

REPORT ON EXAMINATION
OF
NORMANDY HARBOR INSURANCE
COMPANY, INC.
MIAMI BEACH, FLORIDA

AS OF
DECEMBER 31, 2008

BY THE
OFFICE OF INSURANCE REGULATION

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Tallahassee, Florida

December 21, 2009

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, 2008, of the financial condition and corporate affairs of:

**NORMANDY HARBOR INSURANCE COMPANY, INC.
405 ARTHUR GODFRY ROAD, SUITE 508
MIAMI BEACH, FLORIDA 33140**

Hereinafter referred to as, the "Company". Such report of examination is herewith respectfully submitted.

SCOPE OF EXAMINATION

This examination covered the period of September 14, 2007, through December 31, 2008.

This is the first examination of the Company and was conducted by representatives of the Florida Office of Insurance Regulation (Office). This examination commenced with planning at the Office, on May 4, 2009, to May 8, 2009. The fieldwork commenced on May 11, 2009, and was concluded as of December 21, 2009.

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, 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.

Risk-focused examinations consist of a seven-phase process that can be used to identify and assess risk, assess the adequacy and effectiveness of strategies/controls used to mitigate risk and assist in determining the extent and nature of procedures and testing to be

utilized in order to complete the review of that activity. The process should generally include a determination of the quality and reliability of the corporate governance structure and risk management programs. In addition, it can be used for verification of specific portions of the financial statements or other limited-scope reviews, increased focus on, and can result in increased substantive testing of, accounts identified as being at high risk of misstatement. Conversely, the risk assessment process should result in decreased focus on, and fewer substantive tests on the accounts identified as being at low risk of misstatement. The risk-focused surveillance process can be used to assist examiners in targeting areas of high-risk.

In this examination, emphasis was directed to the quality, value and integrity of the statement of assets and the determination of liabilities, as those balances affect the financial solvency of the Company as of December 31, 2008. Transactions subsequent to year-end 2008 were reviewed where relevant and deemed significant to the Company's financial condition.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

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 reports, the Company's independent audit reports and certain work papers prepared by the Company's independent certified public accountant (CPA) and other reports as considered necessary were reviewed and utilized where applicable within the scope of this examination.

This report of examination was confined to financial statements and comments on matters that involved departures from laws, regulations or rules, or which were deemed to require special explanation or description.

Status of Adverse Findings from Prior Examination

This was the first examination of the Company and as such, there were no prior examination findings.

HISTORY

General

The Company was incorporated in Florida on December 9, 2004, and commenced business on September 14, 2007, as Normandy Harbor Insurance Company, Inc.

The Company was party to Consent Order 91621-07-CO, filed September 10, 2007, with the Office regarding the application for the issuance of a Certificate of Authority. The Company was in compliance with the consent order.

The Company was authorized to transact Workers' Compensation coverage in Florida on December 31, 2008.

The Articles of Incorporation and the Bylaws were not amended during the period covered by this examination.

Capital Stock

As of December 31, 2008, the Company's capitalization was as follows:

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

Control of the Company was maintained by Simon Ganz, an individual, 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 for the period of operations, as reported in the filed annual statements.

	2008	2007
Premiums Earned	\$1,559,408	-
Net Underwriting Gain/(Loss)	(489,409)	-
Net Income	(298,322)	-
Total Assets	\$6,165,210	\$5,392,118
Total Liabilities	1,091,199	33,774
Surplus As Regards Policyholders	\$5,074,011	\$5,358,344

Dividends to Stockholders

No dividends were declared and/or paid to its shareholder in 2008 in accordance with Section 628.371, Florida Statutes.

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, 2008, were:

Directors

Name and Location	Principal Occupation
Simon Ganz Miami, Florida	Business Owner
Simcha Feuer (a) Brooklyn, New York	Claims Adjuster
Benjamin Klein Bay Harbor, Florida	Real Estate Executive
Kathy Atkins-Gunter Tallahassee, Florida	Insurance Management Consultant
Carol Ostapchuck Tallahassee, Florida	Consultant

(a) Resigned in April 2009 and was subsequently replaced by Edward Mylod.

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

Senior Officers

Name	Title
Mitchel Krouse	President
Simcha Feuer (a)	Secretary/Treasurer

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, 2008:

**Compensation
Committee**

Simon Ganz
Benjamin Klein
Simcha Feuer

Audit Committee

Simon Ganz¹
Simcha Feuer
Kathy Atkins-Gunter

Investment Committee

Simon Ganz
Benjamin Klein
Carol Ostapchuck

¹ Chairman

Conflict of Interest Procedure

The Company adopted a policy statement requiring annual disclosure of conflicts of interest in accordance with the NAIC Financial Condition Examiners Handbook.

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 and events 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 was not involved in any mergers, disposals, dissolutions or purchase or sales through reinsurance.

Surplus Debentures

The Company had no surplus debentures during the examination period.

FIDELITY BOND AND OTHER INSURANCE

The Company did not maintain fidelity bond coverage as recommended by the NAIC.

We recommend the Company obtain adequate Fidelity bond coverage as recommended by NAIC guidelines.

The Company maintained a Directors and Officers (D&O) liability insurance policy.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company had no direct employees; as such it had no pension, stock ownership or insurance plans.

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	Certificate of Deposit Bank of America	<u>\$250,000</u>	<u>\$250,000</u>
TOTAL FLORIDA DEPOSITS		\$250,000	\$250,000
TOTAL SPECIAL DEPOSITS		<u>\$250,000</u>	<u>\$250,000</u>

INSURANCE PRODUCTS

The Company wrote Workers' Compensation insurance.

Territory

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.

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 no policies through reinsurance during examination period December 31, 2008.

Ceded

The Company ceded risk on an excess of loss basis to various Lloyd's Syndicates and Aspen Insurance UK LTD, all authorized non-US insurers.

The reinsurance contracts were reviewed by the Company's appointed actuary and were utilized in determining its ultimate loss opinion.

ACCOUNTS AND RECORDS

The Company maintained its principal operational offices in Miami Beach, Florida, and this examination was conducted from the CPA's offices in Jacksonville, Florida.

An independent CPA audited the Company's statutory basis financial statements for the year 2008 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 and non-affiliates had the following agreements:

Custodial Agreement

The Company maintained certificates of deposit, each specifically in the name of the Company voiding the need for a custodial agreement.

Managing General Agent (MGA) Agreement

The Company had an MGA agreement with USIS, Inc., Orlando, Florida (MGA) in which the MGA performed underwriting and claims services on a fee basis.

Regulatory Statement Preparation and Filing Agreement

The Company had an agreement in 2008 with Compass Solutions Group, LLC of Jacksonville, Florida to provide preparation and filing for three quarterly statements and one annual statement in accordance with the NAIC and the Office. The agreement called for total fees to be paid in the amount \$13,800 to Compass Solutions in 2008. The agreement was modified in and for 2009. Additional services provided by Compass Solutions included:

- CFO Assistance.
- Preparation of all annual and quarterly regulatory filings.
- Accounting department management.
- Financial statement analysis.
- Cash flow projections.
- Budget preparation and monitoring.
- Forecasting and projections.
- Accounting policies and procedures.

The fee schedule was amended as well providing for the Company to pay \$36,000, or \$3,000 per month to Compass Solutions in addition to actual travel expenses related to the services.

Independent Auditor Agreement

The Company signed an engagement letter annually with a Florida licensed firm to conduct its audit.

Information Technology

An Information Systems (IS) review was conducted. The examination team utilized its own Certified Information Systems Auditor (CISA)/Automated Examination Specialist (AES). The results of the evaluation were provided to the Company.

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2008, 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."

NORMANDY HARBOR INSURANCE COMPANY, INC.
Assets

DECEMBER 31, 2008

	Per Company	Examination Adjustments	Per Examination
Cash:	5,830,525		5,830,525
Interest and dividend income due & accrued	3,000		3,000
Reinsurance recoverable	55,500		55,500
Net deferred tax asset	22,327		22,327
Premium Receivable	\$253,858		\$253,858
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Totals	\$6,165,210	\$0	\$6,165,210
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NORMANDY HARBOR INSURANCE COMPANY, INC.
Liabilities, Surplus and Other Funds

DECEMBER 31, 2008

	Per Company	Examination Adjustments	Per Examination
Losses	\$716,947		\$716,947
Loss adjustment expenses	101,833		101,833
Taxes, licenses and fees	16,000		16,000
Unearned premium	146,419		146,419
Payable to parent, subsidiaries and affiliates	110,000		110,000
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Total Liabilities	\$1,091,199	\$0	\$1,091,199
Common capital stock	\$1,000		\$1,000
Gross paid in and contributed surplus	5,711,558		5,711,558
Unassigned funds (surplus)	(638,547)		(638,547)
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Surplus as regards policyholders	\$5,074,011		\$5,074,011
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Total liabilities, surplus and other funds	\$6,165,210	\$0	\$6,165,210
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NORMANDY HARBOR INSURANCE COMPANY, INC.
Statement of Income

DECEMBER 31, 2008

Underwriting Income		
Premiums earned		\$1,559,408
	Deductions:	
Losses incurred		1,001,487
Loss expenses incurred		178,879
Other underwriting expenses incurred		868,451
Total underwriting deductions		<u>\$2,048,817</u>
Net underwriting gain or (loss)		(\$489,409)
Investment Income		
Net investment income earned		<u>\$157,313</u>
Net investment gain or (loss)		\$157,313
Other Income		
Net income before dividends to policyholders and before federal & foreign income taxes		(\$332,096)
Dividends to policyholders		
Net Income, after dividends to policyholders, but before federal & foreign income taxes		<u>(\$332,096)</u>
Federal & foreign income taxes		(33,774)
Net Income		<u>(\$298,322)</u>
Capital and Surplus Account		
Surplus as regards policyholders, December 31 prior year		\$5,358,344
Net Income		(\$298,322)
Change in net deferred income tax		109,670
Change in non-admitted assets		(95,681)
Change in surplus as regards policyholders for the year		<u>(\$284,333)</u>
Surplus as regards policyholders, December 31 current year		<u><u>\$5,074,011</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Losses and Loss Adjustment Expenses \$818,780

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, 2008, made a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

The Company had three (3) policies in force in 2008 and 101 outstanding claims. We relied upon the unqualified opinion of the consulting actuary.

Capital and Surplus

The amount reported by the Company of \$5,074,011, exceeded the minimum of \$4,000,000 required by Section 624.408, Florida Statutes.

A comparative analysis of changes in surplus is shown below.

**NORMANDY HARBOR INSURANCE COMPANY, INC.
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS**

DECEMBER 31, 2008

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, 2008, per Annual Statement	\$5,074,011
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	PER COMPANY	PER EXAM	INCREASE (DECREASE) IN SURPLUS
ASSETS:			\$0
No Adjustment			
LIABILITIES:			\$0
No Adjustment			
Net Change in Surplus:			0
Surplus as Regards Policyholders December 31, 2008, Per Examination			\$5,074,011

SUMMARY OF FINDINGS

Current examination comments and corrective action

There were no recommendations, findings, exceptions or corrective action to be taken by the Company for the examination as of December 31, 2008.

SUBSEQUENT EVENTS

Many changes have been made to the management of the Company subsequent to the examination date. The following is a list of directors serving as of November 30, 2009. Simon Ganz, Edward Mylod, Carol Ostapchuk, Benjamin Klein, Kathleen Atkins-Gunter and Michelle Newell-Lovern.

The Company received \$1.7 Million from the owner in return for a surplus note in September 2009.

In December 2009 Mitchel Krouse, President, was replaced by Michelle Newell-Lovern, as the interim President and CEO.

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Normandy Harbor Insurance Company, Inc.** as of December 31, 2008, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as regards policyholders was \$5,074,011, in compliance with Section 624.408, Florida Statutes.

In addition to the undersigned, Michael Masuen, CFE, CISA, AES of Smith-Little, LLC, participated in the examination.

Respectfully submitted,

Kethessa Carpenter, CPA
Financial Examiner/Analyst Supervisor
Florida Office of Insurance Regulation