders for the year	<u>\$ (161,710)</u>
Surplus as regards policyholders, December 31 current year	<u><u>\$ 6,156,744</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses \$1,278,000

The Office actuary has determined that the Company's loss and loss adjustment expense reserve was deficient in the amount of \$1,278,000.

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

DECEMBER 31, 2004

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, 2004, Annual Statement	\$	7,434,744
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	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS:	No adjustments needed		
LIABILITIES:			
Loss & loss adjustment expense	(\$3,740,381)	(\$5,018,381)	(\$1,278,000)
Net Change in Surplus:			<u>\$ (1,278,000)</u>
Surplus as regards policyholders December 31, 2004, Per Examination			<u><u>\$ 6,156,744</u></u>

SUMMARY OF FINDINGS

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, 2004.

Loss and loss adjustment expenses

The Company's Loss and loss adjustment expense reserves were determined to be deficient. **We recommend the Company comply with Section 625.101, FS, and increase its Loss and loss adjustment expense reserves.**

SUBSEQUENT EVENTS

There has been a change in senior management of the Company subsequent to the examination date. On January 20, 2006, Frank Winston Crum, Sr., Executive Vice President, and owner passed away. Prior ownership was under joint tenants and right of survivorship between Frank Winston Crum, Sr. and Frank Winston Crum, Jr. and there has not been a change in control that would require an acquisition filing under section 628.461, FS.

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, 2004, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's surplus as regards policyholders was \$6,156,744, which was in compliance with Section 624.408, FS.

In addition to the undersigned, the following persons also participated in the examination: Mary James, CFE, CPM, Financial Administrator, John Berry, Financial Examiner/Analyst Supervisor, Mike Young, Financial Examiner/Analyst I, and Joe Boor, FCAS, Office Actuary.

Respectfully submitted,

James D. Collins
Financial Examiner/Analyst II
Florida Office of Insurance Regulation