

EXAMINATION REPORT

OF

**OCEAN HARBOR CASUALTY**

**INSURANCE COMPANY**

TALLAHASSEE, 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.....  | 3  |
| GENERAL .....   | 3  |
| DIVIDENDS .....   | 4  |
| CAPITAL STOCK AND CAPITAL CONTRIBUTIONS .....   | 4  |
| SURPLUS NOTES .....   | 5  |
| ACQUISITIONS, MERGERS, DISPOSALS, DISSOLUTIONS AND PURCHASE OR SALES THROUGH<br>REINSURANCE ..... | 5  |
| CORPORATE RECORDS .....   | 6  |
| CONFLICT OF INTEREST .....  | 7  |
| MANAGEMENT AND CONTROL.....   | 7  |
| MANAGEMENT .....  | 7  |
| AFFILIATED COMPANIES.....   | 8  |
| ORGANIZATIONAL CHART.....   | 9  |
| TAX ALLOCATION AGREEMENT.....   | 9  |
| COST ALLOCATION AGREEMENT .....   | 10 |
| FIDELITY BOND INSURANCE .....   | 10 |
| TERRITORY AND PLAN OF OPERATIONS.....   | 10 |
| TREATMENT OF POLICYHOLDERS.....   | 10 |
| REINSURANCE.....  | 11 |
| ASSUMED.....  | 11 |
| CEDED .....   | 11 |
| ACCOUNTS AND RECORDS .....  | 12 |
| CUSTODIAL AGREEMENT.....  | 12 |
| MANAGING GENERAL AGENT AGREEMENT.....   | 12 |
| INDEPENDENT AUDITOR AGREEMENT.....  | 13 |
| INFORMATION TECHNOLOGY REPORT .....   | 13 |
| STATUTORY DEPOSITS .....  | 13 |
| FINANCIAL STATEMENTS.....   | 14 |
| ASSETS.....   | 15 |
| LIABILITIES, SURPLUS AND OTHER FUNDS .....  | 16 |
| STATEMENT OF INCOME AND CAPITAL AND SURPLUS ACCOUNT.....  | 17 |
| COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS.....   | 18 |
| COMMENTS ON FINANCIAL STATEMENTS.....   | 19 |

|  |           |
|--|-----------|
| <b>LIABILITIES.....</b>                | <b>19</b> |
| <b>CAPITAL AND SURPLUS.....</b>        | <b>19</b> |
| <b>SUMMARY OF RECOMMENDATIONS.....</b> | <b>20</b> |
| <b>CONCLUSION.....</b>                 | <b>21</b> |

September 28, 2015

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, 2014, of the financial condition and corporate affairs of

Ocean Harbor Casualty Insurance Company  
2549 Barrington Circle  
Tallahassee, Florida 32308

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) covering the period of January 1, 2005 through December 31, 2009. This examination commenced with planning at the Office on March 23, 2015 to March 26, 2015. The fieldwork commenced on March 30, 2015 and concluded on September 28, 2015.

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 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 Company 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**

The following is a summary of material adverse findings, significant non-compliance findings or material changes in the financial statements. Subsequent to the examination date, the Company resolved some of the findings noted during the examination period. However, the findings or exceptions are discussed in detail in the body of the examination report.

### **Reinsurance Treaty Summary Statement**

The Company entered into an aggregate excess catastrophe reinsurance contract effective June 1, 2014, but did not file a summary statement as required by Section 624.610(11), Florida Statutes.

### **Prior Examination Findings**

The following is a summary of 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, along with resulting action taken by the Company in connection therewith.

### **Authorized Lines of Business**

The Company had not written Commercial Automobile insurance coverage for the period under review and did not request those lines be removed from its Certificate of Authority in violation of Section 624.430 Florida Statutes. **Resolution:** On January 25, 2013, the Company requested

and received approval from the Office to remove Commercial Automobile from its Certificate of Authority.

### **Custodial Agreement**

The Company's custodial agreement with Morgan Stanley entered into on November 1, 2006, did not comply with all requirements of Rule 69O-143.042(2), Florida Administrative Code. The Company's custodial agreement did not include the provisions of Rule 69O-143.042(2) (j) and (o), Florida Administrative Code. **Resolution**: In April 2010, the Company terminated the agreement with Morgan Stanley and entered into a new Custodial Agreement with Pershing, LLC. The new agreement was submitted to the Office on February 23, 2011, and accepted on March 2, 2011.

### **Holding Company Registration Statement**

The Company did not file an updated holding company registration statement to report subsequent changes in affiliates, as required by Rule 69O-143.046(4), Florida Administrative Code. **Resolution**: The Company's Holding Company Registration Statement filed with the 2010 Annual Report addressed the changes regarding affiliates.

## **COMPANY HISTORY**

### **General**

The Company incorporated on June 17, 1986, under the laws of the State of Oklahoma, and was subsequently re-domesticated to the State of Florida effective March 17, 1994. The Company commenced business on June 26, 1986, and began writing business in the State of Florida in 1994.

The Company was authorized to transact Private Passenger Auto Liability and Private Passenger Auto Physical Damage insurance coverage on September 30, 1993. The Company

was authorized to transact the following insurance coverages on February 14, 2007 in Florida and continued to be authorized in the seven lines of business as of December 31, 2014:

|  |                                  |
|--|----------------------------------|
| Allied Lines                           | Fire                             |
| Homeowners Multiple-Peril              | Mobile Home Physical Damage      |
| Mobile Home Multiple-Peril             | Private Passenger Auto Liability |
| Private Passenger Auto Physical Damage |                                  |

## **Dividends**

In accordance with Section 628.371, Florida Statutes, the Company declared and paid two extraordinary dividends during 2012 to its then sole shareholder, RM Ocean Harbor Holding, Inc. (RM Holding), as part of a reorganization plan approved by the Office. The first extraordinary dividend consisted of all of the Company's stock of GNW Holding, Inc. (GNW). The dividend was made to shareholders of record on January 31, 2012. The valuation of the dividend was calculated as of January 31, 2012, in the amount of \$10,982,643. The Company then paid an extraordinary dividend consisting of all of its stock of Safe Harbor Insurance Company (SHIC). The dividend was made to shareholders of record on January 31, 2012. The valuation of the dividend was calculated as of January 31, 2012, in the amount of \$9,039,391.

## **Capital Stock and Capital Contributions**

As of December 31, 2014, the Company's capitalization was as follows:

|  |             |
|--|-------------|
| Number of authorized common capital shares | 1,000,000   |
| Number of shares issued and outstanding    | 1,000,000   |
| Total common capital stock                 | \$3,000,000 |
| Par value per share                        | \$3.00      |

As of December 31, 2014, control of the Company was maintained by its Parent, GNW, a Delaware corporation, who owned 100 percent of the stock authorized and issued by the

Company. GNW was 100 percent owned by RM Holding, a Delaware corporation, who in turn was 97.93 percent owned by The Milo Trust (Lucille Milo, in trust for Philip Milo and Jennifer Milo).

On October 25, 2011, RM Holding and its subsidiaries adopted a plan of reorganization. After obtaining all regulatory and other approvals necessary, the reorganization closed on March 30, 2012, with an effective date of January 31, 2012. The reorganization consisted of a series of stock dividends and contributions. The Company issued a dividend of its common stock holdings of its subsidiaries, SHIC and GNW, to its parent RM Holding. RM Holding then contributed its common stock holdings of the Company to GNW. GNW then contributed its common stock holdings of Great Northwest Insurance Company (GNIC) and Hawaiian Insurance and Guaranty Company (HIG) to the Company. The contribution of GNIC and HIG common stock to the Company was valued as of January 31, 2012, to be an \$18.2 million capital contribution consisting of \$6.5 million in GNIC common stock and \$11.7 million in HIG common stock.

The Company did not receive any additional capital contributions during the period of this examination.

### **Surplus Notes**

The Company did not have any surplus notes during the period of this examination.

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

The Company is a member of the Ocean Harbor Insurance Group (OHIG). As of December 31, 2014, the OHIG consisted of four holding companies and five insurance companies. Effective

May 10, 2011, the Company acquired Great Northwest Acquisition Company (GNAC), a Delaware corporation, through a merger with and into GNW Merger, Inc., a newly formed wholly owned subsidiary of the Company. GNAC was the surviving corporation following the merger, with the Company as its sole shareholder. Immediately following the merger, GNAC changed its name to GNW Holding, Inc. At the time of the merger, GNW held 100 percent of the common stock of two insurance subsidiaries, GNIC, which at the time of the acquisition was an Indiana domiciled stock insurance company, and HIG, a Hawaii domiciled stock insurance company.

As discussed in the Capital Stock and Capital Contributions section of this report, on October 25, 2011, RM Holding and its subsidiaries adopted a plan of reorganization. After obtaining all regulatory and other approvals necessary, the reorganization closed on March 30, 2012, with an effective date of January 31, 2012. The reorganization resulted in GNW becoming an intermediate holding company that owned 100 percent of the issued and outstanding common stock of the Company, which in turn owned 100 percent of the issued and outstanding common stock of GNIC and HIG. SHIC became a direct subsidiary of RM Holding and is now independent of the Company.

### **CORPORATE RECORDS**

The recorded minutes of the Shareholder(s), 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 690-138.001, 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 NAIC Financial Condition Examiners Handbook adopted by Rule 69O-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, 2014 are shown below.

### Directors

| Name and Location   | Principal Occupation  |
|---|---|
| Michael Keith Eigen (a)<br>Atlantic Beach, New York               | Vice President and Secretary, Director<br>Ocean Harbor Casualty Insurance Company |
| David Joseph Maundrell, III<br>Long Island City, Queens, New York | Director<br>Ocean Harbor Casualty Insurance Company                               |
| Philip John Milo<br>Oceanside, New York                           | Vice President, Director<br>Ocean Harbor Casualty Insurance Company               |
| Ralph Milo<br>Fisher Island, Florida                              | Chairman of the Board, Director<br>Ocean Harbor Casualty Insurance Company        |
| William Emerson Roche<br>Brooklyn, New York                       | President and Treasurer, Director<br>Ocean Harbor Casualty Insurance Company      |

(a) On December 31, 2014, Michael Keith Eigen replaced Donna Mari Erikson as Director. The Company did not provide proper notification to the Office pursuant to Section 628.261, Florida Statutes. **Subsequent Event:** The Office received the official notice of change in director/officer on March 31, 2015.

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

### Senior Officers

| <b>Name</b>           | <b>Title</b>                 |
|-----------------------|------------------------------|
| Michael Keith Eigen   | Vice President and Secretary |
| Philip John Milo      | Vice President               |
| William Emerson Roche | President and Treasurer      |

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

| <b>Audit Committee</b>      | <b>Investment Committee</b> | <b>Nominating Committee</b> |
|-----------------------------|-----------------------------|-----------------------------|
| Michael Keith Eigen         | Michael Keith Eigen         | Michael Keith Eigen         |
| David Joseph Maundrell, III | Philip John Milo            | Philip John Milo            |
| Philip John Milo            | Ralph Milo <sup>1</sup>     | Ralph Milo <sup>1</sup>     |
| Ralph Milo <sup>1</sup>     | William Emerson Roche       | William Emerson Roche       |
| William Emerson Roche       |                             |                             |

<sup>1</sup> Chairman

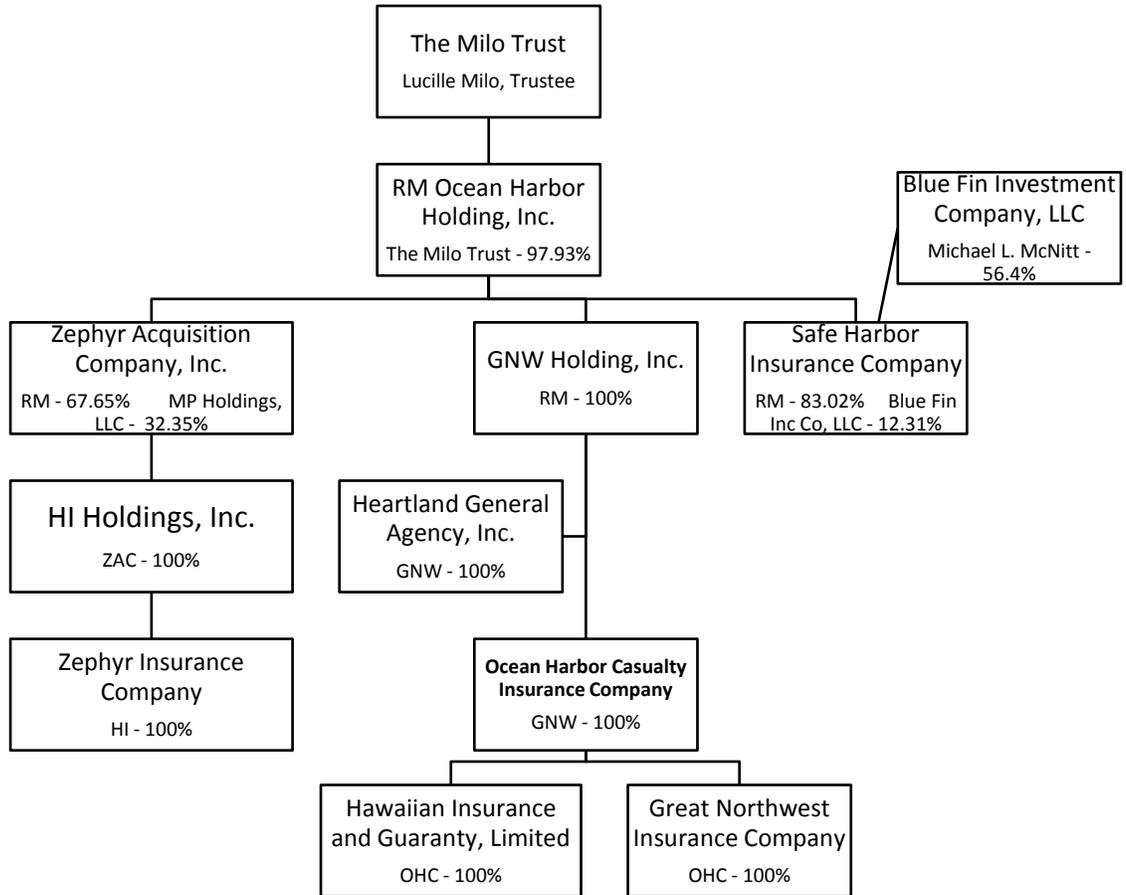
The Company maintained an audit committee, as required by Section 624.424(8) (c), Florida Statutes.

### 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 most recent holding company registration statement was filed with the Office on February 12, 2015, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

## ORGANIZATIONAL CHART

### Ocean Harbor Casualty Insurance Company December 31, 2014



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

#### **Tax Allocation Agreement**

The Company, along with its ultimate parent, RM Holding, and affiliates, filed a consolidated federal income tax return. On December 31, 2014, the method of allocation between the Company and Holding Company was on a separate-entity basis. Each member of the group recorded an inter-company income tax receivable or payable with RM Holding. Within 30 days

of the remittance by RM Holding of any income tax payment to the taxing authorities, all inter-company tax receivables/payables were settled.

### **Cost Allocation Agreement**

The Company entered into a Cost Allocation Agreement with RM Holding and SHIC on December 19, 2006. The agreement was amended and restated on May 11, 2011, to include GNW Holding, GNIC, and HIG. The agreement allocated cost based upon the scope of work and responsibilities performed for the benefit of the affiliated company. Costs to be allocated are calculated quarterly and settled within 30 days on a net basis. Expenses incurred by the Company under this agreement during 2014 were allocated to SHIC and RM Holding and amounted to \$884,694 and \$1,664,282, respectively.

### **FIDELITY BOND INSURANCE**

The Company did not maintain an active fidelity bond policy throughout the period of this examination. The Company did maintain a fidelity bond policy through December 3, 2013, the date upon which the policy expired. **Subsequent Event:** Effective May 7, 2015, the Company applied for and received a financial institution bond for insurance companies. The bond provided coverage up to \$2,000,000, with a deductible of \$25,000, which reached the suggested minimum as recommended by the NAIC.

### **TERRITORY AND PLAN OF OPERATIONS**

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

|                |            |          |           |
|----------------|------------|----------|-----------|
| Alabama        | California | Florida  | Louisiana |
| Mississippi    | New Jersey | New York | Oklahoma  |
| South Carolina | Texas      |          |           |

### **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 deadline clauses.

#### **Assumed**

The Company assumed risk on a quota share basis with its subsidiaries, GNIC and HIG, wherein 100 percent of policyholder risk not previously ceded to third party reinsurers was ceded to the Company on a written basis. Effective July 1, 2012, the quota share agreement with HIG was terminated on a cut-off basis.

#### **Ceded**

The Company ceded risk to third party reinsurers on a quota share and excess of loss basis. The Company's private passenger automobile insurance products were subject to quota share reinsurance contracts ranging from 25 percent to 75 percent. Homeowner policies covering property in New York were subject to a property excess per risk reinsurance contract. All homeowner policies were covered under a catastrophic excess of loss reinsurance contract. The Company maintained additional coverage under a shared limit contract, which also provided Reinstatement Premium Protection.

## **ACCOUNTS AND RECORDS**

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

The Company and non-affiliates had the following agreements:

### **Custodial Agreement**

The Company maintained a custodial agreement with RBC Correspondent Services, a division of RBC Capital Markets, LLC, executed on December 8, 2014. The agreement complied with Rule 690-143.042, Florida Administrative Code.

### **Managing General Agent Agreement**

The Company had ten general agency agreements in place. Of those ten agreements, only one met the definition of a Managing General Agency (MGA) agreement per Section 626.015(14) (a), Florida Statutes. The other nine agreements were with non-affiliated companies that received underwriting commission on business written. The MGA agreement was executed on September 1, 1994, with J.A.J. Holding Company, Inc. (name legally changed to Pearl Holding Company, Inc. during 2005) and was to remain in effect until terminated by either party with 90 days prior written notice. The MGA authorities included binding policies, underwriting, premium collection, claims adjustment, and claims payment. MGA fees were based on a percentage of direct written premium with a floating contingent commission based on loss ratio achieved and included a policy fee. Claims administration services were included in the agreement at a cost of an additional percentage of earned premiums. Direct written premiums related to the MGA during the year ending December 31, 2014, totaled \$112,986,557.

### Independent Auditor Agreement

An independent CPA audited the Company's statutory basis financial statements annually during the examination period in accordance with Section 624.424(8), Florida Statutes. Supporting workpapers were prepared by the CPA as required by Rule 69O-137.002, Florida Administrative Code.

### INFORMATION TECHNOLOGY REPORT

IT Specialist Michael Morrissey, AES, CISA, CISSP, AMCM, 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                     | USTNTS, 0.25%, 01/15/15      | <u>\$ 2,125,000</u> | <u>\$ 2,125,213</u> |
| TOTAL FLORIDA DEPOSITS |                              | \$ 2,125,000        | \$ 2,125,213        |
| LA                     | Cash                         | \$ 150              | \$ 150              |
| LA                     | WHITNEYBKCD, 0.15%, 03/29/16 | 100,075             | 100,075             |
| SC                     | USTNTS, 0.375%, 04/15/15     | <u>130,056</u>      | <u>130,101</u>      |
| TOTAL OTHER DEPOSITS   |                              | <u>\$ 230,281</u>   | <u>\$ 230,326</u>   |
| TOTAL SPECIAL DEPOSITS |                              | <u>\$ 2,355,281</u> | <u>\$ 2,355,539</u> |

## **FINANCIAL STATEMENTS**

The examination does not attest to the fair presentation of the financial statements included herein. If during the course of the examination an adjustment is identified, 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 in the following:

**Ocean Harbor Casualty Insurance Company**

**Assets  
December 31, 2014**

|   | Per Company   | Examination<br>Adjustments | Per Examination |
|---|---------------|----------------------------|-----------------|
| Bonds   | \$78,377,112  |                            | \$78,377,112    |
| Stocks:   |               |                            |                 |
| Preferred   | 168,000       |                            | 168,000         |
| Common  | 27,947,493    |                            | 27,947,493      |
| Cash and Short-Term Investments                         | 50,507,883    |                            | 50,507,883      |
| Investment Income Due and Accrued                       | 1,042,772     |                            | 1,042,772       |
| Premiums and Considerations:                            |               |                            |                 |
| Uncollected premium                                     | 2,598,870     |                            | 2,598,870       |
| Deferred premium  | 38,196,657    |                            | 38,196,657      |
| Reinsurance Recoverable:                                |               |                            |                 |
| Amounts Recoverable from Reinsurers                     | 104,950       |                            | 104,950         |
| Funds Held with Reinsured Companies                     | 11,495,101    |                            | 11,495,101      |
| Net Deferred Tax Asset                                  | 4,207,784     |                            | 4,207,784       |
| EDP Equipment   | 15,321        |                            | 15,321          |
| Receivable from parents, subsidiaries<br>and affiliates | 1,297,976     |                            | 1,297,976       |
| Aggregate write-in for<br>other than invested assets    | 150,058       |                            | 150,058         |
|   | <hr/>         |                            |                 |
| Totals  | \$216,109,978 |                            | \$216,109,978   |
|   | <hr/> <hr/>   |                            |                 |

**Ocean Harbor Casualty Insurance Company**  
**Liabilities, Surplus and Other Funds**  
**December 31, 2014**

|   | Per Company          | Examination<br>Adjustments | Per<br>Examination   |
|---|----------------------|----------------------------|----------------------|
| Losses  | \$75,197,165         |                            | \$75,197,165         |
| Loss adjustment expenses                          | 6,883,523            |                            | 6,883,523            |
| Commissions payable                               | 3,886,725            |                            | 3,886,725            |
| Other expenses                                    | 195,834              |                            | 195,834              |
| Taxes, licenses and fees                          | 1,144,812            |                            | 1,144,812            |
| Current federal income taxes                      | 678,761              |                            | 678,761              |
| Unearned premium                                  | 55,130,958           |                            | 55,130,958           |
| Advance premium                                   | 467,195              |                            | 467,195              |
| Ceded reinsurance premiums payable                | 2,564,774            |                            | 2,564,774            |
| Funds held under reinsurance treaties             | 21,116,707           |                            | 21,116,707           |
| Provision for reinsurance                         | 804                  |                            | 804                  |
| Aggregate write-ins for liabilities               | 113,100              |                            | 113,100              |
| <b>Total Liabilities</b>                          | <b>\$167,380,359</b> |                            | <b>\$167,380,359</b> |
| Common capital stock                              | 3,000,000            |                            | 3,000,000            |
| Gross paid in and contributed surplus             | 21,582,901           |                            | 21,582,901           |
| Unassigned funds (surplus)                        | 24,146,719           |                            | 24,146,719           |
| Surplus as regards policyholders                  | \$48,729,620         |                            | \$48,729,620         |
| <b>Total liabilities, surplus and other funds</b> | <b>\$216,109,978</b> |                            | <b>\$216,109,978</b> |

**Ocean Harbor Casualty Insurance Company**  
**Statement of Income and Capital and Surplus Account**  
**December 31, 2014**

**Underwriting Income**

|   |                    |                      |
|---|--------------------|----------------------|
| Premiums earned                                 |                    | \$133,452,480        |
|   | <b>Deductions:</b> |                      |
| Losses incurred                                 |                    | \$69,821,682         |
| Loss expenses incurred                          |                    | 11,965,506           |
| Other underwriting expenses incurred            |                    | 51,072,480           |
| Aggregate write-ins for underwriting deductions |                    | 113,100              |
| Total underwriting deductions                   |                    | <u>\$132,972,768</u> |
| Net underwriting gain or (loss)                 |                    | \$479,712            |

**Investment Income**

|  |  |                    |
|--|--|--------------------|
| Net investment income earned           |  | \$2,869,245        |
| Net realized capital gains or (losses) |  | 136,523            |
| Net investment gain or (loss)          |  | <u>\$3,005,768</u> |

**Other Income**

|  |  |                           |
|--|--|---------------------------|
| Net gain or (loss) from agents' or premium balances charged off                            |  | (\$393,545)               |
| Finance and service charges not included in premiums                                       |  | 19,807                    |
| Aggregate write-ins for miscellaneous income   |  | 334,487                   |
| Total other income   |  | <u>(\$39,251)</u>         |
| Net income before dividends to policyholders and<br>before federal & foreign income taxes  |  | \$3,446,229               |
| Dividends to policyholders   |  | -                         |
| Net Income, after dividends to policyholders, but<br>before federal & foreign income taxes |  | \$3,446,229               |
| Federal & foreign income taxes   |  | <u>1,219,672</u>          |
| Net Income   |  | <u><u>\$2,226,557</u></u> |

**Capital and Surplus Account**

|  |  |                            |
|--|--|----------------------------|
| Surplus as regards policyholders, December 31 prior year   |  | \$44,386,907               |
| Net Income   |  | \$2,226,557                |
| Change in net unrealized capital gains or losses           |  | 1,739,855                  |
| Change in net deferred income tax                          |  | 386,214                    |
| Change in non-admitted assets                              |  | (12,503)                   |
| Change in provision for reinsurance                        |  | 2,591                      |
| Examination Adjustment                                     |  | -                          |
| Change in surplus as regards policyholders for the year    |  | <u>\$4,342,713</u>         |
| Surplus as regards policyholders, December 31 current year |  | <u><u>\$48,729,620</u></u> |

**Ocean Harbor Casualty 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<br>December 31, 2014, per Annual Statement | \$48,729,620 |
|---|--------------|

|  | <u>PER<br/>COMPANY</u> | <u>PER<br/>EXAM</u> | <u>INCREASE<br/>(DECREASE)<br/>IN SURPLUS</u> |
|--|------------------------|---------------------|---|
| ASSETS:  |                        |                     |   |
| No Adjustment  |                        |                     |   |
| LIABILITIES:   |                        |                     |   |
| No Adjustment  |                        |                     |   |
| Net Change in Surplus:   |                        |                     | 0   |
| Surplus as Regards Policyholders<br>December 31, 2014, Per Examination |                        |                     | \$48,729,620                                  |

## **COMMENTS ON FINANCIAL STATEMENTS**

### **Liabilities**

#### **Losses and Loss Adjustment Expenses**

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 consulting actuary, Brent M. Sallay, FCAS, MAAA of Taylor-Walker & Associates, Inc., reviewed the loss and loss adjustment expense workpapers 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 \$48,729,620, exceeded the minimum of \$15,890,945 required by Section 624.408, Florida Statutes.

## **SUMMARY OF RECOMMENDATIONS**

### **Reinsurance Treaty Summary Statement**

We recommend that the Company comply with the requirements of Section 624.610(11), Florida Statutes by filing summary statements for all applicable reinsurance treaties.

## CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of Ocean Harbor Casualty 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 \$48,729,620, which exceeded the minimum of \$15,890,945 required by Section 624.408, Florida Statutes.

In addition to the undersigned, Bradley R. Hazelwood, CFE, CPA, MCM, Examiner-in-Charge; as well as Timothy Butler, CFE, CPM, ARe and Cecilee Diamond-Houdek, CFE, CPA, MCM, AIFA, Participating Examiners; and Michael Morrissey, AES, CISA, CISSP, AMCM, IT Specialist, of Examination Resources, LLC, participated in the examination. Philip Schmoyer, Examination Manager, of Baker Tilly Virchow Krause, LLP, participated in the examination. Members of the Office who participated in the examination included Kyra D. Brown, APIR, Financial Specialist, Participating Examiner. Additionally, Brent M. Sallay, FCAS, MAAA of Taylor-Walker & Associates, Inc., is recognized for participation in the examination.

Respectfully submitted,

---

Robin Brown, CFE  
Chief Examiner  
Florida Office of Insurance Regulation